

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-12G

Initial general form for registration of a class of securities pursuant to Section 12(g)

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### FILER

#### **Drone USA Inc.**

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**Form 10**

General Form for Registration of Securities

Pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934

**DRONE USA, INC.**

(Exact name of registrant as specified in its charter)

Delaware	30-0967943
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
One World Trade Center, 285 Fulton Street, 85 <sup>th</sup> Floor, New York, NY	10007
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (212) 220-8795

Securities to be registered under Section 12(b) of the Act: None

Securities to be registered under Section 12(g) of the Exchange Act:

Title of each class to be so registered	Name of Exchange on which each class is to be registered
Common Stock, \$.0001	N/A

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☒

(Do not check if a smaller reporting company)

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## EXPLANATORY NOTE

Drone USA, Inc. is filing this General Form for Registration of Securities on Form 10, which we refer to as the Form 10, to register its common stock, par value \$0.0001 per share, pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Unless otherwise mentioned or unless the context requires otherwise, when used in this Form 10, the terms "Drone USA," "Company," "we," "us," and "our" refer to Drone USA, Inc.

Drone USA is an "emerging growth company" as defined under the federal securities laws and, as such, may elect to comply with certain reduced public company reporting requirements in future reports that we file with the United States Securities and Exchange Commission, or SEC.

Drone USA is a "smaller reporting company" as defined in Exchange Act Rule 12b-2. However, we are not currently electing to take advantage of the scaled disclosure available to smaller reporting companies.

## FORWARD LOOKING STATEMENTS

There are statements in this Form 10 that are not historical facts. These “forward-looking statements” can be identified by use of terminology such as “believe,” “hope,” “may,” “anticipate,” “should,” “intend,” “plan,” “will,” “expect,” “estimate,” “project,” “positioned,” “strategy” and similar expressions. You should be aware that these forward-looking statements are subject to risks and uncertainties that are beyond our control. For a discussion of these risks, you should read this entire Form 10 carefully, especially the risks discussed under “Risk Factors.” Although management believes that the assumptions underlying the forward looking statements included in this Form 10 are reasonable, they do not guarantee our future performance, and actual results could differ from those contemplated by these forward looking statements. The assumptions used for purposes of the forward-looking statements specified in the following information represent estimates of future events and are subject to uncertainty as to possible changes in economic, legislative, industry, and other circumstances. As a result, the identification and interpretation of data and other information and their use in developing and selecting assumptions from and among reasonable alternatives require the exercise of judgment. To the extent that the assumed events do not occur, the outcome may vary substantially from anticipated or projected results, and, accordingly, no opinion is expressed on the achievability of those forward-looking statements. In the light of these risks and uncertainties, there can be no assurance that the results and events contemplated by the forward-looking statements contained in this Form 10 will in fact transpire. You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their dates. We do not undertake any obligation to update or revise any forward-looking statements.

### **Item 1. Description of Business**

#### **Organizational History**

We were formed in Delaware on June 26, 1972 as OCR Corporation, underwent a series of name changes and businesses and on April 25, 2008 changed our name to Texas Wyoming Drilling, Inc. On January 26, 2016, we entered into an Equity Exchange Agreement (the “EEA”) whereby we acquired all of the issued and outstanding membership interests in Drone USA, LLC in exchange for 440,425,388 shares of our common stock and 250 shares of Series A preferred stock, subsequent and pursuant to our completing a 1-for-150 share reverse stock split on all issued and outstanding common stock which resulted in total issued and outstanding shares of common stock of 6,368,224 immediately prior to this issuance. In connection with the EEA, 1,253,202 shares of common stock were relinquished and an additional 44,042,539 shares of common stock were issued pursuant to a previous settlement agreement. In connection with the EEA, effective January 26, 2016, we accepted the resignation of Margaret Cadena, the former Chief Executive Officer and Board member, and Richard Kugelman, Dr. Robert Michet, and Dr. David Durkin, the remaining former officers and Board members, and appointed Michael Bannon as Chief Executive Officer, President, Chairman and Board member and Dennis Antonelos as Chief Financial Officer, Secretary, Treasurer, and Board member. On May 19, 2016, we changed our name to Drone USA, Inc., we changed our ticker symbol to DRUS, and we completed a 1-for-12 share reverse stock split on all issued and outstanding common stock, with a record date of May 24, 2016, which resulted in total issued and outstanding shares of common stock of 40,841,517 on June 17, 2016 when all round lot issuances were completed.

We are currently traded on the OTC Pink market under the symbol DRUS.

On June 1, 2016, we entered into an agreement with BRVANT Technologic Solutions ("BRVANT"), a company in Brazil that develops and manufactures UAV systems, embedded systems and simulators for commercial and military customers. We acquired exclusive rights to BRVANT's UAV technology and intellectual property relating to its UAV technology. As consideration for the agreement, Dr. Rodrigo Kuntz Rangel, BRVANT's CEO, was appointed to the position of Chief Technology Officer (CTO) and issued a stock option grant for 2,000,000 shares of common stock in Drone USA. We have the option to acquire ownership of all outstanding capital stock of BRVANT for additional consideration, to be negotiated at a later date. The agreement with BRVANT provided the Company a turnkey line card of proven, advanced low-altitude UAVs to begin selling immediately.

On July 7, 2016, we appointed UAV industry executive Paulo Ferro as Chief Strategy Officer and Board member. Mr. Ferro previously served as Director of International Business Development for AeroVironment, Inc, the market leader in low-altitude UAVs and most recently as Director of Strategic Development for General Atomics ASI, where he lead their international sales initiatives for the Predator drone. Mr. Ferro has more than 28 years direct involvement in strategic planning, business development, and operations in advanced technologies. He is a subject-matter expert in tactical and Remotely Piloted Aircraft (RPA) and pertinent applications, having worked in most classifications—from nano to large stratospheric platform. Mr. Ferro's background is described in more detail below.

In September 2016, we entered into an agreement with the Portuguese Government (Secretaria do Mar, Ciência e Tecnologia –“SMCT”), the national aviation authority of Portugal (Navegação Aérea de Portugal – “NAV”) and Aeroportos de Portugal (airports' management authority – “ANA”) enabling us to fly and test UAVs at the Portuguese airport of Santa Maria island, in the Azores archipelago. We are one of five companies to have such access, and the only non-Portuguese company to have such access. We will test and develop UAVs for operations over land and sea. We further expect to assist the Azores Regional Government over the coming years that is expected to have a growing demand for UAV technology for environmental monitoring at sea, fisheries control and scientific research, including for climate change.

In September 2016, Drone USA registered with the U.S. State Department and met the requirements of the Arms Export Control Act and International Traffic in Arms Regulations ("ITAR"). The registration allows us to apply for export, and temporary import, of product, technical data, and services related to defense articles.

On September 9, 2016, Howco became a wholly owned subsidiary of Drone USA. We acquired all of its issued and outstanding shares held by Paul Charles ("Chuck") Joy and Kathryn B. Joy, the founders and officers of Howco, for \$3,500,000, a warrant for 500,000 shares of Drone USA common stock with an exercise price of \$0.01 per share, and earnout consideration, the funds for which were received from the TCA loan discussed below. We paid \$2,600,000 in cash and issued a note to the sellers for \$900,000. Howco is a supplier of spare and replacement parts to the United States Federal Government and commercial customers worldwide with expertise in Defense Logistics Agency, TACOM, NECO and other Department of Defense acquisition groups. Howco understands the entire contract and administration management process for Federal Government contracts and supply chain logistics for its Federal Government customers as well as prime contractors with Federal Government contracts. Chuck Joy and Kathryn Joy have been retained under contract for a term of two years, a salary of \$125,000 and a tiered bonus-structure that is dependent on the gross margin performance of Howco in the subsequent 12 and 24 month periods immediately following the acquisition. Prior to the acquisition, Howco reported revenues of approximately \$18.78 million and \$24.86 million, and net income of approximately \$903,000 and \$1,013,000, for the period from October 1, 2015 through September 9, 2016 and the year ended September 30, 2015, respectively

On August 18, 2016, we entered into a Settlement Agreement with Rockwell Capital Partners, Inc. ("Rockwell") in connection with a section 3(a)(10) transaction under the Securities Act where we issued to Rockwell a convertible note in the principal amount of \$102,102.74. To limit the number of our shares that Rockwell would have to sell and thus limit the potential pressure on the trading price of our common stock, we issued 68,500 shares to Rockwell, of which 11,500 were a settlement fee and the balance were for repayment of the convertible note, and in the first quarter of 2017 issued an additional 460,200 shares as part of the Settlement Agreement for a total of 528,700 shares issued to Rockwell.

On November 18, 2016, we entered into a Manufacturing Agreement with Empirical Systems Aerospace, Inc. ("ESAero"). ESAero specializes in cost-effective development and production of UAV and aerospace flying platforms. Under the terms of the Manufacturing Agreement, ESAero will assist us with the manufacturing and integration of the component parts of our UAVs, including attending customer and vendor meetings at our request.

On November 17, 2016, we entered into a sublease with ESAero for a period of two years commencing February 1, 2017, of office space and engineering design space of approximately 10,000 square feet at a monthly cost of \$15,000. The sublease is at 3580 Sueldo Street, San Luis Obispo, CA 93401.

In November 2016, we demonstrated our quadcopter system for a NATO member country and have submitted a proposal for 600 quadcopter systems, priced at approximately \$40,000 per system, totaling \$24 million. This NATO member country plans to use the quadcopters for ISR purposes. We expect to have further discussions regarding the sale of these drones in late 2017 or early 2018.

In December 2016, we demonstrated our quadcopter system to an international transportation company. The UAVs will be used for perimeter security, surveillance, and search and rescue. The international transportation company has invited us back to demonstrate our Sombra quadcopter and one of our fixed-wing systems in late 2017.

In December 2016, we demonstrated our quadcopter system for an aerial utilities inspection company in Oklahoma. We subsequently received a non-binding LOI for 20 quadcopter systems at a range of \$60,000-75,000 per system. We are currently working to make slight modifications to our quadcopter to allow us to receive our first purchase order from this aerial utilities inspection company by July 2017.

In December 2016, we signed an MOU to become a reseller for a Tier-II UAV that operates Vertical-take-off-and-landing ("VTOL")-to-forward-flight ("VTOL-to-forward-flight"). We have initiated several sales campaigns for this system.

In December 2016, we reached a verbal agreement to integrate and test a leading camera and software application into our precision agriculture platform that's currently in development.

On January 7, 2017, we entered into an agreement with Ardour Capital Investments, LLC ("Ardour") to provide advisory and capital raising services for a fee of \$22,500 that was paid over three months. In addition, we will pay them for any capital investments they introduce to us that invest in us a fee of 7% of the total dollar amount raised as cash compensation and a warrant equal to 3% of the total shares issued in the transaction at an exercise price equal to 110% of the transaction market price. Ardour also will receive a cash fee of 3% of gross proceeds received from any straight debt-related transaction. In the event Ardour advises us in connection with any merger, acquisition or divestiture in whole or part of any of our assets or the acquisition of any target company and/or its assets, we will pay Ardour a cash success fee equal to 5% on the first \$10,000,000 of Transaction Value (as defined in the agreement with Ardour), 4% on the next \$5,000,000 of Transaction Value, 3% on the next \$5,000,000 of Transaction Value and 2% on the balance of the total Transaction Value.

On February 13, 2017, we entered into an agreement with Continental Advisory Services, LLC (“Continental”) to receive due diligence services for an initial term of 180 days from February 17, 2017. Total fees for these services are \$50,000, with \$15,000 payable upon signing and the remaining \$35,000 payable on May 10, 2017.

On March 28, 2017, we entered into an agreement with TCA Global Credit Master Fund, LP (“TCA”) to receive a range of advisory services for a total of \$1,200,000 with no definitive term or length of service. If the Company is a quoted on any listed exchange, TCA will accept a single preferred share convertible into common stock never to exceed 4.99%. The number of shares issued will be set at 100% of the amount due up to availability and subject to a make-whole provision.

On February 17, 2017, the Company entered into an agreement with Caro Partners, LLC (“Caro”) to receive consulting services, for a period of six months from February 17, 2017. In connection with the agreement, we agreed to issue 400,000 vested shares of common stock for a payment of \$200, and to pay Caro consulting fees of \$10,000 per month. The shares were valued on the February 17, 2017 measurement date at \$0.23 per share or a total of \$92,000 based on the quoted trading price which we will recognize over the six month service period.

In April 2017, we demonstrated our quadcopter system for various police departments in the State of Connecticut.

## **Growth Strategy**

We intend to become a primary developer and manufacturer of low-altitude UAVs and related technologies and plan to grow organically and through acquisition of companies with innovative, proven technologies such as UAV systems, UAV sensors, UAV software and engineering expertise. Most of our immediate sales opportunities will arrive through our established and proven network of end users, purchasers, UAV executives and sales representatives around the world. We plan to offer low-altitude UAV systems, designed specifically for the customer's mission, at a competitive price.

Our network has already lead to opportunities in the United States, Middle East, Asia, Europe and with various commercial organizations. Existing sales opportunities range in size from \$10,000 to \$26,000,000.

We plan to market our products to our network of global sales representatives by assembling a dedicated demonstration team and building a dedicated demonstration UAV fleet. The demonstration team will travel to countries where our sale representatives reside and perform demonstrations for a consortium of end users, potential customers, government officials and decision makers.

In addition to producing and selling our own line of products, we will seek to become a reseller of UAVs in classes outside of low-altitude, such as the Medium-altitude-long-endurance ("MALE") class and the Vertical-takeoff-and-landing ("VTOL")-to-forward-flight ("VTOL-to-forward-flight") class. We have already identified three prospective UAVs for resale.

We are seeking to finalize development of our biological-control platform for use in soy, wheat, cotton and corn farms worldwide. Through a planned joint venture with a commercial crop farm in Brazil, and with Rodrigo Kuntz, our CTO, we plan to finalize development and patent a proprietary payload and UAV system to autonomously drop biological control agents onto the aforementioned crop fields to kill designated parasites, increasing yield and allowing farmers to avoid the use of harsh chemicals. We expect to partner with a large supplier of biological control agents to offer our UAV solution to the supplier's clients and to jointly sell into new markets.

Acquisitions are an important pillar to our overall growth strategy, providing revenue, earnings, infrastructure and synergies. We seek opportunities with innovative and commercially proven technologies primarily in the UAV industry. We seek profitable firms that complement our overall strategy. We are currently evaluating companies worldwide.

An important element of our mergers and acquisitions strategy is to acquire companies with complementary capabilities/technologies and an established customer base in our target markets. We believe that the customer base of each potential acquisition will present an opportunity to cross-sell solutions to the customer base of other acquired companies. We are looking to expand our public sector clients beyond what the Howco acquisition has brought us. Public sector customers provide very large multi-year contracts that we believe can provide secure revenue visibility typically for three to five years. Based on our experience in government contracting, we have a core competency in bidding on government requests for proposals (RFPs). We are actively seeking companies that have built a backlog with various government agencies that can complement our existing contracts through Howco.

## **Drone USA's Products and Services**

Drone USA's strategy is to acquire, license, and/or resell UAV technology, precluding the risks, time involved, and capital required with traditional research and development. Our agreement with BRVANT provided us a turnkey line card of proven products to begin selling immediately into government and commercial markets. Currently, we sell the following products, exclusively licensed from BRVANT:

1. Sombra: Quadcopter UAV
2. Vespa: Fixed-wing UAV
3. Delta-Eye: Fixed-wing UAV
4. Cardinal: Fixed-wing UAV
5. Pegasus: Fixed-wing UAV
6. Cyclops: Fixed-wing UAV
7. Hawkeye: Fixed-wing UAV

We plan to add the following products through resale agreements and joint ventures in 2017:

1. MALE Optionally Piloted Aircraft (“OPAs”)
2. VTOL-to-forward-flight UAV
3. 130kg fixed-wing UAV
4. Manned ISR solution

Where possible, we will seek to own the customer relationship, providing training, service and support to end users. This will include contracts for spare and replacement parts. In addition to providing products, we plan to provide consulting and advisory services centered around UAV use and procurement for commercial and ISR purposes.

### *Drone's Markets*

The market for commercial drones has grown significantly over the last several years and is expected to continue doing so following the release of recent rules by the FAA for commercial drone use. The FAA in its discussion of the new rules governing commercial drones stated that the drone rules could generate more than \$82 billion and create more than 100,000 jobs over the next 10 years. The Teal Group estimated that the global commercial UAV marketplace reached \$387 million in 2016 and projects the market to reach \$6.5 billion by 2025 with a CAGR of 32.6%.

The military has transformed into a smaller, more agile fighting force in need of a network of technologies to provide improved observation, communication and precision targeting of combat troop locations, which are often embedded in dense population centers or dispersed in remote locations. According to the Teal Group, the global military UAV marketplace reached \$2.8 billion in 2016 and is expected to generate more than \$9.8 billion in UAV purchases by 2025 with a CAGR of 14.4%.

The markets for our systems on a stand-alone basis and/or combined with other payloads relates to the following applications, among others:

#### *Government Markets:*

- International and U.S. federal, state and local governments as well as U.S. and foreign government agencies, including the U.S. Department of Defense ("DoD"), U.S. Drug Enforcement Agency ("DEA"),
1. U.S. Homeland Security, U.S. Customs and Border Patrol, U.S. Environmental Protection Agency ("EPA"), U.S. Department of State, U.S. Federal Emergency Management Agency ("FEMA"), U.S. and state departments of transportation, penitentiaries, and police forces;
  2. Military, including U.S. Army Space and Missile Defense Agency ("SMDC") and U.S. Air Force installations;
  3. ISR including Joint Improvised Explosive Device Defeat Organization ("JIEDDO");
  4. Border security monitoring, including U.S. Homeland Security, to deter and detect illegal entry;
  5. Drug enforcement along U.S. borders;
  6. Monitoring environmental pollution and sampling air emissions; and
  7. Vehicle traffic monitoring, including aerial speed enforcement by state and local law enforcement agencies.

*Commercial Markets:*

1. Mining
2. Agriculture monitoring, including monitoring crop health, field monitoring to reduce costs and increase yields;
3. Security for large events, including crowd management;
4. Natural disaster instant infrastructure to support first responders;
5. Oil pipeline monitoring and exploration; and
6. Atmospheric and climate research.
7. TV and media production mobile communications systems, expanding on-site reporting capabilities to include aerial videography and photography;
8. Surveying, mapping and photogrammetry;
9. Biological control for agriculture;
10. Utilities inspection.

UAV manufacturing and development has essentially gone from a lab-testing concept to a battle-tested technology that we see in the news on a frequent basis. UAV's have proven their value in operations internationally and are considered an essential component to U.S. military and the Department of Defense.

Market research media analysts have found that there is a widening gap between growing a UAV fleet and UAV infrastructure development, especially in such sectors as training; service, support and maintenance and data management. This gap creates a number of market opportunities for UAV vendors, both large defense contractors and small technology companies. According to UAV Market Research, military procurement of UAVs, including unmanned aircrafts and payloads, makes the Department of Defense the single largest consumer of UAV technology in the world. We believe that the U.S. Government will continue to invest in UAVs as much as needed to keep its dominance, both technologically and to demonstrate its power, in the next decades.

Given the growth and demand in this market, we believe that UAV's will be a universal tool for government bodies and agencies, particularly focused on law enforcement. Police departments have spent hundreds of millions of dollars to buy firearms, armored cars and electronic surveillance gear, according to the annual reports submitted by local and state agencies to the Justice Department's Equitable Sharing Program. Police and law enforcement agencies purchase an expensive mix of high-tech military products, in particular electronic surveillance equipment, for both their technological innovations for supporting their efforts to promote public and citizen confidence by demonstrating their receptiveness to new practices of upholding the law and protecting the public well-being.

## **Howco's Services**

Howco is a premier supplier of spare and replacement parts to a wide variety of Federal Government agencies, U.S. military prime contractors and commercial customers worldwide. Founded in 1990 and located in Vancouver, Washington, Howco's services encompass bid solicitation, contract management, packaging and logistics for construction, transportation, mining and heavy equipment spare and replacement parts to customers worldwide utilizing a wide variety of supply chain solutions. Howco was the winner of the 2012 United States' Department of Defense Logistics Agency's Bronze Supplier Award. Howco reported revenues of approximately \$18.78 million and \$24.86 million, and net income of approximately \$903,000 and \$1,013,000, for the period from October 1, 2015 through September 9, 2016 and the year ended September 30, 2015 respectively.

### *Howco's Government Services Contracts*

Howco enters into various types of contracts with our customers, such as Indefinite Delivery, Indefinite Quantity (IDIQ), Cost-Plus-Fixed-Fee (CPFF) Level of Effort (LOE), Cost-Plus-Fixed-Fee (CPFF) Completion, Cost-reimbursement (CR), Firm-Fixed-Price (FFP), Fixed-Price Incentive (FPI) and Time-and-Materials (T&M).

IDIQ contracts provide for an indefinite quantity of services or stated limits of supplies for a fixed period. They are used when the customer cannot determine, above a specified minimum, the precise quantities of supplies or services that the government will require during the contract period. IDIQs help streamline the contract process and speed service delivery. IDIQ contracts are most often used for service contracts and architect-engineering services. Awards are usually for base years and option years. The customer places delivery orders (for supplies) or task orders (for services) against a basic contract for individual requirements. Minimum and maximum quantity limits are specified in the basic contract as either a number of units (for supplies) or as dollar values (for services).

CPFF LOE contracts will be issued when the scope of work is defined in general terms requiring only that the contractor devote a specified LOE for a stated time period. A CPFF completion contract will be issued when the scope of work defines a definite goal or target which leads to an end product deliverable (e.g., a final report of research accomplishing the goal or target).

CR contracts provide for payment of allowable incurred costs, to the extent prescribed in the contract. These contracts establish an estimate of total cost for the purpose of obligating funds and establishing a ceiling that the contractor may not exceed (except at its own risk) without the approval of the contracting officer and are suitable for use only when uncertainties involved in contract performance do not permit costs to be estimated with sufficient accuracy to use any type of fixed-price contract.

FFP contract will be issued when acquiring supplies or services on the basis of definite or detailed specifications and fair and reasonable prices can be established at the outset.

FPI target delivery contract will be issued when acquiring supplies or services on the basis of reasonably definite or detailed specifications and cost can be reasonably predicted at the outset wherein the cost risk will be shared. A firm target cost, target profit, and profit adjustment formula will be negotiated to provide a fair and reasonable incentive and a ceiling that provides for the contractor to assume an appropriate share of the risk.

T&M contracts provide for acquiring supplies or services on the basis of (i) direct labor hours at specified fixed hourly rates that include wages, overhead, general and administrative expenses, and profit; and (ii) actual cost for materials. A customer may use this contract when it is not possible at the time of placing the contract to estimate accurately the extent or duration of the work or to anticipate costs with any reasonable degree of confidence.

### *Market Size*

According to Todd Harrison, author of “Analysis of the FY 2017 Budget,” one-third of the DoD budget request, \$184.4 billion, is for procurement and research, development, test, and evaluation (“RDT&E”). The U.S. Government spends a portion of this budget on the shipping of replacement parts annually.

## **Intellectual Property**

We review each of our intellectual properties and make a determination as to the best means to protect such property, by trademark, by copyright, by patent, by trade secret, or otherwise. We believe that we have taken appropriate steps to protect our intellectual properties, based on our evaluation of the factors unique to each such property, but cannot guarantee that this is the case.

As we develop commercial drones, we expect that we will rely on patents, trade secrets, copyrights, trademarks, non-disclosure agreements and other contractual provisions. In certain cases, when appropriate, we opt to protect our intellectual property through trade secrets as opposed to filing for patent protection in order to preserve confidentiality. All of our employees are subject to non-disclosure agreements and other contractual provisions to establish and maintain our proprietary rights.

## **Regulatory Matters**

The use of unmanned aerial vehicles for commercial purposes is governed by the Federal Aviation Administration (“FAA”). On August 29, 2016, the new FAA rules took effect for commercial use of small drones. Under the FAA rules commercial drones must be under 55 pounds and be registered with the FAA. The rules require a new "remote pilot certificate", daylight-only operations 30 minutes before official sunrise and 30 minutes after official sunset, a requirement that all flights travel at a maximum groundspeed of 100 miles per hour remain, remain below 400 feet or within 400 feet of a structure and yield the right of way to other aircraft. Under the FAA rules, drone pilots must be at least 16 years old or be supervised by an adult with a remote pilot certificate. The pilot must also maintain "visual line of sight" with the drone at all times, among other requirements. The new rules also require that any drone-related incident that results in at least \$500 worth of damage or causes serious injury be reported to the FAA within 10 days. The new restrictions can be waived, but pilots will need to apply directly to the FAA for an exemption and/or a waiver.

## **Competition**

### *Drone USA*

We believe that the principal competitive factors in the markets for UAVs include product performance, features, acquisition cost, lifetime operating cost, ease of use, integration with existing equipment, size, mobility, quality, reliability, customer support, brand and reputation. We intend to acquire companies that give us a competitive advantage with our prospective government and commercial customers.

The market leaders in UAV manufacturing are mostly international and are located in tech hubs. Asia has the most UAV manufacturers currently in operation. Chinese manufacturer DJI is the market leader in the mid to high end recreational platform, followed by French based Parrot with a mid-market recreational platform, and several companies such as XAircraft American based in the United States, with low to mid-market recreational platforms. In addition, in the United States there are large defense contractors, among them Boeing, Northrup Grumman, TCOM, Raytheon, Lockheed Martin, ISL, ILC Dover, Compass Systems, Raven Aerostar and American Blimp Corporation offering military grade free flying drones to the U.S. Government. There is also potential competition from commercial grade tethered drone systems which remain tethered to the ground via a high strength armored tether, such as offered by Elistair located in Lyon, France and Cyphy Works Inc. located in Danvers, Massachusetts.

### *Howco*

The business of supplying spare and replacement parts to Federal Government agencies, U.S. military prime contractors and commercial customers is very competitive. Among our U.S. based competitors are JGILS that supplies parts manufactured by Fairbanks Morse/Coltec and other brands, Ohio Cat that supplies Caterpillar parts, and Kampi Components and Brighton Cromwell, both of which compete with us in several brands.

### **Employees**

We have 13 full-time employees, three of whom are with Drone USA and ten of whom are with Howco, and two part-time employees with Howco. We have no labor union contracts and believe relations with our employees are satisfactory.

### **Debt Instruments**

On April 1, 2016, we entered into a revolving line of credit with Key Bank. This revolving line of credit is in the amount of \$50,000, and is personally guaranteed by our Chief Executive Officer ("CEO"). The loan bears interest at a fluctuating rate equal to the prime rate, currently 3.50%, plus 4.25%. As of December 31, 2016, the balance of the line of credit is approximately \$50,000.

We have an \$840,000 convertible note dated December 11, 2016, payable with AIG, an entity controlled by our CEO. The Note bears interest at an annual rate of 7% with a maturity date of June 11, 2017, at which time all unpaid principal and interest is due. The holder of the note has the option to convert the outstanding principal and accrued interest, in whole or in part, into shares of common stock at a conversion price equal to the volume weighted average price per share of common stock for the 30-day period prior to conversion. As of December 31, 2016, the note payable has not been converted and the balance of the note is approximately \$700,000.

We issued a convertible note dated July 1, 2016, payable to our CEO for \$117,000. The note bears interest at an annual rate of 7% with a maturity rate of January 1, 2018. The holder of the note has the option to convert the outstanding principal and accrued interest, in whole or in part, into shares of common stock at a conversion price equal to the volume weighted average price per share of common stock for the 30-day period prior to conversion. As of December 31, 2016, the note payable has not been converted and the balance of the note is approximately \$122,000.

In connection with the acquisition of Howco on September 9, 2016, we issued a note payable to the sellers in the amount of \$900,000. The note bears an interest of 5.5% and all unpaid principal and accrued interest is due on September 9, 2017. The note is subordinated to the TCA loan described below. As of December 31, 2016, the note payable has a balance of approximately \$900,000.

Effective September 13, 2016, we entered into a Senior Secured Revolving Credit Facility Agreement (the "Credit Facility") with TCA Global Credit Master Fund, L.P. ("TCA") which allows us to borrow up to \$6.5 million. As of December 31, 2016, only \$3.5 million has been loaned by TCA to us which we used for the acquisition of Howco and the payment of outstanding secured obligations, certain vendors and the closing fee to TCA. The initial loan is due 18 months from the date of the loan and bears interest of 18% per annum. The first five months of the loan term are interest only payments, and the remaining 13 months of the loan term are fully amortizing principal and interest payments. Drone USA, LLC is the corporate guarantor under the terms of the Credit Facility. Under the terms of the Credit Facility, we are obligated to pay \$850,000 of advisory fees to TCA. We issued 539,204 shares of common stock in satisfaction of the \$850,000 in accordance with the terms of the agreement. Based upon the value of the shares, at the time the lender sells the shares, we may be required to redeem unsold shares for the difference between the \$850,000 and the lender's sales proceeds.. TCA has set aside a reserve with our transfer agent for 7,000,000 shares of our common stock to satisfy the transaction fee. In the event that the shares of our restricted common stock used to pay the transaction fee to TCA cannot be sold to recover the \$850,000 transaction fee in 12 months from the date of TCA received those shares, it is an event of default under the terms of the Credit Facility, resulting in an annual default interest rate of 25% and the right of TCA to certain default remedies, including the sale of collateral. Under the terms of the Credit Facility, except in limited circumstances, we are not permitted to encumber any of our assets, sell any shares of common stock or incur additional indebtedness without TCA's prior written consent. On April 13, 2017, we received a notice of default from TCA for failure to pay the March and April principal payments and were given a 10 day period to cure the default. We have been in discussions with TCA and believe that TCA will work with us to achieve our business plan as long as we are continuing to make progress in that regard.

In June 2016, we opened a credit card account with American Express Bank. Payment of the entire balance is due monthly upon receipt of the statement. The card has been cancelled and has a current unpaid balance of \$176,066.

On August 18, 2016, we entered into a Settlement Agreement with Rockwell Capital Partners, Inc. ("Rockwell") in connection with a section 3(a)(10) transaction under the Securities Act where we issued to Rockwell a convertible note in the principal amount of \$102,102.74. To limit the number of our shares that Rockwell would have to sell and thus limit the potential pressure on the trading price of our common stock we issued 68,500 shares to Rockwell, of which 11,500 were a settlement fee and the balance were for repayment of the convertible note, and in the first quarter of fiscal 2017 issued an additional 460,200 shares as part of the Settlement Agreement for a total of 528,700 shares issued to Rockwell.

### **Emerging Growth Company**

We are and we will remain an "emerging growth company" as defined under The Jumpstart Our Business Startups Act (the "JOBS Act"), until the earliest to occur of (i) the last day of the fiscal year during which our total annual revenues equal or exceed \$1 billion (subject to adjustment for inflation), (ii) the last day of the fiscal year following the fifth anniversary of our initial public offering, (iii) the date on which we have, during the previous three-year period, issued more than \$1 billion in non-convertible debt securities, or (iv) the date on which we are deemed a "large accelerated filer" (with at least \$700 million in public float) under the Securities and Exchange Act of 1934, as amended (the "Exchange Act").

As an "emerging growth company", we may take advantage of specified reduced disclosure and other requirements that are otherwise applicable generally to public companies. These provisions include:

- only two years of audited financial statements in addition to any required unaudited interim financial statements with correspondingly reduced "Management's Discussion and Analysis" disclosure;
- reduced disclosure about our executive compensation arrangements;
- no requirement that we hold non-binding advisory votes on executive compensation or golden parachute arrangements; and
- exemption from the auditor attestation requirement in the assessment of our internal control over financial reporting.

We have taken advantage of some of these reduced burdens, and thus the information we provide stockholders may be different from what you might receive from other public companies in which you hold shares.

In addition, Section 107 of the JOBS Act also provides that an emerging growth company can take advantage of the extended transition period provided in Section 7(a)(2)(B) of the Securities Act for complying with new or revised accounting standards. In other words, an emerging growth company can delay the adoption of certain accounting standards until those standards would otherwise apply to private companies. However, we are choosing to "opt out" of such extended transition period, and as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for non-emerging growth companies. Section 107 of the JOBS Act provides that our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

Notwithstanding the above, we are also currently a "smaller reporting company", meaning that we are not an investment company, an asset-backed issuer, or a majority-owned subsidiary of a parent company that is not a smaller reporting company and have a public float of less than \$75 million and annual revenues of less than \$50 million during the most recently completed fiscal year. In the event that we are still considered a "smaller reporting company", at such time as we cease being an "emerging growth company", the disclosure we will be required to provide in our SEC filings will increase, but will still be less than it would be if we were not considered either an "emerging growth company" or a "smaller reporting company". Specifically, similar to "emerging growth companies", "smaller reporting companies" are able to provide simplified executive compensation disclosures in their filings; are exempt from the provisions of Section 404(b) of the Sarbanes-Oxley Act ("SOX") requiring that independent registered public accounting firms provide an attestation report on the effectiveness of internal control over financial reporting; and have certain other decreased disclosure obligations in their SEC filings, including, among other things, only being required to provide two years of audited financial statements in annual reports.

## **Item 1A. Risk Factors.**

### **RISKS RELATING TO OUR DRONE BUSINESS AND OUR INDUSTRY**

#### ***We have an extremely limited operating history.***

With respect to the manufacturing and sale of drones, we are currently a start-up company without any current sales of our drone products. There is no historical basis to make judgments on the capabilities associated with our enterprise, management and/or employee's ability to produce a commercial drone product leading to a profitable company beyond what we have acquired through our purchase of Howco which is in the business of spare parts and replacement parts.

#### ***We will need to raise additional capital.***

Given our lack of revenues from sales of our drone products to date, with no assurance as to when we may begin to receive revenues sufficient to acquire companies in the drone industry, we expect that Drone USA will need to obtain additional operating capital either through equity offerings, debt offerings or a combination thereof, in the future. In addition, if, in the future, we are not capable of generating sufficient revenues from operations and its capital resources are insufficient to meet future requirements, we may have to raise funds to allow us to continue to commercialize, market and sell our products. We presently have no committed sources of funding and we have not entered into any agreements or arrangements with respect to our fundraising efforts. We cannot be certain that funding will be available on acceptable terms or at all. To the extent that we raise additional funds by issuing equity securities, our stockholders may experience significant dilution. Any debt financing, if available, may involve restrictive covenants that may impact our ability to conduct business. If we are unable to raise additional capital if required or on acceptable terms, we may have to significantly scale back, delay or discontinue the development and/or commercialization of our drone products, restrict our operations or obtain funds by entering into agreements on unattractive terms.

#### ***Most of our management has limited experience in the drone industry***

With the exception of our CTO, our management has limited experience in aerospace, aviation and unmanned aerial systems manufacturing sectors. While our management has considerable general management experience, some have specialized knowledge and abilities in the unmanned aerial industry, but none of the managers have experience managing a business that manufacturers and markets aircrafts. The management will rely on contracted individuals with the specified skills, qualifications and knowledge related to aircraft manufacturing and marketing, without impacting the overall budget for compensation.

#### ***Potential product liabilities may harm our operating results.***

As a manufacturer of a UAV products, and with aircrafts and aviation sector companies being scrutinized heavily, we may be subject to FAA mandates and/or regulations, which could result in potential law suits. Defects in our product may lead to life, health and property risks. Currently, the unmanned aerial systems industry lacks a formative insurance market. It is possible that our operations could be adversely affected by the costs and disruptions of responding to such liabilities even if insurance against liabilities is available.

#### ***If our proposed marketing efforts are unsuccessful we may not earn enough revenue to become profitable.***

Our success will depend on investment in marketing resources and the successful implementation of our marketing plan. Our marketing plan may include attendance at trade shows and making private demonstrations, advertising and promotional materials and advertising campaigns in print and/or broadcast media. We cannot give any assurance that our marketing efforts will be successful. If they are not, revenue may not be sufficient to cover our fixed costs and we may not become profitable.

#### ***We may be unable to respond to rapid technology changes and innovative products.***

In a constantly changing and innovative technology market with frequent new product introductions, enhancement and modifications, we may be forced to implement and develop new technologies into our products for anticipation of changing customer requirements that may significantly impact costs in order to retain or enhance our competitive position in existing and new markets.

***There is intense competition in our market.***

The aerospace and aviation markets are very saturated and intensely competitive. By entering this sector, our management is aware that failure to compete with direct market leading companies and new entrants will affect overall business and the product. Therefore, the faster innovative applications and technologies are implemented to the developed product, the better the pricing and commercial business strategies management will be able to offer to businesses purchasing drones. Competitive factors in this market are all related to product performance, price, customer service, training platforms, reputation, sales and marketing effectiveness.

***Future acquisitions may be unsuccessful and may negatively affect operations and financial condition.***

The integration of businesses, personnel, product lines and technologies can be difficult, time consuming and subject to significant risks. Any difficulties could disrupt our ongoing business, distract our management and employees, increase our expenses and decrease our revenue.

***We may be unable to protect our intellectual property.***

Our ability to protect our proprietary technology and operate without infringing the rights of others will allow our UAV business to compete successfully and achieve future revenue growth. If we are unable to protect our proprietary technology or infringe upon the rights of others, it could negatively impact our operating results.

***We will be reliant on information systems, electronic communication systems, and internal and external data and applications.***

Business operations and manufacturing are dependent on computer hardware, software and communication systems. Information systems are vulnerable and are subject to failures that could create internal or external events that will affect our business and operations. Management is mindful of these risks since we have developed a strategy by adopting third party information technology and system practices. Any breach of security could disrupt our overall UAV business and result in various effects in operations and efficiency. UAVs could encounter increased overhead costs, loss of important information and data, which may also hinder our reputation.

***If we lose our key personnel or are unable to hire additional personnel, we will have trouble growing our business.***

We depend to a large extent on the abilities of our key management. The loss of any key employee or our inability to attract or retain other qualified employees could seriously impair our results of operations and financial condition.

Our future success depends on our ability to attract, retain and motivate highly skilled technical, marketing, management, accounting and administrative personnel. We plan to hire additional personnel in all areas of our business as we grow. Competition for qualified personnel is intense. As a result, we may be unable to attract and retain qualified personnel. We may also be unable to retain the employees that we currently employ or to attract additional technical personnel. The failure to retain and attract the necessary personnel could seriously harm our business, financial condition and results of operations.

***Because our executive officers collectively own a majority of our outstanding shares, they can elect our directors without regard to other stockholders' votes.***

Our CEO, Michael Bannon, owns approximately 88% of our outstanding shares of common stock. As a result, he may elect all of our directors, who in turn elect all executive officers, without regard to the votes of other stockholders. The voting control of Mr. Bannon gives him the ability to authorize change-in-control transactions, amendments to our certificate of incorporation and other matters that may not be in the best interests of our minority stockholders. In this regard, Mr. Bannon has absolute control over our management and affairs.

***We face a higher risk of failure because we cannot accurately forecast our future revenues and operating results.***

The rapidly changing nature of the markets in which we compete makes it difficult to accurately forecast our revenues and operating results. Furthermore, we expect our revenues and operating results to fluctuate in the future due to a number of factors, including the following:

- the timing of sales of our UAV products;
- unexpected delays in introducing new UAV products;
- increased expenses, whether related to sales and marketing, or administration;
- costs related to anticipated acquisitions of businesses.

***Our UAV products may suffer defects.***

Products may suffer defects that may lead to substantial product liability, damage or warranty claims. Given our complex platforms and systems within our product, errors and defects may be related to flight and/or communications. Such an event could result in significant expenses arising from product liability and warranty claims, and reduce sales, which could have a material adverse effect on business, financial condition and results of operations.

***Our products are subject to FAA regulations.***

Compliance with the new FAA regulations by businesses interested in using UAVs may negatively affect commercial usage of our UAVs, which will adversely affect our operations and overall sales.

***Since we intend to pursue acquisitions, investments or other strategic relationships or alliances, this will consume significant resources, may be unsuccessful and could dilute holders of its common stock.***

Acquisitions, investments and other strategic relationships and alliances, if pursued, may involve significant cash expenditures, debt incurrence, operating losses, and expenses that could have a material adverse effect on our financial condition and operating results. Acquisitions involve numerous other risks, including:

- Diversion of management time and attention from daily operations;
- Difficulties integrating acquired businesses, technologies and personnel into our business;
- Inability to obtain required regulatory approvals and/or required financing on favorable terms;
- Entry into new markets in which we have little previous experience;
- Potential loss of our key employees, key contractual relationships or key customers of acquired companies; and
- Assumption of the liabilities and exposure to unforeseen liabilities of acquired companies.

If these types of transactions are pursued, it may be difficult for us to complete these transactions quickly and to integrate these acquired operations efficiently into its current business operations. Any acquisitions, investments or other strategic relationships and alliances by us may ultimately harm our business and financial condition. In addition, future acquisitions may not be as successful as originally anticipated and may result in impairment charges.

***We may be required to record a significant charge to earnings as we are required to reassess our goodwill or other intangible assets arising from acquisitions.***

We are required under U.S. GAAP to review our intangible assets, including goodwill for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Goodwill is required to be tested for impairment annually or more frequently if facts and circumstances warrant a review. Factors that may be considered a change in circumstances indicating that the carrying value of our amortizable intangible assets may not be recoverable include a decline in stock price and market capitalization and slower or declining growth rates in our industry. We may be required to record a significant charge to earnings in our financial statements during the period in which any impairment of our goodwill or amortizable intangible assets is determined.

***Our products may be subject to export regulations; government agencies may require terms that are disadvantageous to our business.***

Our business model contemplates working with law enforcement and possibly military agencies. Because we may sell our products to these customers, we may need to register with the U.S. Department of State under its International Trafficking in Arms Regulations (ITAR). If we choose to sell our products overseas, we may be required to obtain a license from the State Department or face substantial fines or, in an extreme case, a shutdown of our business. Additionally, government agencies typically require provisions in their contracts that allow them to terminate agreements or change purchasing terms in their discretion without notice. Such contractual provisions, if exercised by our customers in the future, could have a material adverse effect on our cash flow and business performance.

## **Risks Related to Consolidated Operations**

***Since we have recently acquired Howco, it is difficult for potential investors to evaluate our future consolidated business.***

We completed the Howco acquisition on September 9, 2016. Therefore, our limited combined operating history makes it difficult for potential investors to evaluate our business or prospective operations and your purchase of our securities. Therefore, we are subject to the risks inherent in the financing, expenditures, complications and delays inherent in a newly combined business. These risks are described below under the risk factor titled “*Any future acquisitions that we may make could disrupt our business, cause dilution to our stockholders and harm our business, financial condition or operating results.*” In addition, while the former Howco shareholders have indemnified us from any undisclosed liabilities, there may not be adequate resources to cover such indemnity. Furthermore, there are risks that Howco's vendors, suppliers and customers may not renew their relationships for which there is no indemnification. Accordingly, our business and success faces risks from uncertainties faced by developing companies in a competitive environment. There can be no assurance that our efforts will be successful or that we will ultimately be able to attain profitability.

***Failure to manage or protect growth may be detrimental to our business because our infrastructure may not be adequate for expansion***

The Howco acquisition requires a substantial expansion of our systems, workforce and facilities. We may fail to adequately manage our anticipated future growth. The substantial growth in our operations as a result of the Howco and planned acquisitions is expected to place a significant strain on our administrative, financial and operational resources, and increase demands on our management and on our operational and administrative systems, controls and other resources. Howco's growth strategy includes broadening its service and product offerings, implementing an aggressive marketing plan and employing leading technologies. There can be no assurance that our systems, procedures and controls will be adequate to support our operations as they expand. We cannot assure you that our existing personnel, systems, procedures or controls will be adequate to support our operations in the future or that we will be able to successfully implement appropriate measures consistent with our growth strategy. As part of this growth, we may have to implement new operational and financial systems, procedures and controls to expand, train and manage our employee base, and maintain close coordination among our staff. We cannot guarantee that we will be able to do so, or that if we are able to do so, we will be able to effectively integrate them into our existing staff and systems.

To the extent we acquire other businesses, we will also need to integrate and assimilate new operations, technologies and personnel. The integration of new personnel will continue to result in some disruption to ongoing operations. The ability to effectively manage growth in a rapidly evolving market requires effective planning and management processes. We will need to continue to improve operational, financial and managerial controls, reporting systems and procedures, and will need to continue to expand, train and manage our work force. There can be no assurance that we would be able to accomplish such an expansion on a timely basis. If we are unable to affect any required expansion and is unable to perform its contracts on a timely and satisfactory basis, its reputation and eligibility to secure additional contracts in the future could be damaged. The failure to perform could also result in a contract terminations and significant liability. Any such result would adversely affect our business and financial condition.

***We will need to increase the size of our organization, and we may experience difficulties in managing growth, which would hurt our financial performance.***

In addition to employees hired from Howco and any other companies which we may acquire, we will need to expand our employee infrastructure for managerial, operational, financial and other resources at the parent company level. Future growth will impose significant added responsibilities on members of management, including the need to identify, recruit, maintain and integrate additional employees. Our future financial performance and our ability to commercialize our product candidates and to compete effectively will depend, in part, on our ability to manage any future growth effectively.

In order to manage our future growth, we will need to continue to improve our management, operational and financial controls and our reporting systems and procedures. All of these measures will require significant expenditures and will demand the attention of management. If we do not continue to enhance our management personnel and our operational and financial systems and controls in response to growth in our business, we could experience operating inefficiencies that could impair our competitive position and could increase our costs more than we had planned. If we are unable to manage growth effectively, our business, financial condition and operating results could be adversely affected.

***Our business depends on experienced and skilled personnel, and if we are unable to attract and integrate skilled personnel, it will be more difficult for us to manage our business and complete contracts.***

The success of our business depends on the skill of our personnel. Accordingly, it is critical that we maintain, and continue to build, a highly experienced management team and specialized workforce, including sales professionals. Competition for personnel, particularly those with expertise in government consulting and a security clearance is high, and identifying candidates with the appropriate qualifications can be costly and difficult. We may not be able to hire the necessary personnel to implement our business strategy given our anticipated hiring needs, or we may need to provide higher compensation or more training to our personnel than we currently anticipate. In addition, our ability to recruit, hire and indirectly deploy former employees of the U.S. Government is subject to complex laws and regulations, which may serve as an impediment to our ability to attract such former employees.

Our business is labor intensive and our success depends on our ability to attract, retain, train and motivate highly skilled employees, including employees who may become part of our organization in connection with our acquisitions. The increase in demand for consulting, technology integration and managed services has further increased the need for employees with specialized skills or significant experience in these areas. Our ability to expand our operations will be highly dependent on our ability to attract a sufficient number of highly skilled employees and to retain our employees and the employees of companies that we have acquired. We may not be successful in attracting and retaining enough employees to achieve our desired expansion or staffing plans. Furthermore, the industry turnover rates for these types of employees are high and we may not be successful in retaining, training or motivating our employees. Any inability to attract, retain, train and motivate employees could impair our ability to adequately manage and complete existing projects and to accept new client engagements. Such inability may also force us to increase our hiring of independent contractors, which may increase our costs and reduce our profitability on client engagements. We must also devote substantial managerial and financial resources to monitoring and managing our workforce. Our future success will depend on our ability to manage the levels and related costs of our workforce.

In the event we are unable to attract, hire and retain the requisite personnel and subcontractors, we may experience delays in completing contracts in accordance with project schedules and budgets, which may have an adverse effect on our financial results, harm our reputation and cause us to curtail our pursuit of new contracts. Further, any increase in demand for personnel may result in higher costs, causing us to exceed the budget on a contract, which in turn may have an adverse effect on our business, financial condition and operating results and harm our relationships with our customers.

***We expect to expand our business, in part, through future acquisitions, but we may not be able to complete the pending acquisition or identify or complete suitable acquisitions, which could harm our financial performance.***

Acquisitions are a significant part of our growth strategy. We continually review, evaluate and consider potential investments and acquisitions. In such evaluations, we are required to make difficult judgments regarding the value of business opportunities and the risks and cost of potential liabilities. We plan to use acquisitions of companies or technologies to expand our project skill-sets and capabilities, expand our geographic markets, add experienced management and increase our product and service offerings. Although we have identified several acquisition considerations, we may be unable to implement our growth strategy if we cannot reach agreement with acquisition targets on acceptable terms or arrange required financing for acquisitions on acceptable terms. In addition, the time and effort involved in attempting to identify acquisition candidates and consummate acquisitions may divert members of our management from the operations of our company.

***Any future acquisitions that we may make could disrupt our business, cause dilution to our stockholders and harm our business, financial condition or operating results.***

If we are successful in consummating acquisitions, those acquisitions could subject us to a number of risks, including, but not limited to:

- the purchase price we pay and/or unanticipated costs could significantly deplete our cash reserves or result in dilution to our existing stockholders;
- we may find that the acquired company or technologies do not improve market position as planned;
- we may have difficulty integrating the operations and personnel of the acquired company, as the combined operations will place significant demands on the Company's management, technical, financial and other resources;
- key personnel and customers of the acquired company may terminate their relationships with the acquired company as a result of the acquisition;
- we may experience additional financial and accounting challenges and complexities in areas such as tax planning and financial reporting;
- we may assume or be held liable for risks and liabilities (including environmental-related costs) as a result of our acquisitions, some of which we may not be able to discover during our due diligence or adequately adjust for in our acquisition arrangements;
- our ongoing business and management's attention may be disrupted or diverted by transition or integration issues and the complexity of managing geographically or culturally diverse enterprises;
- we may incur one-time write-offs or restructuring charges in connection with the acquisition;
- we may acquire goodwill and other intangible assets that are subject to amortization or impairment tests, which could result in future charges to earnings; and
- we may not be able to realize the cost savings or other financial benefits we anticipated.

We cannot assure you that we will successfully integrate Howco or profitably manage any other acquired business. In addition, we cannot assure you that, following any acquisition, our continued business will achieve sales levels, profitability, efficiencies or synergies that justify acquisition or that the acquisition will result in increased earnings for us in any future period. These factors could have a material adverse effect on our business, financial condition and operating results.

***Insurance and contractual protections may not always cover lost revenue, increased expenses or liquidated damages payments, which could adversely affect our financial results.***

Although we maintain insurance and intend to obtain warranties from suppliers, obligate subcontractors to meet certain performance levels and attempt, where feasible, to pass risks we cannot control to our customers, the proceeds of such insurance, warranties, performance guarantees or risk sharing arrangements may not be adequate to cover lost revenue, increased expenses or liquidated damages payments that may be required in the future.

***If we are unable to comply with certain financial and operating restrictions in our credit facilities, we may be limited in our business activities and access to credit or may default under our credit facilities***

Pursuant to our existing Credit Agreement with TCA, all of our assets, including the assets of Howco, are secured with our senior lender. Provisions in the Credit Agreement and debt instruments impose restrictions or require prior approval on our and certain of our subsidiaries' ability to, among other things:

- incur additional debt;
- pay cash dividends and make distributions;
- make certain investments and acquisitions;
- guarantee the indebtedness of others or our subsidiaries;
- redeem or repurchase capital stock;
- create liens or encumbrances;
- enter into transactions with affiliates;
- engage in new lines of business;
- sell, lease or transfer certain parts of our business or property;
- restrictions on incurring obligations for capital expenditures;
- issue additional capital stock of the Company or any subsidiary of the Company;
- acquire new companies and merge or consolidate.

These agreements also contain other customary covenants, including covenants that require us to meet specified financial ratios and financial tests. We may not be able to comply with these covenants in the future. Our failure to comply with these covenants may result in the declaration of an event of default and cause us to be unable to borrow under our credit facilities and debt instruments. In addition to preventing additional borrowings under these agreements, an event of default, if not cured or waived, may result in the acceleration of the maturity of indebtedness outstanding under these agreements, which would require us to pay all amounts outstanding. If the maturity of our indebtedness is accelerated, we may not have sufficient funds available for repayment or we may not have the ability to borrow or obtain sufficient funds to replace the accelerated indebtedness on terms acceptable to us or at all. Our failure to repay our bank indebtedness would result in the bank foreclosing on all or a portion of our assets and force us to curtail our operations.

***We may be subject to damages resulting from claims that the Company or our employees have wrongfully used or disclosed alleged trade secrets of their former employers.***

Upon completion of any acquisitions by the Company, we may be subject to claims that our acquired companies and their employees may have inadvertently or otherwise used or disclosed trade secrets or other proprietary information of former employers or competitors. Litigation may be necessary to defend against these claims. Even if we are successful in defending against these claims, litigation could result in substantial costs and be a distraction to management. If we fail in defending such claims, in addition to paying money claims, we may lose valuable intellectual property rights or personnel. A loss of key research personnel or their work product could hamper or prevent our ability to commercialize certain products, which could severely harm our business.

***The loss of our Chief Executive Officer or other key personnel may adversely affect our operations.***

The Company's success depends to a significant extent upon the operation, experience, and continued services of certain of its officers, including our CEO, as well as other key personnel. While our CEO and the executive officers of Howco are all employed under employment contracts, there is no assurance we will be able to retain their services. The loss of our CEO or several of the other key personnel could have an adverse effect on the Company. If a CEO or other executive officers were to leave we would face substantial difficulty in hiring a qualified successor and could experience a loss in productivity while any successor obtains the necessary training and experience. In addition, our CEO, CFO and other key personnel do not have prior experience in SEC reporting obligations. Furthermore, we do not maintain "key person" life insurance on the lives of any executive officer and their death or incapacity would have a material adverse effect on us. The competition for qualified personnel is intense, and the loss of services of certain key personnel could adversely affect our business.

***Internal system or service failures could disrupt our business and impair our ability to effectively provide our services and products to our customers, which could damage our reputation and adversely affect our revenues and profitability.***

Any system or service disruptions, including those caused by ongoing projects to improve our information technology systems and the delivery of services, if not anticipated and appropriately mitigated, could have a material adverse effect on our business including, among other things, an adverse effect on our ability to bill our customers for work performed on our contracts, collect the amounts that have been billed and produce accurate financial statements in a timely manner. We are also subject to systems failures, including network, software or hardware failures, whether caused by us, third-party service providers, cyber security threats, natural disasters, power shortages, terrorist attacks or other events, which could cause loss of data and interruptions or delays in our business, cause us to incur remediation costs, subject us to claims and damage our reputation. In addition, the failure or disruption of our communications or utilities could cause us to interrupt or suspend our operations or otherwise adversely affect our business. Our property and business interruption insurance may be inadequate to compensate us for all losses that may occur as a result of any system or operational failure or disruption and, as a result, our future results could be adversely affected.

***Our financial performance could be adversely affected by decreases in spending on technology products and services by our public sector customers.***

Our sales to our public sector customers are impacted by government spending policies, budget priorities and revenue levels. Although our sales to the federal government are diversified across multiple agencies and departments, they collectively accounted for approximately 95% of Howco's net sales. An adverse change in government spending policies (including budget cuts at the federal level resulting from sequestration), budget priorities or revenue levels could cause our public sector customers to reduce their purchases or to terminate or not renew their contracts with us, which could adversely affect our business, results of operations or cash flows.

***Our business could be adversely affected by the loss of certain vendor partner relationships and the availability of their products.***

We purchase products for resale from vendor partners, which include OEMs and wholesale distributors. We are authorized by vendor partners to sell all or some of their products via direct marketing activities. Our authorization with each vendor partner is subject to specific terms and conditions regarding such things as sales channel restrictions, product return privileges, price protection policies and purchase discounts. In the event we were to lose one of our significant vendor partners, our business could be adversely affected.

***We expect to enter into joint ventures, teaming and other arrangements, and these activities involve risks and uncertainties.***

We expect to enter into joint ventures, teaming and other arrangements. These activities involve risks and uncertainties, including the risk of the joint venture or applicable entity failing to satisfy its obligations, which may result in certain liabilities to us for guarantees and other commitments, the challenges in achieving strategic objectives and expected benefits of the business arrangement, the risk of conflicts arising between us and our partners and the difficulty of managing and resolving such conflicts, and the difficulty of managing or otherwise monitoring such business arrangements.

***Our business and operations expose us to numerous legal and regulatory requirements and any violation of these requirements could harm our business.***

We are subject to numerous federal, state and foreign legal requirements on matters as diverse as data privacy and protection, employment and labor relations, immigration, taxation, anticorruption, import/export controls, trade restrictions, internal and disclosure control obligations, securities regulation and anti-competition. Compliance with diverse and changing legal requirements is costly, time-consuming and requires significant resources. We are also focused on expanding our business in certain identified growth areas, such as health information technology, energy and environment, which are highly regulated and may expose us to increased compliance risk. Violations of one or more of these diverse legal requirements in the conduct of our business could result in significant fines and other damages, criminal sanctions against us or our officers, prohibitions on doing business and damage to our reputation. Violations of these regulations or contractual obligations related to regulatory compliance in connection with the performance of customer contracts could also result in liability for significant monetary damages, fines and/or criminal prosecution, unfavorable publicity and other reputational damage, restrictions on our ability to compete for certain work and allegations by our customers that we have not performed our contractual obligations.

***If we do not adequately protect our intellectual property rights, we may experience a loss of revenue and our operations may be materially harmed.***

We have not registered any patents or copyrights for any of the intellectual property we have acquired or developed. We rely upon confidentiality agreements signed by our employees, consultants and third parties to protect our intellectual property. We cannot assure you that we can adequately protect our intellectual property or successfully prosecute potential infringement of our intellectual property rights. Also, we cannot assure you that others will not assert rights in, or ownership of, trademarks and other proprietary rights of ours or that we will be able to successfully resolve these types of conflicts to our satisfaction. Our failure to protect our intellectual property rights may result in a loss of revenue and could materially adversely affect our operations and financial condition.

## **Risks Relating to Howco's Business and Industry**

***We depend on the U.S. Government for a substantial portion of our business and changes in government defense spending could have adverse consequences on our financial position, results of operations and business.***

A substantial portion of our U.S. revenues from Howco's operations have been from and will continue to be from sales and services rendered directly or indirectly to the U.S. Government. Our revenues from the U.S. Government largely result from contracts awarded to us under various U.S. Government programs, primarily defense-related programs with the Department of Defense (DoD), as well as a broad range of programs with the Department of Homeland Security, the intelligence community and other departments and agencies. Cost cutting including through consolidation and elimination of duplicative organizations and insurance has become a major initiative for DoD. The funding of our programs is subject to the overall U.S. Government budget and appropriation decisions and processes which are driven by numerous factors, including geo-political events and macroeconomic conditions. The overall level of U.S. defense spending increased in recent years for numerous reasons, including increases in funding of operations in Iraq and Afghanistan. However, with the winding down of both wars, defense spending levels are becoming increasingly difficult to predict and are expected to be affected by numerous factors. Such factors include priorities of the Administration and the Congress, and the overall health of the U.S. and world economies and the state of governmental finances.

The Budget Control Act of 2011 enacted 10-year discretionary spending caps which are expected to generate over \$1 trillion in savings for the U.S. Government, a substantial portion of which comes from DoD baseline spending reductions. In addition, the Budget Control Act of 2011 provides for additional automatic spending cuts (referred to as "sequestration") totaling \$1.2 trillion over nine years. These reduction targets will further reduce DoD and other federal agency budgets. Although the Office of Management and Budget has provided guidance to agencies on implementing sequestration cuts, there remains much uncertainty about how exactly sequestration cuts will be implemented and the impact those cuts will have on contractors supporting the government. Given the potential impasse over raising the debt ceiling, we are not able to predict their impact of budget cuts, including sequestration, on our company or our financial results. However, we expect that budgetary constraints and concerns related to the national debt will continue to place downward pressure on DoD spending levels and that implementation of the automatic spending cuts without change will reduce, delay or cancel funding for certain of our contracts - particularly those with unobligated balances - and programs and could adversely impact our operations, financial results and growth prospects.

Significant reduction in defense spending could have long-term consequences for our size and structure. In addition, reduction in government priorities and requirements could impact the funding, or the timing of funding, of our programs, which could negatively impact our results of operations and financial condition. In addition, we are involved in U.S. Government programs, which are classified by the U.S. Government and our ability to discuss these programs, including any risks and disputes and claims associated with and our performance under such programs, could be limited due to applicable security restrictions.

***The U.S. Government Systems spare parts business is intensely competitive and we may not be able to win government bids when competing against much larger companies, which could reduce our revenues and profitability.***

Large spare parts contracts awarded by the U.S. Government are few in number and are awarded through a formal competitive bidding process, including indefinite delivery/indefinite quantity ("IDIQ"), GSA Schedule and other multi-award contracts. Bids are awarded on the basis of price, compliance with technical bidding specifications, technical expertise and, in some cases, demonstrated management ability to perform the contract. There can be no assurance that the Company will win and/or fulfill additional contracts. Moreover, the award of these contracts is subject to protest procedures and there can be no assurance that the Company will prevail in any ensuing legal protest. Howco's failure to secure a significant dollar volume of U.S. Government contracts in the future would adversely affect us.

The U.S. Government spare parts business is intensely competitive and subject to rapid change. Many of the existing and potential competitors have greater financial, operating and technological resources than Howco. The competitive environment may require us to make changes in our pricing, services or marketing. The competitive bidding process involves substantial costs and a number of risks, including significant cost and managerial time to prepare bids and proposals for contracts that may not be awarded to us, or that may be awarded, but for which we do not receive meaningful revenues. Accordingly, our success depends on our ability to develop services and products that address changing needs and to provide people and technology needed to deliver these services and products. To remain competitive, we must consistently provide superior service, technology and performance on a cost-effective basis to our customers. Our response to competition could cause us to expend significant financial and other resources, disrupt our operations, strain relationships with partners, any of which could harm our business and/or financial condition.

***Our financial performance is dependent on our ability to perform on our U.S. Government contracts, which are subject to termination for convenience, which could harm our financial performance.***

Our financial performance is dependent on our performance under our U.S. Government contracts. Government customers have the right to cancel any contract for its convenience. An unanticipated termination of, or reduced purchases under, one of the Company's major contracts whether due to lack of funding, for convenience or otherwise, or the occurrence of delays, cost overruns and product failures could adversely impact our results of operations and financial condition. If one of our contracts were terminated for convenience, we would generally be entitled to payments for our allowable costs and would receive some allowance for profit on the work performed. If one of our contracts were terminated for default, we would generally be entitled to payments for our work that has been accepted by the government. A termination arising out of our default could expose us to liability and have a negative impact on our ability to obtain future contracts and orders. Furthermore, on contracts for which we are a subcontractor and not the prime contractor, the U.S. Government could terminate the prime contract for convenience or otherwise, irrespective of our performance as a subcontractor.

***Our failure to comply with a variety of complex procurement rules and regulations could result in our being liable for penalties, including termination of our U.S. Government contracts, disqualification from bidding on future U.S. Government contracts and suspension or debarment from U.S. Government contracting that could adversely affect our financial condition.***

We must comply with laws and regulations relating to the formation, administration and performance of U.S. Government contracts, which affect how we do business with our customers and may impose added costs on our business. U.S. Government contracts generally are subject to the Federal Acquisition Regulation (FAR), which sets forth policies, procedures and requirements for the acquisition of goods and services by the U.S. Government, department-specific regulations that implement or supplement DFAR, such as the DOD's Defense Federal Acquisition Regulation Supplement (DFARS) and other applicable laws and regulations. We are also subject to the Truth in Negotiations Act, which requires certification and disclosure of cost and pricing data in connection with certain contract negotiations; the Procurement Integrity Act, which regulates access to competitor bid and proposal information and government source selection information, and our ability to provide compensation to certain former government officials; the Civil False Claims Act, which provides for substantial civil penalties for violations, including for submission of a false or fraudulent claim to the U.S. Government for payment or approval; the Civil False Claims Act, which provides for substantial civil penalties for violations, including for submission of a false or fraudulent claim to the U.S. Government for payment or approval; and the U.S. Government Cost Accounting Standards, which impose accounting requirements that govern our right to reimbursement under certain cost-based U.S. Government contracts. These regulations impose a broad range of requirements, many of which are unique to government contracting, including various procurement, import and export, security, contract pricing and cost, contract termination and adjustment, and audit requirements. A contractor's failure to comply with these regulations and requirements could result in reductions to the value of contracts, contract modifications or termination, and the assessment of penalties and fines and lead to suspension or debarment, for cause, from government contracting or subcontracting for a period of time. In addition, government contractors are also subject to routine audits and investigations by U.S. Government agencies such as the Defense Contract Audit Agency (DCAA) and Defense Contract Management Agency (DCMA). These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations and standards. The DCAA also reviews the adequacy of and a contractor's compliance with its internal control systems and policies, including the contractor's purchasing, property, estimating, compensation and management information systems. During the term of any suspension or debarment by any U.S. Government agency, contractors can be prohibited from competing for or being awarded contracts by U.S. Government agencies. The termination of any of the Company's significant Government contracts or the imposition of fines, damages, suspensions or debarment would adversely affect the Company's business and financial condition.

***The U.S. Government may adopt new contract rules and regulations or revise its procurement practices in a manner adverse to us at any time.***

Our industry has experienced, and we expect it will continue to experience, significant changes to business practices as a result of an increased focus on affordability, efficiencies, and recovery of costs, among other items. U.S. Government agencies may face restrictions or pressure regarding the type and amount of services that they may obtain from private contractors. Legislation, regulations and initiatives dealing with procurement reform, mitigation of potential conflicts of interest and environmental responsibility or sustainability, as well as any resulting shifts in the buying practices of U.S. Government agencies, such as increased usage of fixed price contracts, multiple award contracts and small business set-aside contracts, could have adverse effects on government contractors, including us. Any of these changes could impair our ability to obtain new contracts or renew our existing contracts when those contracts are recompeted. Any new contracting requirements or procurement methods could be costly or administratively difficult for us to implement and could adversely affect our future revenues, profitability and prospects.

***We may incur cost overruns as a result of fixed priced government contracts which would have a negative impact on our operations.***

A number of Howco's current U.S. Government contracts are multi-award, multi-year IDIQ task order based contracts, which generally provide for fixed price schedules for products and services, have no pre-set delivery schedules, have very low minimum purchase requirements, are typically competed among multiple awardees and force us to carry the burden of any cost overruns. Due to their nature, fixed-priced contracts inherently have more risk than cost reimbursable contracts. If we are unable to control costs or if our initial cost estimates are incorrect, we can lose money on these contracts. In addition, some of our contracts have provisions relating to cost controls and audit rights, and if we fail to meet the terms specified in those contracts, we may not realize their full benefits. Lower earnings caused by cost overruns and cost controls would have a negative impact on our results of operations. The U.S. Government has the right to enter into contracts with other suppliers, which may be competitive with the Company's IDIQ contracts. The Company also performs fixed priced contracts under which the Company agrees to provide specific quantities of products and services over time for a fixed price. Since the price competition to win both IDIQ and fixed price contracts is intense and the costs of future contract performance cannot be predicted with certainty, there can be no assurance as to the profits, if any, that the Company will realize over the term of such contracts.

***Misconduct of employees, subcontractors, agents and business partners could cause us to lose existing contracts or customers and adversely affect our ability to obtain new contracts and customers and could have a significant adverse impact on our business and reputation.***

Misconduct could include fraud or other improper activities such as falsifying time or other records and violations of laws, including the Anti-Kickback Act. Other examples could include the failure to comply with our policies and procedures or with federal, state or local government procurement regulations, regulations regarding the use and safeguarding of classified or other protected information, legislation regarding the pricing of labor and other costs in government contracts, laws and regulations relating to environmental, health or safety matters, bribery of foreign government officials, import-export control, lobbying or similar activities, and any other applicable laws or regulations. Any data loss or information security lapses resulting in the compromise of personal information or the improper use or disclosure of sensitive or classified information could result in claims, remediation costs, regulatory sanctions against us, loss of current and future contracts and serious harm to our reputation. Although we have implemented policies, procedures and controls to prevent and detect these activities, these precautions may not prevent all misconduct, and as a result, we could face unknown risks or losses. Our failure to comply with applicable laws or regulations or misconduct by any of our employees, subcontractors, agents or business partners could damage our reputation and subject us to fines and penalties, restitution or other damages, loss of security clearance, loss of current and future customer contracts and suspension or debarment from contracting with federal, state or local government agencies, any of which would adversely affect our business, reputation and our future results.

***We may fail to obtain and maintain necessary security clearances, which may adversely affect our ability to perform on certain U.S. government contracts and depress our potential revenues.***

Many U.S. government programs require contractors to have security clearances. Depending on the level of required clearance, security clearances can be difficult and time-consuming to obtain. If we or our employees are unable to obtain or retain necessary security clearances, we may not be able to win new business, and our existing clients could terminate their contracts with us or decide not to renew them. To the extent we are not able to obtain and maintain facility security clearances or engage employees with the required security clearances for a particular contract, we may not be able to bid on or win new contracts, or effectively rebid on expiring contracts, as well as lose existing contracts, which may adversely affect our operating results and inhibit the execution of our growth strategy.

***Our future revenues and growth prospects could be adversely affected by our dependence on other contractors.***

If other contractors with whom we have contractual relationships either as a prime contractor or subcontractor eliminate or reduce their work with us, or if the U.S. Government terminates or reduces these other contractors' programs, does not award them new contracts or refuses to pay under a contract our financial and business condition may be adversely affected. Companies that do not have access to U.S. Government contracts may perform services as our subcontractor and that exposure could enhance such companies' prospect of securing a future position as a prime U.S. Government contractor which could increase competition for future contracts and impair our ability to perform on contracts.

We may have disputes with our subcontractors arising from, among other things, the quality and timeliness of work performed by the subcontractor, customer concerns about the subcontractor, our failure to extend existing task orders or issue new task orders under a subcontract, our hiring of a subcontractor's personnel or the subcontractor's failure to comply with applicable law. Current uncertain economic conditions heighten the risk of financial stress of our subcontractors, which could adversely impact their ability to meet their contractual requirements to us. If any of our subcontractors fail to timely meet their contractual obligations or have regulatory compliance or other problems, our ability to fulfill our obligations as a prime contractor or higher tier subcontractor may be jeopardized. Significant losses could arise in future periods and subcontractor performance deficiencies could result in our termination for default. A termination for default could eliminate a revenue source, expose us to liability and have an adverse effect on our ability to compete for future contracts and task orders, especially if the customer is an agency of the U.S. Government.

***Our international business exposes us to geo-political and economic factors, regulatory requirements and other risks associated with doing business in foreign countries. ...***

We intend to engage in additional foreign operations which pose complex management, foreign currency, legal, tax and economic risks, which we may not adequately address. These risks differ from and potentially may be greater than those associated with our domestic business.

Our international business is sensitive to changes in the priorities and budgets of international customers and geo-political uncertainties, which may be driven by changes in threat environments and potentially volatile worldwide economic conditions, various regional and local economic and political factors, risks and uncertainties, as well as U.S. foreign policy. Our international sales are subject to U.S. laws, regulations and policies, including the International Traffic in Arms Regulations (ITAR) and the Foreign Corrupt Practices Act (see below) and other export laws and regulations. Due to the nature of our products, we must first obtain licenses and authorizations from various U.S. Government agencies before we are permitted to sell our products outside of the U.S. We can give no assurance that we will continue to be successful in obtaining the necessary licenses or authorizations or that certain sales will not be prevented or delayed. Any significant impairment of our ability to sell products outside of the U.S. could negatively impact our results of operations and financial condition.

Our international sales are also subject to local government laws, regulations and procurement policies and practices which may differ from U.S. Government regulations, including regulations relating to import-export control, investments, exchange controls and repatriation of earnings, as well as to varying currency, geo-political and economic risks. Our international contracts may include industrial cooperation agreements requiring specific in-country purchases, manufacturing agreements or financial support obligations, known as offset obligations, and provide for penalties if we fail to meet such requirements. Our international contracts may also be subject to termination at the customer's convenience or for default based on performance, and may be subject to funding risks. We also are exposed to risks associated with using foreign representatives and consultants for international sales and operations and teaming with international subcontractors, partners and suppliers in connection with international programs. As a result of these factors, we could experience award and funding delays on international programs and could incur losses on such programs, which could negatively impact our results of operations and financial condition.

We are also subject to a number of other risks including:

- the absence in some jurisdictions of effective laws to protect our intellectual property rights;
- multiple and possibly overlapping and conflicting tax laws;
- restrictions on movement of cash;
- the burdens of complying with a variety of national and local laws;
- political instability;

- currency fluctuations;
- longer payment cycles;
- restrictions on the import and export of certain technologies;
- price controls or restrictions on exchange of foreign currencies; and
- trade barriers.

***Our international operations are subject to special U.S. government laws and regulations, such as the Foreign Corrupt Practices Act, and regulations and procurement policies and practices, including regulations to import-export control, which may expose us to liability or impair our ability to compete in international markets.***

Our international operations are subject to the U.S. Foreign Corrupt Practices Act, or the FCPA, and other laws that prohibit improper payments or offers of payments to foreign governments and their officials and political parties by U.S. and other business entities for the purpose of obtaining or retaining business. We have operations and deal with governmental customers in countries known to experience corruption, including certain countries in the Middle East and in the future, the Far East. Our activities in these countries create the risk of unauthorized payments or offers of payments by one of our employees, consultants or contractors that could be in violation of various laws including the FCPA, even though these parties are not always subject to our control. We are also subject to import-export control regulations restricting the use and dissemination of information classified for national security purposes and the export of certain products, services, and technical data, including requirements regarding any applicable licensing of our employees involved in such work.

***As a U.S. defense contractor we are vulnerable to security threats and other disruptions that could negatively impact our business.***

As a U.S. defense contractor, we face certain security threats, including threats to our information technology infrastructure, attempts to gain access to our proprietary or classified information, and threats to physical security. These types of events could disrupt our operations, require significant management attention and resources, and could negatively impact our reputation among our customers and the public, which could have a negative impact on our financial condition, results of operations and liquidity. We are continuously exposed to cyber-attacks and other security threats, including physical break-ins. Any electronic or physical break-in or other security breach or compromise may jeopardize security of information stored or transmitted through our information technology systems and networks. This could lead to disruptions in mission-critical systems, unauthorized release of confidential or otherwise protected information and corruption of data. Although we have implemented policies, procedures and controls to protect against, detect and mitigate these threats, we face advanced and persistent attacks on our information systems and attempts by others to gain unauthorized access to our information technology systems are becoming more sophisticated. These attempts include covertly introducing malware to our computers and networks and impersonating authorized users, among others, and may be perpetrated by well-funded organized crime or state sponsored efforts. We seek to detect and investigate all security incidents and to prevent their occurrence or recurrence. We continue to invest in and improve our threat protection, detection and mitigation policies, procedures and controls. In addition, we work with other companies in the industry and government participants on increased awareness and enhanced protections against cyber security threats. However, because of the evolving nature and sophistication of these security threats, which can be difficult to detect, there can be no assurance that our policies, procedures and controls have or will detect or prevent any of these threats and we cannot predict the full impact of any such past or future incident. Although we work cooperatively with our customers and other business partners to seek to minimize the impacts of cyber and other security threats, we must rely on the safeguards put in place by those entities. Any remedial costs or other liabilities related to cyber or other security threats may not be fully insured or indemnified by other means. Occurrence of any of these security threats could expose us to claims, contract terminations and damages and could adversely affect our reputation, ability to work on sensitive U.S. Government contracts, business operations and financial results.

***Difficult conditions in the global capital markets and the economy generally may materially adversely affect our business and results of operations.***

Our results of operations are materially affected by conditions in the global capital markets and the economy generally, both in the U.S. and elsewhere around the world. Weak economic conditions sustained uncertainty about global economic conditions, concerns about future U.S. budgetary cuts, or a prolonged or further tightening of credit markets could cause our customers and potential customers to postpone or reduce spending on technology products or services or put downward pressure on prices, which could have an adverse effect on our business, results of operations or cash flows. In the event of extreme prolonged adverse market events, such as a global credit crisis, we could incur significant losses.

## **Risks Related to Our Common Stock**

***We are eligible to be treated as an “emerging growth company” as defined in the Jumpstart Our Business Startups Act of 2012, and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our common stock less attractive to investors.***

We are an “emerging growth company”, as defined in the Jumpstart Our Business Startups Act of 2012, or the JOBS Act. For as long as we continue to be an emerging growth company, we may take advantage of exemptions from various reporting requirements that are applicable to other public companies that are not emerging growth companies, including (1) not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, which we refer to as the Sarbanes-Oxley Act, (2) reduced disclosure obligations regarding executive compensation in this Form 10 and our periodic reports and proxy statements and (3) exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. In addition, as an emerging growth company, we are only required to provide two years of audited financial statements and two years of selected financial data in this Form 10. We could be an emerging growth company for up to five years, although circumstances could cause us to lose that status earlier, including if the market value of our common stock held by non-affiliates exceeds \$700.0 million as of any June 30 before that time or if we have total annual gross revenue of \$1.0 billion or more during any fiscal year before that time, in which cases we would no longer be an emerging growth company as of the following December 31 or, if we issue more than \$1.0 billion in non-convertible debt during any three-year period before that time, we would cease to be an emerging growth company immediately. Even after we no longer qualify as an emerging growth company, we may still qualify as a “smaller reporting company” which would allow us to take advantage of many of the same exemptions from disclosure requirements, including not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act and reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements. We cannot predict if investors will find our common stock less attractive because we may rely on these exemptions. If some investors find our common stock less attractive as a result, there may be a less active trading market for our common stock and our stock price may be more volatile.

Our independent registered public accounting firm will not be required to formally attest to the effectiveness of our internal control over financial reporting until the later of our second annual report or the first annual report required to be filed with the Commission following the date we are no longer an “emerging growth company” as defined in the JOBS “Act. We cannot assure you that there will not be material weaknesses or significant deficiencies in our internal controls in the future.

Under the JOBS Act, emerging growth companies can also delay adopting new or revised accounting standards until such time as those standards apply to private companies. We have irrevocably elected not to avail ourselves of this exemption from new or revised accounting standards and, therefore, will be subject to the same new or revised accounting standards as other public companies that are not emerging growth companies.

***Our directors and executive officers beneficially own a significant number of shares of our common stock. Their interests may conflict with our outside stockholders, who may be unable to influence management and exercise control over our business.***

As of the date of this Form 10, our executive officers and directors beneficially own approximately 93.75% of our shares of common stock. As a result, our executive officers and directors may be able to: elect or defeat the election of our directors, amend or prevent amendment to our certificates of incorporation or bylaws, effect or prevent a merger, sale of assets or other corporate transaction, and control the outcome of any other matter submitted to the shareholders for vote. Accordingly, our outside stockholders may be unable to influence management and exercise control over our business.

***We do not intend to pay cash dividends to our stockholders, so you will not receive any return on your investment in our Company prior to selling your interest in the Company.***

We have never paid any dividends to our common stockholders as a public company. We currently intend to retain any future earnings for funding growth and, therefore, do not expect to pay any cash dividends in the foreseeable future. If we determine that we will pay cash dividends to the holders of our common stock, we cannot assure that such cash dividends will be paid on a timely basis. The success of your investment in the Company will likely depend entirely upon any future appreciation. As a result, you will not receive any return on your investment prior to selling your shares in our Company and, for the other reasons discussed in this “Risk Factors” section, you may not receive any return on your investment even when you sell your shares in our Company.

#### ***Anti-Takeover, Limited Liability and Indemnification Provisions***

***Some provisions of our certificate of incorporation and by-laws may deter takeover attempts, which may inhibit a takeover that stockholders consider favorable and limit the opportunity of our stockholders to sell their shares at a favorable price.***

Under our certificate of incorporation, our Board of Directors may issue additional shares of common or preferred stock. Our Board of Directors has the ability to authorize “blank check” preferred stock without future shareholder approval. This makes it possible for our board of directors to issue preferred stock with voting or other rights or preferences that could impede the success of any attempt to acquire us by means of a merger, tender offer, proxy contest or otherwise, including a transaction in which our stockholders would receive a premium over the market price for their shares and/or any other transaction that might otherwise be deemed to be in their best interests, and thereby protects the continuity of our management and limits an investor’s opportunity to profit by their investment in the Company. Specifically, if in the due exercise of its fiduciary obligations, the Board of Directors were to determine that a takeover proposal was not in our best interest, shares could be issued by our Board of Directors without stockholder approval in one or more transactions that might prevent or render more difficult or costly the completion of the takeover by:

- diluting the voting or other rights of the proposed acquirer or insurgent stockholder group,

- putting a substantial voting bloc in institutional or other hands that might undertake to support the incumbent Board of Directors, or
- effecting an acquisition that might complicate or preclude the takeover.

***Delaware's Anti-Takeover Law may discourage acquirers and eliminate a potentially beneficial sale for our stockholders.***

We are subject to the provisions of the Delaware Shareholder Protection Act concerning corporate takeovers. This section prevents many Delaware corporations from engaging in a business combination with any interested stockholder, under specified circumstances. For these purposes, a business combination includes a merger or sale of more than 5% of our assets, and an interested stockholder includes a stockholder who owns 10% or more of our outstanding voting stock, as well as affiliates and associates of these persons. Under these provisions, this type of business combination is prohibited for three years following the date that the stockholder became an interested stockholder unless:

- the transaction in which the stockholder became an interested stockholder is approved by the Board of directors prior to the date the interested stockholder attained that status;
- on consummation of the transaction that resulted in the stockholder's becoming an interested stockholder, the interested stockholder owned at least 90% of the voting stock of the corporation outstanding at the time the transaction was commenced, excluding those shares owned by persons who are directors and also officers; or
- on or subsequent to that date, the business combination is approved by the Board of Directors and authorized at an annual or special meeting of stockholders by the affirmative vote of at least a majority of the outstanding voting stock that is not owned by the interested stockholder.

This statute could prohibit or delay mergers or other takeover or change in control attempts and, accordingly, may discourage attempts to acquire us.

***Our indemnification of our officers and directors may cause us to use corporate resources to the detriment of our stockholders.***

Our certificate of incorporation eliminates the personal liability of our directors for monetary damages arising from a breach of their fiduciary duty as directors to the fullest extent permitted by Delaware law. This limitation does not affect the availability of equitable remedies, such as injunctive relief or rescission. Our certificate of incorporation requires us to indemnify our directors and officers to the fullest extent permitted by Delaware law, including in circumstances in which indemnification is otherwise discretionary under Delaware law.

Under Delaware law, we may indemnify our directors or officers or other persons who were, are or are threatened to be made a named defendant or respondent in a proceeding because the person is or was our director, officer, employee or agent, if we determine that the person:

- conducted himself or herself in good faith, reasonably believed, in the case of conduct in his or her official capacity as our director or officer, that his or her conduct was in our best interests, and, in all other cases, that his or her conduct was at least not opposed to our best interests; and
- in the case of any criminal proceeding, had no reasonable cause to believe that his or her conduct was unlawful.

These persons may be indemnified against expenses, including attorneys' fees, judgments, fines, including excise taxes, and amounts paid in settlement, actually and reasonably incurred, by the person in connection with the proceeding. If the person is found liable to the corporation, no indemnification will be made unless the court in which the action was brought determines that the person is fairly and reasonably entitled to indemnity in an amount that the court will establish.

Insofar as indemnification for liabilities under the Securities Act may be permitted to directors, officers or persons controlling us under the above provisions, we have been informed that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

***Our bylaws designate the Court of Chancery of the State of Delaware as the exclusive forum for certain litigation that may be initiated by our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us.***

Under the provisions of our amended and restated bylaws ("bylaws"), unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for: (i) any derivative action or proceeding brought on behalf of us; (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees or agents to us or our stockholders; (iii) any action asserting a claim against us arising pursuant to any provision of the Delaware General Corporation Law or our amended certificate of incorporation or bylaws; or (iv) any action asserting a claim against us governed by the internal affairs doctrine. By becoming a stockholder in our company, you will be deemed to have notice of and have consented to the provisions of our bylaws related to choice of forum. The choice of forum provision in our bylaws may limit our stockholders' ability to obtain a favorable judicial forum for disputes with us.

***The obligations associated with being a public company require significant resources and management attention, which may divert from our business operations.***

We are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and The Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act. The Exchange Act requires that we file annual, quarterly and current reports with respect to our business and financial condition, proxy statement, and other information. The Sarbanes-Oxley Act requires, among other things, that we establish and maintain effective internal controls and procedures for financial reporting. Our Chief Executive Officer and Chief Financial Officer will need to certify that our disclosure controls and procedures are effective in ensuring that material information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. We may need to hire additional financial reporting, internal controls and other financial personnel in order to develop and implement appropriate internal controls and reporting procedures. As a result, we will incur significant legal, accounting and other expenses. Furthermore, the need to establish the corporate infrastructure demanded of a public company may divert management's attention from implementing our growth strategy, which could prevent us from improving our business, results of operations and financial condition. We have made, and will continue to make, changes to our internal controls and procedures for financial reporting and accounting systems to meet our reporting obligations as a public company. However, the measures we take may not be sufficient to satisfy our obligations as a public company. In addition, we cannot predict or estimate the amount of additional costs we may incur in order to comply with these requirements. We anticipate that these costs will materially increase our selling, general and administrative expenses.

Section 404 of the Sarbanes-Oxley Act requires annual management assessments of the effectiveness of our internal control over financial reporting. In connection with the implementation of the necessary procedures and practices related to internal control over financial reporting, we may identify deficiencies. If we are unable to comply with the internal controls requirements of the Sarbanes-Oxley Act of 2002, then we may not be able to obtain the independent account and certifications required by that act, which may preclude us from keeping our filings with the SEC current, and interfere with the ability of investors to trade our securities and our shares to continue to be quoted on the OTC PINK or our ability to list our shares on any national securities exchange.

***If we fail to establish and maintain an effective system of internal controls, we may not be able to report our financial results accurately or prevent fraud. Any inability to report and file our financial results accurately and timely could harm our reputation and adversely impact the trading price of our common stock.***

Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. If we cannot provide reliable financial reports or prevent fraud, we may not be able to manage our business as effectively as we would if an effective control environment existed, and our business and reputation with investors may be harmed. With each prospective acquisition we may make we will conduct whatever due diligence is necessary or prudent to assure us that the acquisition target can comply with the internal controls requirements of the Sarbanes-Oxley Act. Notwithstanding our diligence, certain internal controls deficiencies may not be detected. As a result, any internal control deficiencies may adversely affect our financial condition, results of operations and access to capital. We have not performed an in-depth analysis to determine if historical undiscovered failures of internal controls exist, and may in the future discover areas of our internal controls that need improvement.

***Public company compliance may make it more difficult to attract and retain officers and directors.***

The Sarbanes-Oxley Act and rules implemented by the SEC have required changes in corporate governance practices of public companies. As a public company, these rules and regulations increase our compliance costs and make certain activities more time consuming and costly. As a public company, these rules and regulations may make it more difficult and expensive for us to maintain our director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified persons to serve on our board of directors or as executive officers, and to maintain insurance at reasonable rates, or at all.

***Our stock price may be volatile and you may not be able to resell your shares at or above the initial public offering price.***

The market price of our common stock is likely to be highly volatile and could fluctuate widely in price in response to various factors, many of which are beyond our control, including the following:

- our ability to execute our business plan and complete prospective acquisitions;
- changes in our industry;
- competitive pricing pressures;
- our ability to obtain working capital financing;
- additions or departures of key personnel;
- limited “public float” in the hands of a small number of persons whose sales or lack of sales could result in positive or negative pricing pressure on the market price for our common stock;
- sales of our common stock (particularly following effectiveness of this Form 10);
- operating results that fall below expectations;

- regulatory developments;
- economic and other external factors;
- period-to-period fluctuations in our financial results;
- our inability to develop or acquire new or needed technologies;
- the public's response to press releases or other public announcements by us or third parties, including filings with the SEC;
- changes in financial estimates or ratings by any securities analysts who follow our common stock, our failure to meet these estimates or failure of those analysts to initiate or maintain coverage of our common stock;
- the development and sustainability of an active trading market for our common stock; and
- any future sales of our common stock by our officers, directors and significant stockholders.

In addition, the securities markets have from time to time experienced significant price and volume fluctuations that are unrelated to the operating performance of particular companies. These market fluctuations may also materially and adversely affect the market price of our common stock.

***Our shares of common stock are thinly traded, the price may not reflect our value, and there can be no assurance that there will be an active market for our shares of common stock either now or in the future.***

Our shares of common stock are thinly traded, our common stock is available to be traded and is held by a small number of holders, and the price may not reflect our actual or perceived value. There can be no assurance that there will be an active market for our shares of common stock either now or in the future. The market liquidity will be dependent on the perception of our operating business, among other things. We will take certain steps including utilizing investor awareness campaigns and firms, press releases, road shows and conferences to increase awareness of our business. Any steps that we might take to bring us to the awareness of investors may require that we compensate consultants with cash and/or stock. There can be no assurance that there will be any awareness generated or the results of any efforts will result in any impact on our trading volume. Consequently, investors may not be able to liquidate their investment or liquidate it at a price that reflects the value of the business, and trading may be at an inflated price relative to the performance of the Company due to, among other things, the availability of sellers of our shares.

If an active market should develop, the price may be highly volatile. Because there is currently a low price for our shares of common stock, many brokerage firms or clearing firms are not willing to effect transactions in the securities or accept our shares for deposit in an account. Many lending institutions will not permit the use of low priced shares of common stock as collateral for any loans. Furthermore, our securities are currently traded on the OTC Pink where it is more difficult (1) to obtain accurate quotations, (2) to obtain coverage for significant news events because major wire services generally do not publish press releases about these companies, and (3) to obtain needed capital.

***Our common stock may be deemed a "penny stock," which would make it more difficult for our investors to sell their shares.***

Our common stock is currently subject to the "penny stock" rules adopted under Section 15(g) of the Exchange Act. The penny stock rules generally apply to companies whose common stock is not listed on The Nasdaq Stock Market or another national securities exchange and trades at less than \$4.00 per share, other than companies that have had average revenues of at least \$6,000,000 for the last three years or that have tangible net worth of at least \$5,000,000 (\$2,000,000 if the company has been operating for three or more years). These rules require, among other things, that brokers who trade penny stock to persons other than "established customers" complete certain documentation, make suitability inquiries of investors and provide investors with certain information concerning trading in the security, including a risk disclosure document and quote information under certain circumstances. Many brokers have decided not to trade penny stocks because of the requirements of the penny stock rules and, as a result, the number of broker-dealers willing to act as market makers in these securities is limited. If we remain subject to the penny stock rules for any significant period, it could have an adverse effect on the market, if any, for our securities. If our securities are subject to the penny stock rules, investors will find it more difficult to dispose of our securities.

***Offers or availability for sale of a substantial number of shares of our common stock may cause the price of our common stock to decline.***

If our stockholders sell substantial amounts of our common stock in the public market upon the expiration of any statutory holding period under Rule 144, or shares issued upon the exercise of outstanding options or warrants, it could create a circumstance commonly referred to as an “overhang” and, in anticipation of which, the market price of our common stock could fall. The existence of an overhang, whether or not sales have occurred or are occurring, also could make more difficult our ability to raise additional financing through the sale of equity or equity-related securities in the future at a time and price that we deem reasonable or appropriate.

Sales of substantial amounts of our common stock in the public market, or the perception that these sales could occur, could adversely affect the price of our common stock and impair our ability to raise capital through the sale of shares.

***Because we became public by means of a reverse merger, we may not be able to attract the attention of major brokerage firms.***

There may be risks associated with us having become public through a “reverse merger.” Securities analysts of major brokerage firms may not provide coverage of us since there is no incentive to brokerage firms to recommend the purchase of our common stock. No assurance can be given that brokerage firms will, in the future, want to conduct any offerings on our behalf.

***Any substantial sale of stock by existing shareholders could depress the market value of our stock, thereby devaluing the market price and causing investors to risk losing all or part of their investment.***

Stockholders, including our directors and officers hold a large number of our outstanding shares. We can make no prediction as to the effect, if any, that sales of shares, or the availability of shares for future sale, will have on the prevailing market price of our shares of common stock. Sales of substantial amounts of shares in the public market, or the perception that such sales could occur, could depress prevailing market prices for the shares. Such sales may also make it more difficult for us to sell equity securities or equity-related securities in the future at a time and price which it deems appropriate.

***Our issuance of preferred stock in the future may adversely affect the rights of our common stockholders.***

Our certificate of incorporation permits us to issue up to 5,000,000 shares of preferred stock with such rights and preferences as the Board of Directors may designate. As a result, our Board of Directors may authorize a series of preferred stock that would grant to preferred stockholders preferential rights to our assets upon liquidation; the right to receive dividends before dividends become payable to our common stockholders; the right to redemption of the preferred stock prior to the redemption of our common stock; and super-voting rights to our preferred stockholders. To the extent that we designate and issue such a class or series of preferred stock, the rights of our common stockholders may be impaired.

**Risks Related to Our IP**

***Our Success May Depend on Our Ability to Obtain and Protect the Proprietary Information on Which We Base Our UAV Products.***

As we acquire companies with intellectual property ("IP") that is important to the development of our UAV products, we will need to:

- obtain valid and enforceable patents;
- protect trade secrets; and
- operate without infringing upon the proprietary rights of others.

We will be able to protect our proprietary technology from unauthorized use by third parties only to the extent that such proprietary rights are covered by valid and enforceable patents or are effectively maintained as trade secrets. Any non-confidential disclosure to or misappropriation by third parties of our confidential or proprietary information could enable competitors to quickly duplicate or surpass our technological achievements, thus eroding our competitive position in our market.

The patent application process, also known as patent prosecution, is expensive and time-consuming, and we and our current or future licensors and licensees may not be able to prepare, file and prosecute all necessary or desirable patent applications at a reasonable cost or in a timely manner. It is also possible that we or our current licensors, or any future licensors or licensees, will fail to identify patentable aspects of inventions made in the course of development and commercialization activities before it is too late to obtain patent protection on them. Therefore, these and any of our patents and applications may not be prosecuted and enforced in a manner consistent with the best interests of our business. It is possible that defects of form in the preparation or filing of our patents or patent applications may exist, or may arise in the future, for example with respect to proper priority claims or inventorship. If we or our current licensors or licensees, or any future licensors or licensees, fail to establish, maintain or protect such patents and other intellectual property rights, such rights may be reduced or eliminated. If our current licensors or licensees, or any future licensors or licensees, are not fully cooperative or disagree with us as to the prosecution, maintenance or enforcement of any patent rights, such patent rights could be compromised. If there are material defects in the form or preparation of our patents or patent applications, such patents or applications may be invalid and unenforceable. Any of these outcomes could impair our ability to prevent competition from third parties, which may harm our business.

The patent applications that we may own or license may fail to result in issued patents in the United States or in other countries. Even if patents do issue on such patent applications, third parties may challenge the validity, enforceability or scope thereof, which may result in such patents being narrowed, invalidated or held unenforceable. For example, U.S. patents can be challenged by any person before the new USPTO Patent Trial and Appeals Board at any time within the one year period following that person's receipt of an allegation of infringement of the patents. Patents granted by the European Patent Office may be similarly opposed by any person within nine months from the publication of the grant. Similar proceedings are available in other jurisdictions, and in the United States, Europe and other jurisdictions third parties can raise questions of validity with a patent office even before a patent has granted. Furthermore, even if they are unchallenged, our patents and patent applications may not adequately protect our intellectual property or prevent others from designing around our claims. If the breadth or strength of protection provided by the patents and patent applications we hold or pursue with respect to our product candidates is successfully challenged, then our ability to commercialize such product candidates could be negatively affected, and we may face unexpected competition that could harm our business. Further, if we encounter delays in our clinical trials, the period of time during which we or our collaborators could market our product candidates under patent protection would be reduced.

The degree of future protection of our proprietary rights is uncertain. Patent protection may be unavailable or severely limited in some cases and may not adequately protect our rights or permit us to gain or keep our competitive advantage. For example:

- we might not have been the first to invent or the first to file the inventions covered by each of our pending patent applications and issued patents;
- others may be able to make, use, sell, offer to sell or import products that are similar to our products or product candidates but that are not covered by the claims of our patents; others may independently develop similar or alternative technologies or duplicate any of our technologies;
- the proprietary rights of others may have an adverse effect on our business;
- any proprietary rights we do obtain may not encompass commercially viable products, may not provide us with any competitive advantages or may be challenged by third parties;
- any patents we obtain or our in-licensed issued patents may not be valid or enforceable; or
- we may not develop additional technologies or products that are patentable or suitable to maintain as trade secrets.

If we or our current licensors or licensees, or any future licensors or licensees, fail to prosecute, maintain and enforce patent protection for our product candidates, our ability to develop and commercialize our product candidates could be harmed and we might not be able to prevent competitors from making, using and selling competing products. This failure to properly protect the intellectual property rights relating to our product candidates could harm our business, financial condition and operating results. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how.

Even where laws provide protection, costly and time-consuming litigation could be necessary to enforce and determine the scope of our proprietary rights, and the outcome of such litigation would be uncertain. If we or one of our collaborators were to initiate legal proceedings against a third party to enforce a patent covering the product candidate, the defendant could assert an affirmative defense or counterclaim that our patent is not infringed, invalid and/or unenforceable. In patent litigation in the United States, defendant defenses and counterclaims alleging non-infringement, invalidity and/or unenforceability are commonplace. Grounds for a validity challenge could be an alleged failure to meet any of several statutory requirements, including lack of novelty, anticipation or obviousness, and lack of written description, definiteness or enablement. Patents may be unenforceable if someone connected with prosecution of the patent withheld material information from the USPTO, or made a misleading statement, during prosecution. The outcomes of proceedings involving assertions of invalidity and unenforceability are unpredictable. It is possible that prior art of which we and the patent examiner were unaware during prosecution exists, which would render our patents invalid. Moreover, it is also possible that prior art may exist that we are aware of, but that we do not believe are relevant to our current or future patents, that could nevertheless be determined to render our patents invalid. If a defendant were to prevail on a legal assertion of invalidity and/or unenforceability of our patents covering one of our product candidates, we would lose at least part, and perhaps all, of the patent protection on such product candidate. Such a loss of patent protection would harm our business. Moreover, our competitors could counterclaim in any suit to enforce our patents that we infringe their intellectual property. Furthermore, some of our competitors have substantially greater intellectual property portfolios, and resources, than we do.

Our ability to stop third parties from using our technology or making, using, selling, offering to sell or importing our products is dependent upon the extent to which we have rights under valid and enforceable patents that cover these activities. If any patent we currently or in the future may own or license is deemed not infringed, invalid or unenforceable, it could impact our commercial success. We cannot predict the breadth of claims that may be issued from any patent applications we currently or may in the future own or license from third parties.

To the extent that consultants or key employees apply technological information independently developed by them or by others to our product candidates, disputes may arise as to who has the proprietary rights to such information and product candidates, and certain of such disputes may not be resolved in our favor. Consultants and key employees that work with our confidential and proprietary technologies are required to assign all intellectual property rights in their inventions and discoveries created during the scope of their work to our company. However, these consultants or key employees may terminate their relationship with us, and we cannot preclude them indefinitely from dealing with our competitors.

***If we are unable to prevent disclosure of our trade secrets or other confidential information to third parties, our competitive position may be impaired.***

We also may rely on trade secrets to protect our technology, especially where we do not believe patent protection is appropriate or obtainable. Our ability to stop third parties from obtaining the information or know-how necessary to make, use, sell, offer to sell or import our products or practice our technology is dependent in part upon the extent to which we prevent disclosure of the trade secrets that cover these activities. Trade secret rights can be lost through disclosure to third parties. Although we use reasonable efforts to protect our trade secrets, our employees, consultants, contractors, outside scientific collaborators and other advisors may unintentionally or willfully disclose our trade secrets to third parties, resulting in loss of trade secret protection. Moreover, our competitors may independently develop equivalent knowledge, methods and know-how, which would not constitute a violation of our trade secret rights. Enforcing a claim that a third party is engaged in the unlawful use of our trade secrets is expensive, difficult and time consuming, and the outcome is unpredictable. In addition, recognition of rights in trade secrets and a willingness to enforce trade secrets differs in certain jurisdictions.

***If we are sued for infringing intellectual property rights of third parties, it will be costly and time consuming, and an unfavorable outcome in that litigation could harm our business.***

Our commercial success depends significantly on our ability to operate without infringing, violating or misappropriating the patents and other proprietary rights of third parties. Our own technologies we acquire or develop may infringe, violate or misappropriate the patents or other proprietary rights of third parties, or we may be subject to third-party claims of such infringement. Numerous U.S. and foreign issued patents and pending patent applications owned by third parties, exist in the fields in which we are developing our product candidates. Because some patent applications may be maintained in secrecy until the patents are issued, because publication of patent applications is often delayed, and because publications in the scientific literature often lag behind actual discoveries, we cannot be certain that we were the first to invent the technology or that others have not filed patent applications for technology covered by our pending applications. We may not be aware of patents that have already issued that a third party might assert are infringed by our product candidates. It is also possible that patents of which we are aware, but which we do not believe are relevant to our product candidates, could nevertheless be found to be infringed by our product candidates. Moreover, we may face patent infringement claims from non-practicing entities that have no relevant product revenue and against whom our own patent portfolio may thus have no deterrent effect. In the future, we may agree to indemnify our manufacturing partners against certain intellectual property claims brought by third parties.

Intellectual property litigation involves many risks and uncertainties, and there is no assurance that we will prevail in any lawsuit brought against us. Third parties making claims against us for infringement, violation or misappropriation of their intellectual property rights may seek and obtain injunctive or other equitable relief, which could effectively block our ability to further develop and commercialize our product candidates. Further, if a patent infringement suit were brought against us, we could be forced to stop or delay research, development, manufacturing or sales of the product or product candidate that is the subject of the suit. Defense of these claims, regardless of their merit, would cause us to incur substantial expenses and, would be a substantial diversion of resources from our business. In the event of a successful claim of any such infringement, violation or misappropriation, we may need to obtain licenses from such third parties and we and our partners may be prevented from pursuing product development or commercialization and/or may be required to pay damages. We cannot be certain that any licenses required under such patents or proprietary rights would be made available to us, or that any offer to license would be made available to us on commercially reasonable terms. If we cannot obtain such licenses, we and our collaborators may be restricted or prevented from manufacturing and selling products employing our technology. These adverse results, if they occur, could adversely affect our business, results of operations and prospects, and the value of our shares.

***We may become involved in lawsuits to protect or enforce our patents or other intellectual property, which could be expensive, time consuming and unsuccessful.***

The defense and prosecution of contractual or intellectual property lawsuits, USPTO interference or derivation proceedings, European Patent Office oppositions and related legal and administrative proceedings in the United States, Europe and other countries, involve complex legal and factual questions. As a result, such proceedings may be costly and time-consuming to pursue and their outcome is uncertain.

Litigation may be necessary to:

- protect and enforce our patents and any future patents issuing on our patent applications;
- enforce or clarify the terms of the licenses we have granted or may be granted in the future;
- protect and enforce trade secrets, know-how and other proprietary rights that we own or have licensed, or may license in the future; or

- determine the enforceability, scope and validity of the proprietary rights of third parties and defend against alleged patent infringement.

Competitors may infringe our intellectual property. As a result, we may be required to file infringement claims to stop third-party infringement or unauthorized use. This can be expensive, particularly for a company of our size, and time-consuming. In addition, in an infringement proceeding, a court may decide that a patent of ours is not valid or is unenforceable, or may refuse to stop the other party from using the technology at issue on the grounds that our patent claims do not cover its technology or that the factors necessary to grant an injunction against an infringer are not satisfied. An adverse determination of any litigation or other proceedings could put one or more of our patents at risk of being invalidated, interpreted narrowly, or amended such that they do not cover our product candidates. Moreover, such adverse determinations could put our patent applications at risk of not issuing, or issuing with limited and potentially inadequate scope to cover our product candidates or to prevent others from marketing similar products.

Interference, derivation or other proceedings brought at the USPTO, may be necessary to determine the priority or patentability of inventions with respect to our patent applications or those of our licensors or potential collaborators. Litigation or USPTO proceedings brought by us may fail or may be invoked against us by third parties. Even if we are successful, domestic or foreign litigation or USPTO or foreign patent office proceedings may result in substantial costs and distraction to our management. We may not be able, alone or with our licensors or potential collaborators, to prevent misappropriation of our proprietary rights, particularly in countries where the laws may not protect such rights as fully as in the United States.

Furthermore, because of the substantial amount of discovery required in connection with intellectual property litigation or other proceedings, there is a risk that some of our confidential information could be compromised by disclosure during this type of litigation or other proceedings. In addition, during the course of this kind of litigation or proceedings, there could be public announcements of the results of hearings, motions or other interim proceedings or developments or public access to related documents. If investors perceive these results to be negative, the market price for our common stock could be significantly harmed.

Some of our competitors may be able to sustain the costs of patent-related disputes, including patent litigation, more effectively than we can because they have substantially greater resources. In addition, any uncertainties resulting from the initiation and continuation of any litigation could have a material adverse effect on our ability to raise the funds necessary to continue our operations.

***We may not be able to enforce our intellectual property rights throughout the world.***

Filing, prosecuting and defending patents on our product candidates in all countries throughout the world would be prohibitively expensive. The requirements for patentability may differ in certain countries, particularly in developing countries. Moreover, our ability to protect and enforce our intellectual property rights may be adversely affected by unforeseen changes in foreign intellectual property laws. Additionally, laws of some countries outside of the United States do not afford intellectual property protection to the same extent as the laws of the United States. Many companies have encountered significant problems in protecting and defending intellectual property rights in certain foreign jurisdictions. The legal systems of some countries, particularly developing countries, do not favor the enforcement of patents and other intellectual property rights. This could make it difficult for us to stop the infringement of our patents or the misappropriation of our other intellectual property rights. For example, many foreign countries have compulsory licensing laws under which a patent owner must grant licenses to third parties. Consequently, we may not be able to prevent third parties from practicing our inventions in all countries outside the United States. Competitors may use our technologies in jurisdictions where we have not obtained patent protection to develop their own products and, further, may export otherwise infringing products to territories where we have patent protection, if our ability to enforce our patents to stop infringing activities is inadequate. These products may compete with our products, and our patents or other intellectual property rights may not be effective or sufficient to prevent them from competing.

Proceedings to enforce our patent rights in foreign jurisdictions, whether or not successful, could result in substantial costs and divert our efforts and resources from other aspects of our business. Furthermore, while we intend to protect our intellectual property rights in major markets for our products, we cannot ensure that we will be able to initiate or maintain similar efforts in all jurisdictions in which we may wish to market our products. Accordingly, our efforts to protect our intellectual property rights in such countries may be inadequate.

## **Item 2. Financial Information.**

### ***Management's Discussion and Analysis of Financial Condition and Results of Operations.***

*You should read the following discussion and analysis of our financial condition and results of operations together with our financial statements and related notes appearing at the end of this Form 10. Some of the information contained in this discussion and analysis or set forth elsewhere in this Form 10, including information with respect to our plans and strategy for our business and related financing, includes forward-looking statements that involve risks and uncertainties. You should read the "Risk Factors" section of this Form 10 for a discussion of important factors that could cause actual results to differ materially from the results described in or implied by the forward-looking statements contained in the following discussion and analysis.*

#### **Overview**

Headquartered in New York, New York, Drone USA is a technology company that intends to engage in the manufacturing, distribution, reselling, exportation, and integration of advanced low altitude UAV systems, services and products. Drone USA also provides procurement, distribution, and logistics services through its wholly-owned subsidiary, HowCo to the United States Department of Defense and Defense Logistics Agency. Our operations are based in New York, New York and Vancouver, Washington. We are registered with the U.S. State Department and has met the requirements of the Arms Export Control Act and International Traffic in Arms Regulations ("ITAR"). The registration allows us to apply for export, and temporary import, of product, technical data, and services related to defense articles. We continue to seek strategic acquisitions and partnerships with UAV firms that offer superior technologies in high-growth markets, as well as acquisitions and partnerships with firms that have complementary technologies and infrastructure.

On January 26, 2016, Texas Wyoming Drilling, Inc., a company trading on the Over-the-Counter Markets, acquired 100% of the outstanding membership interests of Drone USA, LLC and Drone USA, LLC paid a \$100,000 cash fee which was expensed and included in selling, general and administrative expenses. Pursuant to the merger, the sole member of Drone USA, LLC received 38,309,321 shares of Texas Wyoming Drilling, Inc. common stock. As a result of this merger, the former sole member of Drone USA, LLC owned approximately 94% of the outstanding common stock of Texas Wyoming Drilling, Inc. immediately following the merger. In connection with the merger, the name of the company was changed to Drone USA, Inc. In connection with the merger, effective January 26, 2016, the Company accepted the resignation of the former Chief Executive Officer and any remaining former officers and directors, and appointed a new Chief Executive Officer, President, Chairman, and board member and a new Chief Financial Officer, Secretary, Treasurer, and board member. The transaction has been accounted for as a reverse merger in which Drone USA, LLC is considered to be the acquirer of Texas Wyoming Drilling, Inc. Accordingly, the reverse merger was accounted for as a recapitalization of Drone USA, LLC in which (i) the assets and liabilities of Drone USA, LLC were recorded at their historical book values, (ii) the common stock and additional paid-in capital accounts which replaced Drone USA, LLC's member interests were retroactively restated to give effect to the exchange of the Drone USA, LLC member interests for Texas Wyoming Drilling, Inc. common stock, and (iii) the historical member deficit of Drone USA, LLC was recorded as stockholders' (deficiency). There were no assets, liabilities, or equity to be accounted for related to the former operations of Texas Wyoming Drilling, Inc. In connection with the merger, Drone USA, Inc. is deemed to have issued 2,532,196 shares of common stock to the shareholders of Texas Wyoming Drilling, Inc.

### **Liquidity and Capital Resources**

At September 30, 2016 we had \$2,980,281 in current assets, including \$631,020 in cash, compared to \$0 at September 30, 2015. Current liabilities at September 30, 2016 totaled \$6,392,243 compared to \$79,051 at September 30, 2015. These comparative differences are the result of the acquisition of Howco we made on September 9, 2016, which significantly expanded our operations.

As of December 31, 2016 we had \$2,050,910 in current assets, including \$627,862 in cash, compared to \$2,980,021 in current assets at September 30, 2016. Current liabilities at December 31, 2016 totaled \$6,793,536 compared to \$6,392,243 at September 30, 2016. The decrease in current assets from September 30, 2016 to December 31, 2016 is primarily due to the decrease in inventory of approximately \$1,100,000 offset by the increase in accounts receivable and prepaid expenses and other assets of approximately \$150,000. The increase in current liabilities from September 30, 2016 to December 31, 2016 is primarily due to the decrease in accounts payable, customer deposits, and settlement payable—vendor of approximately \$650,000 offset by the increase in accrued expenses and notes payable of approximately \$1,050,000.

While we have revenues as of this date, no significant UAV revenues are anticipated until we have implemented our full plan of operations, specifically, initiating sales campaigns for our UAV platforms. We must raise cash to implement our strategy to grow and expand per our business plan. We anticipate over the next 12 months the cost of being a reporting public company will be approximately \$100,000.

If we cannot raise additional proceeds via a private placement of its equity or debt securities, or secure a loan, we would be required to cease business operations. As a result, investors would lose all of their investment.

Additionally, we will have to meet all the financial disclosure and reporting requirements associated with being a publicly reporting company. Our management will have to spend additional time on policies and procedures to make sure it is compliant with various regulatory requirements, especially that of Section 404 of the Sarbanes-Oxley Act of 2002. This additional corporate governance time required of management could limit the amount of time management has to implement the business plan and may impede the speed of its operations.

## Results of Operations

We generated revenues of \$1,119,748 for the year ended September 30, 2016 and \$0 for the period July 20, 2015 (inception) through September 30, 2015. For the year ended September 30, 2016 we reported cost of goods sold of \$1,074,673, selling, general, and administrative costs of \$6,290,913, primarily consisting of payroll costs of \$4,672,582, rent of \$34,795, professional and consulting fees of \$1,131,789, office related costs of \$62,404, and travel related costs of \$68,488, intangibles amortization of \$14,722, and interest and financing costs of \$150,401, compared to selling, general, and administrative costs of \$77,666, consisting of payroll costs of \$77,666, and interest and financing costs of \$1,385 for the period July 20, 2015 (inception) through September 30, 2015. Included in payroll costs and professional and consulting fees for the year ended September 30, 2016 is \$4,928,319 in stock compensation expense. As a result, we reported a net loss before provision for income tax of \$6,410,961 for the year ended September 30, 2016 and \$79,051 for the period July 20, 2015 (inception) through September 30, 2015. The comparative differences between year ending 2015 and 2016 are the result of our acquisition of Howco, that significantly expanded our operations, and our entry into the UAV marketplace, that has caused us to incur selling, general and administrative costs related to the sales and marketing of our UAV products and recruitment and hiring of UAV professionals.

We generated revenues of \$6,984,392 and \$0 for the quarters ended December 31, 2016 and 2015, respectively. For the quarter ended December 31, 2016 we reported cost of goods sold of \$6,532,810, selling, general, and administrative costs of \$967,476, including payroll costs of \$528,903, rent of \$50,371, professional and consulting fees of \$248,702, and travel related costs of \$51,100, intangibles amortization of \$66,250, and interest and financing costs of \$369,590, compared to selling, general, and administrative costs of \$249,693, including payroll costs of \$60,714, professional and consulting fees of \$114,708 and interest and financing costs of \$2,332 for the quarter ended December 31, 2015. As a result, we reported a net loss before provision for income tax of \$951,734 and \$252,025 for the quarters ended December 31, 2016 and 2015, respectively. The comparative differences between year ending 2015 and 2016 are the result of our acquisition of Howco, that significantly expanded our operations, and our entry into the UAV marketplace, that has caused us to incur selling, general and administrative costs related to the sales and marketing of our UAV products and recruitment and hiring of UAV professionals.

## Cash Flow Summary

The following is a summary of the Company's cash flows provided by (used in) operating, investing and financing activities:

	Year Ended September 30, 2016	Period from July 20, 2015 (inception) through September 30, 2015
Net Cash Used in Operating Activities	\$ (1,059,058)	\$ (77,666)
Net Cash Used in Investing Activities	\$ (2,434,515)	\$ -
Net Cash Provided by Financing Activities	\$ 4,124,593	\$ 77,666
<b>Net Increase in Cash and Cash Equivalents</b>	<b>\$ 631,020</b>	<b>\$ -</b>

The comparative differences between year ending 2015 and 2016 are the result of our acquisition of Howco, that significantly expanded our operations, and our entry into the UAV marketplace, that has caused us to incur selling, general and administrative costs related to the sales and marketing of our UAV products and recruitment and hiring of UAV professionals.

	Quarter Ended December 31, 2016	Quarter Ended December 31, 2015
Net Cash Used in Operating Activities	\$ (14,893)	\$ (253,410)
Net Cash Used in Investing Activities	\$ -	\$ -
Net Cash Provided by Financing Activities	\$ 11,735	\$ 253,410
<b>Net Increase in Cash and Cash Equivalents</b>	<b>\$ 3,158</b>	<b>\$ -</b>

## Going Concern

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the liquidation of liabilities in the normal course of business. The Company has net losses and net cash used in operations in the two most recent fiscal years and most recent interim period. The Company intends to fund operations through equity financing arrangements, which may be insufficient to fund its capital expenditures, working capital and other cash requirements for the year ending September 30, 2017.

The Company is dependent upon, among other things, obtaining additional financing to continue operations, and development of its business plan. In response to these problems, management intends to raise additional funds through public or private placement offerings.

These factors, among others, raise substantial doubt about the Company's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## **Critical Accounting Policies**

Our consolidated financial statements and accompanying notes have been prepared in accordance with United States generally accepted accounting principles applied on a consistent basis. The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods.

We regularly evaluate the accounting policies and estimates that we use to prepare our financial statements. In general, management's estimates are based on historical experience, and on various other assumptions that are believed to be reasonable under the facts and circumstances. Actual results could differ from those estimates made by management. These estimates are based on Management's historical industry experience and not the company's historical experience.

### **Accounts Receivable**

Trade receivables are recorded at net realizable value consisting of the carrying amount less the allowance for doubtful accounts, as needed. Factors used to establish an allowance include the credit quality of the customer and whether the balance is significant. The Company may also use the direct write-off method to account for uncollectible accounts that are not received. Using the direct write-off method, trade receivable balances are written off to bad debt expense when an account balance is deemed to be uncollectible.

### **Inventory**

Inventory consists of finished goods, which are purchased directly from manufacturers. The Company utilizes a just in time type of inventory system where products are ordered from the vender only when the Company has received sales order from its customers. Inventory is stated at the lower of cost and net realizable value on a first-in, first-out basis.

### **Goodwill and Intangible Assets**

The Company's goodwill and tradename assets are deemed to have indefinite lives and, accordingly, are not amortized, but are evaluated for impairment at least annually, but more often whenever changes in facts and circumstances occur which may indicate that the carrying value may not be recoverable. The customer list was deemed to have a life of four years and will be amortized through September 2020.

## **Long-Lived Assets**

Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment is measured by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from use of the assets and their ultimate disposition. In instances where impairment is determined to exist, the Company writes down the asset to its fair value based on the present value of estimated future cash flows.

## **Revenue Recognition**

Sales are recognized upon shipment of product to the customer. Provisions for returns and allowances are recorded in the period the sales occur. Payments received from customers prior to shipment of the product to them, are recorded as customer deposit liabilities.

## **Net Loss Per Share**

Basic loss per share is calculated by dividing the loss attributable to stockholders by the weighted-average number of shares outstanding for the period. Diluted loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that shared in the earnings (loss) of the Company. Diluted loss per share is computed by dividing the loss available to stockholders by the weighted average number of shares outstanding for the period and dilutive potential shares outstanding unless such dilutive potential shares would result in anti-dilution.

## **Tax Loss Carryforwards**

The Company recognizes deferred tax assets and liabilities for the tax effects of differences between the financial statement and tax basis of assets and liabilities. A valuation allowance is established to reduce the deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

## **Off-Balance Sheet Arrangements**

During the year ended September 30, 2016, we did not engage in any off balance sheet arrangements as defined in item 303(a)(4) of the SEC's Regulation S-K. We do not have any off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on our financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that are material to investors.

### Item 3. Properties.

#### *Drone USA*

Our headquarters are located at One World Trade Center, 285 Fulton Street, 85th Floor, New York, NY 10007. In May 2016, we entered into a lease agreement for office space. The lease provides for monthly rent of approximately \$5,000 per month with a rent-free period from May 1, 2016 through July 31, 2016. The lease required a \$10,000 security deposit and the lease term begins May 1, 2016 and expires April 30, 2017. In May 2016, we entered into a second lease agreement for additional office space. The second lease provides for monthly rent of approximately \$2,500 per month with a rent-free period from July 1, 2016 through October 31, 2016. The second lease required a security deposit of \$2,500 and the second lease term begins July 1, 2016 and expires June 30, 2017. In July 2016, we entered into a third lease agreement for additional office space. The third lease provides for monthly rent of approximately \$3,500 per month with a rent-free period from September 1, 2016 through October 31, 2016. The third lease required a security deposit of \$3,500 and the second lease term begins September 1, 2016 and expires August 31, 2017. We are three months behind in making the monthly lease payments and have been in discussions with the landlord regarding anticipated financing to become current within the next several weeks.

Our U.S. manufacturing, testing, engineering, research, development and integration facility is located at 3580 Sueldo Street, San Luis Obispo, CA 93401. ESAero leases the facility, and we have subleased approximately 10,000 square feet of the facility from ESAero for our exclusive use. The lease term commences February 1, 2017 and ends January 31, 2019. The monthly rent payable to ESAero is \$15,000. We are three months behind in making the monthly lease payments and have been in discussions with the landlord regarding anticipated financing to become current within the next several weeks.

#### *Howco*

Howco has its principal office and warehouse at 6025 East 18th St, Vancouver, WA 98661. Howco entered into a lease on April 28, 2009 that was extended on April 26, 2016 to May 31, 2017 for approximately 7,500 square feet for its office and warehouse. The lease provides for monthly rent of approximately \$4,629 per month.

#### Item 4. Security Ownership of Certain Beneficial Owners and Management.

##### Security ownership of certain beneficial owners.

The following table sets forth, as of March 31, 2017, certain information concerning the beneficial ownership of our capital stock, including our common stock, and stock options as converted into common stock basis, by:

- each stockholder known by us to own beneficially 5% or more of any class of our outstanding stock;
- each director;
- each named executive officer;
- all of our executive officers and directors as a group; and
- each person, or group of affiliated persons, who is known by us to beneficially own more than 5% of any class of our outstanding stock.

The column entitled "Percentage of Class" is based on 42,694,692 shares of common stock outstanding as of March 31, 2017. Beneficial ownership is determined in accordance with the rules and regulations of the SEC and includes voting or investment power with respect to our common stock. Shares of our common stock subject to options that are currently exercisable or exercisable within 60 days of March 31, 2017 are considered outstanding and beneficially owned by the person holding the options for the purpose of calculating the percentage ownership of that person but not for the purpose of calculating the percentage ownership of any other person. Except as otherwise noted, we believe the persons and entities in this table have sole voting and investing power with respect to all of the shares of our common stock beneficially owned by them, subject to community property laws, where applicable.

Name and Address <sup>1</sup>	Amount and Nature of Beneficial Ownership	Percentage of Class
Michael Bannon	38,309,321	89.73%
Dennis Antonelos (2)	20,000,000	31.90%
Paulo Ferro (2)	7,500,000	14.94%
Ike Bavraktar (2)(3)	4,000,000	8.57%
All Officers and Directors as a Group	65,809,321	93.75%

(1) Unless otherwise indicated, the address of such individual is c/o the Company.

(2) Represents shares issuable upon the exercise of stock options to purchase shares of our Common Stock that are exercisable within 60 days of March 31, 2017.

(3) Ike Bavraktar is not an officer or director of the Company.

## Item 5. Directors and Executive Officers.

Our number of directors is established at three, divided into three classes, designated as Class I, Class II and Class III. The term of the Class I directors will expire at the 2018 annual meeting of stockholders, the Class II directors will expire at the 2019 annual meeting of stockholders, and the term of the Class III directors will expire at the 2020 annual meeting of stockholders. A plurality of the votes of the shares of the registrant's common stock present in person or represented by proxy at the annual meeting and entitled to vote on the election of directors are required to elect the directors. The Board members have three year terms and in the absence of a vote at an annual meeting of stockholders, they continue for successive three year terms until they are replaced or resign.

The following table sets forth certain information about our executive officers, key employees and directors as of March 31, 2017.

Name	Age	Position	Class
Michael Bannon	51	President, CEO, Director	III
Dennis Antonelos	32	Chief Financial Officer, Director	III
Paulo Ferro	55	Chief Strategy Officer, Director	II
David Y. Williams	60	Director	II
Dr. Rodrigo Kuntz Rangel	39	Chief Technology Officer, Director	I
Paul Charles ("Chuck") Joy	49	Vice President, Howco	
Kathryn Joy	48	Vice President, Howco	

**Michael Bannon** is President, Chief Executive Officer and Chairman of the Board of Directors, positions he has held since January 26, 2016. Since 1994 he served as President of Abatement International Group, Inc., a company involved in addressing asbestos, lead, mold and PCB problems in commercial buildings. He graduated from the University of Connecticut with a B.A. degree in 1993, received an M.B.A. degree from the University of New Haven in 1998, received an M.A. degree in Organizational Psychology in 2003 from the University of New Haven and became a Harvard Business School graduate in March 2011 when he completed Harvard Business School's Owner President Program. We believe that Mr. Bannon is qualified to serve on our Board of Directors based upon his having successfully managed prior companies and his educational background in business.

**Paulo Ferro** became a member of the Board on August 1, 2016. Since 2013 he was employed by General Atomics Aeronautical Systems in Poway, California and responsible for strategic development, including developing and managing its international strategy for that company's Predator-family of remotely piloted airplanes (RPA's) and supporting its mission services, such as radar sensors and software, manned aircraft and turn-key services. From June 2007 to October 2013, Mr. Ferro was Director of International Business Development for Aerovironment Inc, in Simi Valley, California, where he was responsible for strategic planning and for the development and implementation of capture plans for domestic and international campaigns for unmanned aircraft systems. From July 2000 to June 2007 he was Director of Business Development for Teledyne Microelectronics, in Marina Del Rey, California, where he was responsible for six mixed-technology product lines, ranging from aerospace-related technologies to medical devices, laser modules, and telecommunications. We believe that Mr. Ferro is qualified to be a member of our Board based on his sales and marketing expertise with growth companies.

**Dennis Antonelos** became a member of the Board on January 26, 2016. Prior to his becoming CFO of the Company, Mr. Antonelos was Director of Product Sales for Xoriant from 2012 to 2015 where he lead sales and strategy efforts for the master data management product suite and oversaw a team of account executives focused on the banking, financial services and insurance vertical. During this time, Mr. Antonelos collaborated with senior executives at companies such as State Street, Legg Mason, Santander and Citi on financial reporting, risk management and regulatory compliance. Mr. Antonelos received his B.S. in Finance from Fairfield University. We believe that Mr. Antonelos is qualified to be a member of our Board based upon his financial expertise and sales and marketing background.

**Paul Charles "Chuck" Joy** has, since 2008, been Executive Vice President of Howco, a company for which he is an owner and founder along with his wife, Kathy Joy. Prior to joining Howco, he served as Western National Sales and Marketing Manager of Hitachi Maxell Corporation from 1996 to 2008. Mr. Joy graduated from Oregon State University with a B.S and Business Administration degree. We believe that Mr. Joy is qualified to be a member of our Board based upon his leadership role with Howco and experience in sales and marketing with growth companies.

**Kathryn "Kathy" Joy** has, since 2005, been the Operations Manager of Howco, which she founded in September 2005 with her husband, Chuck Joy. Ms. Joy graduated from Northern Arizona University with a B.A. in History. We believe that Ms. Joy is qualified to be a member of our Board based upon her extensive background in operating Howco and its importance to the Company's financial results.

**David Y. Williams** became a member of the Board on November 2, 2016. Currently Mr. Williams is a founder and principal of Strategic Gold Corporation, which buys, sells and vaults physical gold and silver. From April 2010 to December 2016, Mr. Williams was employed at Wellington Shields & Co., an investment bank, where he acted as floor broker at the New York Stock Exchange executing orders to purchase and sell securities for institutional clients. From April 2005 to April 2010 Mr. Williams was employed as a floor broker by KCCI and also served as a floor broker from 1987-1992 at RBC Dominion Securities (formerly Richardson Greenshields), a leading wealth management firm and at Glenwood Securities, a trading and execution firm. Mr. Williams also currently serves on the board of directors for Strategic Gold Corporation and Reference Point Physical Gold Fund and is a principal of Universal Services, a gold company based in the Bahamas. Mr. Williams graduated from West Point with a B.S. degree. We believe that Mr. Williams is qualified to be a member of the Board based upon his knowledge of Wall Street and financing which is important to us as we seek financings to achieve our business plan.

**Dr. Rodrigo Kuntz Rangel** became a member of the Board on April 3, 2017 and has been our CTO since June 2016. Dr. Rangel has served as Scientific Director of IBRV, the BRVANT Institute of Technology, a non-profit Institute since August 2013. Since February 2009 Dr. Rangel has served as CEO of BRVANT Technologic Solutions, a Brazilian company that specializes in development of UAV, UGV and USV systems. From 2002 to 2009 he was Product Development Engineer at Embraer SA, working with the development of avionics, electronic and software systems for military and civil aircraft. Dr. Rangel has specialized in aircraft manufacture engineering through his research activities with the Embraer Engineering Specialization Program. Dr. Rangel also studied computer, robotics, lasers and virtual reality systems applied to flight simulators at the Institute for Advanced Studies (IEAv) as a São Paulo State Foundation for Research Support (FAPESP) scholar. Dr. Rangel received a B.S. degree in Computer Engineering, M.S. and PhD degrees in Computer and Electronics Engineering from the Technological Institute of Aeronautics in Sao Jose dos Campos, Brazil.

### **Board Composition and Election of Directors**

Our board of directors is currently authorized to have, and consists of, five members. In accordance with the terms of our current certificate of incorporation and by-laws, the term of office of each director expires at our annual meeting of stockholders or until their successors are duly elected and qualified.

### ***Director Independence***

Our board of directors has determined that David Y. Williams is independent as defined under NASDAQ Marketplace Rules.

There are no family relationships among any of our directors or executive officers.

### ***Board Committees***

Our board of directors does not have a separate, standing audit committee nor a nominating or governance committee. The full board of directors performs the function of an audit committee. We believe that Dennis Antonelos qualifies as an “audit committee financial expert” as that term is defined under Item 407(d)(5) of Regulation S-K.

## Item 6. Executive Compensation.

### *Compensation Discussion and Analysis*

#### **Overview**

##### Compensation Philosophy

This section discusses the principles underlying our policies and decisions with respect to the compensation of our executive officers and what we believe are the most important factors relevant to an analysis of these policies and decisions. This section also describes the material elements of compensation awarded to, earned by or paid to each of our named executive officers for 2016. Our "named executive officers" for 2016 are Michael Bannon, Dennis Antonelos, Paulo Ferro and Dr. Rodrigo Kuntz Rangel. The compensation of each of our other current executive officers is based on individual terms approved by our board of directors. Our board of directors is in the process of developing and implementing the executive compensation program that will be in place following effectiveness of this Form 10. This section highlights key aspects of this program that we expect to implement in 2017

We commenced operations on July 20, 2015. Rodrigo Kuntz Rangel, our chief technology officer appointed in 2016, does not currently receive, and has not historically received, any monetary compensation from us for his service. However, we may in the future determine to compensate him for his service as chief technology officer. During July, 2016, the Company entered into an employment agreement with Paulo Ferro, our Chief Strategy Officer, which provides for annual base compensation of \$400,000 for a period of three years and provides for other additional benefits as defined in the agreement including a signing bonus of \$100,000 payable during the first year of employment.

On October 1, 2016, the Company entered into employment agreements with two of its officers. The employment agreement with the company's President and CEO Michael Bannon provides for annual base compensation of \$370,000 for a period of three years, which can, at the Company's election, be paid in cash or Common Stock or deferred if insufficient cash is available, and provides for other benefits, including a discretionary bonus and equity a provision for the equivalent of 12 months' base salary, and an additional one-time severance payment of \$2,500,000 upon termination under certain circumstances, as defined in the agreement.

The employment agreement with the company's Treasurer and CFO Dennis Antonelos provides for annual base compensation of \$250,000 for a period of three years, which can, at the Company's election, be paid in cash or Company Common Stock or deferred if insufficient cash is available, and provides for other benefits, including a discretionary bonus and equity a provision for the equivalent of 12 months' base salary and an additional one-time severance payment of \$1,500,000 upon termination under certain circumstances, as defined in the agreement.

Following effectiveness of this Form 10, our compensation committee will oversee these compensation policies and, together with our board of directors, will periodically evaluate the need for revisions to ensure our compensation program is competitive with the companies with which we compete for executive talent.

## Objectives and Philosophy of Our Executive Compensation Program

The primary objectives of the board of directors in designing our executive compensation program are to:

- attract, retain and motivate experienced and talented executives;
- ensure executive compensation is aligned with our corporate strategies, research and development programs and business goals;
- recognize the individual contributions of executives while fostering a shared commitment among executives by aligning their individual goals with our corporate goals;
- promote the achievement of key strategic, development and operational performance measures by linking compensation to the achievement of measurable corporate and individual performance goals; and
- align the interests of our executives with our stockholders by rewarding performance that leads to the creation of stockholder value.

Each of our named executive officers was hired by us before our board of directors established a formal executive compensation program. To achieve these objectives in the future, we expect that our board of directors and compensation committee will evaluate our executive compensation program with the goal of setting and maintaining compensation at levels that are justifiable based on each executive's level of experience, performance and responsibility and that the board believes are competitive with those of other companies in our industry and our region that compete with us for executive talent. In addition, we expect that our executive compensation program will tie a substantial portion of each executive's overall compensation to key strategic, financial and operational goals. We have provided, and expect to continue to provide, a portion of our executive compensation in the form of stock options and restricted stock that vest over time, which we believe helps to retain our executives and aligns their interests with those of our stockholders by allowing them to participate in the longer term success of our company as reflected in stock price appreciation.

### *Use of Compensation Consultants and Market Benchmarking*

For purposes of determining total compensation and the primary components of compensation for our executive officers in 2016, we did not retain the services of a compensation consultant or use survey information or compensation data to engage in benchmarking. In the future, we expect that our compensation committee will consider publicly available compensation data for national and regional companies in the drone industry to help guide its executive compensation decisions at the time of hiring and for subsequent adjustments in compensation. Even if we retain the services of an independent compensation consultant to provide additional comparative data on executive compensation practices in our industry and to advise on our executive compensation program generally, our board of directors and future compensation committee will ultimately make their own decisions about these matters.

Beginning with the second quarter of 2017, we expect that our annual cash bonus program will be based upon the achievement of specified annual corporate and individual goals that will be established in advance by our board of directors or compensation committee. We expect that our annual cash bonus program will emphasize pay-for-performance and will be intended to closely align executive compensation with achievement of specified operating results as the amount will be calculated on the basis of percentage of corporate goals achieved. The performance goals established by our compensation committee beginning with the second quarter of 2017 for the 2017 fiscal year will be based on the business strategy of the company and the objective of building stockholder value. We expect that there will be three steps to determine if and the extent to which an annual cash bonus is payable to a named executive officer. First, at the beginning of the year, our compensation committee will determine the target annual cash incentive award for the named executive officer based on a percentage of the officer's annual base salary for that year. Second, the compensation committee will establish the specific performance goals, including both corporate and individual objectives, that must be met for the officer to receive the award. Third, shortly after the end of the year, the compensation committee will determine the extent to which these performance goals were met and the amount of the award. We expect that, beginning in 2018, our compensation committee will work with our chief executive officer to develop corporate and individual goals that they believe can be reasonably achieved with hard work over the course of the year and will target total cash compensation, consisting of base salaries and target annual cash bonuses

### ***Stock-Based Awards***

Our equity award program is the primary vehicle for offering long-term incentives to our executives. While we do not have any equity ownership guidelines for our executives, we believe that equity grants provide our executives with a strong link to our long-term performance, create an ownership culture and help to align the interests of our executives and our stockholders. In addition, the vesting feature of our equity awards contributes to executive retention by providing an incentive for our executives to remain in our employ during the vesting period. Currently, our executives are eligible to participate in our 2016 stock incentive plan, which we refer to as the 2016 Plan, and all equity awards granted in 2016 were pursuant to the 2016 Plan. Following the effectiveness of this Form 10, our employees and executives will be eligible to receive stock-based awards pursuant to our 2016 stock incentive plan. Under our 2016 Plan, executives will be eligible to receive grants of stock options, restricted stock awards, restricted stock unit awards, stock appreciation rights and other stock-based equity awards at the discretion of our board of directors.

Our employee equity awards have typically been in the form of stock options. Because our executives profit from stock options only if our stock price increases relative to the stock option's exercise price, we believe stock options provide meaningful incentives for our executives to achieve increases in the value of our stock over time. While we currently expect to continue to use stock options as the primary form of equity awards that we grant, we may in the future use alternative forms of equity awards, such as restricted stock and restricted stock units. To date, we have generally used equity awards to compensate our executive officers in the form of initial grants in connection with the commencement of employment. In the future, we also generally plan to grant equity awards on an annual basis to our executive officers. We may also make additional discretionary grants, typically in connection with the promotion of an employee, to reward an employee, for retention purposes or in other circumstances recommended by management.

In general, the equity awards that we have granted to our executives vest with respect to 25% of the shares on the first anniversary of the grant date and with respect to the remaining shares in approximately equal quarterly installments through the fourth anniversary of the grant date. Vesting ceases upon termination of employment and exercise rights cease shortly after termination of employment. Prior to the exercise of a stock option, the holder has no rights as a stockholder with respect to the shares subject to such option, including voting rights or the right to receive dividends or dividend equivalents.

We have granted, and going forward expect to grant, stock options with exercise prices that are set at no less than the fair value of shares of our common stock on the date of grant as determined by our board of directors.

### ***Benefits and Other Compensation***

We believe that establishing competitive benefit packages for our employees is an important factor in attracting and retaining highly qualified personnel. Following effectiveness of this Form 10, we expect to maintain broad-based benefits that are provided to all employees, including health and dental insurance, life and disability insurance, and a 401(k) plan. All of our executives will be eligible to participate in all of our employee benefit plans, in each case on the same basis as other employees.

In certain circumstances, we may award cash signing bonuses or may reimburse relocation expenses when executives first join us. Whether a signing bonus is paid or relocation expenses are reimbursed, and the amount of either such benefit, is determined by our board of directors on a case-by-case basis based on the specific hiring circumstances and the recommendation of our chief executive officer.

### ***Severance and Change in Control Benefits***

Pursuant to agreements we have entered into with certain of our executives, these executives are entitled to specified benefits in the event of the termination of their employment under specified circumstances, including termination following a change in control of our company. Please refer to "—Employment Agreements" for a more detailed discussion of these benefits.

We believe providing these benefits helps us compete for executive talent. Based on the substantial business experience of the members of our board of directors, we believe that our severance and change in control benefits are generally in line with severance packages offered to executives by companies at comparable stages of development in our industry and related industries.

### ***Risk Considerations in Our Compensation Program***

Our board of directors is evaluating the philosophy and standards on which our compensation plans will be implemented across our company. It is our belief that our compensation programs do not, and in the future will not, encourage inappropriate actions or risk taking by our executive officers. We do not believe that any risks arising from our employee compensation policies and practices are reasonably likely to have a material adverse effect on our company. In addition, we do not believe that the mix and design of the components of our executive compensation program will encourage management to assume excessive risks. We believe that our current business process and planning cycle fosters the behaviors and controls that would mitigate the potential for adverse risk caused by the action of our executives. We believe that the following aspects of our executive compensation program that we plan to implement will mitigate the potential for adverse risk caused by the action of our executives:

- annual establishment of corporate and individual objectives for our performance-based cash bonus programs for our executive officers, which we expect to be consistent with our annual operating and strategic plans, designed to achieve the proper risk/reward balance and not require excessive risk taking to achieve;

- the mix between fixed and variable, annual and long-term and cash and equity compensation, which we expect to be designed to encourage strategies and actions that balance the company's short-term and long-term best interests; and

- equity incentive awards that vest over a period of time, which we believe will encourage executives to take a long-term view of our business.

## Tax and Accounting Considerations

Section 162(m) of the Internal Revenue Code of 1986, as amended, or the Code, generally disallows a tax deduction for compensation in excess of \$1,000,000 per person paid to a publicly traded company's chief executive officer and three other most highly paid officers, other than the chief financial officer. Qualifying performance-based compensation is not subject to the deduction limitation if specified requirements are met. We will periodically review the potential consequences of Section 162(m), however, the board of directors may, in its judgment, authorize compensation payments that do not comply with the exemptions in Section 162(m) when it believes that such payments are appropriate to attract and retain executive talent and are in the best interests of our stockholders.

We account for equity compensation paid to our employees in accordance with Financial Accounting Standards Board, or FASB, Accounting Standard Codification Topic 718, *Compensation—Stock Compensation*, or ASC 718, which requires us to measure and recognize compensation expense in our financial statements for all share-based payments based on an estimate of their fair value over the service period of the award. We record cash compensation as an expense at the time the obligation is accrued.

## Summary Compensation Table

The following table sets forth the total compensation awarded to, earned by or paid to our named executive officers during the fiscal year ended September 30, 2016.

SUMMARY COMPENSATION TABLE

Name and Principal Occupation	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)	Option Awards \$(1)	Non-Equity Incentive Plan Compensation (\$)	Nonqualified Deferred Compensation Earnings (\$)	All Other Compensation \$(2)	Total (\$)
Michael Bannon	2016	\$ 278,056.31	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 32,131	\$ 310,187.31
Dennis Antonelos	2016	\$ 131,076.92	\$ 0	\$ 0	\$ 2,000,000	\$ 0	\$ 0	\$ 3,627.50	\$ 2,134,704.42
Paulo Ferro	2016	\$ 98,758.47	\$ 100,000	\$ 0	\$ 1,500,000	\$ 0	\$ 0	\$ 5,037.38	\$ 1,703,795.85
Rodrigo Kuntz Rangel (3)	2016	\$ 0	\$ 0	\$ 0	\$ 400,000	\$ 0	\$ 0	\$ 0	\$ 400,000

(1) The amounts in the "Option Awards" column reflect the aggregate grant date fair value of stock options granted during the year computed in accordance with the provisions of ASC 718, excluding the impact of estimated forfeitures related to service-based vesting conditions (which in our case were none). For the year ended September 30, 2016 the assumptions that we used to calculate these amounts are discussed in Note 16 to our consolidated financial statements appearing at the end of this Form 10.

(2) The amounts in the "All Other Compensation" column reflect health insurance premiums for all the executive officers and automobile lease reimbursements only for Michael Bannon.

(3) Rodrigo Kuntz Rangel did not receive any compensation from us for his service as our Chief Technology Officer in 2016. We issued to Rodrigo Kuntz Rangel an option to acquire 2,000,000 shares of our common stock in July 2016. 1,000,000 shares vest on July 1, 2017 and 1,000,000 shares vest on July 1, 2018.

***Grants of Plan-Based Awards in 2016***

The following table sets forth information regarding grants of plan-based awards to our named executive officers during the fiscal year ended September 30, 2016.

<b>Name</b>	<b>Grant Date</b>	<b>All other stock awards: number of shares of stock (#)</b>	<b>All Other Option Awards: Number of Securities Underlying Options (#)(1)(2)</b>	<b>Exercise or Base Price of Option Awards (\$/Sh)(2)</b>	<b>Grant Date Fair Value of Stock and Option Awards \$(3)</b>
Michael Bannon	7/1/16	—	—	—	—
Dennis Antonelos	7/1/16	—	10,000,000	\$ 0.20	\$ 2,000,000
Paulo Ferro	7/1/16	—	7,500,000	\$ 0.20	\$ 1,500,000
Dr. Rodrigo Kuntz Rangel	7/1/16	—	2,000,000	\$ 0.20	\$ 400,000

(1) Option awards vested on the date of issuance except for Dr. Rangel that vest as set forth in the prior table.

(2) Option awards have been granted with exercise prices equal to the fair value of our common stock on the date of grant. For a discussion of our methodology for determining the fair value of our common stock, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Policies and Significant Estimates."

(3) The amounts in the "Grant Date Fair Value of Stock and Option Awards" column reflect the grant date fair value of stock and option awards granted in 2016 calculated in accordance with ASC 718.

### Outstanding Equity Awards at December 31, 2016

The following table sets forth information regarding outstanding equity awards held by our named executive officers as of December 31, 2016.

Name	Option Awards				Stock Awards	
	Number of Securities Underlying Unexercised Options (#)	Number of Securities Underlying Unexercised Options (#)	Option Exercise Price	Option Expiration	Number of shares that have not vested	Market value of shares that have not vested
	Exercisable	Unexercisable	(\$/Sh)	Date	(#)	(\$)
Michael Bannon	—	—	—	—	—	—
Dennis Antonelos	10,000,000	—	\$ 0.20	7/1/26	—	—
Paulo Ferro	7,500,000	—	\$ 0.20	7/1/26	—	—
Rodrigo Kuntz Rangel	—	2,000,000	\$ 0.20	7/1/26	—	—

### Employment Agreements

On October 1, 2016, we entered into a three-year employment agreement with Michael Bannon as President and CEO of Drone USA. Under the terms of the employment agreement, Mr. Bannon's compensation is \$370,000 per annum which can at the Company's election be paid in cash or our common stock or deferred if insufficient cash is available. He is entitled to a bonus based on a compensation plan to be agreed to between him and our Board. If the employment agreement is terminated by Drone USA for Cause (as defined in the employment agreement), or if Mr. Bannon resigns without Good Reason (as defined therein), Mr. Bannon shall only receive his compensation earned through the termination date. If the employment agreement is terminated by Drone USA without Cause or if Mr. Bannon terminates his employment for Good Reason, or upon a Change in Control (as defined), Mr. Bannon shall also be entitled to a one-time severance payment of \$2,500,000, the greater of (i) 12 months salary or (ii) the remainder of his salary for the term of the employment agreement, acceleration of all non-vested equity in the Company to vest on the date of termination and payment by Drone USA for all healthcare and life insurance coverage through the end of the term of his Employment Agreement.

On October 1, 2016, we entered into a three-year employment agreement with Dennis Antonelos as CFO of Drone USA. Under the terms of the employment agreement, Mr. Antonelos' compensation is \$250,000 per annum which can at the Company's election be paid in cash or Company Common Stock or deferred if insufficient cash is available. He is entitled to a bonus based on a compensation plan to be agreed to between him and our Board. If the employment agreement is terminated by Drone USA for Cause (as defined in the employment agreement), or if Mr. Antonelos resigns without Good Reason (as defined therein), Mr. Antonelos shall only receive his compensation earned through the termination date. If the employment agreement is terminated by Drone USA without Cause or if Mr. Antonelos terminates his employment for Good Reason, or upon a Change in Control (as defined), Mr. Antonelos shall also be entitled to a one-time severance payment of \$1,500,000, the greater of (i) 12 months salary or (ii) the remainder of his salary for the term of the employment agreement, acceleration of all non-vested equity in the Company to vest on the date of termination and payment by Drone USA for all healthcare and life insurance coverage through the end of the term of the employment agreement.

On July 7, 2016, we entered into a three-year at-will employment agreement with Paulo Ferro as the Chief Strategy Officer of Drone USA. Under the terms of the employment agreement, Mr. Ferro's compensation is \$400,000 per annum. Mr. Ferro is owed a one-time signing bonus of \$100,000, due by July 6, 2017. In addition, Mr. Ferro received options to acquire 7,500,000 shares of our common stock, at an exercise price of \$0.20 per share, all of which were vested on July 7, 2016.

On March 28, 2017, we entered into an at-will employment agreement with Matthew Wiles as General Manager of Howco. Under the terms of employment agreement, Mr. Wiles' compensation is \$140,000 per annum and he also will be eligible for a bonus of 10% of Drone USA's profits over \$1.25 million to be paid in cash after the annual financial statements have been completed and, if applicable, audited for filing with the SEC. Mr. Wiles will also receive options to acquire 250,000 shares of Drone USA's common stock vesting over five years in equal amounts on the anniversary date of his Employment Agreement.

### ***Nonqualified Deferred Compensation***

We do not maintain any nonqualified deferred compensation plans.

### ***Defined Contribution Plan***

In August 2016, Drone established a qualified 401(k) defined contribution plan with a discretionary employer match provision. All employees who are at least twenty-one years of age are eligible to participate in the plan. The plan allows participants to defer up to 90% of their annual compensation, up to statutory limits. There was no employer contribution for the year ended September 30, 2016.

### ***Stock Option and Other Employee Benefit Plans***

The purpose of the 2016 Plan is to advance the interests of our stockholders by enhancing our ability to attract, retain and motivate persons who are expected to make important contributions and by providing such persons with equity ownership opportunities and performance-based incentives that are intended to better align the interests of such persons with those of our stockholders.

#### **2016 Stock Incentive Plan**

*History.* On June 7, 2016, the Board of Directors approved and on June 8, 2016, the stockholders approved the 2016 Stock Incentive Plan (the "**2016 Plan**") under which employees, officers, directors and consultants are eligible to receive grants of stock options, stock appreciation rights ("SAR"), restricted or unrestricted stock awards, restricted stock units, performance awards, other stock-based awards, or any combination of the foregoing. The Plan authorizes up to 100,000,000 shares of our common stock for stock-based awards.

*Administration.* The 2016 Plan is administered by the Board of Directors or the committee or committees as may be appointed by the Board of Directors from time to time (the "**Administrator**"). The Administrator determines the persons who are to receive awards, the types of awards to be granted, the number of shares subject to each such award and the terms and conditions of such awards. The Administrator also has the authority to interpret the provisions of the 2016 Plan and of any awards granted there under and to modify awards granted under the 2016 Plan. The Administrator may not, however, reduce the price of options or stock appreciation rights issued under the 2016 Plan without prior approval of the Company's shareholders.

*Eligibility.* The 2016 Plan provides that awards may be granted to employees, officers, directors and consultants of Drone USA or of any parent, subsidiary or other affiliate of the Company as the Administrator may determine. A person may be granted more than one award under the 2016 Plan.

Shares that are subject to issuance upon exercise of an option under the 2016 Plan but cease to be subject to such option for any reason (other than exercise of such option), and shares that are subject to an award granted under the 2016 Plan but are forfeited or repurchased by the Company at the original issue price, or that are subject to an award that terminates without shares being issued, will again be available for grant and issuance under the 2016 Plan.

*Terms of Options and Stock Appreciation Rights.* The Administrator determines many of the terms and conditions of each option and SAR granted under the 2016 Plan, including whether the option is to be an incentive stock option or a non-qualified stock option, whether the SAR is a related SAR or a freestanding SAR, the number of shares subject to each option or SAR, and the exercise price of the option and the periods during which the option or SAR may be exercised. Each option and SAR is evidenced by a grant agreement in such form as the Administrator approves and is subject to the following conditions (as described in further detail in the 2016 Plan):

(a) *Vesting and Exercisability:* Options, restricted shares and SARs become vested and exercisable, as applicable, within such periods, or upon such events, as determined by the Administrator in its discretion and as set forth in the related grant agreement. The term of each option is also set by the Administrator. However, a related SAR will be exercisable at the time or times, and only to the extent, that the option is exercisable and will not be transferable except to the extent that the option is transferable. A freestanding SAR will be exercisable as determined by the Administrator but in no event after 10 years from the date of grant.

(b) *Exercise Price:* Each grant agreement states the related option exercise price, which, in the case of SARs, may not be less than 100% of the fair market value of the Company's shares of common stock on the date of the grant. The exercise price of an incentive stock option granted to a 10% stockholder may not be less than 110% of the fair market value of shares of the Company's common stock on the date of grant.

(c) *Method of Exercise:* The option exercise price is typically payable in cash, common stock or a combination of cash of common stock, as determined by the Administrator, but may also be payable, at the discretion of the Administrator, in a number of other forms of consideration.

(d) *Recapitalization; Change of Control:* The number of shares subject to any award, and the number of shares issuable under the 2016 Plan, are subject to proportionate adjustment in the event of a stock dividend, spin-off, split-up, recapitalization, merger, consolidation, business combination or exchange of shares and the like. Except as otherwise provided in any written agreement between the participant and the Company in effect when a change in control occurs, in the event an acquiring company does not assume plan awards (i) all outstanding options and SARs shall become fully vested and exercisable; (ii) for performance-based awards, all performance goals or performance criteria shall be deemed achieved at target levels and all other terms and conditions met, with award payout prorated for the portion of the performance period completed as of the change in control and payment to occur within 45 days of the change in control; (iii) all restrictions and conditional applicable to any restricted stock award shall lapse; (iv) all restrictions and conditions applicable to any restricted stock units shall lapse and payment shall be made within 45 days of the change in control; and (v) all other awards shall be delivered or paid within 45 days of the change in control.

(e) Other Provisions: The option grant and exercise agreements authorized under the 2016 Plan, which may be different for each option, may contain such other provisions as the Administrator deems advisable, including without limitation, (i) restrictions upon the exercise of the option and (ii) a right of repurchase in favor of the Company to repurchase unvested shares held by an optionee upon termination of the optionee's employment at the original purchase price.

*Amendment and Termination of the 2016 Plan.* The Administrator, to the extent permitted by law, and with respect to any shares at the time not subject to awards, may suspend or discontinue the 2016 Plan or amend the 2016 Plan in any respect; provided that the Administrator may not, without approval of the stockholders, amend the 2016 Plan in a manner that requires stockholder approval.

### ***2016 Director Compensation***

We currently do not have a formal non-employee director compensation policy. However, we do reimburse our non-employee directors for their reasonable expenses incurred in connection with attending our board of directors and committee meetings, and we may in the future grant stock options and pay cash compensation to some or all of our non-employee directors. Other than reimbursement of out-of-pocket expenses as described above, we did not provide any cash or equity compensation to our non-employee directors during the year ended December 31, 2016.

### ***Limitation of Liability and Indemnification***

Our certificate of incorporation provides that we are authorized to provide indemnification and advancement of expenses to our directors, officers and others agents to the fullest extent permitted by Delaware General Corporation Law.

In addition, our certificate of incorporation limits the personal liability of directors for breach of fiduciary duty to the maximum extent permitted by the Delaware General Corporation Law and provides that no director will have personal liability to us or to our stockholders for monetary damages for breach of fiduciary duty or other duty as a director. However, these provisions do not eliminate or limit the liability of any of our directors for:

- any breach of the director's duty of loyalty to us or our stockholders;
- acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law;
- voting or assenting to unlawful payments of dividends, stock repurchases or other distributions; or
- any transaction from which the director derived an improper personal benefit.

Any amendment to or repeal of these provisions will not eliminate or reduce the effect of these provisions in respect of any act, omission or claim that occurred or arose prior to such amendment or repeal. If the Delaware General Corporation Law is amended to provide for further limitations on the personal liability of directors of corporations, then the personal liability of our directors will be further limited to the greatest extent permitted by the Delaware General Corporation Law.

Our certificate of incorporation also provides that we must indemnify our directors and officers and we must advance expenses, including attorneys' fees, to our directors and officers in connection with legal proceedings, subject to very limited exceptions.

We maintain a general liability insurance policy that covers certain liabilities of our directors and officers arising out of claims based on acts or omissions in their capacities as directors or officers.

Certain of our non-employee directors may, through their relationships with their employers, be insured or indemnified against certain liabilities incurred in their capacity as members of our board of directors.

### ***Compensation Committee Interlocks and Insider Participation***

None of our officers currently serves, or has served during the last completed fiscal year, on the compensation committee or board of directors of any other entity that has one or more officers serving as a member of our board of directors.

### **Item 7. Certain Relationships and Related Transactions, and Director Independence.**

Since entering into the Equity Exchange Agreement in January 2016, we have engaged in the following transactions with our directors, executive officers, holders of more than 5% of our voting securities, and affiliates or immediately family members of our directors, executive officers and holders of more than 5% of our voting securities, and our co-founders. We believe that all of these transactions were on terms as favorable as could have been obtained from unrelated third parties.

We have an \$840,000 convertible note payable with Abatement Industries Group, Inc., an entity controlled by our CEO Michael Bannon. The Note bears interest at an annual rate of 7% with a maturity date of June 11, 2017, at which time all unpaid principal and interest is due. The holder of the note has the option to convert the outstanding principal and accrued interest, in whole or in part, into shares of common stock at a conversion price equal to the volume weighted average price per share of common stock for the 30-day period prior to conversion. As of December 31, 2016, the note payable has not been converted and the balance of the note is approximately \$700,000.

We issued a convertible note payable to our CEO Michael Bannon for \$117,000. The note bears interest at an annual rate of 7% with a maturity rate of January 1, 2018. The holder of the note has the option to convert the outstanding principal and accrued interest, in whole or in part, into shares of common stock at a conversion price equal to the volume weighted average price per share of common stock for the 30-day period prior to conversion. As of December 31, 2016, the note payable has not been converted and the balance of the note is approximately \$122,000.

### ***Indemnification***

Our certificate of incorporation in effect upon the effectiveness of this Form 10 provides that we may indemnify our directors and officers to the fullest extent permitted by Delaware law. Our certificate of incorporation provides that we must indemnify our directors and officers to the fullest extent permitted by Delaware law and must advance expenses, including attorneys' fees, to our directors and officers in connection with legal proceedings, subject to very limited exceptions. In addition, we have entered into indemnification agreements with our directors. See "Compensation Discussion and Analysis—Limitation of Liability and Indemnification" for additional information regarding these indemnification provisions and agreements.

### ***Policies and Procedures for Related Person Transactions***

Our board of directors has adopted written policies and procedures for the review of any transaction, arrangement or relationship in which we are a participant, the amount involved exceeds \$120,000, and one of our executive officers, directors, director nominees or 5% stockholders (or their immediate family members), each of whom we refer to as a "related person," has a direct or indirect material interest.

If a related person proposes to enter into such a transaction, arrangement or relationship, which we refer to as a "related person transaction," the related person must report the proposed related person transaction to our chief legal officer or, in the event we do not have a chief legal officer, to our principal financial officer. The policy calls for the proposed related person transaction to be reviewed and, if deemed appropriate, approved by the audit committee of our board of directors. Whenever practicable, the reporting, review and approval will occur prior to entry into the transaction. If advance review and approval is not practicable, the committee will review, and, in its discretion, may ratify the related person transaction. The policy also permits the chairman of the committee to review and, if deemed appropriate, approve proposed related person transactions that arise between committee meetings, subject to ratification by the committee at its next meeting. Any related person transactions that are ongoing in nature will be reviewed annually.

A related person transaction reviewed under the policy will be considered approved or ratified if it is authorized by the committee after full disclosure of the related person's interest in the transaction. As appropriate for the circumstances, the committee will review and consider:

- the related person's interest in the related person transaction;
- the approximate dollar value of the amount involved in the related person transaction;
- the approximate dollar value of the amount of the related person's interest in the transaction without regard to the amount of any profit or loss;
- whether the transaction was undertaken in the ordinary course of our business;
- whether the terms of the transaction are no less favorable to us than terms that could have been reached with an unrelated third party;
- the purpose of, and the potential benefits to us of, the transaction; and
- any other information regarding the related person transaction or the related person in the context of the proposed transaction that would be material to investors in light of the circumstances of the particular transaction.

The committee may approve or ratify the transaction only if the committee determines that, under all of the circumstances, the transaction is not inconsistent with our best interests. The committee may impose any conditions on the related person transaction that it deems appropriate.

In addition to the transactions that are excluded by the instructions to the SEC's related person transaction disclosure rule, our board of directors has determined that the following transactions do not create a material direct or indirect interest on behalf of related persons and, therefore, are not related person transactions for purposes of this policy:

- interests arising solely from the related person's position as an executive officer of another entity (whether or not the person is also a director of such entity), that is a participant in the transaction, where (a) the related person and all other related persons own in the aggregate less than a 10% equity interest in such entity, (b) the related person and his or her immediate family members are not involved in the negotiation of the terms of the transaction and do not receive any special benefits as a result of the transaction and (c) the amount involved in the transaction equals less than the greater of \$200,000 or 5% of the annual consolidated gross revenues of the other entity that is a party to the transaction; and
- a transaction that is specifically contemplated by provisions of our charter or by-laws.

The policy provides that transactions involving compensation of executive officers shall be reviewed and approved by the compensation committee in the manner specified in its charter.

#### **Item 8. Legal Proceedings.**

In connection with the merger with Texas Wyoming Drilling, Inc., a vendor has a claim for unpaid bills of approximately \$75,000 against the company. The Company and its legal counsel believe the Company is indemnified by Texas Wyoming Drilling, Inc. for the claim pursuant to its indemnification clause in the merger agreement.

#### **Item 9. Market Price of and Dividends on the Registrant's Common Equity and Related Stockholder Matters.**

##### ***Market Information***

Our common stock is quoted on OTC Markets Pink under the trading symbol "DRUS".

The following table sets forth the quarterly high and low sales price per share of our common stock for the periods indicated. The prices represent inter-dealer quotations, which do not include retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

FISCAL QUARTER ENDED	HIGH	LOW
2016		
March 31	\$ 0.36	\$ 0.12
June 30	\$ 0.96	\$ 0.01
September 30	\$ 3.60	\$ 0.20
December 31	\$ 1.00	\$ 0.15
2015		
March 31	\$ 3.60	\$ 1.44
June 30	\$ 2.88	\$ 0.90
September 30	\$ 1.44	\$ 0.36
December 31	\$ 1.08	\$ 0.36

### ***Equity Compensation Plans***

We expect approximately 1,324,475 shares of our common stock will be eligible for sale under Rule 144 90 days following the effective date of this Form 10 registering the common stock subject to outstanding options or reserved for issuance under our 2016 Plan. The Form 10 will become effective sixty days after filing and shares covered by the Form 10 will thereupon be eligible for sale in the public markets, subject to grant of the underlying awards, vesting provisions and Rule 144 limitations applicable to our affiliates. We cannot estimate the number of shares of our common stock that our existing stockholders will elect to sell under Rule 144.

### ***Holders***

As of March 31, 2017, there were 42,694,692 shares of common stock outstanding, which were held by approximately 305 record holders.

As of the date of this Form 10, we have no present commitments to issue shares of our capital stock to any 5% holder, director or nominee, other than pursuant to the exercise of outstanding options as more fully set forth elsewhere in this Form 10.

## ***Dividends***

We have never paid cash dividends on any of our capital stock and we currently intend to retain our future earnings, if any, to fund the development and growth of our business. We do not intend to pay cash dividends to holders of our common stock in the foreseeable future.

## ***Stock Not Registered under the Securities Act; Rule 144 Eligibility***

Our common stock, including our common stock underlying outstanding options, have not been registered under the Securities Act. Accordingly, the shares of common stock issued and outstanding and the shares of common stock issuable upon the exercise of any options may not be resold absent registration under the Securities Act and applicable state securities laws or an available exemption thereunder.

## **Rule 144**

Shares of our common stock that are restricted securities will be eligible for resale in compliance with Rule 144 or Rule 701 of the Securities Act, subject to the requirements described below. "Restricted securities," as defined under Rule 144, were issued and sold by us in reliance on exemptions from the registration requirements of the Securities Act. These shares may be sold in the public market only if registered or if they qualify for an exemption from registration, such as Rule 144 or Rule 701. Below is a summary of the requirements for sales of our common stock pursuant to Rule 144, after the effectiveness of this Form 10.

Beginning 90 days after the effectiveness of this Form 10, but further subject to the lock-up agreements described below, a person who is our affiliate or who was our affiliate at any time during the preceding three months and who has beneficially owned restricted securities for at least six months, will generally be entitled to sell within any three month period a number of shares that does not exceed one percent of the number of shares of our common stock then outstanding. Sales under Rule 144 by our affiliates are also subject to manner of sale provisions and notice requirements and to the availability of current public information about us.

Persons who may be deemed to be our affiliates generally include individuals or entities that control, or are controlled by, or are under common control with, us and may include our directors and officers, as well as our significant stockholders.

For a person who has not been deemed to have been one of our affiliates at any time during the 90 days preceding a sale, sales of our shares of common stock held longer than six months, but less than one year, will be subject only to the current public information requirement and can be sold under Rule 144 beginning 90 days after the effectiveness of this Form 10 without restriction. A person who is not deemed to have been one of our affiliates at any time during the 90 days preceding a sale, and who has beneficially owned the shares proposed to be sold for at least one year, is entitled to sell his or her shares without complying with the manner of sale, public information, volume limitation or notice provisions of Rule 144.

## Rule 701

Rule 701 under the Securities Act permits resales of shares in reliance upon Rule 144 but without compliance with certain restrictions of Rule 144, including the holding period requirement and the volume and public information requirements. Any of our employees, consultants or advisors, other than our affiliates, who purchased shares from us under a written compensatory plan or contract may be entitled to rely on the resale provisions of Rule 701, but all holders of Rule 701 shares are required to wait until 90 days after the effective date of this Form 10 before selling their shares under Rule 701. None of our currently outstanding shares will become eligible for sale pursuant to Rule 701 90 days following the effective date of this Form 10.

### *Securities Authorized for Issuance under Equity Compensation Plans*

The following table sets forth information regarding our equity compensation plans as of December 31, 2016. There are no equity compensation plans that have not been approved by our security holders.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted average exercise price of outstanding options, warrants and rights (\$)	Number of securities remaining available for future issuance under equity compensation plans
Equity compensation plans approved by security holders	27,645,000	\$ 0.20	72,355,000

### **Item 10. Recent Sales of Unregistered Securities.**

Set forth below is information regarding shares of common stock issued, and options granted, by us since January 2016, when we acquired control of the Company under an Equity Exchange Agreement, that were not registered under the Securities Act. Also included is the consideration, if any, received by us, for such shares and options and information relating to the Securities Act, or rule of the SEC, under which exemption from registration was claimed.

- From January 1, 2016 to December 31, 2016, under our 2016 Plan, we granted stock options to purchase an aggregate of 27,645,000 shares of our common stock to certain of our employees, officers, consultants and advisors, at an exercise price
- (1) of \$0.20 per share. During the three months ended March 31, 2017, we granted additional stock options under our 2016 Plan to purchase an aggregate of 24,206,200 shares of our common stock to our employees officers, consultants and advisors, at an exercise price ranging from \$0.20 to \$0.24 per share. As of the date of this Form 10, no options have been exercised.
  - (2) On September 9, 2016, the Company issued 270,271 shares of common stock at \$0.37 per share to Avante World Partners LLC in connection with a private placement for investment of \$100,000.

- On September 9, 2016, in addition to cash and notes, we issued to Paul Charles Joy and Kathryn Joy warrants for 500,000
- (3) shares of common stock as consideration for the acquisition of Howco described above, with an exercise price of \$0.01 per share, all vested immediately, and exercisable for five years.

- On September 14, 2016, the Company issued 539,204 shares of common stock to TCA in satisfaction of the \$850,000 in accordance with the terms of the agreement described above. Based upon the value of the shares, at the time the lender sells
- (4) the shares, the Company may be required to redeem unsold shares for the difference between the \$850,000 and the lender's sales proceeds.. TCA has set aside a reserve with our transfer agent for 7,000,000 shares of our common stock to satisfy the transaction fee.

- (5) On October 20, 2016, the Company issued 115,000 shares of common stock to Leventis Investment Partners at \$0.50 per share to satisfy a liability of \$57,500 for acquisition related services.

- From August 18, 2016 until November 15, 2016, in connection with the Settlement Agreement with Rockwell, we issued
- (6) to Rockwell a convertible note in the principal amount of \$102,102.74. A total of 528,700 shares issued were issued during this period to Rockwell in connection with a section 3(a)(10) transaction under the Securities Act.

No underwriters were involved in the foregoing issuances of securities.

The offers, sales and issuances of the securities described in paragraph (1) above were deemed to be exempt from registration under the Securities Act in reliance on Rule 701 in that the transactions were under compensatory benefit plans and contracts relating to compensation as provided under Rule 701. The recipients of such securities were our employees, officers, bona fide consultants and advisors and received the securities under our 2016 Plan. Appropriate legends were affixed to the securities issued in these transactions. Each of the recipients of securities in these transactions had adequate access, through employment, business or other relationships, to information about us.

The offers, sales and issuances of the securities described in paragraphs (2), (3) and (4) were deemed to be exempt from registration under the Securities Act in reliance on Rule 506 of Regulation D in that the issuance of securities to the accredited investors did not involve a public offering. The recipients of securities in each of these transactions acquired the securities for investment only and not with a view to or for sale in connection with any distribution thereof and appropriate legends were affixed to the securities issued in these transactions. Each of the recipients of securities in these transactions was an accredited investor under Rule 501 of Regulation D.

#### **Item 11. Description of Registrant's Securities to be Registered.**

We are registering on this Form 10 only our common stock, the terms of which are described below. However, because our preferred stock will remain outstanding following the effectiveness of this Form 10, we also describe below the terms of our preferred stock to the extent such terms qualify the rights of our common stock.

Under the terms of the Certificate of Amendment to our Certificate of Incorporation filed April 27, 2016, the aggregate number of shares which the Corporation will have authority to issue is 205,000,000, 200,000,000 of which shall be common stock, \$.0001 par value per share, and 5,000,000 of which shall be preferred stock, \$.0001 par value per share, of which 250 have been designated Series A Preferred.

## ***Common Stock***

As of March 31, 2017, we had 42,694,692 shares of common stock outstanding and approximately an additional 57,891,338 shares of Common Stock, including warrants for 500,000 of Common Stock, options for 50,851,200 shares of Common Stock and convertible notes for 6,540,138 shares of Common Stock, for a total of 100,586,030 shares of Common Stock outstanding on a fully diluted basis. Holders of shares of common stock have the right to cast one vote for each share of common stock in their name on the books of our company, whether represented in person or by proxy, on all matters submitted to a vote of holders of common stock, including election of directors. There is no right to cumulative voting in election of directors. Except where a greater requirement is provided by statute, by our certificate of incorporation, or by our bylaws, the presence, in person or by proxy duly authorized, of the one or more holders of a majority of the outstanding shares of our common stock constitutes a quorum for the transaction of business. The vote by the holders of a majority of outstanding shares is required to effect certain fundamental corporate changes such as liquidation, merger, or amendment of our certificate of incorporation.

There are no restrictions in our certificate of incorporation or bylaws that prevent us from declaring dividends. We have not declared any dividends, and we do not plan to declare any dividends in the foreseeable future.

Holders of shares of our common stock are not entitled to preemptive or subscription or conversion rights, and no redemption or sinking fund provisions are applicable to our common stock. All outstanding shares of common stock are fully paid and non-assessable.

## ***Preferred Stock***

Our Board of Directors also has the authority to designate the rights and preferences, including but not limited to the voting rights, redemption rights, conversion rights and right to payment of dividends, of our preferred stock. The Board of Directors have designated 250 shares of preferred stock as Series A Preferred Stock. Holders of our Series A Preferred Stock have the right to vote on any matters submitted to a vote of holders of common stock. Each holder of Series A Preferred Stock is entitled to cast that the number of votes equal to the quotient of the sum of all outstanding shares of common stock divided by .99. The Series A Preferred Stock has no other rights or preferences. As of December 31, 2016, all 250 shares of Series A Preferred Stock are held by Michael Bannon, our current Chairman, President and CEO.

## ***Warrants***

As of December 31, 2016, we had one outstanding, fully vested warrant to purchase an aggregate of 500,000 shares of Common Stock at a weighted average exercise price of \$0.01 per share.

## ***Convertible Notes***

As of December 31, 2016, we had two convertible notes payable described in further detail elsewhere in this Form 10 with an approximate aggregate balance of \$820,444 with an approximate conversion price of \$0.26 per share. If converted, the holders of the note would receive approximately 3,104,000 of our common stock.

Another convertible note is with TCA under the Credit Agreement described above, which became convertible upon the default discussed below. We issued a convertible note to TCA in the principal amount of \$3.5 million which we used for the acquisition of Howco and the payment of outstanding secured obligations, certain vendors and the closing fee to TCA. The initial loan is due 18 months from the date of the loan and bears interest of 18% per annum. The first five months of the loan term are interest only payments, and the remaining 13 months of the loan term are fully amortizing principal and interest payments. Drone USA, LLC is the corporate guarantor under the terms of the Credit Facility. Under the terms of the Credit Facility, we are obligated to pay \$850,000 of advisory fees to TCA which was paid in the form of 539,204 shares of our restricted common stock. TCA has set aside a reserve with our transfer agent for 7,000,000 shares of our common stock to satisfy the transaction fee. In the event that the shares of our restricted common stock used to pay the transaction fee to TCA cannot be sold to recover the \$850,000 transaction fee in 12 months from the date of TCA received those shares, it is an event of default under the terms of the Credit Facility, resulting in an annual default interest rate of 25% and the right of TCA to certain default remedies, including the sale of collateral. Under the terms of the Credit Facility, except in limited circumstances, we are not permitted to encumber any of our assets, sell any shares of common stock or incur additional indebtedness without TCA's prior written consent. On April 13, 2017, we received a notice of default from TCA for failure to pay the March and April principal payments and were given a 10 day period to cure the default. We have been in discussions with TCA and believe that TCA will work with us to achieve our business plan as long as we are continuing to make progress in that regard.

### ***Reserves***

On September 13, 2016, we had a 7,000,000 share reserve placed on our common stock by TCA, our senior secured lender, in order to satisfy a future obligation of \$850,000. As of December 31, 2016, 539,204 shares of our common stock have been issued to TCA in connection with this future obligation. TCA has the right to request additional shares of common stock to bring the market value of its holdings in our common stock equal to the balance of the future obligation. TCA must return shares back to the Company if the market values of its holdings in our common stock exceeds the balance of the future obligation. As of December 31, 2016, if requested, TCA is entitled to receive an additional 1,889,367 shares of our Common Stock based on an approximate conversion price of \$0.35 per share. TCA and the future obligation are described in more detail elsewhere in this Form 10.

### ***Anti-Takeover Provisions***

#### **Delaware Law**

We are subject to Section 203 of the Delaware General Corporation Law. Subject to certain exceptions, Section 203 prevents a publicly held Delaware corporation from engaging in a "business combination" with any "interested stockholder" for three years following the date that the person became an interested stockholder, unless the interested stockholder attained such status with the approval of our board of directors or unless the business combination is approved in a prescribed manner. A "business combination" includes, among other things, a merger or consolidation involving us and the "interested stockholder" and the sale of more than 10% of our assets. In general, an "interested stockholder" is any entity or person beneficially owning 15% or more of our outstanding voting stock and any entity or person affiliated with or controlling or controlled by such entity or person.

#### **Authorized but Unissued Shares**

The authorized but unissued shares of common stock and preferred stock are available for future issuance without stockholder approval, subject to any limitations imposed by the listing standards of any exchange on which our shares are listed. These additional shares may be used for a variety of corporate finance transactions, acquisitions and employee benefit plans. The existence of authorized but unissued and unreserved common stock and preferred stock could make more difficult or discourage an attempt to obtain control of us by means of a proxy contest, tender offer, merger or otherwise.

## **Staggered Board**

Our by-laws divide our board of directors into three classes with staggered three year terms. In addition, our by-laws provide that directors may be removed only for cause. Under our by-laws, any vacancy on our board of directors, including a vacancy resulting from an enlargement of our board of directors, may be filled only by vote of a majority of our directors then in office. Furthermore, our by-laws provide that the authorized number of directors may be changed only by the resolution of our board of directors. The classification of our board of directors and the limitations on the ability of our stockholders to remove directors, change the authorized number of directors and fill vacancies could make it more difficult for a third party to acquire, or discourage a third party from seeking to acquire, control of our company.

## **Special Meeting of Stockholders; Advance Notice Requirements for Stockholder Proposals and Director Nominations; Stockholder Action**

Our certificate of incorporation and by-laws provide that, except as otherwise required by law, special meetings of the stockholders can only be called by our chairman of the board, our chief executive officer or our board of directors. In addition, our by-laws establish an advance notice procedure for stockholder proposals to be brought before an annual meeting of stockholders, including proposed nominations of candidates for election to our board of directors. Stockholders at an annual meeting may only consider proposals or nominations specified in the notice of the meeting or brought before the meeting by or at the direction of our board of directors, or by a stockholder of record on the record date for the meeting who is entitled to vote at the meeting and who has delivered timely written notice in proper form to our secretary of the stockholder's intention to bring such business before the meeting. These provisions could have the effect of delaying until the next stockholder meeting stockholder actions that are favored by the holders of a majority of our outstanding voting securities.

## **Forum in the Chancery Court for Certain Shareholder Lawsuits**

Under the provisions of our by-laws, unless we consent in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware will be the sole and exclusive forum for: (i) any derivative action or proceeding brought on behalf of us; (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers or other employees or agents to us or our stockholders; (iii) any action asserting a claim against us arising pursuant to any provision of the Delaware General Corporation Law or our amended certificate of incorporation or by-laws; or (iv) any action asserting a claim against us governed by the internal affairs doctrine. By becoming a stockholder in our company, you will be deemed to have notice of and have consented to the provisions of our bylaws related to choice of forum. The choice of forum provision in our bylaws may limit our stockholders' ability to obtain a favorable judicial forum for disputes with us.

## **Item 12. Indemnification of Directors and Officers.**

### ***Delaware Law***

Section 102 of the General Corporation Law of the State of Delaware permits a corporation to eliminate the personal liability of directors of a corporation to the corporation or its stockholders for monetary damages for a breach of fiduciary duty as a director, except where the director breached his duty of loyalty, failed to act in good faith, engaged in intentional misconduct or knowingly violated a law, authorized the payment of a dividend or approved a stock repurchase in violation of Delaware corporate law or obtained an improper personal benefit.

Section 145 of the General Corporation Law of the State of Delaware provides that a corporation has the power to indemnify a director, officer, employee, or agent of the corporation, or a person serving at the request of the corporation for another corporation, partnership, joint venture, trust or other enterprise in related capacities against expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred by the person in connection with an action, suit or proceeding to which he was or is a party or is threatened to be made a party to any threatened, ending or completed action, suit or proceeding by reason of such position, if such person acted in good faith and in a manner he reasonably believed to be in or not opposed to the best interests of the corporation, and, in any criminal action or proceeding, had no reasonable cause to believe his conduct was unlawful, except that, in the case of actions brought by or in the right of the corporation, no indemnification shall be made with respect to any claim, issue or matter as to which such person shall have been adjudged to be liable to the corporation unless and only to the extent that the Court of Chancery or other adjudicating court determines that, despite the adjudication of liability but in view of all of the circumstances of the case, such person is fairly and reasonably entitled to indemnity for such expenses which the Court of Chancery or such other court shall deem proper.

### *Amended Certificate of Incorporation*

Our certificate of incorporation provides that we are authorized to provide indemnification and advancement of expenses to our directors, officers or other agents to the fullest extent permitted by Delaware's General Corporation Law. Our certificate of incorporation limits the personal liability of directors for breach of fiduciary duty to the maximum extent permitted by the Delaware General Corporation Law and provides that no director will have personal liability to us or to our stockholders for monetary damages for breach of fiduciary duty or other duty as a director. However, these provisions do not eliminate or limit the liability of any of our directors for:

- for any breach of the director's duty of loyalty to us or our stockholders;
- for acts or omissions not in good faith or that involve intentional misconduct or a knowing violation of law;
- for voting for or assenting to unlawful payments of dividends, stock repurchases or other distributions; or
- for any transaction from which the director derived an improper personal benefit.

In addition, our certificate of incorporation provides that we will indemnify each person who was or is a party or threatened to be made a party to any threatened, pending or completed action, suit or proceeding, other than an action by or in the right of us, by reason of the fact that he or she is or was, or has agreed to become, a director or officer, or is or was serving, or has agreed to serve, at our request as a director, officer, partner, employee or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise (all such persons being referred to as an "Indemnitee"), or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses, including attorneys' fees, judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with such action, suit or proceeding and any appeal therefrom, if such Indemnitee acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, our best interests, and, with respect to any criminal action or proceeding, he or she had no reasonable cause to believe his or her conduct was unlawful.

Our certificate of incorporation also provides that we will indemnify any Indemnitee who was or is a party to an action or suit by or in the right of us to procure a judgment in our favor by reason of the fact that the Indemnitee is or was, or has agreed to become, a director or officer, or is or was serving, or has agreed to serve, at our request as a director, officer, partner, employee or trustee of, or in a similar capacity with, another corporation, partnership, joint venture, trust or other enterprise, or by reason of any action alleged to have been taken or omitted in such capacity, against all expenses, including attorneys' fees, and, to the extent permitted by law, amounts paid in settlement actually and reasonably incurred in connection with such action, suit or proceeding, and any appeal therefrom, if the Indemnitee acted in good faith and in a manner he or she reasonably believed to be in, or not opposed to, our best interests, except that no indemnification shall be made with respect to any claim, issue or matter as to which such person shall have been adjudged to be liable to us, unless a court determines that, despite such adjudication but in view of all of the circumstances, he or she is entitled to indemnification of such expenses. Notwithstanding the foregoing, to the extent that any Indemnitee has been successful, on the merits or otherwise, he or she will be indemnified by us against all expenses, including attorneys' fees, actually and reasonably incurred in connection therewith. Expenses must be advanced to an Indemnitee under certain circumstances.

### **Item 13. Financial Statements and Supplementary Data.**

The information required by this item may be found beginning on page F-1 of this Form 10.

### **Item 14. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

None.

### **Item 15. Financial Statements and Exhibits.**

(a) Financial Statements filed as part of this Form 10:

#### **Drone USA, Inc. and Subsidiaries December 31, 2016 and 2015 Unaudited Consolidated Financial Statements**

<a href="#">Consolidated Balance Sheets</a>	F-1
<a href="#">Consolidated Statements of Operations</a>	F-2
<a href="#">Consolidated Statements of Changes in Stockholders' Deficit</a>	F-3
<a href="#">Consolidated Statements of Cash Flows</a>	F-4
<a href="#">Notes to Consolidated Financial Statements</a>	F-5 - F-10

#### **Drone USA, Inc. and Subsidiaries September 30, 2016 and 2015 Audited Consolidated Financial Statements**

<a href="#">Report of Independent Registered Public Accounting Firm</a>	
<a href="#">Consolidated Balance Sheets</a>	F-2
<a href="#">Consolidated Statements of Operations</a>	F-3
<a href="#">Consolidated Statements of Changes in Stockholders' Deficit</a>	F-4
<a href="#">Consolidated Statements of Cash Flows</a>	F-5 - F-6
<a href="#">Notes to Consolidated Financial Statements</a>	F-7 - F-22

#### **Howco Distributing Co. September 9, 2016 and September 30, 2015 Audited Financial Statements**

<a href="#">Report of Independent Registered Public Accounting Firm</a>	
<a href="#">Balance Sheets</a>	F-2

<a href="#">Statements of Income and Retained Earnings</a>	F-3
<a href="#">Statements of Cash Flows</a>	F-4
<a href="#">Notes to Financial Statements</a>	F-5 - F-8

(b) Exhibits.

See the Exhibit Index attached hereto which is incorporated by reference.

DRONE USA, INC. AND SUBSIDIARIES  
*Consolidated Financial Statements*  
*December 31, 2016*

*(Unaudited)*

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DRONE USA, INC. AND SUBSIDIARIES

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DRONE USA, INC. AND SUBSIDIARIES

*Consolidated Balance Sheets*

	<i>December 31, 2016 (Unaudited)</i>	<i>September 30, 2016</i>
<b>ASSETS</b>		
<b><i>Current Assets</i></b>		
Cash	\$ 627,862	\$ 631,020
Accounts receivable	974,012	865,775
Inventory	304,489	1,391,439
Prepaid expenses and other current assets	144,547	92,047
	<u>2,050,910</u>	<u>2,980,281</u>
<b><i>Other Assets</i></b>		
Goodwill	2,410,335	2,410,335
Tradename	760,000	760,000
Customer list, net	979,028	1,045,278
	<u>4,149,363</u>	<u>4,215,613</u>
<b><i>Total Assets</i></b>	<b><u>\$ 6,200,273</u></b>	<b><u>\$ 7,195,894</u></b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b><i>Current Liabilities</i></b>		
Accounts payable	\$ 1,874,084	\$ 2,363,162
Accrued expenses	446,610	239,271
Income tax payable	100	50
Earnout payable	64,500	64,500
Customers deposits	1,593	78,841
Note payable - net of unamortized financing costs of \$737,633	1,893,538	1,062,661
Note payable - related party seller	900,000	900,000
Convertible line of credit - related party affiliate	698,444	692,126
Line of credit - bank	50,000	49,583
Settlement payable - vendor	-	75,382
Contingent liability - advisory fees	850,000	850,000
Deferred rent	14,667	16,667
	<u>6,793,536</u>	<u>6,392,243</u>
<b><i>Other Liabilities</i></b>		
Note payable - net of unamortized financing costs of \$153,672	715,157	1,361,624
Convertible note payable - related party	122,000	117,000
Earnout payable, net of current portion	64,500	64,500
	<u>901,657</u>	<u>1,543,124</u>
<b><i>Total Liabilities</i></b>	<b><u>7,695,193</u></b>	<b><u>7,935,367</u></b>
<b><i>Commitments and Contingencies (Note 10)</i></b>		
<b><i>Stockholders' Deficit</i></b>		
Preferred stock - \$0.0001 par value, 5,000,000 shares authorized, none issued and outstanding	-	-
Series A preferred stock - no par value, 250 shares designated,		

issued and outstanding	-	-
Common stock - \$0.0001 par value, 200,000,000 shares authorized, 42,294,692 and 36,702,116 shares issued and outstanding at December 31, 2016 and September 30, 2016, respectively	4,230	4,172
Additional paid-in capital	5,482,126	5,285,847
Accumulated deficit	(6,981,276)	(6,029,492)
<b>Total Stockholders' Deficit</b>	<b>(1,494,920)</b>	<b>(739,473)</b>
<b>Total Liabilities and Stockholders' Deficit</b>	<b>\$ 6,200,273</b>	<b>\$ 7,195,894</b>

See accompanying notes to unaudited consolidated financial statements.

DRONE USA, INC. AND SUBSIDIARIES

*Consolidated Statements of Operations (Unaudited)*

	<i>For the three months Ended December 31,</i>	
	<i>2016</i>	<i>2015</i>
<b>Revenues</b>	\$ 6,984,392	\$ -
<b>Cost of Goods Sold</b>	6,532,810	-
<b>Gross Profit</b>	451,582	-
<b>Selling, General, and Administrative Expenses</b>	967,476	249,693
<b>Amortization</b>	66,250	-
<b>Total Operating Expenses</b>	1,033,726	249,693
<b>Loss Before Other Expense</b>	(582,144)	(249,693)
<b>Other Expense</b>		
Interest and financing costs	369,590	2,332
<b>Net Loss before Provision for Income Tax</b>	(951,734)	(252,025)
<b>Provision for Income Tax</b>	50	-
<b>Net Loss</b>	\$ (951,784)	\$ (252,025)
<b>Basic and Diluted Loss Per Share</b>	(0.02)	(0.01)
<b>Weighted Average Number of Common Shares Outstanding - basic and diluted</b>	42,078,659	38,309,321

See accompanying notes to unaudited consolidated financial statements.

DRONE USA, INC. AND SUBSIDIARIES

*Consolidated Statements of Changes in Stockholders' Deficit (Unaudited)*

	<i>Series A Preferred Stock</i>		<i>Common Stock</i>		<i>Additional Paid-in Capital</i>	<i>Accumulated Deficit</i>	<i>Total Stockholders' Deficit</i>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>			
<b>Balance</b> - September 30, 2016	250	\$ -	41,719,492	\$ 4,172	\$ 5,285,847	\$ (6,029,492)	\$ (739,473)
Share-based compensation	-	-	-	-	63,455	-	63,455
Shares issued for settlement payable conversion	-	-	460,200	46	75,336	-	75,382
Shares issued for services	-	-	115,000	12	57,488	-	57,500
Net loss	-	-	-	-	-	(951,784)	(951,784)
<b>Balance</b> - December 31, 2016	<u>250</u>	<u>\$ -</u>	<u>42,294,692</u>	<u>\$ 4,230</u>	<u>\$ 5,482,126</u>	<u>\$ (6,981,276)</u>	<u>\$ (1,494,920)</u>

See accompanying notes to unaudited consolidated financial statements.

DRONE USA, INC. AND SUBSIDIARIES

*Consolidated Statements of Cash Flows (Unaudited)*

	<i>For the three months Ended December 31,</i>	
	<i>2016</i>	<i>2015</i>
<b><i>Cash Flows from Operating Activities</i></b>		
Net loss	\$ (951,784)	\$ (252,025)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Intangibles amortization	66,250	-
Amortization of debt discounts	184,410	-
Share-based compensation expense	120,955	-
Deferred rent	(2,000)	-
Changes in operating assets and liabilities:		
Accounts receivable	(108,237)	-
Inventory	1,086,950	-
Prepaid expenses and other current assets	(52,500)	-
Accounts payable and accrued expenses	(281,739)	(1,385)
Income tax payable	50	-
Costumers deposits	(77,248)	-
Cash Used in Operating Activities	(14,893)	(253,410)
<b><i>Cash Flows from Financing Activities</i></b>		
Proceeds from line of credit	417	-
Proceeds from lines of credit - related parties	6,318	-
Proceeds from loan payable - related party	5,000	253,410
Cash Provided by Financing Activities	11,735	253,410
<b><i>Net Decrease in Cash</i></b>	(3,158)	-
<b><i>Cash - beginning</i></b>	631,020	-
<b><i>Cash - end</i></b>	<u>\$ 627,862</u>	<u>\$ -</u>
<b><i>Supplemental Disclosures of Cash Flow Information</i></b>		
<i>Cash paid for:</i>		
Interest	<u>\$ 158,268</u>	<u>\$ -</u>
Income taxes	<u>\$ -</u>	<u>\$ -</u>
<i>Noncash financing and investing activities:</i>		
Issuance of common stock to satisfy settlement payable	<u>\$ 48,998</u>	<u>\$ -</u>
Reclassification of debt premium upon conversion	<u>\$ 26,384</u>	<u>\$ -</u>

See accompanying notes to unaudited consolidated financial statements.

## DRONE USA, INC. AND SUBSIDIARIES

### *Condensed Notes to Consolidated Financial Statements* *December 31, 2016 (Unaudited)*

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#### 1 - BASIS OF PRESENTATION

The accompanying consolidated financial statements of Drone USA, Inc. ("Drone") and its wholly owned subsidiaries, Drone USA, LLC and HowCo Distributing Co. ("HowCo") (collectively, the "Company,") have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the rules and regulations of the Securities and Exchange Commission for interim financial information. Accordingly certain information and footnote disclosures normally included in financial statements in accordance with GAAP have been omitted. In the opinion of management, all adjustments considered necessary for a fair presentation of financial condition, results of operations and cash flows for the periods presented have been included. All such adjustments are of a normal recurring nature. The results of any interim period are not necessarily indicative of results for any other interim period or the full fiscal year. Management believes that the disclosures included in the accompanying consolidated interim financial statements and footnotes are adequate to make the information not misleading, but should be read in conjunction with the consolidated financial statements and notes thereto for the years ended September 30, 2016 and 2015 included in the Company's Form 10.

#### 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GOING CONCERN

- Going Concern** - The accompanying consolidated financial statements have been prepared assuming the Company will
- a. continue as a going concern, which contemplates the recoverability of assets and the satisfaction of liabilities in the normal course of business.

For the three months ended December 31, 2016, the Company has incurred losses of approximately \$952,000 and used cash in operations of approximately \$15,000. The working capital deficit, stockholders' deficit and accumulated deficit was \$4,742,626, \$1,494,920, and \$6,981,276, respectively, at December 31, 2016. Furthermore, on April 13, 2017 the Company received a default notice on its payment obligations under the senior secured credit facility agreement (See Notes 4 and 12). These matters raise substantial doubt about the Company's ability to continue as a going concern for a period of twelve months from the issuance date of this report. The ability of the Company to continue as a going concern is dependent upon management's ability to further implement its business plan and raise additional capital as needed from the sales of stock or debt. The accompanying financial statements do not include any adjustments that might be required should the Company be unable to continue as a going concern.

- Use of Estimates** - The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the allowance for bad debt on accounts receivable, reserves on inventory, valuation of non-cash compensation paid in business combinations, fair values of assets acquired and liabilities assumed in business combinations, valuation of goodwill and intangible assets for impairment analysis, valuation of the earn-out liability at balance sheet dates, valuation of stock based compensation and the valuation allowance on deferred tax assets.
- b.

- Principles of Consolidation** - The accompanying consolidated financial statements include the accounts of Drone USA, Inc., Drone USA, LLC, and HowCo. All significant intercompany accounts and transactions have been eliminated in consolidation.
- c.

- Inventory** - Inventory consists of finished goods, which are purchased directly from manufacturers. The Company utilizes a just in time type of inventory system where products are ordered from the vendor only when the Company has received sales order from its customers. Inventory is stated at the lower of cost and net realizable value on a first-in, first-out basis.
- d.

- e. **Revenue Recognition** - Sales are recognized upon shipment of product to the customer. Provisions for returns and allowances are recorded in the period the sales occur. Payments received from customers prior to shipment of the product to them, are recorded as customer deposit liabilities.

- f. **Net (Loss) Per Share** - Basic loss per share is calculated by dividing the loss attributable to stockholders by the weighted-average number of shares outstanding for the period. Diluted loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that shared in the earnings (loss) of the Company. Diluted loss per share is computed by dividing the loss available to stockholders by the weighted average number of shares outstanding for the period and dilutive potential shares outstanding unless such dilutive potential shares would result in anti-dilution. As of December 31, 2016, 27,645,000 options were outstanding of which 24,000,000 were exercisable, 500,000 warrants were outstanding of which 500,000 were exercisable, and convertible debt totaling approximately \$820,444 was convertible into approximately 3,104,000 shares of common stock. As of December 31, 2015, there were no options or warrants outstanding.

- g. **Recent Accounting Pronouncements** - In March 2016, the Financial Accounting Standards Board ("FASB") issued an accounting standards update that will change how companies account for certain aspects of its share-based payments to employees. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. The Company has elected to early adopt. As a result, the Company will recognize share-based award forfeitures in the period they occur as a reversal of previously recognized compensation expense. The reduction in compensation expense will be determined based on the specific awards forfeited during that period. There were no forfeitures during the periods presented in the consolidated financial statements.

In May 2014, the FASB issued a new accounting standard that attempts to establish a uniform basis for recording revenue to virtually all industries financial statements, under U.S. GAAP as amended in March 2016 and April 2016. The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. In order to accomplish this objective, companies must evaluate the following five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. There are three basic transition methods that are available - full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. guidance at the date of initial application and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. Prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. guidance. For public business entities, this standard is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is prohibited. The Company is currently evaluating the impact of this new accounting standard on its consolidated financial position and results of operations.

In February 2016, the FASB issued a new accounting standard on leases. The new standard, among other changes, will require lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases. The lease liability will be measured at the present value of the lease payments over the lease term. The right-of-use asset will be measured at the lease liability amount, adjusted for lease prepayments, lease incentives received and the lessee's initial direct costs (e.g. commissions). The new standard is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods. The adoption will require a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest period presented. The Company is currently evaluating the impact of this new accounting standard on its consolidated financial position and results of operations.

The Company does not believe that any other recently issued but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying consolidated financial statements.

## DRONE USA, INC. AND SUBSIDIARIES

### *Condensed Notes to Consolidated Financial Statements* *December 31, 2016 (Unaudited)*

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#### 3 - INVENTORY

At December 31, 2016, inventory consists of finished goods and was valued at \$304,489.

#### 4 - CONVERTIBLE NOTES PAYABLE

The Company has an \$840,000 convertible note payable ("Note 1") to a related party entity controlled by the Company's CEO. Note 1 bears interest at an annual rate of 7% with a maturity date of June 11, 2017, at which time all unpaid principal and interest is due. The holder of Note 1 has the option to convert the outstanding principal and accrued interest, in whole or in part, into shares of common stock at a conversion price equal to the volume weighted average price per share of common stock for the 30-day period prior to conversion. As of December 31, 2016, Note 1 has not been converted and the balance of the note was \$698,444 and accrued interest was \$41,701. This note is considered a stock settled debt in accordance with ASU 480 and the fixed amount is equal to the principal amount based on the conversion formula.

The Company has a convertible note payable ("Note 2") with the Company's CEO. Note 2 bears interest at an annual rate of 7% with a maturity date of December 31, 2017, at which time all unpaid principal and interest is due. The holder of Note 2 has the option to convert the outstanding principal and accrued interest, in whole or in part, into shares of common stock at a conversion price equal to the volume weighted average price per share of common stock for the 30-day period prior to conversion. As of December 31, 2016, Note 2 has not been converted and the balance was \$122,000 and accrued interest was \$4,231. This note is considered a stock settled debt in accordance with ASU 480 and the fixed amount is equal to the principal amount based on the conversion formula.

Effective September 13, 2016, the Company entered into a senior secured credit facility agreement (the "Agreement") with an investment fund to provide capital for this acquisition. The Company can borrow up to \$6,500,000, with an initial loan at closing of \$3,500,000. The Agreement bears interest at a rate of 18%, requires monthly payments of \$52,500 which is interest only starting on October 13, 2016 through February 13, 2017, and monthly payments, including interest and principal, of \$298,341 starting on March 13, 2017 through maturity on March 13, 2018. Events of default are defined in the Agreement. In the event of default the note balance will bear interest at 25%. In connection with this Agreement, the Company was obligated to pay additional advisory fees of \$850,000 payable in the form of cash or common stock in accordance with the terms of the Agreement. The Company was also required to reserve 7,000,000 shares of common stock related to this transaction. The reserved shares will be released upon the satisfaction of the loan. In the event the lender makes additional loans under the Agreement, the Company agrees to pay additional advisory fees under similar terms as the \$850,000 fee. As of December 31, 2016, the Company issued 539,204 shares of common stock in satisfaction of the \$850,000 in accordance with the terms of the agreement. Based upon the value of the shares, at the time the lender sells the shares, the Company may be required to redeem unsold shares for the difference between the \$850,000 and the lender's sales proceeds. Accordingly the \$850,000 has been reflected as a current liability as of September 30, 2016 and December 31, 2016. Notwithstanding anything contained in the Agreement to the contrary, in the event the Lender has not realized net proceeds from the sale of Advisory Fee Shares equal to at least the Advisory Fee by the earlier to occur of: (A) the twelve (12) month anniversary of the Effective Date; (B) the occurrence of an Event of Default; or (C) the Maturity Date, then at any time thereafter, the Lender shall have the right, upon written notice to the Borrower, to require that the Borrower redeem all Advisory Fee Shares then in Lender's possession for cash equal to the Advisory Fee, less any cash proceeds received by the Lender from any previous sales of Advisory Fee Shares, if any. In the event such redemption notice is given by the Lender, the Borrower shall redeem the then remaining Advisory Fee Shares in Lender's possession for an amount of Dollars equal to the Advisory Fee, less any cash proceeds received by the Lender from any previous sales of Advisory Fee Shares, if any, payable by wire transfer to an account designated by Lender within five (5) Business Days from the date the Lender delivers such redemption notice to the Borrower. As of December 31, 2016, the note payable has not been converted and the balance of the note was \$3,500,000 and accrued interest was \$31,500. The Agreement is only convertible upon default or mutual agreement by both parties. Once a default occurs the note will be accounted for as stock settled debt at its fixed monetary value and any shares issued upon conversion are also subject to a make whole provision similar to that described above for the \$850,000. (See Note 12)



## DRONE USA, INC. AND SUBSIDIARIES

### *Condensed Notes to Consolidated Financial Statements* *December 31, 2016 (Unaudited)*

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#### 5 - DEFINED CONTRIBUTION PLAN

In August 2016, the Company established a qualified 401(k) plan with a discretionary employer matching provision. All employees who are at least twenty-one years of age and no minimum service requirement are eligible to participate in the plan. The plan allows participants to defer up to 90% of their annual compensation, up to statutory limits. Accrued employer contribution charged to operations for the quarter ended December 31, 2016 was \$9,230.

The Company's subsidiary, HowCo, is the sponsor of a qualified 401(k) plan with a safe harbor provision. All employees are eligible to enter the plan within one year of the commencement of employment. Accrued retirement expense for the period ended December 31, 2016 was \$3,750.

#### 6 - RELATED PARTY TRANSACTIONS

On October 1, 2016, the Company entered into employment agreements with two of its officers. The employment agreement with the company's President and CEO provides for annual base compensation of \$370,000 for a period of three years, which can, at the Company's election, be paid in cash or Common Stock or deferred if insufficient cash is available, and provides for other benefits, including a discretionary bonus and equity a provision for the equivalent of 12 months' base salary, and an additional one-time severance payment of \$2,500,000 upon termination under certain circumstances, as defined in the agreement. The employment agreement with the company's Treasurer and CFO provides for annual base compensation of \$250,000 for a period of three years, which can, at the Company's election, be paid in cash or Company Common Stock or deferred if insufficient cash is available, and provides for other benefits, including a discretionary bonus and equity a provision for the equivalent of 12 months' base salary and an additional one-time severance payment of \$1,500,000 upon termination under certain circumstances, as defined in the agreement.

#### 7 - COMMON STOCK

As of December 31, 2016, the Company is authorized to issue 200,000,000 shares of \$0.0001 par value common stock, of which 42,294,692 shares have been issued.

In October 2016, the Company issued 115,000 shares of common stock to an entity as payment for acquisition-related services valued at \$57,500.

In October through November 2016, the Company issued 460,200 common shares upon conversion of the remaining settlement payable - vendor of \$48,998 and the remaining premium of \$26,384 was reclassified to equity.

#### 8 - PREFERRED STOCK

As of December 31, 2016, the Company has designated 250 shares of \$0.0001 par value Series A preferred stock, of which 250 shares have been issued. These preferred shares have voting rights per share equal to the total number of issued and outstanding shares of common stock divided by 0.99.

As of December 31, 2016, the Company is authorized to issue 5,000,000 shares of \$.0001 par value preferred stock, with designations, voting, and other rights and preferences to be determined by the Board of Directors of which 4,999,750 remain available for designation and issuance.

DRONE USA, INC. AND SUBSIDIARIES

*Condensed Notes to Consolidated Financial Statements*  
*December 31, 2016 (Unaudited)*

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9 - SHARE BASED PAYMENTS

The Company established its 2016 Stock Incentive Plan (the "Plan") that permits the granting of incentive stock options and other common stock awards. The maximum number of shares available under the Plan is 100,000,000 shares. The Plan is open to all employees, officers, directors, and non-employees of the Company.

The Company recorded \$63,455 of compensation expense for the quarter ended December 31, 2016 related to its stock options. Total unrecognized compensation expense related to unvested stock options at December 31, 2016 amounted to \$637,046.

As of December 31, 2016, 24,000,000 of the 27,645,000 outstanding stock options were exercisable.

In November 2016, the Company granted options to purchase 595,000 and 250,000 shares of its common stock at an exercise price of \$0.20 per share with vesting terms ranging from 2 to 5 years valued at \$119,000 and \$50,000 at grant date, to employees and certain consultants, respectively. The options were valued using a Black-Scholes option pricing model with the following assumptions; risk-free interest rate of 1.46%, expected dividend yield of 0%, expected option term of 5 years for the shares that vested immediately and 5.75 to 6.5 years for those with vesting terms using the simplified method and expected volatility of 841%.

10 - COMMITMENTS AND CONTINGENCIES

LEGAL MATTERS

In connection with the merger with Texas Wyoming Drilling, Inc., a vendor has a claim for unpaid bills of approximately \$75,000 against the company. The Company and its legal counsel believe the Company is indemnified by Texas Wyoming Drilling, Inc. for the claim pursuant to its indemnification clause in the merger agreement.

11 - CONCENTRATIONS

ECONOMIC CONCENTRATIONS

With respect to customer concentration, two customers accounted for approximately 69% and 12% of total sales for the three months ended December 31, 2016.

With respect to accounts receivable concentration, one customer accounted for approximately 74% of total accounts receivable at December 31, 2016.

With respect to supplier concentration, two suppliers accounted for approximately 52% and 12% of total purchases for the three months ended December 31, 2016.

With respect to accounts payable concentration, two suppliers accounted for approximately 63% and 15% of total accounts payable at December 31, 2016.

With respect to foreign sales, it totaled approximately \$180,000 for the period ended December 31, 2016.

12 - SUBSEQUENT EVENTS

Subsequent to December 31, 2016, the Company granted options to purchase 13,971,200 and 10,235,000 shares of its common stock at an exercise price ranging from \$0.20 to \$0.24 per share to certain employees and consultants, respectively. The aggregate grant date fair value of the options was \$2,876,040 and \$2,292,790 for employees and consultants, respectively. The options were valued using a Black-Scholes option pricing model with the following assumptions; risk-free interest rate of 1.46%, expected dividend yield of 0%, expected option life of 5 years for the shares that vested immediately and 5.75 to 6.5 years for those with vesting terms using the simplified method and expected volatility of 841%. In addition, upon mutual agreement between management and one of the board members who resigned in March 2017, options to purchase 1,000,000 shares of common stock were canceled.

Subsequent to December 31, 2016, the Company entered into an agreement with a manufacturer in Pismo Beach, California. The agreement provides for certain services to be provided by the manufacturer as needed by the Company. The agreement has an initial term of three years with one year renewals. In connection with this agreement, the Company has agreed to sublease space based in San Luis Obispo, California from the manufacturer for the purposes of the development and manufacturing of unmanned aerial vehicles. The lease provides for base monthly rent of approximately \$15,000 for the initial term to be increased to \$16,500 per month upon extension. The lease term begins February 1, 2017 and expires January 31, 2019 with the option to extend the term an additional 24 months.

Effective February 17, 2017, the Company entered into an agreement with a company to receive consulting services, for a period of six months from the effective date. In connection with the agreement, the Company agreed to issue 400,000 vested shares of common stock on February 17, 2017 for a payment of \$200, and to pay consulting fees of \$10,000 per month. As there is no defined term of the agreement and the shares fee is considered contractually earned upon the execution of the agreement, the shares were valued on the February 17, 2017 measurement date at \$0.23 per share or a total of \$92,000 based on the quoted trading price which will be recognized over the 6 month service period.

On January 7, 2017, the Company entered into an agreement with a company to receive advisory services for a fee of \$22,500 payable over three months. In addition, at the Company's option, this company could, on an exclusive basis, act as the placement agent or underwriter for the Company in connection with a proposed institutional financing transaction.

On February 13, 2017, the Company entered into an agreement with a company to receive due diligence services for an initial term of 180 days from February 17, 2017. Total fees for these services are \$50,000, with \$15,000 payable upon signing and the remaining \$35,000 payable on May 10, 2017.

Subsequent to February 13, 2017, the Company defaulted on the monthly principal and interest payment of \$298,341, to a senior secured credit facility agreement, in March and April of 2017 (see Note 4). On April 13, 2017 we received a default notice from the lender and given a 10-day period to cure the default. The note became convertible upon expiration of the default cure period as the default was not cured. The Company is currently in discussion with the lender to restructure the debt.

On March 28, 2017, the Company entered into an agreement with the senior secured credit facility lender to receive a range of advisory services for a total of \$1,200,000 with no definitive term or length of service. If the Company is a quoted company on any listed exchange, the senior secured credit facility lender will accept a single preferred share convertible into common stock never to exceed 4.99%. The number of shares issued will be set at 100% of the amount due up to availability and subject to a make whole provision.

Subsequent to December 31, 2016, the Company received verbal and written demands for non-payment of three months of rent for its New York and California locations, non-payment of past due credit card balances and non-payment of past due amounts for services rendered by a consultant.



DRONE USA, INC. AND SUBSIDIARIES  
*Consolidated Financial Statements*  
*September 30, 2016 and 2015*

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DRONE USA, INC. AND SUBSIDIARIES

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**SALBERG & COMPANY, P.A.**  
Certified Public Accountants and Consultants

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of  
Drone USA, Inc.

We have audited the accompanying consolidated balance sheets of Drone USA, Inc. and Subsidiaries at September 30, 2016 and 2015, and the related consolidated statements of operations, changes in stockholders' deficit, and cash flows for the year ended September 30, 2016 and for the period from July 20, 2015 (inception) to September 30, 2015. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Drone USA, Inc. and Subsidiaries as of September 30, 2016 and 2015, and the consolidated results of its operations and its cash flows for the year ended September 30, 2016 and for the period from July 20, 2015 (inception) to September 30, 2015 in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 2 to the consolidated financial statements, the Company has a net loss and cash used in operating activities of \$5,950,441 and \$1,059,058 in 2016 and has a working capital deficit, stockholders' deficit and accumulated deficit of \$3,411,962, \$739,473 and \$6,029,492 respectively, at September 30, 2016. Furthermore, on April 13, 2017 the Company received a default notice on its payment obligations under the senior secured credit facility agreement. These matters raise substantial doubt about the Company's ability to continue as a going concern. Management's Plan in regards to these matters is also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Salberg & Company, P.A.

SALBERG & COMPANY, P.A.  
Boca Raton, Florida  
May 8, 2017

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DRONE USA, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

	September 30,	
	2016	2015
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	\$ 631,020	\$ -
Accounts receivable	865,775	-
Inventory	1,391,439	-
Prepaid expenses and other current assets	92,047	-
	<u>2,980,281</u>	<u>-</u>
<b>Other Assets</b>		
Goodwill	2,410,335	-
Tradenname	760,000	-
Customer list - net	1,045,278	-
	<u>4,215,613</u>	<u>-</u>
<b>Total Assets</b>	<u>\$ 7,195,894</u>	<u>\$ -</u>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
<b>Current Liabilities</b>		
Accounts payable	2,363,162	\$ -
Accrued liabilities	239,271	1,385
Income tax payable	50	-
Earnout payable	64,500	-
Customers deposits	78,841	-
Note payable - net of unamortized financing costs of \$737,633	1,062,661	-
Note payable - related party seller	900,000	-
Convertible line of credit - related party affiliate	692,126	77,666
Line of credit - bank	49,583	-
Settlement payable - vendor	75,382	-
Contingent liability - advisory fees	850,000	-
Deferred rent	16,667	-
	<u>6,392,243</u>	<u>79,051</u>
<b>Other Liabilities</b>		
Note payable - net of unamortized financing costs of \$338,082	1,361,624	-
Convertible note payable - related party	117,000	-
Earnout payable, net of current portion	64,500	-
	<u>1,543,124</u>	<u>-</u>
<b>Total Liabilities</b>	<u>7,935,367</u>	<u>79,051</u>
<b>Commitments and Contingencies (Note 18)</b>		
<b>Stockholders' Deficit</b>		
Preferred stock, \$.0001 par value, 5,000,000 shares authorized Series A preferred stock - 250 shares designated, issued and outstanding	-	-
Common stock - \$.0001 par value, 200,000,000 shares authorized, 41,719,492 and 38,309,321 shares issued and outstanding at September 30, 2016 and 2015, respectively	4,172	3,831
Additional paid-in capital	5,285,847	(3,831)
Accumulated deficit	<u>(6,029,492)</u>	<u>(79,051)</u>

<b><i>Total Stockholders' Deficit</i></b>	<b><u>(739,473)</u></b>	<b><u>(79,051)</u></b>
<b><i>Total Liabilities and Stockholders' Deficit</i></b>	<b><u>\$ 7,195,894</u></b>	<b><u>\$ -</u></b>

*See accompanying notes to consolidated financial statements.*

DRONE USA, INC. AND SUBSIDIARIES

Consolidated Statements of Operations

	For the Year Ended September 30, 2016	For the Period July 20, 2015 (Inception) Through September 30, 2015
<b>Revenues</b>	\$ 1,119,748	\$ -
<b>Cost of Goods Sold</b>	1,074,673	-
<b>Gross Profit</b>	45,075	-
<b>Selling, General, and Administrative Expenses</b>	6,290,913	77,666
<b>Amortization</b>	14,722	-
<b>Total Operating Expenses</b>	6,305,635	77,666
<b>Loss Before Other Expense</b>	(6,260,560)	(77,666)
<b>Other Expense</b>		
Interest and financing costs	150,401	1,385
<b>Net Loss Before Provision for Income Tax</b>	(6,410,961)	(79,051)
<b>Income Tax Benefit</b>	(460,520)	-
<b>Net Loss</b>	\$ (5,950,441)	\$ (79,051)
<b>Basic and Diluted Loss Per Share</b>	(0.15)	(0.00)
<b>Weighted Average Number of Common Shares Outstanding</b> - basic and diluted	40,073,391	38,309,321

See accompanying notes to consolidated financial statements.

DRONE USA, INC. AND SUBSIDIARIES

*Consolidated Statements of Changes in Stockholders' Deficit*

	<i>Series A</i> <i>Preferred Stock</i>		<i>Common Stock</i>		<i>Additional</i> <i>Paid-in</i>	<i>Accumulated</i>	<i>Total</i> <i>Stockholders'</i>
	<i>Shares</i>	<i>Amount</i>	<i>Shares</i>	<i>Amount</i>	<i>Capital</i>	<i>Deficit</i>	<i>Deficit</i>
<b>Balance</b> - July 20, 2015 (Inception)	250	\$ -	38,309,321	\$ 3,831	\$ (3,831)	\$ -	\$ -
Net loss	-	-	-	-	-	(79,051)	(79,051)
<b>Balance</b> - September 30, 2015	250	-	38,309,321	3,831	(3,831)	(79,051)	(79,051)
Deemed issuance of common stock for recapitalization	-	-	2,532,196	253	(253)	-	-
Share-based compensation	-	-	-	-	4,897,499	-	4,897,499
Shares issued for settlement payable conversion	-	-	57,000	6	81,694	-	81,700
Shares issued for services	-	-	11,500	1	30,819	-	30,820
Shares for services subject to make whole provision	-	-	539,204	54	(54)	-	-
Sale of common stock	-	-	270,271	27	99,973	-	100,000
Warrants issued for acquisition	-	-	-	-	180,000	-	180,000
Net loss	-	-	-	-	-	(5,950,441)	(5,950,441)
<b>Balance</b> - September 30, 2016	250	\$ -	41,719,492	\$ 4,172	\$ 5,285,847	\$ (6,029,492)	\$ (739,473)

*See accompanying notes to consolidated financial statements.*

	<i>For the Year Ended September 30, 2016</i>	<i>For the Period July 20, 2015 (Inception) Through September 30, 2015</i>
<b>Cash Flows from Operating Activities</b>		
Net loss	\$ (5,950,441)	\$ (79,051)
Adjustments to reconcile net loss to net cash (used in) operating activities:		
Intangibles amortization	14,722	-
Amortization of debt discounts	30,735	-
Accretion of premium to interest expense	54,979	-
Share-based compensation expense	4,928,319	-
Income tax benefit	(460,570)	-
Deferred rent	16,667	-
Changes in operating assets and liabilities:		
Accounts receivable	(85,656)	-
Inventory	(827,353)	-
Prepaid expenses and other assets	(91,000)	-
Accounts payable and accrued expenses	1,310,490	1,385
Income tax payable	50	-
<b>Cash Used in Operating Activities</b>	<u>(1,059,058)</u>	<u>(77,666)</u>
<b>Cash Flows from Investing Activities</b>		
Cash acquired in acquisition	165,485	-
Acquisition of subsidiary	<u>(2,600,000)</u>	<u>-</u>
<b>Cash Used in Investing Activities</b>	<u>(2,434,515)</u>	<u>-</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from note payable - acquisition	3,500,000	-
Cash financing costs	(256,450)	-
Proceeds from issuance of common stock	100,000	-
Net proceeds from line of credit - bank	49,583	-
Proceeds from line of credit - related parties	751,460	77,666
Repayment of line of credit - related parties	<u>(20,000)</u>	<u>-</u>
<b>Cash Provided by Financing Activities</b>	<u>4,124,593</u>	<u>77,666</u>
<b>Net Increase in Cash</b>	631,020	-
<b>Cash - beginning of period</b>	<u>-</u>	<u>-</u>
<b>Cash - end of period</b>	<u><u>\$ 631,020</u></u>	<u><u>\$ -</u></u>

See accompanying notes to consolidated financial statements.



	<i>For the Year Ended September 30, 2016</i>	<i>For the Period July 20, 2015 (Inception) Through September 30, 2015</i>
<b>Supplemental Disclosures of Cash Flow Information</b>		
<i>Cash paid for:</i>		
Interest	\$ 1,240	\$ -
Income taxes	\$ -	\$ -
<i>Noncash financing and investing activities:</i>		
Issuance of note payable for acquisition of subsidiary	\$ 900,000	\$ -
Issuance of settlement payable to satisfy accounts payable	\$ 102,103	\$ -
Issuance of common stock upon conversion of settlement payable	\$ 81,700	\$ -
Issuance of warrants for acquisition	\$ 180,000	\$ -
Earn-out liability recorded for acquisition	\$ 129,000	\$ -
Issuance of common stock for deferred financing costs	\$ 850,000	\$ -

See accompanying notes to consolidated financial statements.

## DRONE USA, INC. AND SUBSIDIARIES

### *Notes to Consolidated Financial Statements* *September 30, 2016 and 2015*

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#### 1 - NATURE OF OPERATIONS

Headquartered in New York, New York, Drone USA, Inc. ("Drone") is an Unmanned Aerial Vehicles ("UAV") and related services and technologies company that intends to engage in the research, design, development, testing, manufacturing, distribution, exportation, and integration of advanced low altitude UAV systems, services and products. Drone also provides procurement, distribution, and logistics services through its wholly-owned subsidiary, HowCo Distributing Co., ("HowCo") (collectively, the "Company") to the United States Department of Defense and Defense Logistics Agency. The Company has operations based in New York, New York and Vancouver, Washington. The Company is registered with the U.S. State Department and has met the requirements of the Arms Export Control Act and International Traffic in Arms Regulations ("ITAR"). The registration allows for the company to apply for export, and temporary import, of product, technical data, and services related to defense articles. The Company continues to seek strategic acquisitions and partnerships with UAV firms that offer superior technologies in high-growth markets, as well as acquisitions and partnerships with firms that have complementary technologies and infrastructure.

On January 26, 2016, Texas Wyoming Drilling, Inc., an inactive company trading on the Over-the-Counter Markets, acquired 100% of the outstanding membership interests of Drone USA, LLC pursuant to an Equity Exchange Agreement and Drone USA, LLC paid a \$100,000 cash fee which was expensed and included in Selling, General and Administrative expenses. Pursuant to the merger, the sole member of Drone USA, LLC received 38,309,321 shares of Texas Wyoming Drilling, Inc. common stock. As a result of this merger, the former sole member of Drone USA, LLC owned approximately 94% of the outstanding common stock of Texas Wyoming Drilling, Inc. immediately following the merger. In connection with the merger, the name of the company was changed to Drone USA, Inc. In connection with the merger, effective January 26, 2016, the Company accepted the resignation of the former Chief Executive Officer and any remaining former officers and directors, and appointed a new Chief Executive Officer, President, Chairman, and board member and a new Chief Financial Officer, Secretary, Treasurer, and board member. The transaction has been accounted for as a reverse merger in which Drone USA, LLC is considered to be the acquirer of Texas Wyoming Drilling, Inc. Accordingly, the reverse merger was accounted for as a recapitalization of Drone USA, LLC in which (i) the assets and liabilities of Drone USA, LLC were recorded at their historical book values, (ii) the common stock and additional paid-in capital accounts which replaced Drone USA, LLC's member interests were retroactively restated to give effect to the exchange of the Drone USA, LLC member interests for Texas Wyoming Drilling, Inc. common stock, and (iii) the historical member deficit of Drone USA, LLC was recorded as stockholders' (deficiency). There were no assets, liabilities, or equity to be accounted for related to the former operations of Texas Wyoming Drilling, Inc. In connection with the merger, Drone USA, Inc. is deemed to have issued 2,532,196 shares of common stock to the shareholders of Texas Wyoming Drilling, Inc. In February 2016 the Company effected a 1 for 150 reverse split of the common stock as contemplated by the Equity Exchange Agreement and in April 2016 effected a 1 for 12 reverse split of the common stock. All share and per share information in the accompanying consolidated financial statements and footnotes has been retroactive restated to reflect both reverse splits.

#### 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND GOING CONCERN

- Going Concern** - The accompanying consolidated financial statements have been prepared assuming the Company will
- a. continue as a going concern, which contemplates the recoverability of assets and the satisfaction of liabilities in the normal course of business.

*Continued*

## DRONE USA, INC. AND SUBSIDIARIES

### *Notes to Consolidated Financial Statements* *September 30, 2016 and 2015*

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For the year ended September 30, 2016, the Company has incurred losses of approximately \$5,950,000 and used cash in operations of approximately \$1,059,000. The working capital deficit, stockholders' deficit and accumulated deficit was \$3,411,962, \$739,473, and \$6,029,492 at September 30, 2016. Furthermore, on April 13, 2017 the Company received a default notice on its payment obligations under the senior secured credit facility agreement (See Notes 10 and 20). These matters raise substantial doubt about the Company's ability to continue as a going concern for a period of twelve months from the issuance date of this report. The ability of the Company to continue as a going concern is dependent upon management's ability to further implement its business plan and raise additional capital as needed from the sales of stock or debt. The accompanying financial statements do not include any adjustments that might be required should the Company be unable to continue as a going concern.

- b. **Use of Estimates** - The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the allowance for bad debt on accounts receivable, reserves on inventory, valuation of non-cash compensation paid in business combinations, fair values of assets acquired and liabilities assumed in business combinations, valuation of goodwill and intangible assets for impairment analysis, valuation of the earn-out liability at balance sheet dates, valuation of stock based compensation and the valuation allowance on deferred tax assets.

- c. **Principles of Consolidation** - The accompanying consolidated financial statements for the year ended September 30, 2016 and the period July 20, 2015 (inception) through September 30, 2015 include the accounts of Drone USA, Inc., Drone USA, LLC and HowCo. All significant intercompany accounts and transactions have been eliminated in consolidation.

- d. **Cash and Cash Equivalents** - Cash equivalents consist of liquid investments with maturities of three months or less at the time of purchase. There are no cash equivalents at the balance sheet date.

- e. **Accounts Receivable** - Trade receivables are recorded at net realizable value consisting of the carrying amount less the allowance for doubtful accounts, as needed. Factors used to establish an allowance include the credit quality of the customer and whether the balance is significant. The Company may also use the direct write-off method to account for uncollectible accounts that are not received. Using the direct write-off method, trade receivable balances are written off to bad debt expense when an account balance is deemed to be uncollectible.

- f. **Inventory** - Inventory consists of finished goods, which are purchased directly from manufacturers. The Company utilizes a just in time type of inventory system where products are ordered from the vendor only when the Company has received sales order from its customers. Inventory is stated at the lower of cost and net realizable value on a first-in, first-out basis.

- g. **Property and Equipment** - Property and equipment is stated at cost, less accumulated depreciation and amortization. Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of the assets, which range from 3 to 7 years. Upon disposition of assets, the related cost and accumulated depreciation and amortization is eliminated, and any gain or loss is included in the statement of operations. Expenditures for major improvements are capitalized. Maintenance and repairs are expensed as incurred.

- h. **Goodwill and Intangible Assets** - The Company's goodwill and tradename assets are deemed to have indefinite lives and, accordingly, are not amortized, but are evaluated for impairment at least annually, but more often whenever changes in facts and circumstances occur which may indicate that the carrying value may not be recoverable. The customer list was deemed to have a life of 4 years and will be amortized through September 2020.

- i. **Long-Lived Assets** - Long-lived assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Impairment is measured by comparing the carrying value of the long-lived assets to the estimated undiscounted future cash flows expected to result from use of the assets and their ultimate disposition.

In instances where impairment is determined to exist, the Company writes down the asset to its fair value based on the present value of estimated future cash flows.

*Continued*

- j. **Fair Value Measurements** - The Company follows the FASB *Fair Value Measurements* standard, as they apply to its financial instruments. This standard defines fair value, outlines a framework for measuring fair value, and details the required disclosures about fair value measurements.

Fair value is defined as the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. The standard establishes a hierarchy in determining the fair value of an asset or liability. The fair value hierarchy has three levels of inputs, both observable and unobservable. Level 1 inputs include quoted market prices for identical assets or liabilities in an active market that the Company has the ability to access at the measurement date. Level 2 inputs are market data, other than Level 1, that are observable either directly or indirectly. Level 2 inputs include quoted market prices for similar assets or liabilities, quoted market prices in an inactive market, and other observable information that can be corroborated by market data. Level 3 inputs are unobservable and corroborated by little or no market data. The standard requires the utilization of the lowest possible level of input to determine fair value.

- k. **Deferred Financing Costs** - All unamortized deferred financing costs related to the Company's borrowings are presented in the consolidated balance sheets as a direct deduction from the related debt rather than as an asset. Amortization of these costs is reported as *interest and financing costs*.

- l. **Deferred Rent** - The Company leases office space in New York City whose operating lease agreements contain provisions for future rent increases, or periods in which rent payments are reduced (abated). In accordance with GAAP, the Company records monthly rent expense equal to the total of the payments due over the lease term, divided by the number of months of the lease term. The difference between rent expense recorded and the amount paid is credited or charged to *deferred rent*, which is reflected as a separate line item on the accompanying consolidated balance sheets.

- m. **Revenue Recognition** - Sales are recognized upon shipment of product to the customer. Provisions for returns and allowances are recorded in the period the sales occur. Payments received from customers prior to shipment of the product to them, are recorded as customer deposit liabilities.

- n. **Stock-Based Compensation** - The cost of all share-based payments to employees, including grants of restricted stock and stock options, is recognized in the financial statements based on their fair values measured at the grant date, or the date of any later modification, over the requisite service period. The cost of all share-based payments to non-employees, including grants of restricted stock and stock options, is recognized in the financial statements based on their fair values at each reporting date until measurement date occurs, over the requisite service period. The Company recognizes compensation cost for unvested stock awards on a straight-line basis over the requisite vesting period.

- o. **Shipping and Handling Costs** - The Company has included freight-out as a component of cost of sales, which amounted to \$13,159 and \$0 for the periods ended September 9, 2016 and September 30, 2015, respectively.

- p. **Income Taxes** - The Company's current provision for income taxes is based upon its estimated taxable income in each of the jurisdictions in which it operates, after considering the impact on taxable income of temporary differences resulting from different treatment of items for tax and financial reporting purposes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and any operating loss or tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the year in which those temporary differences are expected to be recovered or settled. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income in those periods in which temporary differences become deductible. Should management determine that it is more likely than not that some portion of the deferred tax assets will not be realized, a valuation allowance against the deferred tax assets would be established in the period such determination was made.

Continued



The Company follows the accounting for uncertainty in income taxes guidance, which clarifies the accounting and disclosures for uncertainty in income taxes recognized in the Company's financial statements and prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition and measurement of a tax position taken or expected to be taken in a tax return.

The Company currently has no federal or state tax examinations in progress. As of September 30, 2016, the Company's tax returns for the tax years 2016 and 2015 remain subject to audit, primarily by the Internal Revenue Service.

The Company did not have material unrecognized tax benefits as of September 30, 2016 and 2015 and does not expect this to change significantly over the next 12 months. The Company will recognize interest and penalties accrued on any unrecognized tax benefits as a component of provision for income taxes.

q. **Net (Loss) Per Share** - Basic loss per share is calculated by dividing the loss attributable to stockholders by the weighted-average number of shares outstanding for the period. Diluted loss per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that shared in the earnings (loss) of the Company. Diluted loss per share is computed by dividing the loss available to stockholders by the weighted average number of shares outstanding for the period and dilutive potential shares outstanding unless such dilutive potential shares would result in anti-dilution. The assumed exercise of common stock equivalents was not utilized for the year ended September 30, 2016 and the period July 20, 2015 through September 30, 2015, since the effect would have been anti-dilutive. As of September 30, 2016, 26,800,000 options were outstanding of which 24,000,000 were exercisable, 500,000 warrants were outstanding of which 500,000 were exercisable, and convertible debt totaling approximately \$809,127 was convertible into approximately 479,551 shares of common stock and \$48,998 of vendor settlement payable converted into 460,200 common shares. As of September 30, 2015, there were no options outstanding.

r. **Recent Accounting Pronouncements** - In March 2016, the Financial Accounting Standards Board ("FASB") issued an accounting standards update that will change how companies account for certain aspects of its share-based payments to employees. For public business entities, the amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. The Company has elected to early adopt. As a result, the Company will recognize share-based award forfeitures in the period they occur as a reversal of previously recognized compensation expense. The reduction in compensation expense will be determined based on the specific awards forfeited during that period. There were no forfeitures during the periods presented in the consolidated financial statements.

In May 2014, the FASB issued a new accounting standard that attempts to establish a uniform basis for recording revenue to virtually all industries financial statements, under U.S. GAAP as amended in March 2016 and April 2016. The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. In order to accomplish this objective, companies must evaluate the following five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognize revenue when (or as) the entity satisfies a performance obligation. There are three basic transition methods that are available – full retrospective, retrospective with certain practical expedients, and a cumulative effect approach. Under the third alternative, an entity would apply the new revenue standard only to contracts that are incomplete under legacy U.S. guidance at the date of initial application and recognize the cumulative effect of the new standard as an adjustment to the opening balance of retained earnings. Prior years would not be restated and additional disclosures would be required to enable users of the financial statements to understand the impact of adopting the new standard in the current year compared to prior years that are presented under legacy U.S. guidance. For public business entities, this standard is effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early

adoption is prohibited. The Company is currently evaluating the impact of this new accounting standard on its consolidated financial position and results of operations.

In February 2016, the FASB issued a new accounting standard on leases. The new standard, among other changes, will require lessees to recognize a right-of-use asset and a lease liability on the balance sheet for all leases. The lease liability will be measured at the present value of the lease payments over the lease term. The right-of-use asset will be measured at the lease liability amount, adjusted for lease prepayments, lease incentives received and the lessee's initial direct costs (e.g. commissions). The new standard is effective for annual reporting periods beginning after December 15, 2018, including interim reporting periods within those annual reporting periods. The adoption will require a modified retrospective approach for leases that exist or are entered into after the beginning of the earliest period presented. The Company is currently evaluating the impact of this new accounting standard on its consolidated financial position and results of operations.

*Continued*

DRONE USA, INC. AND SUBSIDIARIES

*Notes to Consolidated Financial Statements*  
*September 30, 2016 and 2015*

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The Company does not believe that any other recently issued but not yet effective accounting pronouncements, if adopted, would have a material effect on the accompanying consolidated financial statements.

3 - ACCOUNTS RECEIVABLE

The Company's accounts receivable at September 30, 2016 is as follow:

	<i>September 30,</i> <i>2016</i>
Accounts receivable	\$ 865,775
Reserve for doubtful accounts	-
	<u>\$ 865,775</u>

4 - INVENTORY

At September 30, 2016, inventory consists primarily of finished goods and was valued at \$1,391,439.

5 - ACQUISITION OF SUBSIDIARY

On September 9, 2016, the Company purchased HowCo a Washington-based entity with customers in the U.S. federal government and Department of Defense. The Company acquired all outstanding shares of stock of this entity. In exchange for these shares, the Company paid \$2,600,000 in cash and issued a note payable in the amount of \$900,000, bearing interest of 5.5%, with a maturity date of August 26, 2017. In addition to the payment in the form of cash and notes, warrants for 500,000 shares of common stock and additional contingent earn-out payments, with an estimated fair value of \$129,000, are also required. The warrants were granted with an exercise price of \$0.01 per share, vested immediately, and have a five year term. Assumptions related to the estimated fair value of these warrants on their date of grant, which the Company estimated using the Black-Scholes option pricing model, are as follows: risk-free interest rate of approximately 1.22%; expected divided yield of 0%; expected option life of 2.5 years; and expected volatility of approximately 841%. The aggregate grant date fair value of the warrants amounted to \$180,000.

The expected benefits from the purchase of HowCo include immediate revenues and cash flows to the Company. In addition, HowCo's relationship with the United States Department of Defense and Defense Logistics Agency will help Drone achieve its goal of selling its products to the United States governmental agencies. HowCo may also serve as a supply chain for our future California factory.

*Continued*

DRONE USA, INC. AND SUBSIDIARIES

*Notes to Consolidated Financial Statements*  
*September 30, 2016 and 2015*

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The purchase price exceeded the fair value of net assets acquired by \$3,769,765. The Company allocated \$1,060,000 to the customer list which will be amortized over a 48 month period. The balance was allocated to goodwill and tradename. The results of operations of HowCo are included in the consolidated results of operations of the Company from the effective date of September 10, 2016. For the period from the effective date of September 10, 2016 to September 30, 2016, revenues and net loss included in the consolidated statements of operations from HowCo amounted to \$1,119,748 and \$18,664, respectively. Total acquisition related costs expensed were approximately \$100,000 for the year ended September 30, 2016.

In connection with the combination, the Company entered into two employment agreements with the former owner/operators of HowCo. The Company determined that the consideration under these employment agreements did not qualify as additional purchase consideration.

The purchase price is summarized as follow:

Cash	\$ 2,600,000
Promissory note	900,000
Warrants	180,000
Earn-out provision	129,000
	<u>\$ 3,809,000</u>

At September 9, 2016, the fair value of the assets acquired and liabilities assumed from HowCo are as follows:

<b>Assets Acquired</b>	
Cash	\$ 165,485
Accounts receivable	780,119
Inventory	564,086
Goodwill	2,410,335
Tradename	760,000
Customer list	1,060,000
Other	1,047
	<u>5,741,072</u>
<b>Liabilities Assumed</b>	
Accounts payable	1,392,661
Accrued expenses and other current liabilities	78,841
Deferred tax liability	460,570
	<u>1,932,072</u>
<b>Purchase Price</b>	<u><u>\$ 3,809,000</u></u>

Goodwill is not expected to be deductible for income tax purposes.

*Continued*

DRONE USA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2016 and 2015

For the year ended September 30, 2016, the following unaudited pro forma consolidated results of operations have been prepared as if the combination of HowCo had occurred as of October 1, for each period presented.

	<i>Years Ended</i> <i>September 30,</i>	
	<i>2016</i>	<i>2015</i>
<b>Approximate Net Revenues</b>	<b>\$ 19,870,000</b>	<b>\$ 24,858,000</b>
<b>Approximate Net Income (Loss)</b>	<b>\$ (5,500,000)</b>	<b>\$ 934,000</b>
<b>Net Loss Per Share</b>	<b>(0.06)</b>	<b>-</b>

Pro forma data does not purport to be indicative of the results that would have been obtained had these events actually occurred at the beginning of the periods presented and is not intended to be a projection of future results.

6 - GOODWILL AND INTANGIBLE ASSETS

The changes in the carrying amount of goodwill are as follows:

<b>Balance - July 20, 2015</b>	<b>\$ -</b>
<b>Acquisition of Subsidiary - goodwill</b>	<b>2,410,335</b>
<b>Balance - September 30, 2016</b>	<b>\$ 2,410,335</b>

The changes in carrying amount of tradename are as follows:

<b>Balance - July 20, 2015</b>	<b>\$ -</b>
<b>Acquisition of Subsidiary - tradename</b>	<b>760,000</b>
<b>Balance - September 30, 2016</b>	<b>\$ 760,000</b>

At September 30, 2016, intangible assets other than goodwill consisted of:

	<i>Carrying</i> <i>Amount</i>
<b>Balance - July 20, 2015</b>	<b>\$ -</b>
<b>Acquisition of Subsidiary - Customer List</b>	<b>1,060,000</b>
<b>Accumulated amortization</b>	<b>(14,722)</b>
<b>Balance - September 30, 2016</b>	<b>\$ 1,045,278</b>

The customer list is being amortized over 48 months from the acquisition date.

Amortization expense for the year ended September 30, 2016 was \$14,722.

*Continued*

## DRONE USA, INC. AND SUBSIDIARIES

### *Notes to Consolidated Financial Statements* *September 30, 2016 and 2015*

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Future amortization expense of the customer list is as follows:

***For the Years Ending  
December 31,***

2017	\$	265,000
2018		265,000
2019		265,000
2020		250,278

7 - LINE OF CREDIT - BANK

The Company has a revolving line of credit with a financial institution. This revolving line of credit is in the amount of \$50,000, and is personally guaranteed by the Company's Chief Executive Officer ("CEO"). The line bears interest at a fluctuating rate equal to the prime rate, which at September 30, 2016 was 3.50%, plus 4.25%. As of September 30, 2016, the balance of the line of credit was \$49,583 with \$417 available.

8 - SETTLEMENT PAYABLE - VENDOR

During August 2016, the Company entered into a settlement agreement with a third party who had purchased certain payables from the Company's vendors of \$102,103. The agreement provides for the issuance of free trading shares of common stock under the 3(a)(10) exemption as satisfaction of the settlement to this third party. The conversion rate will be based upon a discount of 35% to the lowest intraday price during the ten-day period prior to the request for the shares of common stock. This settlement payable qualifies as stock settled debt under ASC 480 and a debt premium of \$54,979 was recorded with a charge to interest expense on the note date. In addition, 11,500 shares were issued as a settlement fee. In connection with this agreement, the Company was required to reserve 2,000,000 shares of common stock related to this transaction. As of September 30, 2016, the balance of this note was \$75,382 including remaining premium of \$26,384 as a result of the issuance of 57,000 shares to satisfy \$81,700 of the debt including premium of \$28,595. Subsequent to September 30, 2016, the balance of the loan was satisfied through the issuance of an additional 460,200 shares of common stock. Upon satisfaction of the debt the remaining reserved shares were released.

9 - NOTE PAYABLE – RELATED PARTY SELLER

In connection with the acquisition of HowCo, the Company issued a note payable in the amount of \$900,000 to the sellers of HowCo. The note matures on August 26, 2017 and bears interest at 5.50%. The note requires payment of unpaid principal and interest upon maturity. The note is secured by all assets of HowCo Distribution Co. and subordinated to the Senior Secured Credit Facility discussed below.

10 - CONVERTIBLE NOTES PAYABLE

The Company has an \$840,000 convertible note payable ("Note 1") to a related party entity controlled by the Company's CEO. Note 1 bears interest at an annual rate of 7% with a maturity date of June 11, 2017, at which time all unpaid principal and interest is due. The holder of Note 1 has the option to convert the outstanding principal and accrued interest, in whole or in part, into shares of common stock at a conversion price equal to the volume weighted average price per share of common stock for the 30-day period prior to conversion. As of September 30, 2016, Note 1 has not been converted and the balance of the note was \$692,126 and accrued interest was \$28,034. This note is considered a stock settled debt in accordance with ASU 480 and the fixed amount is equal to the principal amount based on the conversion formula.

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# DRONE USA, INC. AND SUBSIDIARIES

## *Notes to Consolidated Financial Statements* *September 30, 2016 and 2015*

The Company has a \$117,000 convertible note payable (“Note 2”) with the Company’s CEO. Note 2 bears interest at an annual rate of 7% with a maturity date of December 31, 2017, at which time all unpaid principal and interest is due. The holder of Note 2 has the option to convert the outstanding principal and accrued interest, in whole or in part, into shares of common stock at a conversion price equal to the volume weighted average price per share of common stock for the 30-day period prior to conversion. As of September 30, 2016, Note 2 has not been converted and the balance was \$117,000 and accrued interest was \$2,093. This note is considered a stock settled debt in accordance with ASU 480 and the fixed amount is equal to the principal amount based on the conversion formula.

Effective September 13, 2016, the Company entered into a senior secured credit facility agreement (the “Agreement”) with an investment fund to provide capital for this acquisition. The Company can borrow up to \$6,500,000, with an initial loan at closing of \$3,500,000. The Agreement bears interest at a rate of 18%, requires monthly payments of \$52,500 which is interest only starting on October 13, 2016 through February 13, 2017, and monthly payments, including interest and principal, of \$298,341 starting on March 13, 2017 through maturity on March 13, 2018. Events of default are defined in the Agreement. In the event of default the note balance will bear interest at 25%. In connection with this Agreement, the Company was obligated to pay additional advisory fees of \$850,000 payable in the form of cash or common stock in accordance with the terms of the Agreement. The Company was also required to reserve 7,000,000 shares of common stock related to this transaction. The reserved shares will be released upon the satisfaction of the loan. In the event the lender makes additional loans under the Agreement, the Company agrees to pay additional advisory fees under similar terms as the \$850,000 fee. As of September 30, 2016, the Company issued 539,204 shares of common stock in satisfaction of the \$850,000 in accordance with the terms of the agreement. Based upon the value of the shares, at the time the lender sells the shares, the Company may be required to redeem unsold shares for the difference between the \$850,000 and the lender’s sales proceeds. Accordingly the \$850,000 has been reflected as a current liability as of September 30, 2016. Notwithstanding anything contained in the Agreement to the contrary, in the event the Lender has not realized net proceeds from the sale of Advisory Fee Shares equal to at least the Advisory Fee by the earlier to occur of: (A) the twelve (12) month anniversary of the Effective Date; (B) the occurrence of an Event of Default; or (C) the Maturity Date, then at any time thereafter, the Lender shall have the right, upon written notice to the Borrower, to require that the Borrower redeem all Advisory Fee Shares then in Lender’s possession for cash equal to the Advisory Fee, less any cash proceeds received by the Lender from any previous sales of Advisory Fee Shares, if any. In the event such redemption notice is given by the Lender, the Borrower shall redeem the then remaining Advisory Fee Shares in Lender’s possession for an amount of Dollars equal to the Advisory Fee, less any cash proceeds received by the Lender from any previous sales of Advisory Fee Shares, if any, payable by wire transfer to an account designated by Lender within five (5) Business Days from the date the Lender delivers such redemption notice to the Borrower. As of September 30, 2016, the note payable has not been converted and the balance of the note was \$3,500,000 and accrued interest was \$31,500. The note is only convertible upon default or mutual agreement by both parties. Once a default occurs the note will be accounted for as stock settled debt at its fixed monetary value and any shares issued upon conversion are also subject to a make whole provision similar to that described above for the \$850,000. (see Note 20)

The note balance and deferred financing costs at September 30, 2016 was as follows:

	<i>Principal</i>	<i>Deferred Financing Cost</i>	<i>Total</i>
Promissory note	\$ 3,500,000	\$ 1,106,450	\$ 2,393,550
Accumulated amortization	-	(30,735)	30,735
	3,500,000	1,075,715	2,424,285
Less: Current portion	(1,800,294)	(737,633)	(1,062,661)
Balance	<u>\$ 1,699,706</u>	<u>\$ 338,082</u>	<u>\$ 1,361,624</u>

In August 2016, Drone established a qualified 401(k) plan with a discretionary employer matching provision. All employees who are at least twenty-one years of age are eligible to participate in the plan. The plan allows participants to defer up to 90% of their annual compensation, up to statutory limits. There was no employer contribution for the year ended September 30, 2016.

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12 - RELATED PARTY TRANSACTIONS

Company entered into an employment agreement with the Company's Chief Strategy Officer which provides for annual base compensation of \$400,000 for a period of three years and provides for other additional benefits as defined in the agreement including a signing bonus of \$100,000 payable during the first year of employment. As of September 30, 2016, the bonus has not been paid and is included in *accounts payable and accrued expenses*.

In connection with the acquisition of HowCo, the Company entered into two separate employment agreements with both executive vice presidents of HowCo, formerly the owner operators. Each agreement provides for annual base compensation of \$125,000 for a period of two years.

The Company has certain convertible notes payable to related parties (see Note 10) and a note payable to the seller of HowCo (see Note 9).

13 - EXCLUSIVE AGREEMENT

The Company entered into an exclusive agreement with a Brazilian entity in the drone technology market. The agreement provides that the Company will acquire exclusive rights to this entity's UAV technology and intellectual property that includes research and development efforts completed by this entity. The Company will also secure exclusive export and representation rights to this entity's products along with the option to acquire full ownership of this entity should the companies agree at a later date it would be in the best interest of both businesses.

14 - COMMON STOCK

As of September 30, 2016, the Company is authorized to issue 200,000,000 shares of \$0.0001 par value common stock, of which 41,719,492 shares have been issued.

The Company issued 38,309,321 shares of common stock to the Company's President and CEO as founder shares.

In January 2016, 2,532,196 shares of common stock were deemed issued to existing holders of Texas Wyoming Drilling, Inc. in connection with the recapitalization transaction with Texas Wyoming Drilling, Inc.

The Company issued 57,000 shares of common stock upon conversion of \$53,105 of the settlement payable - vendor and \$28,595 of the premium was reclassified to equity.

In August 2016, the Company issued 11,500 shares of common stock as payment of the settlement fee related to the settlement payable - vendor. The shares were valued at \$2.68 per share based on the quoted trading price on the grant date for total expense of \$30,820.

In September 2016, the Company issued 539,204 shares of common stock as payment of an \$850,000 advisory fee related to the senior secured credit facility agreement. (see Note 10)

In September 2016, the Company sold 270,271 shares of common stock at \$0.37 per share for proceeds of \$100,000.

*Continued*

# DRONE USA, INC. AND SUBSIDIARIES

## Notes to Consolidated Financial Statements September 30, 2016 and 2015

### 15 - PREFERRED STOCK

As of September 30, 2016, the Company has designated 250 shares of \$0.0001 par value Series A preferred stock, of which 250 shares have been issued. These preferred shares have voting rights per share equal to the total number of issued and outstanding shares of common stock divided by 0.99.

As of September 30, 2016, the Company is authorized to issue 5,000,000 shares of \$.0001 par value preferred stock, with designations, voting, and other rights and preferences to be determined by the Board of Directors of which 4,999,750 remain available for designation and issuance.

### 16 - SHARE BASED PAYMENTS

The Company established its 2016 Stock Incentive Plan (the "Plan") that permits the granting of incentive stock options and other common stock awards. The maximum number of shares available under the Plan is 100,000,000 shares. The Plan is open to all employees, officers, directors, and non-employees of the Company.

#### OPTIONS

On July 1, 2016, the Company granted options under the 2016 Stock Incentive Plan to purchase 22,500,000 shares of its common stock to several employees, and an additional 4,300,000 to certain non-employees for services at an exercise price of \$0.20 per share. The fair value of the shares of the underlying common stock at the date of grant based on the quoted trading price was \$0.20 per share. 20,000,000 of the options issued to certain employees vested immediately and have a ten year term. The remaining 6,800,000 options cliff vest 50% per year over the following two year period and have a ten year term. Assumptions related to the estimated fair value of these stock options on their date of grant, which the Company estimated using the Black-Scholes option pricing model, are as follows: risk-free interest rate of approximately 1.46%; expected dividend yield of 0%; expected option life of 5 years for the shares that vest immediately; expected option life of 5.75 years for the shares that vest over a two year period using the simplified method; and expected volatility of approximately 841%. The value of the options granted to non-employees which vested over time are remeasured at each reporting date until vesting occurs. The aggregate grant date fair value of the award amounted to \$5,579,990 as of September 30, 2016. The Company recognizes compensation cost for unvested stock-based incentive awards on a straight-line basis over the requisite service period.

The Company recorded \$4,897,499 of compensation expense for the year ended September 30, 2016 related to these options. Total unrecognized compensation expense related to unvested stock options at September 30, 2016 amounted to \$682,491. The weighted average period over which share-based compensation expense related to these options will be recognized is approximately 2 years.

A summary of the Company's stock options is as follows:

<i>Stock Options</i>	<i>Shares</i>	<i>Weighted-Average Exercise Price</i>	<i>Weighted-Average Remaining Contractual Term (Years)</i>	<i>Weighted-Average Grant-Date Fair Value</i>	<i>Aggregate Intrinsic Value</i>
Outstanding at October 1, 2015	-	\$ -	-	\$ -	\$ -
Granted	26,800,000	0.20	-	0.20	-
Outstanding at September 30, 2016	26,800,000	\$ 0.20	9.80	\$ -	\$ 19,564,000
Exercisable at September 30, 2016	24,000,000	\$ 0.20	9.80	\$ -	\$ 17,520,000

*Continued*

DRONE USA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2016 and 2015

As of September 30, 2016, 24,000,000 of the 26,800,000 outstanding stock options were exercisable. The following table summarizes information about stock options at September 30, 2016:

<i>Range of Exercise Prices</i>	<i>Remaining Number Outstanding</i>	<i>Weighted Average Contractual Life (Years)</i>	<i>Weighted Average Exercise Price</i>
\$ 0.20	26,800,000	9.8	\$ 0.20

All options were issued at an options price equal to the market price on the date of the grant.

WARRANTS

A summary of the Company's warrants is as follows:

<i>Warrants</i>	<i>Shares</i>	<i>Weighted- Average Exercise Price</i>	<i>Weighted- Average Remaining Contractual Term (Years)</i>	<i>Weighted- Average Grant-Date Fair Value</i>	<i>Aggregate Intrinsic Value</i>
Outstanding at October 1, 2015	-	\$ -	-	\$ -	\$ -
Issued	500,000	0.01	-	0.36	-
Outstanding at September 30, 2016	500,000	\$ 0.01	9.98	\$ 0.36	\$ 461,650
Exercisable at September 30, 2016	500,000	\$ 0.01	9.98	\$ 0.36	\$ 461,650

On September 9, 2016, 500,000 5-year warrants exercisable at \$0.01 per share were issued as part of the consideration for the HowCo acquisition. These warrants was valued at aggregate of \$180,000 (see Note 5).

17 - INCOME TAXES

Prior to January 26, 2016, Drone USA, LLC was a single member limited liability company. As such, the sole member of the Company is required to include the Company's taxable income or loss on his individual income tax return. Accordingly, the accompanying consolidated financial statements do not include a provision for federal income taxes for the year ended September 30, 2015.

The Company recognizes deferred tax assets and liabilities for the tax effects of differences between the financial statement and tax basis of assets and liabilities. A valuation allowance is established to reduce the deferred tax assets if it is more likely than not that a deferred tax asset will not be realized.

As of September 30, 2016, the Company has net operating loss carryforwards of approximately \$1,328,200 to reduce future taxable income through 2036. A valuation allowance for the entire deferred tax benefit has been established as of September 30, 2016.

Continued



DRONE USA, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
September 30, 2016 and 2015

The benefit from income taxes consists of the following:

	<i>Year Ended September 30, 2016</i>
<b>Current</b>	
Federal	\$ -
State	50
	<u>50</u>
<b>Deferred</b>	
Federal	(371,000)
State	(89,570)
	<u>(460,570)</u>
Total income tax provision (benefit)	<u>\$ (460,520)</u>

A reconciliation of the provision for income taxes at the federal statutory rate of 35% to the Company's provision for income tax is as follows:

	<i>Year Ended September 30, 2016</i>
U.S. Federal (tax benefit) provision at statutory rate	\$ (2,243,836)
State (tax benefit) income taxes, net of federal benefit	(500,697)
Permanent differences	169,807
Changes in valuation allowance	2,114,206
Other	-
Total	<u>\$ (460,520)</u>

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The following table presents the significant components of the Company's deferred tax assets and liabilities for the periods presented:

	<i>Year Ended September 30, 2016</i>
<b>Deferred Tax Assets</b>	
Stock compensation	\$ 1,984,035
Net operating losses	577,103
Other	7,242
Total deferred tax assets	<u>2,568,380</u>
Valuation allowance	(2,114,206)
Net deferred tax assets	<u>454,173</u>
<b>Deferred Tax Liabilities</b>	
Identifiable intangibles - HowCo Purchase	(454,173)
Total deferred tax liabilities	<u>(454,173)</u>
Net deferred tax	<u>\$ -</u>

*Continued*

DRONE USA, INC. AND SUBSIDIARIES

*Notes to Consolidated Financial Statements*  
*September 30, 2016 and 2015*

The Company determines its valuation allowance on deferred tax assets by considering both positive and negative evidence in order to ascertain whether it is more likely than not that deferred tax assets will be realized. Realization of deferred tax assets is dependent upon the generation of future taxable income, if any, the timing and amount of which are uncertain. Due to the history of losses the Company has generated in the past, the Company believes that it is not more likely than not that all of the deferred tax assets in the U.S. can be realized as of September 30, 2016, accordingly, the Company has recorded a full valuation allowance on its U.S. deferred tax assets.

The following table displays by contributing factor the changes in the valuation allowance for deferred tax assets since October 1, 2015:

	<i>Year Ended September 30, 2016</i>
<b>Balance - beginning of period</b>	\$ -
Net operating loss generated/(utilization, expiration)	577,103
Deferred tax assets decrease/(increase)	<u>1,537,104</u>
<b>Balance - end of period</b>	<u>\$ 2,114,207</u>

The Company files income tax returns in the United States on federal basis and various states. The Company is not currently under any international or any United States federal, state and local income tax examinations for any taxable years. All of the Company's net operating losses are subject to tax authority adjustment upon examination.

18 - COMMITMENTS AND CONTINGENCIES

COMMITMENTS

In May 2016, the Company entered into a lease agreement for office space in New York, New York. The lease provides for base monthly rent of approximately \$5,000 per month with a rent-free period from May 1, 2016 through July 31, 2016. The lease term begins May 1, 2016 and expires April 30, 2017. A security deposit of \$10,000 required by this lease agreement is reported as a component of *prepaid expenses and other current assets* in the accompanying consolidated balance sheets. The Company entered into two additional leases for additional space with rent-free periods through November 1, 2016. Each lease has a term of one year beginning July 1, 2016 and September 1, 2016, requiring monthly lease payments after the rent-free period of approximately \$2,500 and \$3,500, respectively. An additional security deposit of \$6,000 was required for the additional space. At September 30, 2016, net minimum future rental payments pursuant to these leases for the 12 months ending September 30, 2017, is approximately \$90,000.

In connection with the acquisition of HowCo on September 9, 2016, the Company assumed a lease agreement for industrial space in Vancouver, Washington. The lease provides for base monthly rent of approximately \$4,600 per month. The lease term begins June 1, 2016 and expires May 31, 2017. At September 30, 2016, net minimum future rental payments pursuant to these leases for the 12 months ending September 30, 2017, is approximately \$36,800.

*Continued*

## DRONE USA, INC. AND SUBSIDIARIES

### *Notes to Consolidated Financial Statements* *September 30, 2016 and 2015*

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#### LEGAL MATTERS

In connection with the merger with Texas Wyoming Drilling, Inc., a vendor has a claim for unpaid bills of approximately \$75,000 against the company. The Company and its legal counsel believe the Company is indemnified by Texas Wyoming Drilling, Inc. for the claim pursuant to its indemnification clause in the merger agreement.

#### 19 - CONCENTRATIONS

##### CONCENTRATIONS OF CREDIT RISK

The Company places its cash with high quality credit institutions. Cash in banks is insured by the Federal Deposit Insurance Corporation ("FDIC") up to \$250,000 per institution. At times, balances may be in excess of the FDIC insurance limit. At September 30, 2016 there were balances in bank of \$198,974 in excess of federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk. Concentration of risk with respect to trade receivable are limited are to the larger concentration of sales to U.S. federal government and agencies who typically pay timely.

##### ECONOMIC CONCENTRATIONS

With respect to customer concentration, three customers accounted for approximately 51%, 20% and 12% of total sales for the period ended September 30, 2016.

With respect to accounts receivable concentration, two customers accounted for approximately 51% and 13% of total accounts receivable at September 30, 2016.

With respect to supplier concentration, two suppliers accounted for approximately 50% of total purchases at September 30, 2016.

With respect to accounts payable concentration, three suppliers accounted for approximately 76% of total accounts payable at September 30, 2016.

#### 20 - SUBSEQUENT EVENTS

On October 1, 2016, the Company entered into employment agreements with two of its officers. The employment agreement with the company's President and CEO provides for annual base compensation of \$370,000 for a period of three years, which can, at the Company's election, be paid in cash or Common Stock or deferred if insufficient cash is available, and provides for other benefits, including a discretionary bonus and equity a provision for the equivalent of 12 months' base salary, and an additional one-time severance payment of \$2,500,000 upon termination under certain circumstances, as defined in the agreement. The employment agreement with the company's Treasurer and CFO provides for annual base compensation of \$250,000 for a period of three years, which can, at the Company's election, be paid in cash or Company Common Stock or deferred if insufficient cash is available, and provides for other benefits, including a discretionary bonus and equity a provision for the equivalent of 12 months' base salary and an additional one-time severance payment of \$1,500,000 upon termination under certain circumstances, as defined in the agreement.

In October 2016, the Company issued 115,000 shares of common stock to an entity as payment for acquisition-related services valued at \$57,500.

*Continued*

## DRONE USA, INC. AND SUBSIDIARIES

### *Notes to Consolidated Financial Statements* *September 30, 2016 and 2015*

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In October through November 2016, the Company issued 460,200 common shares upon conversion of the remaining settlement payable - vendor of \$48,998 and the remaining premium of \$26,384 was reclassified to equity.

Subsequent to September 30, 2016, the Company granted options to purchase 14,566,200 and 10,485,000 shares of its common stock at an exercise price ranging from \$0.20 to 0.24 per share valued at \$2,995,240 and \$2,350,290 at grant date, to employees and certain consultants, respectively. The options were valued using a Black-Scholes option pricing model with the following assumptions; risk-free interest rate of 1.46%, expected dividend yield of 0%, expected option life of 5.5 years for the shares that vested immediately and 5.75 to 6.5 years for those with vesting terms using the simplified method, and expected volatility of 841%. In addition, upon mutual agreement between management and one of the board members who resigned in March 2017, options to purchase 1,000,000 shares of common stock were canceled.

Subsequent to September 30, 2016, the Company entered into an agreement with a manufacturer in Pismo Beach, California. The agreement provides for certain services to be provided by the manufacturer as needed by the Company. The agreement has an initial term of three years with one year renewals. In connection with this agreement, the Company has agreed to sublease space based in San Luis Obispo, California from the manufacturer for the purposes of the development and manufacturing of unmanned aerial vehicles. The lease provides for base monthly rent of approximately \$15,000 for the initial term to be increased to \$16,500 per month upon extension. The lease term begins February 1, 2017 and expires January 31, 2019 with the option to extend the term an additional 24 months.

Effective February 17, 2017, the Company entered into an agreement with a company to receive consulting services, for a period of six months from the effective date. In connection with the agreement, the Company agreed to issue 400,000 vested shares of common stock on February 17, 2017 for a payment of \$200, and to pay consulting fees of \$10,000 per month. As the shares fee is considered contractually earned upon the execution of the agreement, the shares were valued on the February 17, 2017 measurement date at \$0.23 per share or a total of \$92,000 based on the quoted trading price which will be recognized over the 6 month service period.

On January 7, 2017, the Company entered into an agreement with a company to receive advisory services for a fee of \$22,500 payable over three months. In addition, at the Company's option, this company could, on an exclusive basis, act as the placement agent or underwriter for the Company in connection with a proposed institutional financing transaction.

On February 13, 2017, the Company entered into an agreement with a company to receive due diligence services for an initial term of 180 days from February 17, 2017. Total fees for these services are \$50,000, with \$15,000 payable upon signing and the remaining \$35,000 payable on May 10, 2017.

Subsequent to February 13, 2017, the Company defaulted on the monthly principal and interest payment of \$298,341, to a senior secured credit facility agreement, in March and April of 2017 (see Note 10). On April 13, 2017 we received a default notice from the lender and given a 10-day period to cure the default. The note became convertible upon expiration of the default cure period as the default was not cured. The Company is currently in discussion with the lender to restructure the debt.

On March 28, 2017, the Company entered into an agreement with the senior secured credit facility lender to receive a range of advisory services for a total of \$1,200,000 with no definitive term or length of service. If the Company is a quoted company on any listed exchange, the senior secured credit facility lender will accept a single preferred share convertible into common stock never to exceed 4.99%. The number of shares issued will be set at 100% of the amount due up to availability and subject to a make whole provision.

Subsequent to September 30, 2016, the Company received verbal and written demands for non-payment of three months of rent for its New York and California locations, non-payment of past due credit card balances and non-payment of past due amounts for services rendered by a consultant.

Subsequent Events have been evaluated through May 8, 2017, the date the consolidated financial statements were available to be issued.

HOWCO DISTRIBUTING CO.  
*Financial Statements*  
*September 9, 2016 and*  
*September 30, 2015*

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HOWCO DISTRIBUTING CO.

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*September 9, 2016 and September 30, 2015*

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SALBERG & COMPANY, P.A.

Certified Public Accountants and Consultants

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of  
Howco Distributing Co.

We have audited the accompanying balance sheets of Howco Distributing Co. at September 9, 2016 and September 30, 2015, and the related statements of income and retained earnings, and cash flows for the period from October 1, 2015 to September 9, 2016 and for the year ended September 30, 2015. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Howco Distributing Co. as of September 9, 2016 and September 30, 2015, and the results of its operations and its cash flows for the period from October 1, 2015 to September 9, 2016 and for the year ended September 30, 2015 in conformity with accounting principles generally accepted in the United States of America.

/s/ Salberg & Company, P.A.

SALBERG & COMPANY, P.A.  
Boca Raton, Florida  
May 8, 2017

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HOWCO DISTRIBUTING CO.

Balance Sheets

	September 9, 2016	September 30, 2015
<b>ASSETS</b>		
<i>Current Assets</i>		
Cash	\$ 165,485	\$ 401,076
Accounts receivable	780,119	1,139,121
Inventory	564,086	1,206,848
<b>Total Current Assets</b>	<b>1,509,690</b>	<b>2,747,045</b>
<i>Other Assets</i>		
Security deposit	1,047	1,047
	<b>\$ 1,510,737</b>	<b>\$ 2,748,092</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<i>Current Liabilities</i>		
Accounts payable	\$ 1,392,661	\$ 1,866,177
Customers deposits	78,841	-
<b>Total Current Liabilities</b>	<b>1,471,502</b>	<b>1,866,177</b>
<i>Commitments and Contingencies (Note 8)</i>		
<i>Shareholders' Equity</i>		
Common stock - no par value, 10,000 shares authorized, 2,000 shares issued and outstanding	9,000	9,000
Retained earnings	30,235	872,915
<b>Total Shareholders' Equity</b>	<b>39,235</b>	<b>881,915</b>
	<b>\$ 1,510,737</b>	<b>\$ 2,748,092</b>

See notes to financial statements.

HOWCO DISTRIBUTING CO.

Statements of Income and Retained Earnings

	<i>For the Periods</i>	
	<i>October 1, 2015 to September 9, 2016</i>	<i>Year Ended September 30, 2015</i>
<b>Net Sales</b>	\$ 18,776,872	\$ 24,858,014
<b>Cost of Sales</b>	17,109,774	22,961,643
<b>Gross Profit</b>	1,667,098	1,896,371
<b>Operating Expenses</b>		
Payroll and employee benefits	528,833	679,900
Other general and administrative expenses	235,405	203,256
<b>Total Operating Expenses</b>	764,238	883,156
<b>Net Income</b>	902,860	1,013,215
<b>Retained Earnings - beginning of period</b>	872,915	468,900
<b>Shareholders Distributions</b>	(1,745,540)	(609,200)
<b>Retained Earnings - end of period</b>	\$ 30,235	\$ 872,915

See notes to financial statements.

HOWCO DISTRIBUTING CO.

Statements of Cash Flows

	<i>For the Periods</i>	
	<i>October 1, 2015 to September 9, 2016</i>	<i>Year Ended September 30, 2015</i>
<b>Cash Flows from Operating Activities</b>		
Net income	\$ 902,860	\$ 1,013,215
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	-	9,153
<i>Increase (decrease) in cash flows as a result of changes in operating assets and liabilities:</i>		
Accounts receivable	359,002	450,642
Inventory	642,762	(171,463)
Customer deposits	78,841	-
Accounts payable	(473,516)	(426,881)
<b>Cash Provided by Operating Activities</b>	<u>1,509,949</u>	<u>874,666</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from shareholder loans	-	1,785,000
Repayments of shareholder loans	-	(1,785,000)
Distributions to shareholders	(1,745,540)	(609,200)
<b>Cash Used in Financing Activities</b>	<u>(1,745,540)</u>	<u>(609,200)</u>
<b>Net (Decrease) Increase in Cash</b>	(235,591)	265,466
<b>Cash - beginning of period</b>	<u>401,076</u>	<u>135,610</u>
<b>Cash - end of period</b>	<u>\$ 165,485</u>	<u>\$ 401,076</u>
<b>Supplemental disclosure of Cash Flow Information</b>		
<i>Cash paid for:</i>		
Interest	<u>\$ -</u>	<u>\$ -</u>
Taxes	<u>\$ -</u>	<u>\$ -</u>

See notes to financial statements.

## HOWCO DISTRIBUTING CO.

### Notes to Financial Statements

September 9, 2016 and September 30, 2015

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#### 1 - ORGANIZATION AND NATURE OF BUSINESS

Howco Distributing Co. (the "Company") is a wholesale distributor based in Vancouver, Washington, which started business in 1990. The Company is incorporated in the state of Washington. The Company supplies spare and replacement parts to various Federal Government agencies, US Military (DOD), Prime Contractors and Commercial customers worldwide.

#### 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. **Basis of Presentation** - The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP").

- b. **Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates include the allowance for bad debt on accounts receivable and reserves on inventory.

- c. **Accounts Receivable** - Trade receivables are recorded at net realizable value consisting of the carrying amount less the allowance for doubtful accounts, as needed. Factors used to establish an allowance include the credit quality of the customer and whether the balance is significant. The Company may also use the direct write-off method to account for uncollectible accounts that are not received. Using the direct write-off method, trade receivable balances are written off to bad debt expense when an account balance is deemed to be uncollectible. As of September 9, 2016 and September 30, 2015, no allowance was required.

- d. **Inventory** - Inventory consists of finished goods, which are purchased directly from manufacturers. The Company utilizes a just in time type of inventory system where products are ordered from the vendor only when the Company has received sales order from its customers. Inventory is stated at the lower of cost and net realizable value on a first-in, first-out basis.

- e. **Property and Equipment** - Equipment is stated at cost and include expenditures for major items. Maintenance, repairs, and minor replacements are charged to operations as incurred. Depreciation is calculated using the straight-line over the estimated useful lives of the respective assets.

- f. **Revenue Recognition** - Sales are recognized upon shipment of product to the customer. Provisions for returns and allowances are recorded in the period the sales occur. Payments received from customers prior to shipment of the product to them, are recorded as customer deposit liabilities.

- g. **Shipping and Handling Costs** - The Company has included freight-out as a component of cost of sales, which amounted to \$153,973 and \$209,934 for the periods ended September 9, 2016 and September 30, 2015, respectively.

- h. **Advertising** - The Company expenses advertising costs as incurred. Advertising expenses were insignificant and under \$1,000 for the periods ended September 9, 2016 and September 30, 2015, respectively.

Continued

HOWCO DISTRIBUTING CO.

*Notes to Financial Statements*  
*September 9, 2016 and September 30, 2015*

- Income Taxes** - The Company, with the consent of its shareholder, has elected to be taxed as an S corporation under the Internal Revenue Code which provides that, in lieu of corporate income taxes, the shareholder is taxed individually on the Company's taxable income. In certain states, the Company has also elected to be treated as an S corporation. Therefore, no provision or liability for federal income taxes is included in these financial statements. With exceptions, the Company is no longer subject to U.S. federal and state tax audits by tax authorities for years prior to 2013.

The Company follows the accounting for uncertainty in income tax and addresses the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, the Company may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Tax positions include the S Corporation status of the Company and various other positions. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal year 2016 or 2015.

3 - ACCOUNTS RECEIVABLE

The Company's accounts receivable at September 9, 2016 and September 30, 2015 are as follow:

	<i>September 9, 2016</i>	<i>September 30, 2015</i>
Accounts receivable	\$ 780,119	\$ 1,139,121
Reserve for doubtful accounts	-	-
	<u>\$ 780,119</u>	<u>\$ 1,139,121</u>

4 - INVENTORY

At September 09, 2016 and September 30, 2015, inventory consists of finished goods and was valued at \$564,086 and \$1,206,848, respectively.

5 - PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<i>September 9, 2016</i>	<i>September 30, 2015</i>
Computer equipment	\$ 8,959	\$ 41,961
Furniture and fixtures	9,053	42,056
Property plant and equipment	7,000	17,253
Vehicles	17,849	24,849
Leasehold improvements	-	6,555
Other equipment	-	5,798
	<u>42,861</u>	<u>138,472</u>
Less: Accumulated depreciation	<u>(42,861)</u>	<u>(138,472)</u>
	<u>\$ -</u>	<u>\$ -</u>

*Continued*

## HOWCO DISTRIBUTING CO.

### *Notes to Financial Statements*

*September 9, 2016 and September 30, 2015*

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Depreciation expense charged to operations was \$0 and \$9,153 for the periods ended September 9, 2016 and September 30, 2015, respectively.

During 2016, \$95,611 of fully depreciated assets not in service and the related accumulated depreciation was removed from the Company's records.

#### 6 - RETIREMENT PLAN

The Company is the sponsor of a qualified 401(k) plan with a safe harbor provision. All employees are eligible to enter the plan within one year of the commencement of employment. Total retirement expenses for the periods ended September 9, 2016 and September 30, 2015 were \$13,258 and \$14,789, respectively.

#### 7 - RELATED PARTY TRANSACTIONS

During the year ended September 30, 2015, the shareholders advanced the Company \$1,785,000 and it was fully repaid during the year.

#### 8 - COMMITMENT AND CONTINGENCIES

The Company originally entered into a lease for office space in Vancouver, Washington on April 28, 2009. The Company has amended the lease commencing June 1, 2016 through May 31, 2017. The amended lease provides for monthly rent of approximately \$4,600 per month. Rent expense for the periods ended September 9, 2016 and September 30, 2015 were \$50,142 and \$53,467, respectively.

#### 9 - CONCENTRATIONS

##### ***Concentrations of Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of temporary cash investments. The Company places its temporary cash investments with financial institutions, which are insured by the Federal Deposit Insurance Corporation up to \$250,000. At September 9, 2016, cash in the bank exceeded federally insured limited by \$556,916. Concentrations of credit risk with respect to trade receivables are limited due to the large concentration of sales to the U.S. Federal government or agencies who typically pay timely. Generally, the Company does not require collateral or other security to support customer receivables. The Company performs periodic credit evaluations of its customers' financial condition.

##### ***Economic Concentrations***

With respect to customer concentration, three customers accounted for approximately 51%, 15%, and 15% of total sales for the period ended September 9, 2016 and three customers accounted for approximately 37%, 21%, and 11% of total sales for the period ended September 30, 2015.

With respect to accounts receivable concentration, three customers accounted for approximately 48%, 16% and 11% of total accounts receivable at September 9, 2016 and three customers accounted for approximately 37%, 15%, and 11% of total accounts receivable at September 30, 2015.

*Continued*

HOWCO DISTRIBUTING CO.

*Notes to Financial Statements*

*September 9, 2016 and September 30, 2015*

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With respect to supplier concentration, two suppliers accounted for approximately 39% and 16 % of total purchases for the period ended September 9, 2016 and two suppliers accounted for approximately 44% and 15% of total purchases for the period ended September 30, 2015.

With respect to accounts payable concentration, two suppliers accounted for approximately 65% and 64% of total accounts payable at September 9, 2016 and September 30, 2015, respectively.

With respect to foreign sales, it totaled approximately \$337,000 and \$837,000 for the periods ended September 9, 2016 and September 30, 2015, respectively.

10 - SUBSEQUENT EVENTS

At the end of business day September 9, 2016, the Company was sold to a New York-based company that trades on the OTC Markets. In connection with the sale, the Company entered into employment agreements with the President and Vice President. Each agreement provides for annual base compensation of \$125,000 for a period of two years.

Subsequent events have been evaluated through May 8, 2017, the date the financial statements were available to be issued.

## SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this Form 10 to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: May 8, 2017

DRONE USA, INC.

By: /s/Michael Bannon

Name: Michael Bannon

Title: President, Secretary

## EXHIBIT INDEX

Exhibit	Description
3.1+	Certificate of Incorporation of the Registrant
3.2+	Amended and Restated Bylaws of the Registrant
3.3+	Certificate of Amendment to the Certificate of Incorporation filed April 27, 2016
4.1+	Specimen Stock Certificate evidencing the shares of Common Stock
10.1*+	Drone USA, Inc. 2016 Stock Incentive Plan
10.2+	Senior Secured Revolving Credit Facility Agreement (the “Credit Facility”) with TCA Global Credit Master Fund, L.P., dated September 13, 2016
10.3+	Stock Purchase Agreement among Paul Charles Joy II, Trustee of the Paul C. Joy and Kathryn B. Joy Trust-Fund B, Kathryn Blake Joy, Trustee of the Paul C. Joy and Kathryn B. Joy Trust-Fund C, Howco Distributing Co. and Drone USA, LLC, dated August 4, 2016
10.4+	Joint Venture Agreement dated June 1, 2016 between Drone USA, Inc. and BRVANT
10.5+	Convertible Note dated July 1, 2016 issued by Drone USA, Inc. to Michael Bannon
10.6+	Convertible Note dated December 11, 2015 issued by Drone USA, Inc. to AIG
10.7+	World Trade Center Lease Agreement dated April 26, 2016 and Addendum dated May 26, 2016 between Drone USA, Inc. and Servcorp LLC
10.8+	Howco Lease Agreement dated April 28, 2009, as amended
10.9+	TCA Engagement Agreement dated March 28, 2017
10.10+	Ardour Capital Engagement Agreement dated January 7, 2017
10.11+	Caro Engagement Agreement dated December 26, 2016
10.12+	Sublease Agreement dated November 17, 2016 Between Empirical Systems Aerospace, Inc. and Drone USA, Inc.
10.13+	Manufacturing Agreement dated November 2016 between Empirical Systems Aerospace, Inc. and Drone USA, Inc.

10.14+	Employment Agreement dated July 1, 2016 between Michael Bannon and Drone USA, Inc.
10.15*+	Employment Agreement dated October 1, 2016 between Dennis Antonelos and Drone USA, Inc.
10.16*+	Employment Agreement dated May 31, 2016 between Paulo Ferro and Drone USA, Inc.
10.17*+	Employment Agreement dated March 29, 2017 between Matthew Wiles and Howco Distributing Co.
10.18*+	Employment Agreement dated September 9, 2016 between Charles Joy and Howco Distributing Co.
10.19*+	Employment Agreement dated September 9, 2016 between Kathy Joy and Howco Distributing Co.
21+	Subsidiaries

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\*Indicates management contract or compensatory plan

+ Filed herewith

State of Delaware  
Secretary of State  
Division of Corporations  
Delivered 02:19 PM 02/08/2016  
FILED 02:20 PM 02/08/2016  
SR 20160660032 - File Number 783047

**Certificate of Designations, Preferences  
and Rights of Series A Preferred Stock  
of  
Texas Wyoming Drilling, Inc.**

TEXAS WYOMING DRILLING, INC. (the "Corporation"), a corporation organized and existing under the General Corporation Law of the State of Delaware, by and through its duly authorized Secretary, does hereby certify that, pursuant to authority conferred upon the Board of Directors of the Corporation by the Certificate of Incorporation of the Corporation and pursuant to section 151 of the General Corporation Law of the State of Delaware, the Board of Directors of the Corporation duly adopted the following resolution effective as of December 12, 2014, which resolution remain in full force and effect as of the date hereof:

WHEREAS, pursuant to the authority conferred upon the Board of Directors of the Corporation by the Certificate of Incorporation of the Corporation and pursuant of Section 151 of the General Corporation Law of the State of Delaware, effective as of December 12, 2014, the Board of Directors of the Corporation created authorized and provided for the issuance of a series of shares of preferred stock, par value \$0.0001 per share, of the Corporation, consisting of Two Hundred Fifty (250) shares designated as Series A Preferred Stock and to further designate and establish the voting powers, limitations, rights and preferences with respect thereto, as set forth herein.

NOW THEREFOR BE IT RESOLVED that pursuant to the authority conferred upon the Board of Directors of the Corporation by the Certificate of Incorporation of Corporation and pursuant to Section 151 of the General Corporation Law of the State of Delaware, the Board of Directors hereby amends the Certificate of Incorporation by amending Article 4 of the Certificate of Incorporation and Designating a singles series of Preferred Stock out of the Authorized but Undesignated Shares of Preferred Stock as follows:

**FIRST RESOLUTION:**

Designation. The Two Hundred Fifty (250) shares of the Corporation's authorized but undesignated shares of Preferred Stock is hereby designated as Series A Preferred Stock (the "Series A Preferred Stock"), par value \$0.0001 per share, and such shares are hereby designated as such and each share shall have the following voting powers, limitations, rights and preferences:

The right to vote on all matters coming to the shareholders with each share casting a vote equal to the quotient of the sum of all outstanding shares of common stock divided by 0.99. The Series A Preferred Stock shall have no other rights or preferences.

IN WITNESS WHEREOF, the Corporation has caused this certificate to be signed by, its President, effective as of the 26<sup>th</sup> day of December, 2015.

TEXAS WYOMING DRILLING, INC.

By: /s/ Margaret Cadena

Name: Margaret Cadena

Title: President

BYLAWS OF DRONE USA, INC.  
(A DELAWARE CORPORATION)

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ARTICLE I - CORPORATE OFFICES

1.1 REGISTERED OFFICE.

The registered office of the Corporation shall be fixed in the corporation's certificate of incorporation, as the same may be amended from time to time.

1.2 OTHER OFFICES.

The corporation's Board of Directors (the "Board") may at any time establish branch or other offices at any place or places where the corporation is qualified to do business.

ARTICLE II - MEETINGS OF STOCKHOLDERS

2.1 PLACE OF MEETINGS.

Meetings of stockholders shall be held at any place, within or outside the State of Delaware, designated by the Board. The Board may, in its sole discretion, determine that a meeting of stockholders shall not be held at any place, but may instead be held solely by means of remote communication as authorized by Section 211 of the General Corporation Law of Delaware (the "DGCL"). In the absence of any such designation or determination, stockholders' meetings shall be held at the corporation's principal executive office.

2.2 ANNUAL MEETING.

The annual meeting of stockholders shall be held each year. The Board shall designate the date and time of the annual meeting. At the annual meeting, directors shall be elected and any other proper business may be transacted.

2.3 SPECIAL MEETING.

A special meeting of the stockholders may be called at any time by the Board, chairperson of the Board, chief executive officer or president (in the absence of a chief executive officer), but such special meetings may not be called by any other person or persons.

No business may be transacted at such special meeting other than the business specified in such notice to stockholders. Nothing contained in this paragraph of this Section 2.3 shall be construed as limiting, fixing, or affecting the time when a meeting of stockholders called by action of the Board may be held.

## 2.4 ADVANCE NOTICE PROCEDURES; NOTICE OF STOCKHOLDERS' MEETINGS.

(i) At an annual meeting of the stockholders, only such business shall be conducted as shall have been properly brought before the meeting. To be properly brought before an annual meeting, business must be: (A) specified in the notice of meeting (or any supplement thereto) given by or at the direction of the board of directors, (B) otherwise properly brought before the meeting by or at the direction of the board of directors, or (C) otherwise properly brought before the meeting by a stockholder. For business to be properly brought before an annual meeting by a stockholder, the stockholder must have given timely notice thereof in writing to the secretary of the corporation. To be timely, a stockholder's notice must be delivered to or mailed and received at the principal executive offices of the corporation not more than one hundred twenty (120) calendar days nor less than ninety (90) calendar days before the one year anniversary of the date on which the corporation first mailed its proxy statement to stockholders in connection with the previous year's annual meeting of stockholders; provided, however, that in the event that no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than thirty (30) days from the date of the prior year's meeting, notice by the stockholder to be timely must be so received not later than the close of business on the later of one hundred twenty (120) calendar days in advance of such annual meeting and ten (10) calendar days following the date on which public announcement of the date of the meeting is first made. A stockholder's notice to the secretary shall set forth as to each matter the stockholder proposes to bring before the annual meeting: (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting, (b) the name and address, as they appear on the corporation's books, of the stockholder proposing such business, (c) the class and number of shares of the corporation that are beneficially owned by the stockholder, (d) any material interest of the stockholder in such business, and (e) any other information that is required to be provided by the stockholder pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), in his capacity as a proponent to a stockholder proposal. Notwithstanding the foregoing, in order to include information with respect to a stockholder proposal in the proxy statement and form of proxy for a stockholder's meeting, stockholders must provide notice as required by the regulations promulgated under the Exchange Act. Notwithstanding anything in these bylaws to the contrary, no business shall be conducted at any annual meeting except in accordance with the procedures set forth in this paragraph (i). The chairman of the annual meeting shall, if the facts warrant, determine and declare at the meeting that business was not properly brought before the meeting and in accordance with the provisions of this paragraph (i), and, if he should so determine, he shall so declare at the meeting that any such business not properly brought before the meeting shall not be transacted.

(ii) Only persons who are nominated in accordance with the procedures set forth in this paragraph (ii) shall be eligible for election as directors. Nominations of persons for election to the board of directors of the corporation may be made at a meeting of stockholders by or at the direction of the board of directors or by any stockholder of the corporation entitled to vote in the election of directors at the meeting who complies with the notice procedures set forth in this paragraph (ii). Such nominations, other than those made by or at the direction of the board of directors, shall be made pursuant to timely notice in writing to the secretary of the corporation in accordance with the provisions of paragraph (i) of this Section 2.4. Such stockholder's notice shall set forth (a) as to each person, if any, whom the stockholder proposes to nominate for election or re-election as a director: (A) the name, age, business address and residence address of such person, (B) the principal occupation or employment of such person, (C) the class and number of shares of the corporation that are beneficially owned by such person, (D) a description of all arrangements or understandings between the stockholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nominations are to be made by the stockholder, and (E) any other information relating to such person that is required to be disclosed in solicitations of proxies for elections of directors, or is otherwise required, in each case pursuant to Regulation 14A under the Exchange Act (including without limitation such person's written consent to being named in the proxy statement, if any, as a nominee and to serving as a director if elected); and (b) as to such stockholder giving notice, the information required to be provided pursuant to paragraph (i) of this Section 2.4. At the request of the board of directors, any person nominated by a stockholder for election as a director shall furnish to the secretary of the corporation that information required to be set forth in the stockholder's notice of nomination which pertains to the nominee. No person shall be eligible for election as a director of the corporation unless nominated in accordance with the procedures set forth in this paragraph (ii). The chairman of the meeting shall, if the facts warrant, determine and declare at the meeting that a nomination was not made in accordance with the procedures prescribed by these bylaws, and if he should so determine, he shall so declare at the meeting, and the defective nomination shall be disregarded.

These provisions shall not prevent the consideration and approval or disapproval at an annual meeting of reports of officers, directors and committees of the board of directors, but in connection therewith no new business shall be acted upon at any such meeting unless stated, filed and received as herein provided. Notwithstanding anything in these bylaws to the contrary, no business brought before a meeting by a stockholder shall be conducted at an annual meeting except in accordance with procedures set forth in this Section 2.4. All notices of meetings of stockholders shall be sent or otherwise given in accordance with either Section 2.5 or Section 8.1 of these bylaws not less than 10 nor more than 60 days before the date of the meeting to each stockholder entitled to vote at such meeting. The notice shall specify the place, if any, date and hour of the meeting, the means of remote communication, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such meeting, and, in the case of a special meeting, the purpose or purposes for which the meeting is called.

## 2.5 MANNER OF GIVING NOTICE; AFFIDAVIT OF NOTICE.

Notice of any meeting of stockholders shall be given either (i) personally, (ii) by private courier, (iii) by first- or third-class United States mail, (iv) by other written communication, or (v) by electronic transmission as provided in Section 8.1 or other wireless means. Notices not personally delivered shall be sent postage prepaid, directed to the stockholder at his or her address as it appears on the records of the Corporation or given by the stockholder to the corporation for the purpose of notice. Notice shall be deemed to have been given at the time when delivered personally or by courier or deposited in the mail or sent by other means of written communication or by electronic transmission or other wireless means.

An affidavit of the secretary or an assistant secretary of the corporation or of the transfer agent or any other agent of the corporation that the notice has been given by mail or by a form of electronic transmission, as applicable, shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

## 2.6 QUORUM.

The holders of a majority of the stock issued and outstanding and entitled to vote, present in person or represented by proxy, shall constitute a quorum for the transaction of business at all meetings of the stockholders. If, however, such quorum is not present or represented at any meeting of the stockholders, then either (i) the chairperson of the meeting, or (ii) the stockholders entitled to vote at the meeting, present in person or represented by proxy, shall have power to adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present or represented. At such adjourned meeting at which a quorum is present or represented, any business may be transacted that might have been transacted at the meeting as originally noticed.

## 2.7 ADJOURNED MEETING; NOTICE.

When a meeting is adjourned to another time or place, unless these bylaws otherwise require, notice need not be given of the adjourned meeting if the time, place if any thereof, and the means of remote communications, if any, by which stockholders and proxy holders may be deemed to be present in person and vote at such adjourned meeting are announced at the meeting at which the adjournment is taken. At the adjourned meeting, the corporation may transact any business which might have been transacted at the original meeting. If the adjournment is for more than 30 days, or if after the adjournment a new record date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given to each stockholder of record entitled to vote at the meeting.

## 2.8 CONDUCT OF BUSINESS.

The chairperson of any meeting of stockholders shall determine the order of business and the procedure at the meeting, including such regulation of the manner of voting and the conduct of business.

## 2.9 VOTING.

The stockholders entitled to vote at any meeting of stockholders shall be determined in accordance with the provisions of Section 2.11 of these bylaws, subject to Section 217 (relating to voting rights of fiduciaries, pledgors and joint owners of stock) and Section 218 (relating to voting trusts and other voting agreements) of the DGCL.

Except as may be otherwise provided in the certificate of incorporation or these bylaws, each stockholder shall be entitled to one vote for each share of capital stock held by such stockholder. Except as otherwise provided by the DGCL or the certificate of incorporation, when a quorum is present at any meeting of the stockholders, the vote of the holders of a majority of the shares having voting power present in person or represented by proxy shall decide any action brought to vote before such meeting, other than the election of directors for which the vote of a plurality of the shares having voting power present in person or represented by proxy is required. There shall be no cumulative voting in the election of directors.

## 2.10 STOCKHOLDER ACTION BY WRITTEN CONSENT WITHOUT A MEETING.

Any action required or permitted to be taken by the stockholders of the corporation at a duly called annual or special meeting of stockholders of the corporation may be effected by a consent in writing by such stockholders.

## 2.11 RECORD DATE FOR STOCKHOLDER NOTICE; VOTING; GIVING CONSENTS.

In order that the corporation may determine the stockholders entitled to notice of or to vote at any meeting of stockholders or any adjournment thereof, or entitled to receive payment of any dividend or other distribution or allotment of any rights, or entitled to exercise any rights in respect of any change, conversion or exchange of stock or for the purpose of any other lawful action, the Board may fix, in advance, a record date, which record date shall not precede the date on which the resolution fixing the record date is adopted and which shall not be more than sixty (60) calendar days nor less than ten (10) calendar days before the date of such meeting, nor more than sixty (60) calendar days prior to any other such action.

If the Board does not so fix a record date:

(i) The record date for determining stockholders entitled to notice of or to vote at a meeting of stockholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day next preceding the day on which the meeting is held.

(ii) The record date for determining stockholders for any other purpose shall be at the close of business on the day on which the Board adopts the resolution relating thereto.

A determination of stockholders of record entitled to notice of or to vote at a meeting of stockholders shall apply to any adjournment of the meeting; provided, however, that the Board may fix a new record date for the adjourned meeting.

## 2.12 PROXIES.

Each stockholder entitled to vote at a meeting of stockholders may authorize another person or persons to act for such stockholder as proxy by executing an instrument in writing or by authorizing the transmission of a telegram, cablegram or other means of electronic transmission (provided that any such telegram, cablegram, or other means of electronic transmission either sets forth or is submitted with information from which it can be determined that the telegram, cablegram, or other means of electronic transmission was authorized by the person) and filed in accordance with the procedure established for the meeting, but no such proxy shall be voted or acted upon after three years from its date, unless the proxy provides for a longer period. The revocability of a proxy that states on its face that it is irrevocable shall be governed by the provisions of Section 212 of the DGCL.

## 2.13 LIST OF STOCKHOLDERS ENTITLED TO VOTE.

The officer who has charge of the stock ledger of the corporation shall prepare and make, at least 10 days before every meeting of stockholders, a complete list of the stockholders entitled to vote at the meeting, arranged in alphabetical order, and showing the address of each stockholder and the number of shares registered in the name of each stockholder. The corporation shall not be required to include electronic mail addresses or other electronic contact information on such list. Such list shall be open to the examination of any stockholder, for any purpose germane to the meeting for a period of at least ten (10) calendar days prior to the meeting: (i) on a reasonably accessible electronic network, provided that the information required to gain access to such list is provided with the notice of the meeting, or (ii) during ordinary business hours, at the corporation's principal executive office. In the event that the corporation determines to make the list available on an electronic network, the corporation may take reasonable steps to ensure that such information is available only to stockholders of the corporation. If the meeting is to be held at a place, then the list shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any stockholder who is present. If the meeting is to be held solely by means of remote communication, then the list shall also be open to the examination of any stockholder during the whole time of the meeting on a reasonably accessible electronic network, and the information required to access such list shall be provided with the notice of the meeting. Such list shall presumptively determine the identity of the stockholders entitled to vote at the meeting and the number of shares held by each of them.

## 2.14 INSPECTORS OF ELECTION

Before any meeting of stockholders, the board of directors shall appoint an inspector or inspectors of election to act at the meeting or its adjournment. The number of inspectors shall be either one (1) or three (3). If any person appointed as inspector fails to appear or fails or refuses to act, then the chairperson of the meeting may, and upon the request of any stockholder or a stockholder's proxy shall, appoint a person to fill that vacancy.

Such inspectors shall:

- (i) determine the number of shares outstanding and the voting power of each, the number of shares represented at the meeting, the existence of a quorum, and the authenticity, validity, and effect of proxies;
- (ii) receive votes, ballots or consents;

- (iii) hear and determine all challenges and questions in any way arising in connection with the right to vote;
- (iv) count and tabulate all votes or consents;
- (v) determine when the polls shall close;
- (vi) determine the result; and
- (vii) do any other acts that may be proper to conduct the election or vote with fairness to all stockholders.

The inspectors of election shall perform their duties impartially, in good faith, to the best of their ability and as expeditiously as is practical. If there are three (3) inspectors of election, the decision, act or certificate of a majority is effective in all respects as the decision, act or certificate of all. Any report or certificate made by the inspectors of election is prima facie evidence of the facts stated therein.

### ARTICLE III - DIRECTORS

#### 3.1 POWERS.

Subject to the provisions of the DGCL and any limitations in the certificate of incorporation or these bylaws relating to action required to be approved by the stockholders or by the outstanding shares, the business and affairs of the corporation shall be managed and all corporate powers shall be exercised by or under the direction of the Board.

#### 3.2 NUMBER OF DIRECTORS.

The authorized number of directors shall be determined from time to time by resolution of the Board, provided the Board shall consist of at least one member. No reduction of the authorized number of directors shall have the effect of removing any director before that director's term of office expires.

#### 3.3 ELECTION, QUALIFICATION AND TERM OF OFFICE OF DIRECTORS.

Except as provided in Section 3.4 of these bylaws, each director, including a director elected to fill a vacancy, shall hold office until the expiration of the term for which elected and until such director's successor is elected and qualified or until such director's earlier death, resignation or removal. Directors need not be stockholders unless so required by the certificate of incorporation or these bylaws. The certificate of incorporation or these bylaws may prescribe other qualifications for directors.

The directors of the corporation shall be divided into two or more classes in accordance with Section 3.12 of these bylaws.

#### 3.4 RESIGNATION AND VACANCIES.

Any director may resign at any time upon notice given in writing or by electronic transmission to the corporation. When one or more directors so resigns and the resignation is effective at a future date, a majority of the directors then in office, including those who have so resigned, shall have power to fill such vacancy or vacancies, the vote thereon to take effect when such resignation or resignations shall become effective, and each director so chosen shall hold office as provided in this section in the filling of other vacancies.

Unless otherwise provided in the certificate of incorporation or these bylaws, vacancies, including vacancies resulting from the removal of a director pursuant to Section 3.11 of these bylaws, and newly created directorships resulting from any increase in the authorized number of directors may be filled by a majority of the directors then in office, although less than a quorum, or by a sole remaining director. If the directors are divided into classes, a person so elected by the directors then in office to fill a vacancy or newly created directorship shall hold office until the next election of the class for which such director shall have been chosen and until his or her successor shall have been duly elected and qualified.

If at any time, by reason of death or resignation or other cause, the corporation should have no directors in office, then any officer or any stockholder or an executor, administrator, trustee or guardian of a stockholder, or other fiduciary entrusted with like responsibility for the person or estate of a stockholder, may call a special meeting of stockholders in accordance with the provisions of the certificate of incorporation or these bylaws, or may apply to the Court of Chancery for a decree summarily ordering an election as provided in Section 211 of the DGCL.

### 3.5 PLACE OF MEETINGS; MEETINGS BY TELEPHONE.

The Board may hold meetings, both regular and special, either within or outside the State of Delaware.

Unless otherwise restricted by the certificate of incorporation or these bylaws, members of the Board, or any committee designated by the Board, may participate in a meeting of the Board, or any committee, by means of conference telephone or other communications equipment by means of which all persons participating in the meeting can hear each other, and such participation in a meeting shall constitute presence in person at the meeting.

### 3.6 REGULAR MEETINGS.

Regular meetings of the Board may be held without notice at such time and at such place as shall from time to time be determined by the Board.

### 3.7 SPECIAL MEETINGS; NOTICE.

Special meetings of the Board for any purpose or purposes may be called at any time by the chairperson of the Board, the chief executive officer, the president, the secretary or a majority of the authorized number of directors.

Notice of the time and place of special meetings shall be:

- (i) delivered personally by hand, by courier or by telephone;
- (ii) sent by United States first-class mail, postage prepaid;
- (iii) sent by facsimile; or
- (iv) sent by electronic mail, directed to each director at that director's address, telephone number, facsimile number or electronic mail address, as the case may be, as shown on the corporation's records.

If the notice is (i) delivered personally by hand, by courier or by telephone, (ii) sent by facsimile or (iii) sent by electronic mail, it shall be delivered or sent at least 24 hours before the time of the holding of the meeting. If the notice is sent by United States mail, it shall be deposited in the United States mail at least four days before the time of the holding of the meeting. Any oral notice may be communicated to the director. The notice need not specify the place of the meeting (if the meeting is to be held at the corporation's principal executive office) nor the purpose of the meeting.

### 3.8 QUORUM.

At all meetings of the Board, a majority of the authorized number of directors shall constitute a quorum for the transaction of business. The vote of a majority of the directors present at any meeting at which a quorum is present shall be the act of the Board, except as may be otherwise specifically provided by statute, the certificate of incorporation or these bylaws. If a quorum is not present at any meeting of the Board, then the directors present thereat may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum is present.

A meeting at which a quorum is initially present may continue to transact business notwithstanding the withdrawal of directors, if any action taken is approved by at least a majority of the required quorum for that meeting.

### 3.9 BOARD ACTION BY WRITTEN CONSENT WITHOUT A MEETING.

Unless otherwise restricted by the certificate of incorporation or these bylaws, any action required or permitted to be taken at any meeting of the Board, or of any committee thereof, may be taken without a meeting if all members of the Board or committee, as the case may be, consent thereto in writing or by electronic transmission and the writing or writings or electronic transmission or transmissions are filed with the minutes of proceedings of the Board or committee. Such filing shall be in paper form if the minutes are maintained in paper form and shall be in electronic form if the minutes are maintained in electronic form.

### 3.10 FEES AND COMPENSATION OF DIRECTORS.

Unless otherwise restricted by the certificate of incorporation or these bylaws, the Board shall have the authority to fix the compensation of directors.

### 3.11 REMOVAL OF DIRECTORS.

Any director may be removed from office by the stockholders of the corporation only for cause.

No reduction of the authorized number of directors shall have the effect of removing any director prior to the expiration of such director's term of office.

### 3.12 CLASSIFICATION OF DIRECTORS

The directors shall be classified in respect of the time for which they shall severally hold office as follows:

(1) Each class shall be as nearly equal in number as possible.

(2) The term of office of at least one class shall expire in each year.

(3) With the exception of the classes of the initial board of directors, the members of each class shall be elected for a period of three years.

(4) The initial Board of Directors shall be classified into three (3) classes with (i) Class I serving until the annual meeting of stockholders next following January 31, 2015; (ii) Class II serving until the annual meeting of stockholders next following January 31, 2016; (iii) and Class III serving until the annual meeting of stockholders next following January 31, 2017; in each case such directors shall serve until a successor has been duly elected and qualified, or until his or her earlier death, resignation or removal.

## ARTICLE IV - COMMITTEES

### 4.1 COMMITTEES OF DIRECTORS.

The Board may, by resolution passed by a majority of the authorized number of directors, designate one or more committees, each committee to consist of one or more of the directors of the corporation. The Board may designate one or more directors as alternate members of any committee, who may replace any absent or disqualified member at any meeting of the committee. In the absence or disqualification of a member of a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not such member or members constitute a quorum, may unanimously appoint another member of the Board to act at the meeting in the place of any such absent or disqualified member. Any such committee, to the extent provided in the resolution of the Board or in these bylaws, shall have and may exercise all the powers and authority of the Board in the management of the business and affairs of the corporation, and may authorize the seal of the corporation to be affixed to all papers that may require it; but no such committee shall have the power or authority to (i) approve or adopt, or recommend to the stockholders, any action or matter expressly required by the DGCL to be submitted to stockholders for approval, or (ii) adopt, amend or repeal any bylaw of the corporation.

### 4.2 COMMITTEE MINUTES.

Each committee shall keep regular minutes of its meetings and report the same to the Board when required.

### 4.3 MEETINGS AND ACTION OF COMMITTEES.

Meetings and actions of committees shall be governed by, and held and taken in accordance with, the provisions of:

- (i) Section 3.5 (place of meetings and meetings by telephone);
- (ii) Section 3.6 (regular meetings);
- (iii) Section 3.7 (special meetings and notice);
- (iv) Section 3.8 (quorum);
- (v) Section 3.9 (action without a meeting); and
- (vi) Section 7.12 (waiver of notice) with such changes in the context of those bylaws as are necessary to substitute the committee and its members for the Board and its members; provided, however:
  - (i) the time of regular meetings of committees may be determined either by resolution of the Board or by resolution of the committee;

- (ii) special meetings of committees may also be called by resolution of the Board; and
- (iii) notice of special meetings of committees shall also be given to all alternate members, who shall have the right to attend all meetings of the committee. The Board may adopt rules for the governance of any committee not inconsistent with the provisions of these bylaws.

## ARTICLE V - OFFICERS

### 5.1 OFFICERS.

The officers of the corporation shall be a president and a secretary. The corporation may also have, at the discretion of the Board, a chairperson of the Board, a vice chairperson of the Board, a chief executive officer, a chief financial officer or treasurer, one or more vice presidents, one or more assistant vice presidents, one or more assistant treasurers, one or more assistant secretaries, and any such other officers as may be appointed in accordance with the provisions of these bylaws. Any number of offices may be held by the same person.

### 5.2 APPOINTMENT OF OFFICERS.

The Board shall appoint the officers of the corporation, except such officers as may be appointed in accordance with the provisions of Sections 5.3 and 5.5 of these bylaws, subject to the rights, if any, of an officer under any contract of employment.

### 5.3 SUBORDINATE OFFICERS.

The Board may appoint, or empower the chief executive officer or, in the absence of a chief executive officer, the president, to appoint, such other officers and agents as the business of the corporation may require. Each of such officers and agents shall hold office for such period, have such authority, and perform such duties as are provided in these bylaws or as the Board may from time to time determine.

### 5.4 REMOVAL AND RESIGNATION OF OFFICERS.

Subject to the rights, if any, of an officer under any contract of employment, any officer may be removed, either with or without cause, by an affirmative vote of the majority of the Board at any regular or special meeting of the Board or, except in the case of an officer chosen by the Board, by any officer upon whom such power of removal may be conferred by the Board.

Any officer may resign at any time by giving written notice to the corporation. Any resignation shall take effect at the date of the receipt of that notice or at any later time specified in that notice. Unless otherwise specified in the notice of resignation, the acceptance of the resignation shall not be necessary to make it effective. Any resignation is without prejudice to the rights, if any, of the corporation under any contract to which the officer is a party.

### 5.5 VACANCIES IN OFFICES.

Any vacancy occurring in any office of the corporation shall be filled by the Board or as provided in Section 5.2.

## 5.6 REPRESENTATION OF SHARES OF OTHER CORPORATIONS.

The chairperson of the Board, the president, any vice president, the treasurer, the secretary or assistant secretary of this corporation, or any other person authorized by the Board or the president or a vice president, is authorized to vote, represent, and exercise on behalf of this corporation all rights incident to any and all shares of any other corporation or corporations standing in the name of this corporation. The authority granted herein may be exercised either by such person directly or by any other person authorized to do so by proxy or power of attorney duly executed by such person having the authority.

## 5.7 CHAIRPERSON OF THE BOARD.

The chairperson of the Board, if such an officer be elected, shall, if present, preside at meetings of the board of directors and exercise such other powers and perform such other duties as may from time to time be assigned to him by the board of directors or as may be prescribed by these bylaws. If there is no chairperson of the Board, then the chief executive officer of the corporation shall have the powers and duties prescribed herein.

## 5.8 CHIEF EXECUTIVE OFFICER.

Subject to such supervisory powers, if any, as may be given by the Board to the chairperson of the Board, if there be such an officer, the chief executive officer of the corporation shall, subject to the control of the Board, have general supervision, direction and control of the business and the officers of the corporation. He or she shall preside at all meetings of the stockholders and, in the absence or nonexistence of a chairperson of the Board, at all meetings of the Board.

## 5.9 PRESIDENT.

Subject to such supervisory powers, if any, as may be given by the Board to the chief executive officer, if there be such an officer, the president of the corporation shall, subject to the control of the Board, have general supervision over the operations of the corporation. He or she shall have the general powers and duties of management usually vested in the office of president of a corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board or these bylaws.

## 5.10 VICE PRESIDENTS.

In the absence or disability of the president, and if there is no chairperson of the Board, the vice presidents, if any, in order of their rank as fixed by the Board or, if not ranked, a vice president designated by the Board, shall perform all the duties of the president and when so acting shall have all the powers of, and be subject to all the restrictions upon, the president. The vice presidents shall have such other powers and perform such other duties as from time to time may be prescribed for them respectively by the Board, these bylaws, the president or the chairperson of the Board.

## 5.11 SECRETARY.

The secretary shall keep or cause to be kept, at the principal executive office of the corporation or such other place as the Board may direct, a book of minutes of all meetings and actions of the Board, committees of directors and stockholders. The minutes shall show the time and place of each meeting, whether regular or special (and, if special, how authorized and the notice given), the names of those present at directors' meetings or committee meetings, the number of shares present or represented at stockholders' meetings and the proceedings thereof.

The secretary shall keep, or cause to be kept, at the principal executive office of the corporation or at the office of the corporation's transfer agent or registrar, as determined by resolution of the Board, a share register or a duplicate share register, showing the names of all stockholders and their addresses, the number and classes of shares held by each, and, if certificates have been issued, the number and date of certificates evidencing such shares and the number and date of cancellation of every certificate surrendered for cancellation.

The secretary shall give, or cause to be given, notice of all meetings of the stockholders and of the Board required to be given by law or by these bylaws. He or she shall keep the seal of the corporation, if one be adopted, in safe custody and shall have such other powers and perform such other duties as may be prescribed by the Board or by these bylaws.

#### 5.12 CHIEF FINANCIAL OFFICER.

The chief financial officer shall keep and maintain, or cause to be kept and maintained, adequate and correct books and records of accounts of the properties and business transactions of the corporation, including accounts of its assets, liabilities, receipts, disbursements, gains, losses, capital, retained earnings and shares. The books of account shall at all reasonable times be open to inspection by any director for a purpose reasonably related to his position as a director.

The chief financial officer shall deposit all money and other valuables in the name and to the credit of the corporation with such depositaries as may be designated by the Board. He or she shall disburse the funds of the corporation as may be ordered by the Board, shall render to the president and directors, whenever they request it, an account of all of his or her transactions as chief financial officer and of the financial condition of the corporation, and shall have such other powers and perform such other duties as may be prescribed by the Board or these bylaws.

#### 5.13 AUTHORITY AND DUTIES OF OFFICERS.

In addition to the foregoing authority and duties, all officers of the corporation shall respectively have such authority and perform such duties in the management of the business of the corporation as may be designated from time to time by the Board or the stockholders and, to the extent not so provided, as generally pertain to their respective offices, subject to the control of the Board.

### ARTICLE VI - RECORDS AND REPORTS

#### 6.1 MAINTENANCE AND INSPECTION OF RECORDS.

The corporation shall, either at its principal executive office or at such place or places as designated by the Board, keep a record of its stockholders listing their names and addresses and the number and class of shares held by each stockholder, a copy of these bylaws as amended to date, accounting books, and other records.

Any stockholder of record, in person or by attorney or other agent, shall, upon written demand under oath stating the purpose thereof, have the right during the usual hours for business, at such stockholder's expense, to inspect for any proper purpose the corporation's stock ledger, a list of its stockholders, and its other books and records and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to such person's interest as a stockholder. In every instance where an attorney or other agent is the person who seeks the right to inspection, the demand under oath shall be accompanied by a power of attorney or such other writing that authorizes the attorney or other agent so to act on behalf of the stockholder. The demand under oath shall be directed to the corporation at its registered office in Delaware or at its principal executive office.

## 6.2 INSPECTION BY DIRECTORS.

Any director shall have the right to examine the corporation's stock ledger, a list of its stockholders, and its other books and records for a purpose reasonably related to his or her position as a director. The Court of Chancery is hereby vested with the exclusive jurisdiction to determine whether a director is entitled to the inspection sought. The Court may summarily order the corporation to permit the director to inspect any and all books and records, the stock ledger, and the stock list and to make copies or extracts therefrom. The Court may, in its discretion, prescribe any limitations or conditions with reference to the inspection, or award such other and further relief as the Court may deem just and proper.

## ARTICLE VII - GENERAL MATTERS

### 7.1 EXECUTION OF CORPORATE CONTRACTS AND INSTRUMENTS.

The Board, except as otherwise provided in these bylaws, may authorize any officer or officers, or agent or agents, to enter into any contract or execute any instrument in the name of and on behalf of the corporation; such authority may be general or confined to specific instances. Unless so authorized or ratified by the Board or within the agency power of an officer, no officer, agent or employee shall have any power or authority to bind the corporation by any contract or engagement or to pledge its credit or to render it liable for any purpose or for any amount.

### 7.2 STOCK CERTIFICATES; PARTLY PAID SHARES.

The shares of the corporation shall be represented by certificates, provided that the Board may provide by resolution or resolutions that some or all of any or all classes or series of its stock shall be uncertificated shares. Any such resolution shall not apply to shares represented by a certificate until such certificate is surrendered to the corporation. Notwithstanding the adoption of such a resolution by the Board, every holder of stock represented by certificates shall be entitled to have a certificate signed by, or in the name of the corporation by the chairperson or vice-chairperson of the Board, or the president or vice-president, and by the treasurer or an assistant treasurer, or the secretary or an assistant secretary of such corporation representing the number of shares registered in certificate form. Any or all of the signatures on the certificate may be a facsimile. In case any officer, transfer agent or registrar who has signed or whose facsimile signature has been placed upon a certificate has ceased to be such officer, transfer agent or registrar before such certificate is issued, it may be issued by the corporation with the same effect as if he were such officer, transfer agent or registrar at the date of issue. The corporation also may issue paperless book-entry shares as a pre-condition for inclusion in the DWAC/FAST and DRS Profile systems offered by The Depository Trust & Clearing Corporation.

The corporation may issue the whole or any part of its shares as partly paid and subject to call for the remainder of the consideration to be paid therefor. Upon the face or back of each stock certificate issued to represent any such partly paid shares, or upon the books and records of the corporation in the case of uncertificated partly paid shares, the total amount of the consideration to be paid therefor and the amount paid thereon shall be stated. Upon the declaration of any dividend on fully paid shares, the corporation shall declare a dividend upon partly paid shares of the same class, but only upon the basis of the percentage of the consideration actually paid thereon.

### 7.3 SPECIAL DESIGNATION ON CERTIFICATES.

If the corporation is authorized to issue more than one class of stock or more than one series of any class, then the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights shall be set forth in full or summarized on the face or back of the certificate that the corporation shall issue to represent such class or series of stock; provided, however, that, except as otherwise provided in Section 202 of the DGCL, in lieu of the foregoing requirements there may be set forth on the face or back of the certificate that the corporation shall issue to represent such class or series of stock a statement that the corporation will furnish without charge to each stockholder who so requests the powers, the designations, the preferences, and the relative, participating, optional or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

### 7.4 LOST CERTIFICATES.

Except as provided in this Section 7.4, no new certificates for shares shall be issued to replace a previously issued certificate unless the latter is surrendered to the corporation and cancelled at the same time. The corporation may issue a new certificate of stock or uncertificated shares in the place of any certificate theretofore issued by it, alleged to have been lost, stolen or destroyed, and the corporation may require the owner of the lost, stolen or destroyed certificate, or such owner's legal representative, to give the corporation a bond sufficient to indemnify it against any claim that may be made against it on account of the alleged loss, theft or destruction of any such certificate or the issuance of such new certificate or uncertificated shares.

### 7.5 CONSTRUCTION; DEFINITIONS.

Unless the context requires otherwise, the general provisions, rules of construction, and definitions in the DGCL shall govern the construction of these bylaws. Without limiting the generality of this provision, the singular number includes the plural, the plural number includes the singular, and the term "person" includes both a business entity and a natural person.

### 7.6 DIVIDENDS.

The Board, subject to any restrictions contained in either (i) the DGCL, or (ii) the certificate of incorporation, may declare and pay dividends upon the shares of its capital stock. Dividends may be paid in cash, in property, or in shares of the corporation's capital stock.

The Board may set apart out of any of the funds of the corporation available for dividends a reserve or reserves for any proper purpose and may abolish any such reserve. Such purposes shall include but not be limited to equalizing dividends, repairing or maintaining any property of the corporation, and meeting contingencies.

### 7.7 FISCAL YEAR.

The fiscal year of the corporation shall be fixed by resolution of the Board and may be changed by the Board.

### 7.8 SEAL.

The corporation may adopt a corporate seal, which shall be adopted and which may be altered by the Board. The corporation may use the corporate seal by causing it or a facsimile thereof to be impressed or affixed or in any other manner reproduced.

## 7.9 TRANSFER OF STOCK.

To the extent that certificates have been issued, upon surrender to the corporation or the transfer agent of the corporation of a certificate for shares duly endorsed or accompanied by proper evidence of succession, assignation or authority to transfer, it shall be the duty of the corporation to issue a new certificate to the person entitled thereto, cancel the old certificate, and record the transaction in its books.

## 7.10 STOCK TRANSFER AGREEMENTS.

The corporation shall have power to enter into and perform any agreement with any number of stockholders of any one or more classes of stock of the corporation to restrict the transfer of shares of stock of the corporation of any one or more classes owned by such stockholders in any manner not prohibited by the DGCL.

## 7.11 REGISTERED STOCKHOLDERS.

The corporation:

(i) shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends and to vote as such owner;

(ii) shall be entitled to hold liable for calls and assessments the person registered on its books as the owner of shares; and

(iii) shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of another person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of Delaware.

## 7.12 WAIVER OF NOTICE.

Whenever notice is required to be given under any provision of the DGCL, the certificate of incorporation or these bylaws, a written waiver, signed by the person entitled to notice, or a waiver by electronic transmission by the person entitled to notice, whether before or after the time of the event for which notice is to be given, shall be deemed equivalent to notice. Attendance of a person at a meeting shall constitute a waiver of notice of such meeting, except when the person attends a meeting for the express purpose of objecting at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the stockholders need be specified in any written waiver of notice or any waiver by electronic transmission unless so required by the certificate of incorporation or these bylaws.

7.13 FORUM FOR ADJUDICATING DISPUTES. Unless the corporation consents in writing to the selection of an alternative forum, the Court of Chancery of the State of Delaware (or such other court in the State of Delaware should the Court of Chancery not have jurisdiction) shall be the sole and exclusive forum for (a) any derivative action or proceeding brought on behalf of the corporation, (b) any action asserting a claim of breach of a fiduciary duty owed by any director, officer or other employee of the corporation to the corporation or the corporation's stockholders, (c) any action asserting a claim arising pursuant to any provision of the Delaware General Corporation Law, or (d) any action asserting a claim governed by the internal affairs doctrine. Any person or entity purchasing or otherwise acquiring any interest in shares of capital stock of the corporation shall be deemed to have notice of and consented to the provisions of this Section.

## ARTICLE VIII - NOTICE BY ELECTRONIC TRANSMISSION

### 8.1 NOTICE BY ELECTRONIC TRANSMISSION.

Without limiting the manner by which notice otherwise may be given effectively to stockholders pursuant to the DGCL, the certificate of incorporation or these bylaws, any notice to stockholders given by the corporation under any provision of the DGCL, the certificate of incorporation or these bylaws shall be effective if given by a form of electronic transmission consented to by the stockholder to whom the notice is given. Any such consent shall be revocable by the stockholder by written notice to the corporation. Any such consent shall be deemed revoked if:

(i) the corporation is unable to deliver by electronic transmission two consecutive notices given by the corporation in accordance with such consent; and

(ii) such inability becomes known to the secretary or an assistant secretary of the corporation or to the transfer agent, or other person responsible for the giving of notice.

However, the inadvertent failure to treat such inability as a revocation shall not invalidate any meeting or other action.

Any notice given pursuant to the preceding paragraph shall be deemed given:

(i) if by facsimile telecommunication, when directed to a number at which the stockholder has consented to receive notice;

(ii) if by electronic mail, when directed to an electronic mail address at which the stockholder has consented to receive notice;

(iii) if by a posting on an electronic network together with separate notice to the stockholder of such specific posting, upon the later of (A) such posting and (B) the giving of such separate notice; and

(iv) if by any other form of electronic transmission, when directed to the stockholder.

An affidavit of the secretary or an assistant secretary or of the transfer agent or other agent of the corporation that the notice has been given by a form of electronic transmission shall, in the absence of fraud, be prima facie evidence of the facts stated therein.

### 8.2 DEFINITION OF ELECTRONIC TRANSMISSION.

An "electronic transmission" means any form of communication, not directly involving the physical transmission of paper, that creates a record that may be retained, retrieved, and reviewed by a recipient thereof, and that may be directly reproduced in paper form by such a recipient through an automated process.

### 8.3 INAPPLICABILITY.

Notice by a form of electronic transmission shall not apply to Sections 164, 296, 311, 312 or 324 of the DGCL.

## ARTICLE IX - INDEMNIFICATION

### 9.1 INDEMNIFICATION OF DIRECTORS AND OFFICERS

The corporation shall indemnify and hold harmless, to the fullest extent permitted by the DGCL as it presently exists or may hereafter be amended, any director or officer of the corporation who was or is made or is threatened to be made a party or otherwise involved in any action, suit or proceeding, whether civil, criminal, administrative or investigative (a "PROCEEDING") by reason of the fact that he or she is or was a director, officer, employee or agent of the corporation or is or was serving at the written request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or other enterprise, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by such person in connection with any such Proceeding. The corporation shall be required to indemnify a person in connection with a Proceeding initiated by such person only if the Proceeding was authorized by the Board.

### 9.2 INDEMNIFICATION OF OTHERS

The corporation may indemnify and hold harmless, to the extent permitted by the DGCL as it presently exists or may hereafter be amended, any employee or agent of the corporation who was or is made or is threatened to be made a party or otherwise involved in any Proceeding by reason of the fact that he or she is or was an employee or agent of the corporation or is or was serving at the written request of the corporation as a director, officer, employee or agent of another corporation or of a partnership, joint venture, trust or enterprise against expenses actually and reasonably incurred by such person in connection with any such Proceeding.

### 9.3 PREPAYMENT OF EXPENSES

The corporation shall pay the expenses incurred by any officer or director of the corporation, and may pay the expenses incurred by any employee or agent of the corporation, in defending any Proceeding in advance of its final disposition; provided, however, that the payment of expenses incurred by a person in advance of the final disposition of the Proceeding shall be made only upon receipt of an undertaking by the person to repay all amounts advanced if it should be determined that the person is not entitled to be indemnified under this Article IX or otherwise.

### 9.4 DETERMINATION; CLAIM

If a claim for indemnification or payment of expenses under this Article IX is not paid in full within sixty days after a written claim therefor has been received by the corporation the claimant may file suit to recover the unpaid amount of such claim and, if successful in whole or in part, shall be entitled to be paid the expense of prosecuting such claim.

### 9.5 NON-EXCLUSIVITY OF RIGHTS

The rights conferred on any person by this Article IX shall not be exclusive of any other rights which such person may have or hereafter acquire under any statute, provision of the certificate of incorporation, these bylaws, agreement, vote of stockholders or disinterested directors or otherwise.

### 9.6 INSURANCE

The corporation may purchase and maintain insurance on behalf of any person who is or was a director, officer, employee or agent of the corporation, or is or was serving at the request of the corporation as a director, officer, employee or agent of another corporation, partnership, joint venture, trust or other enterprise against any liability asserted against him or her and incurred by him or her in any such capacity, or arising out of his or her status as such, whether or not the corporation would have the power to indemnify him or her against such liability under the provisions of the DGCL.

#### 9.7 OTHER INDEMNIFICATION

The corporation's obligation, if any, to indemnify any person who was or is serving at its request as a director, officer, employee or agent of another corporation, partnership, joint venture, trust, enterprise or non-profit entity shall be reduced by any amount such person may collect as indemnification from such other corporation, partnership, joint venture, trust, enterprise or non-profit enterprise.

#### 9.8 AMENDMENT OR REPEAL

Any repeal or modification of the foregoing provisions of this Article IX shall not adversely affect any right or protection hereunder of any person in respect of any act or omission occurring prior to the time of such repeal or modification.

### ARTICLE X - AMENDMENTS

These bylaws may be adopted, amended or repealed by the board of directors or a majority of the stockholders entitled to vote thereon.

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State of Delaware  
Secretary of State  
Division of Corporations  
Delivered 02:19 PM 02/08/2016  
FILED 02:19 PM 02/08/2016  
SR 20160658721 - File Number 783047

**STATE OF DELAWARE  
CERTIFICATE OF AMENDMENT  
OF CERTIFICATE OF INCORPORATION**

The corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware dose hereby certify:

**FIRST:** That at a meeting of the Texas Wyoming Drilling, Inc. Board of Directors of resolutions were duly adopted setting forth a proposed amendment of the Certificate of Incorporation of said corporation, declaring said amendment to be advisable and calling a meeting of the stockholders of said corporation for consideration thereof. The resolution setting forth the proposed amendment is as follows:

**RESOLVED**, that the Certificate of Incorporation of this corporation be amended

by changing the Article thereof numbered “(4) fourth” so that, as amended, said Article shall be and read as follows:

The Corporation hereby recapitalizes the corporate structure in the form of reverse stock split on the common stock only, at a rate of one share for every 150 shares outstanding and without affecting the Series A Preferred Stock, which preferred stock shall not be subject to this inverse split/corporate action. The effective date of this reverse stock split shall be immediately upon the approval by Financial Industry Regulatory Authority (FINRA) of such corporate action. Any and all fractional shares resulting from this corporate action shall be rounded up to the next highest whole number. Immediately upon effectiveness of the 1:150 Reverse Stock Split, in order to eliminate the resulting consequence to the authorized number of shares and to the par value, respectively, and to further reduce the number of authorized shares, the Corporation’s Certificate of Incorporation is hereby amended such that the total number of Authorized Shares of Capital Stock shall at that moment be increased from 10,000,000 (otherwise resulting from the 1:150 Reverse Stock Split), to 500,000,000 shares, and the par value shall be decreased from \$0.015 to \$0.0001 (otherwise resulting from the 1:150 Reverse Stock Split).

**SECOND:** That thereafter, pursuant to resolution of its Board of Directors, a special meeting of the stockholders of said corporation was duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware at which meeting the necessary number of shares as required by statute were voted in favor of the amendment.

**THIRD:** That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

**IN WITNESS WHEREOF**, said corporation has caused this certificate to be signed this 26<sup>th</sup> day of December, 2016.

Authorized Officer Title: President  
/s/ Margo Cadena

Name: Margo Cadena  
Print or Type: Margo Cadena

State of Delaware  
Secretary of State  
Division of Corporations  
Delivered 02:19 PM 02/08/2016  
FILED 02:20 PM 02/08/2016  
SR 20160660032 - File Number 783047

**Certificate of Designations, Preferences  
and Rights of Series A Preferred Stock  
of  
Texas Wyoming Drilling, Inc.**

TEXAS WYOMING DRILLING, INC. (the "Corporation"), a corporation organized and existing under the General Corporation Law of the State of Delaware, by and through its duly authorized Secretary, does hereby certify that, pursuant to authority conferred upon the Board of Directors of the Corporation by the Certificate of Incorporation of the Corporation and pursuant to section 151 of the General Corporation Law of the State of Delaware, the Board of Directors of the Corporation duly adopted the following resolution effective as of December 12, 2014, which resolution remain in full force and effect as of the date hereof:

WHEREAS, pursuant to the authority conferred upon the Board of Directors of the Corporation by the Certificate of Incorporation of the Corporation and pursuant of Section 151 of the General Corporation Law of the State of Delaware, effective as of December 12, 2014, the Board of Directors of the Corporation created authorized and provided for the issuance of a series of shares of preferred stock, par value \$0.0001 per share, of the Corporation, consisting of Two Hundred Fifty (250) shares designated as Series A Preferred Stock and to further designate and establish the voting powers, limitations, rights and preferences with respect thereto, as set forth herein.

NOW THEREFOR BE IT RESOLVED that pursuant to the authority conferred upon the Board of Directors of the Corporation by the Certificate of Incorporation of Corporation and pursuant to Section 151 of the General Corporation Law of the State of Delaware, the Board of Directors hereby amends the Certificate of Incorporation by amending Article 4 of the Certificate of Incorporation and Designating a singles series of Preferred Stock out of the Authorized but Undesignated Shares of Preferred Stock as follows:

**FIRST RESOLUTION:**

Designation. The Two Hundred Fifty (250) shares of the Corporation's authorized but undesignated shares of Preferred Stock is hereby designated as Series A Preferred Stock (the "Series A Preferred Stock"), par value \$0.0001 per share, and such shares are hereby designated as such and each share shall have the following voting powers, limitations, rights and preferences:

The right to vote on all matters coming to the shareholders with each share casting a vote equal to the quotient of the sum of all outstanding shares of common stock divided by 0.99. The Series A Preferred Stock shall have no other rights or preferences.

IN WITNESS WHEREOF, the Corporation has caused this certificate to be signed by, its President, effective as of the 26<sup>th</sup> day of December, 2015.

TEXAS WYOMING DRILLING, INC.

By: /s/ Margaret Cadena

Name: Margaret Cadena

Title: President

State of Delaware  
Secretary of State  
Division of Corporations  
Delivered 02:24 PM 12/15/2014  
FILED 02:24 PM 12/15/2014  
SRV 141540578 - 0783047 FILE

**STATE OF DELAWARE  
CERTIFICATE OF AMENDMENT  
OF CERTIFICATE OF INCORPORATION**

The corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware does hereby certify:

**FIRST:** That at a meeting of the Board of Directors of TEXAS WYOMING DRILLING, INC. resolutions were duly adopted setting forth a proposed amendment of the Certificate of Incorporation of said corporation, declaring said amendment to be advisable and calling a meeting of the stockholders of said corporation for consideration thereof. The resolution setting forth the proposed amendment is as follows:

**RESOLVED,** that the Certificate of Incorporation of this corporation be amended by changing the Article thereof numbered “(4) FOURTH” so that, as amended, said Article shall be and read as follows:

THE AUTHORIZED STOCK FOR THIS COMPANY SHALL BE 1,500,000,000 SHARES THAT SHALL CONSIST OF 1,499,999,750 SHARES OF COMMON STOCK WITH A PAR VALUE OF .0001 AND 250 PREFERRED SHARES WITH A PAR VALUE OF .0001
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**SECOND:** That thereafter, pursuant to resolution of its Board of Directors, a special meeting of the stockholders of said corporation was duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware at which meeting the necessary number of shares as required by statute were voted in favor of the amendment.

**THIRD:** That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

**IN WITNESS WHEREOF,** said corporation has caused this certificate to be signed this 12TH day of DECEMBER, 2014.

By: /s/ Margo Cadena  
Authorized Officer

Title: PRESIDENT CEO.

Name: MARGO CADENA  
Print or Type

State of Delaware  
Secretary of State  
Division of Corporations  
Delivered 02:50 PM 04/22/2008  
FILED 02:50 PM 04/22/2008  
SRV 080458518 - 0783047 FILE

**STATE OF DELAWARE  
CERTIFICATE OF AMENDMENT  
OF CERTIFICATE OF INCORPORATION**

The corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware does hereby certify:

**FIRST:** That at a meeting of the Board of Directors of eWeb21 Corp resolutions were duly adopted setting forth a proposed amendment of the Certificate of Incorporation of said corporation, declaring said amendment to be advisable and calling a meeting of the stockholders of said corporation for consideration thereof. The resolution setting forth the proposed amendment is as follows:

**RESOLVED,** that the Certificate of Incorporation of this corporation be amended by changing the Article thereof numbered "1" so that, as amended, said Article shall be and read as follows:

Texas Wyoming Drilling, Inc.

**SECOND:** That thereafter, pursuant to resolution of its Board of Directors, a special meeting of the stockholders of said corporation was duly called and held upon notice in accordance with Section 222 of the General Corporation Law of the State of Delaware at which meeting the necessary number of shares as required by statute were voted in favor of the amendment.

**THIRD:** That said amendment was duly adopted in accordance with the provisions of Section 242 of the General Corporation Law of the State of Delaware.

**IN WITNESS WHEREOF,** said corporation has caused this certificate to be signed this 21 day of April, 2008.

By: /s/ Doug Davis

Authorized Officer

Title: CEO

Name: Doug Davis

Print or Type

AMENDED AND RESTATED CERTIFICATE OF INCORPORATION OF

**eWeb21 Corp.**

Pursuant to Section 245 of the General Corporation Law of the State of Delaware, eWeb21 Corp.. (hereinafter referred to as the "Corporation"), a corporation organized and existing under and by virtue of the General Corporation Law of the State of Delaware, DOES HEREBY CERTIFY:

1. The Corporation duly filed its original Certificate of Incorporation with the Secretary of State of Delaware on June 28, 1972 under the name OSR Corporation.

2. Pursuant to written action of the directors in lieu of a meeting taken by the Directors of the Corporation on October 18, 2000 resolutions were duly adopted, pursuant to Sections 141(f), 242(a) and 245 of the General Corporation Law of the State of Delaware, proposing and declaring advisable the amendment and restatement of the Certificate of Incorporation of the Corporation, as provided in Exhibit A hereto. Such resolutions are as follows:

**RESOLVED:** That it is hereby deemed advisable and in the best interests of the Corporation to effect an amendment to the Certificate of Incorporation of the Corporation, as amended to date, pursuant to which

- (a) the number of authorized common and preferred shares would be changed from 50,000 shares of common stock and 50,000,000 shares of preferred stock to 95,000,000 shares of common stock and 5,000,000 shares of preferred stock;
- (b) provisions relating to the limitation of personal liability and to indemnification of directors and officers would be added;
- (c) provisions relating to arrangements with creditors would be added;
- (d) the application of Section 203 relating to interested directors would not govern; and
- (e) that the Corporation's Certificate of Incorporation be amended and restated in its entirety so that the same shall read as set forth in Exhibit A hereto.

3. The necessary number of shares as required by statute consented in writing on October 18, 2000, to the amendment pursuant to Section 228 of the Delaware General Corporation Law.

4. Said amendment and restatement was duly adopted in accordance with the provisions of Section 242 of the Delaware General Corporation Law.

I, THE UNDERSIGNED, being the Chief Executive Officer of the Corporation, do make, file and record this Amended and Restated Certificate of Incorporation, do certify that the facts herein stated are true and, accordingly, have hereto set my hand this 25th day of October, 2000.

/s/ Paul Robert Lambert

Paul Robert Lambert  
Chief Executive Officer

STATE OF DELAWARE  
SECRETARY OF STATE  
DIVISION OF CORPORATIONS  
FILED 09:02 AM 10/25/2000  
001540233 - 0783047

**Exhibit A**

**The Amended and Restated Certificate Of Incorporation Of**

**eWeb21 Corp.**

**FIRST:**

The name of this corporation (hereinafter called the "Corporation") is

**eWeb21 Corp.**

**SECOND:**

The address, including street, number, city and county, of the registered office of the Corporation in the State of Delaware is 2711 Centerville Road Suite 400 , Wilmington, in the County of New Castle. The registered agent is Corporation Service Company.

**THIRD:**

The nature of the business and the purpose to be conducted and promoted by the Corporation, which shall be in addition to the authority of the Corporation to conduct any lawful business, is to engage in any lawful act or activity for which corporations may be organized under the Delaware General Corporation Law of the State of Delaware and to do anything which shall appear necessary or beneficial to the Corporation in connection with (a) its operation, (b) accomplishment of its purposes, or (c) exercise of its powers set forth in this Certificate.

**FOURTH:**

The total number of shares of stock which the Corporation shall have authority to issue is 100,000,000. The par value of each of such shares is \$0.01.

95,000,000 of such shares shall be shares of common stock.

5,000,000 of such shares shall be shares of preferred stock. The board of directors of the Corporation is hereby granted the power to authorize by resolution, duly adopted from time to time, the issuance of any or all of the preferred stock in any number of classes or series within such classes and to set all terms of such preferred stock of any class or series, including, without limitation, its powers, preferences, rights, privileges, qualifications, restrictions and/or limitations. The powers, preference, rights, privileges, qualifications, restrictions and limitations of each class or series of the preferred stock, if any, may differ from those of any and all other classes or other series at any time outstanding. Any shares of any one series of preferred stock shall be identical in all respects with all other shares of such series, except that shares of any one series issued at different times may differ as to the dates from which dividends thereof shall be cumulative.

**FIFTH:**

The Corporation is to have perpetual existence.

## **SIXTH:**

Whenever a compromise or arrangement is proposed between the Corporation and its creditors or any class of them and/or between the Corporation and its stockholders or any class of them, any court of equitable jurisdiction within the State of Delaware may, on the application in a summary way of the Corporation or of any creditor or stockholder thereof or on the application of any receiver or receivers appointed for the Corporation under the provisions of Section 291 of the Delaware General Corporation Law or on the application of trustees in dissolution or of any receiver or receivers appointed for the Corporation under the provisions of Section 279 of the Delaware General Corporation Law order a meeting of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, to be summoned in such manner as the said court directs. If a majority in number representing three-fourths in value of the creditors or class of creditors, and/or of the stockholders or class of stockholders of the Corporation, as the case may be, agree to any compromise or arrangement of the Corporation as consequence and to any reorganization of such compromise or arrangement, the said compromise or arrangement and the said reorganization shall, if sanctioned by the court to which the said application has been made, be binding on all the creditors or class of creditors, and/or on all the stockholders or class of stockholders, of the Corporation, as the case may be, and also on the Corporation.

## **SEVENTH:**

For the management of the business and for the conduct of the affairs of the Corporation, and in further definition, limitation and regulation of the powers of the Corporation and of its directors and of its stockholders or any class thereof, as the case may be, it is further provided:

- The management of the business and the conduct of the affairs of the Corporation shall be vested in its board of directors. The number of directors which shall constitute the whole board of directors shall be fixed by, or in the manner provided in, the by-laws. The phrase "whole board" and the phrase "total number of directors" shall be deemed to have the same meanings to wit, the total number of directors which the Corporation would have if there were no vacancies. No election of directors need be by written ballot.
- 1.

- After the original or other by-laws of the Corporation have been adapted, amended, or repealed, as the case may be, in accordance with the provisions of Section 109 of the Delaware General Corporation Law, and after the Corporation has received any payment for any of its stock, the power to adopt, amend, or repeal the by-laws of the Corporation may be exercised by the board of directors of the Corporation subject to the reserved power of the stockholders to make, alter and repeal any by-laws adopted by the board of directors; provided, however, that any provision for the classification of directors of the Corporation for staggered terms pursuant to the provisions of subsection (d) of Section 141 of the Delaware General Corporation Law shall be set forth in a by-law adopted by the stockholders of the Corporation entitled to vote.
- 2.

- Whenever the Corporation shall be authorized to issue only one class of stock, each outstanding share shall entitle the holder thereof to notice of, and the right to vote at, any meeting of stockholders. Whenever the Corporation shall be authorized to issue more than one class of stock, no outstanding share of any class of stock which is denied voting power under the provisions of this certificate of incorporation shall entitle the holder thereof to the right to vote at any meeting of stockholders except as the provisions of paragraph (2) of subsection (b) to Section 242 of the Delaware General Corporation Law' shall otherwise require; provided, that no share of any such class which is otherwise denied voting power shall entitle the holder thereof to vote upon the increase or decrease in the number of authorized shares of said class.
- 3.

4. With the consent in writing or pursuant to a vote of the holders of a majority of the capital stock issued and outstanding, the board of directors shall have the authority to dispose, in any manner, of the whole property of the Corporation

5. The by-laws shall determine whether and to what extent the accounts and books of the Corporation, or any of them, shall be open to inspection by the stockholders; and no stockholder shall have any right or inspecting any account or book or document of the Corporation, except as conferred by law or by by-laws or by resolution of the stockholders.

6. The stockholders and directors shall have the power to hold their meeting and to keep the books, documents and papers of the Corporation outside the State of Delaware at such places as may be from time to time designated by the by-laws or by resolution of the stockholders or directors, except as otherwise required by the Delaware General Corporation Law.

Any action required to be taken or which may be taken at any annual or special meeting of stockholders of the Corporation may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken, shall be signed by the holders of outstanding stock having not less than the minimum number of votes that would be necessary to authorize or take such action at a meeting at which all shares entitled to vote thereon were present and voted.

#### **EIGHTH:**

The personal liability of the directors of the Corporation is hereby eliminated to the fullest extent permitted by the provisions of paragraph (7) of subsection (b) of Section 102 of the Delaware General Corporation Law, as the same may be amended and supplemented.

#### **NINTH:**

The Corporation shall, to the fullest extent permitted by the provisions of Section 145 of the Delaware General Corporation Law, as the same may be amended and supplemented, indemnify any and all persons whom it shall have power to indemnify under said section from and against any and all of the expenses, liabilities or other matters referred to in or covered by said section, and the indemnification provided for herein shall not be deemed exclusive of any other rights to which those indemnified may be entitled under any by-law, agreement, vote of stockholders or disinterested directors or otherwise, both as to action in his official capacity and as to action In another capacity while holding such office, and shall continue as to a person who has ceased to be a director, officer, employee or agent and shall inure to the benefit of the heirs, executors and administrators of such a person. The foregoing right of indemnification shall in no way be exclusive of any other rights of indemnification to which such person may be entitled under any by-law, agreement, vote of stockholders or disinterested directors, or otherwise.

**TENTH:**

From time to time, any of the provisions of this certificate of incorporation may be amended, altered or repealed; and other provisions authorized by the laws at the time in force may be added or inserted in the manner and at the time prescribed by said laws; and all rights at any time conferred upon the stockholders of the Corporation by this certificate of incorporation are granted subject to the provisions of this Article TENTH.

**ELEVENTH:**

The Corporation elects not to be governed by Section 203 of the Delaware General Corporation Law.

INCORPORATED UNDER THE LAWS OF DELAWARE	
NUMBER	SHARES
<input type="text"/>	<input type="text"/>
<h1>DRONE USA, INC.</h1> <p>Fully Paid Non Assessable \$0.0001 Par Value <b>COMMON STOCK</b></p> <p>CUSIP NO. 26210T 107</p>	
<p><b>THIS CERTIFIES THAT</b></p> <p><b>IS THE RECORD HOLDER OF</b></p>	
<p><i>Shares of</i> <b>DRONE USA, INC.</b> <i>Capital Stock</i></p> <p><i>transferable on the books of the Corporation by the holder in person or by duly authorized attorney upon surrender of this Certificate properly endorsed. This Certificate is not valid until countersigned by the Transfer Agent and registered by the Registrar.</i></p> <p><i>WITNESS the facsimile seal of the Corporation and the facsimile signature of its duly authorized officers.</i></p>	
<p><i>Dated:</i></p> <p></p> <p>PRESIDENT</p>	<p>COUNTERSIGNED AND REGISTERED ACTION STOCK TRANSFER CORP. 2469 E Ft. Union Blvd., #214, Salt Lake City, UT 84121</p> <p>By: _____ TRANSFER AGENT-AUTHORIZED SIGNATURE</p>
<p></p> <p><b>SEAL</b></p> <p>DELAWARE</p>	
<p></p> <p>SECRETARY</p>	

**DRONE USA, INC.**  
**2016 Stock Incentive Plan**

**1. Establishment, Purpose and Types of Awards**

Drone USA, Inc., a Delaware corporation (the “Company”), hereby establishes the Drone USA, Inc. 2016 Stock Incentive Plan (the “Plan”). The purpose of the Plan is to promote the long-term growth and profitability of the Company by (i) providing key people with incentives to improve stockholder value and to contribute to the growth and financial success of the Company, and (ii) enabling the Company to attract, retain and reward the best-available persons.

The Plan permits the granting of stock Options (including incentive stock options qualifying under Code Section 422 and nonqualified stock options), Stock Appreciation Rights, restricted or unrestricted Stock Awards, Restricted Stock Units, Performance Awards, other stock-based awards, or any combination of the foregoing.

**2. Definitions**

Under this Plan, except where the context otherwise indicates, the following definitions apply:

2.1 “*Administrator*” shall mean the committee or committees as may be appointed by the Board from time to time to administer the Plan, or if no such committee is appointed, the Board itself. For purposes of establishing and certifying the achievement of Performance Goals pursuant to Code Section 162(m), any such committee shall consist of three or more persons, each of whom, unless otherwise determined by the Board, is (i) an “outside director” within the meaning of Code Section 162(m), (ii) a “nonemployee director” within the meaning of Rule 16b-3 and (iii) satisfies the requirements of the New York Stock Exchange for independent directors.

2.2 “*Affiliate*” shall mean any entity, whether now or hereafter existing, which controls, is controlled by, or is under common control with, the Company (including, but not limited to, joint ventures, limited liability companies, and partnerships). For this purpose, “control” shall mean ownership of 50% or more of the total combined voting power or value of all classes of stock or interests of the entity.

2.3 “*Award*” shall mean any stock Option, Stock Appreciation Right, Stock Award, Restricted Stock Unit, Performance Award, or other stock-based award.

2.4 “*Board*” shall mean the Board of Directors of the Company.

2.5 “*Change in Control*” shall mean shall mean the occurrence of one or more of the change in ownership or control events set forth in Treasury Regulation Section 1.409A-3(i)(5).

2.6 “*Code*” shall mean the Internal Revenue Code of 1986, as amended, and any regulations promulgated thereunder.

2.7 “*Common Stock*” shall mean shares of common stock of the Company, par value \$.0001 per share.

2.8 “*Exchange Act*” shall mean the Securities Exchange Act of 1934, as amended.

2.9 “*Fair Market Value*” So long as the Common Stock is registered under Section 12(b) or (g) of the Exchange Act, “*Fair Market Value*” shall mean, as applicable, (i) either the closing price or the average of the high and low sale price on the relevant date, as determined in the Administrator’s discretion, quoted on the New York Stock Exchange, the American Stock Exchange, or the Nasdaq National Market; (ii) the last sale price on the relevant date quoted on the Nasdaq National Market; (iii) the average of the high bid and low asked prices on the relevant date quoted on the FINRA OTC Bulletin Board or by the National Quotation Bureau, Inc. or a comparable service as determined in the Administrator’s discretion; or (iv) if the Common Stock is not quoted by any of the above, the average of the closing bid and asked prices on the relevant date furnished by a professional market maker for the Common Stock, or by such other source, selected by the Administrator. If no public trading of the Common Stock occurs on the relevant date, then Fair Market Value shall be determined as of the next preceding date on which trading of the Common Stock does occur. In the event that the Common Stock is not registered under Section 12(b) or (g) of the Exchange Act, Fair Market Value shall mean, with respect to a share of the Company’s Common Stock for any purpose on a particular date, the value determined by the Administrator in good faith; provided that for purpose of any Option or any Award that is deferred compensation subject to Code Section 409A, such value shall be determined reasonably in a manner that satisfies Code Section 409A.

2.10 “*Grant Agreement*” shall mean a written document memorializing the terms and conditions of an Award granted pursuant to the Plan and shall incorporate the terms of the Plan.

2.11 “*Incentive Stock Option*” shall mean an Option that is an “incentive stock option” within the meaning of Code Section 422, or any successor provision, and that is designated by the Administrator as an Incentive Stock Option.

2.12 “*Nonqualified Stock Option*” means an Option other than an Incentive Stock Option.

2.13 “*Option*” means the right to purchase a stated number of shares of Common Stock at a stated price for a stated period of time, granted pursuant to Section 7.

2.14 “*Parent*” shall mean a corporation, whether now or hereafter existing, within the meaning of the definition of “parent corporation” provided in Code Section 424(e), or any successor thereto.

2.15 “*Participant*” shall mean an employee, officer, director or consultant of the Company, or of any Affiliate of the Company to whom an Award is granted pursuant to the Plan, or upon the death of the Participant, his or her successors, heirs, executors, and administrators, as the case may be.

2.16 “*Performance Awards*” shall mean an Award of a number of shares or units granted to a Participant pursuant to Section 11 that is paid out based on the achievement of stated performance criteria or Performance Goals during a stated period of time.

2.17 *“Performance Goals”* shall mean the objectives established by the Administrator in its sole discretion with respect to any performance-based Awards that relate to one or more business criteria within the meaning of Code Section 162(m). Performance Goals may include or be based upon, without limitation: sales; gross revenue; gross margins; internal rate of return; cost; ratio of debt to debt plus equity; profit before tax; earnings before interest and taxes; earnings before interest, taxes, depreciation, and amortization; earnings per share; operating earnings; economic value added; ratio of operating earnings to capital spending; cash flow; free cash flow; net operating profit; net income; net earnings; net sales or net sales growth; price of Common Stock; return on capital, net assets, equity, or shareholders’ equity; segment income; market share; productivity ratios; expense targets; working capital targets; or total return to shareholders. Performance Goals may (a) be used to measure the performance of the Company as a whole or any Subsidiary, business unit or segment of the Company, (b) include or exclude (or be adjusted to include or exclude) extraordinary items, the impact of charges for restructurings, discontinued operations and other unusual and non-recurring items, and the cumulative effects of tax or accounting changes, each as defined by generally accepted accounting principles and as identified in the financial statements, notes to the financial statements, management’s discussion and analysis or other Securities and Exchange Commission filings, and/or (c) reflect absolute entity performance or a relative comparison of entity performance to the performance of a peer group, index, or other external measure, in each case as determined by the Administrator in its sole discretion.

2.18 *“Restricted Stock Units”* shall mean an Award granted to a Participant pursuant to Section 10, denominated in units, providing a Participant the right to receive payment at a future date after the lapse of restrictions or achievement of performance criteria or Performance Goals or other conditions determined by the Administrator.

2.19 *“Stock Appreciation Right” or “SAR”* shall mean the right to receive an amount calculated as provided in a grant pursuant to Section 8.

2.20 *“Stock Award”* shall mean an Award of restricted or unrestricted Common Stock granted to a Participant pursuant to Section 9 and the other provisions of the Plan.

2.21 *“Subsidiary” and “subsidiaries”* shall mean only a corporation or corporations, whether now or hereafter existing, within the meaning of the definition of “subsidiary corporation” provided in Code Section 424(f), or any successor thereto.

2.22 *“Ten Percent Owner”* means a person who owns, or is deemed within the meaning of Section 422(b)(6) of the Code to own, stock possessing more than 10% of the total combined voting power of all classes of stock of the Company (or any Parent or Subsidiary of the Company). Whether a person is a Ten Percent Owner shall be determined with respect to an Option based on the facts existing immediately prior to the grant date of the Option.

### **3. Administration**

3.1 *Administration of the Plan.* The Plan shall be administered by the Board or the Administrator.

3.2 *Powers of the Administrator.* The Administrator shall have all the powers vested in it by the terms of the Plan, such powers to include authority, in its sole and absolute discretion, to grant Awards under the Plan, prescribe Grant Agreements evidencing such Awards and establish programs for granting Awards.

The Administrator shall have full power and authority to take all other actions necessary to carry out the purpose and intent of the Plan, including, but not limited to, the authority to: (i) determine the eligible persons to whom, and the time or times at which Awards shall be granted; (ii) determine the types of Awards to be granted; (iii) determine the number of shares to be covered by or used for reference purposes for each Award; (iv) impose such terms, limitations, restrictions and conditions upon any such Award as the Administrator shall deem appropriate; (v) modify, amend, extend or renew outstanding Awards, or accept the surrender of outstanding Awards and substitute new Awards (provided however, that, except as provided in Section 14.4 of the Plan, any modification that would materially adversely affect any outstanding Award shall not be made without the consent of the holder); (vi) accelerate or otherwise change the time in which an Award may be exercised or becomes payable and to waive or accelerate the lapse, in whole or in part, of any restriction or condition with respect to such Award, including, but not limited to, any restriction or condition with respect to the vesting or exercisability of an Award following termination of any grantee's employment or other relationship with the Company (vii) establish objectives and conditions, including Performance Goals, if any, for earning Awards and determining whether Awards will be paid after the end of a performance period, (viii) make adjustments in the Performance Goals in recognition of unusual or nonrecurring events affecting the Company or the financial statements of the Company, or in response to changes in applicable laws, regulations, or accounting principles, and (ix) provide for forfeiture of outstanding Awards and recapture of realized gains and other realized value in such events as determined by the Administrator, which include, but are not limited to, a breach of restrictive covenants or an intentional or negligent misstatement of financial records.

The Administrator shall have full power and authority, in its sole and absolute discretion, to administer and interpret the Plan and to adopt and interpret such rules, regulations, agreements, guidelines and instruments for the administration of the Plan and for the conduct of its business as the Administrator deems necessary or advisable.

3.3 *Non-Uniform Determinations.* The Administrator's determinations under the Plan (including without limitation, determinations of the persons to receive Awards, the form, amount and timing of such Awards, the terms and provisions of such Awards and the Grant Agreements evidencing such Awards) need not be uniform and may be made by the Administrator selectively among persons who receive, or are eligible to receive, Awards under the Plan, whether or not such persons are similarly situated.

3.4 *Limited Liability.* To the maximum extent permitted by law, no member of the Administrator shall be liable for any action taken or decision made in good faith relating to the Plan or any Award thereunder.

3.5 *Indemnification.* To the maximum extent permitted by law and by the Company's charter and by-laws, the members of the Administrator shall be indemnified by the Company in respect of all their activities under the Plan.

3.6 *Effect of Administrator's Decision.* All actions taken and decisions and determinations made by the Administrator on all matters relating to the Plan pursuant to the powers vested in it hereunder shall be in the Administrator's sole and absolute discretion and shall be conclusive and binding on all parties concerned, including the Company, its stockholders, any Participants in the Plan and any other employee, consultant, or director of the Company, and their respective successors in interest.

#### **4. Shares Available for the Plan**

4.1 *Shares Available for Awards.* Subject to adjustments as provided in Section 14.4 of the Plan, the shares of Common Stock that may be issued with respect to Awards granted under the Plan shall not exceed an aggregate of 100,000,000 shares of Common Stock. The Company shall reserve such number of shares for Awards under the Plan, subject to adjustments as provided in Section 14.4 of the Plan. The maximum number of shares of Common Stock under the Plan that may be issued as Incentive Stock Options shall be 100,000,000 shares. Shares may be authorized but unissued Common Stock or authorized and issued Common Stock held in the Company's treasury. If any Award, or portion of an Award, under the Plan expires or terminates unexercised, becomes unexercisable or is forfeited or otherwise terminated, surrendered or canceled as to any shares, or if any shares of Common Stock are surrendered to the Company in connection with any Award (whether or not such surrendered shares were acquired pursuant to any Award), the shares subject to such Award and the surrendered shares shall thereafter be available for further Awards under the Plan; provided, however, that any such shares that are surrendered to the Company in connection with any Award or that are otherwise forfeited after issuance shall not be available for purchase pursuant to Incentive Stock Options. Shares under substitute awards pursuant to Section 14.4 for grants made under a plan of an acquired business entity shall not reduce the maximum number of shares that may be issued under the Plan.

4.2 *Performance-Based Award Limitation.* Awards that are designed to comply with the performance-based exception from the tax deductibility limitation of Code Section 162(m) shall be subject to the following rules:

(a) The number of shares of Common Stock that may be granted in the form of Options in a single fiscal year to a Participant may not exceed 20,000,000, as adjusted pursuant to Section 14.4.

(b) The number of shares of Common Stock that may be granted in the form of SARs in a single fiscal year to a Participant may not exceed 10,000,000, as adjusted pursuant to Section 14.4.

(c) The number of shares of Common Stock that may be granted in the form of restricted Stock Awards in a single fiscal year to a Participant may not exceed 10,000,000, as adjusted pursuant to Section 14.4.

(d) The number of Restricted Stock Units that may be granted in a single fiscal year to a Participant may not exceed 20,000,000, as adjusted pursuant to Section 14.4.

(e) The number of shares of Common Stock that may be granted as Performance Award shares in a single fiscal year to a Participant may not exceed 20,000,000 as adjusted pursuant to Section 14.4.

(f) The maximum amount that may be paid to a Participant for Performance Award units granted in a single fiscal year to the Participant may not exceed \$5,000,000.

#### **5. Participation**

Participation in the Plan shall be open to all employees, officers, directors, and consultants of the Company, or of any Affiliate of the Company, as may be selected by the Administrator from time to time. However, only employees of the Company, and of any Parent or Subsidiary of the Company, shall be eligible for the grant of an Incentive Stock Option. The grant of an Award at any time to any person shall not entitle that person to a grant of an Award at any future time.

## 6. Awards

Awards that may be granted under the Plan consist of Options, Stock Appreciation Rights, Stock Awards, Restricted Stock Units, Performance Awards and other stock based awards. The Administrator, in its sole discretion, establishes the terms of all Awards granted under the Plan. Awards may be granted individually or in tandem with other types of Awards. All Awards are subject to the terms and conditions provided in the Grant Agreement. If there is any inconsistency between the terms of the Plan and a Grant Agreement, the terms of the Plan shall control unless the Grant Agreement explicitly states that an exception to the Plan is being made. By accepting an Award, a Participant agrees that the Award shall be subject to all of the terms and provisions of the Plan and the applicable Grant Agreement.

## 7. Stock Options

7.1 *Terms and Grant Agreement.* Subject to the terms of the Plan, Options may be granted to Participants at any time as determined by the Administrator. The Administrator shall determine, and the Grant Agreement shall reflect, the following for each Option granted:

- (a) the number of shares subject to each Option;
- (b) duration of the Option (provided that no Option shall have an expiration date later than the the 10th anniversary of the date of grant and no Incentive Stock Option that is granted to any Participant who is a Ten Percent Owner shall have an expiration date later than the fifth anniversary of the date of grant);
- (c) vesting requirements that specify a vesting period;
- (d) whether the Option is an Incentive Stock Option or a Nonqualified Stock Option; provided, however, no Option shall be an Incentive Stock Option unless so designated by the Administrator at the time of grant or in the Grant Agreement evidencing such Option;
- (e) the exercise price for each Option, which, except with respect to substitute awards complying with Code Section 424 and regulations thereunder, shall not be less than the Fair Market Value on the date of the grant (with respect to Incentive Stock Options, 110% of the Fair Market Value on the date of grant for any Participant who is a Ten Percent Owner);
- (f) the permissible method(s) of payment of the exercise price;
- (g) the rights of the Participant upon termination of employment or service as a director; and
- (h) any other terms or conditions established by the Administrator.

7.2 *Exercise of Options.* Options shall be exercisable at such times and subject to such restrictions and conditions as the Administrator, in its sole discretion, deems appropriate, which need not be the same for all Participants.

An Option shall be exercised by delivering written notice as specified in the Grant Agreement on the form of notice provided by the Company. Options may be exercised in whole or in part. The exercise price of any Option shall be payable to the Company in full, in cash or in cash equivalent approved by the Administrator, by tendering (if permitted by the Administrator) previously acquired Common Stock having an aggregate Fair Market Value at the time of exercise equal to the total Option exercise price (provided that the tendered Common Stock must have been held by the Participant for any period required by the Administrator), or by any other means that the Administrator determines to be consistent with the Plan's purpose and applicable law. For a Participant who is subject to Section 16 of the Exchange Act, the Company may require that the method of payment comply with Section 16 and the rules and regulations thereunder. Any payment in shares of Common Stock, if permitted, shall be made by delivering the shares to the secretary of the Company, duly endorsed in blank or accompanied by stock powers duly executed in blank, together with any other documents and evidence as the secretary shall require (or delivering a certification or attestation of ownership of such Common Stock, if permitted by the Administrator).

Certificates for shares of Common Stock purchased upon the exercise of an Option shall be issued in the name of or for the account of the Participant or other person entitled to receive the shares and delivered to the Participant or other person as soon as practicable following the effective date on which the Option is exercised.

7.3 *Incentive Stock Options.* Notwithstanding anything in the Plan to the contrary, no term of the Plan relating to Incentive Stock Options shall be interpreted, amended, or altered, nor shall any discretion or authority granted under the Plan be exercised so as to disqualify the Plan under Code Section 422, or, without the consent of any affected Participant, to cause any Incentive Stock Option previously granted to fail to qualify for the federal income tax treatment afforded under Code Section 421. An Option shall be considered to be an Incentive Stock Option only to the extent that the number of shares of Common Stock for which the Option first becomes exercisable in a calendar year do not have an aggregate Fair Market Value (as of the date of the grant of the Option) in excess of the "current limit." The current limit for any optionee for any calendar year shall be \$100,000 minus the aggregate Fair Market Value at the date of grant of the number of shares of Common Stock available for purchase for the first time in the same year under each other incentive option previously granted to the optionee under all other plans of the Company and Affiliates. Any Common Stock which would cause the foregoing limit to be violated shall be deemed to have been granted under a separate Nonqualified Stock Option, otherwise identical in its terms to those of the Incentive Stock Option. The current limit will be calculated according to the chronological order in which the Options were granted.

7.4 *Reduction in Price or Reissuance.* In no event shall the Administrator cancel any outstanding Option for the purpose of (i) providing a replacement award under this or another Company plan, or (ii) cashing out an Option, unless such cash-out occurs in conjunction with a Change in Control. Additionally, in no event shall the Administrator, without first receiving shareholder approval, (a) cancel any outstanding Option for the purpose of reissuing the Option to the Participant at a lower exercise price or (b) reduce the exercise price of a previously issued Option.

7.5 *Notification of Disqualifying Disposition.* If any Participant shall make any disposition of shares issued pursuant to the exercise of an Incentive Stock Option under the circumstances described in Code Section 421(b) (relating to certain disqualifying dispositions), such Participant shall notify the Company of such disposition within ten (10) calendar days thereof.

## 8. Stock Appreciation Rights

8.1 *Terms and Agreement.* Subject to the terms of the Plan, Stock Appreciation Rights may be granted to Participants at any time as determined by the Administrator. The grant price of the SAR shall be at least equal to one hundred percent (100%) of the Fair Market Value of Stock as determined on the date of the grant, except with respect to substitute awards complying with Code Section 424 and regulations thereunder. The Administrator shall determine, and the Grant Agreement shall reflect, the following for each SAR granted:

- (a) the number of shares subject to each SAR;
- (b) whether the SAR is a Related SAR or a Freestanding SAR (as defined below);
- (c) the duration of the SAR (provided however, that no SAR shall have an expiration date later than the date after the 10<sup>th</sup> anniversary of the date of grant);
- (d) vesting requirements;
- (e) rights of the Participant upon termination of employment or service as a director; and
- (f) any other terms or conditions established by the Administrator.

8.2 *Related and Freestanding SARs.* A Stock Appreciation Right may be granted in connection with an Option, either at the time of grant or at any time thereafter during the term of the Option (a “Related SAR”), or may be granted unrelated to an Option (a “Freestanding SAR”).

8.3 *Surrender of Option.* A Related SAR shall require the holder, upon exercise, to surrender the Option with respect to the number of shares as to which the SAR is exercised, in order to receive payment. The Option will, to the extent surrendered, cease to be exercisable.

8.4 *Reduction in Number of Shares Subject to Related SARs.* For Related SARs, the number of shares subject to the SAR shall not exceed the number of shares subject to the Option. For example, if the SAR covers the same number of shares as the Option, the exercise of a portion of the Option shall reduce the number of shares subject to the SAR to the number of shares remaining under the Option. If the Related SAR covers fewer shares than the Option, the exercise of a portion of the Option shall reduce the number of shares subject to the SAR to the extent necessary so that the number of remaining shares subject to the SAR is not more than the remaining shares under the Option.

8.5 *Exercisability.* Subject to Section 8.7 and to any rules and restrictions imposed by the Administrator, a Related SAR will be exercisable at the time or times, and only to the extent, that the Option is exercisable and will not be transferable except to the extent that the Option is transferable. A Freestanding SAR will be exercisable as determined by the Administrator but in no event after 10 years from the date of grant.

8.6 *Payment.* Upon the exercise of a Stock Appreciation Right, the holder will be entitled to receive payment of an amount determined by multiplying:

- by
- (a) The excess of the Fair Market Value on the date of exercise over the Fair Market Value on the date of grant,
  - (b) The number of shares with respect to which the SAR is being exercised.

The Administrator may limit the amount payable upon exercise of a Stock Appreciation Right. Any limitation must be determined as of the date of grant and noted on the Grant Agreement evidencing the grant.

Payment may be made in cash, Common Stock, or a combination of cash and Common Stock, in the Administrator's sole discretion. No fractional shares shall be used for such payment and the Administrator shall determine whether cash shall be given in lieu of such fractional shares or whether such fractional shares shall be eliminated.

8.7 *Reduction in Price or Reissuance.* In no event shall the Administrator cancel any outstanding Stock Appreciation Right for the purpose of (i) providing a replacement award under this or another Company plan, or (ii) cashing out a Stock Appreciation Right, unless such cash-out occurs in conjunction with a change in control. Additionally, in no event shall the Administrator, without first receiving shareholder approval, (a) cancel any outstanding Stock Appreciation Right for the purpose of reissuing the Stock Appreciation Right to the Participant at a lower exercise price or (b) reduce the exercise price of a previously issued Stock Appreciation Right.

8.8 *Additional Terms.* The Administrator may impose additional conditions or limitations on the exercise of a Stock Appreciation Right as it may deem necessary or desirable to secure for holders the benefits of Rule 16b-3, or any successor provision, or as it may otherwise deem advisable.

## **9. Stock Awards**

9.1 *Terms and Agreement.* Subject to the terms of the Plan, shares of restricted or unrestricted Common Stock may be granted to Participants at any time as determined by the Administrator. The Administrator shall determine, and the Grant Agreement shall reflect, the following for the Stock Awards granted:

- (a) the number of shares of granted;
- (b) the purchase price, if any, to be paid by the Participant for each share of Common Stock;
- (c) the restriction period established, if any;
- (d) any requirements with respect to elections under Code Section 83(b);

- (e) rights of the Participant upon termination of employment or service as a director; and
- (f) any other terms or conditions established by the Administrator.

9.2 *Restriction Period.* At the time of the grant of the Stock Award, the Administrator may establish a restriction period for the shares granted, which may be time-based, based on the achievement of specified Performance Goals, a combination of time- and Performance Goal-based, or based on any other criteria the Administrator deems appropriate. The Administrator may divide the shares into classes and assign a different restriction period for each class. The Administrator may impose additional conditions or restrictions upon the vesting of the Stock Award as it deems fit in its sole discretion. If all applicable conditions are satisfied, then upon the termination of the restriction period with respect to a share of restricted Common Stock, the share shall vest and the restrictions shall lapse. To the extent required to ensure that a Performance Goal-based Award of the Stock Award to an executive officer is deductible by the Company pursuant to Code Section 162(m), any such Award shall vest only upon the Administrator's determination that the Performance Goals applicable to the Award have been attained.

9.3 *Restrictions on Transfer Prior to Vesting.* Prior to the vesting of a restricted Stock Award, the Participant may not sell, assign, pledge, hypothecate, transfer, or otherwise encumber the Stock Award. Upon any attempt to transfer rights in a share of restricted Common Stock, the share and all related rights shall immediately be forfeited by the Participant. Upon the vesting of a restricted Stock Award, the transfer restrictions of this section shall lapse with respect to that share.

9.4 *Rights as a Shareholder.* Except for the restrictions set forth here and unless otherwise determined by the Administrator, the Participant shall have all the rights of a shareholder with respect to shares of a Stock Award, including but not limited to the right to vote and the right to receive dividends, provided that the Administrator, in its sole discretion, may require that any dividends paid on shares of a restricted Stock Award be held in escrow until all restrictions on the shares have lapsed.

9.5 *Section 83(b) Election.* The Administrator may provide in the Grant Agreement that the Award is conditioned upon the Participant making or not making an election under Code Section 83(b). If the Participant makes an election pursuant to Code Section 83(b), the Participant shall be required to file a copy of the election with the Company within ten (10) calendar days.

## **10. Restricted Stock Units**

10.1 *Terms and Agreement.* Subject to the terms of the Plan, Restricted Stock Units may be granted to Participants at any time as determined by the Administrator. The Administrator shall determine, and the Grant Agreement shall reflect, the following for the Restricted Stock Units granted:

- (a) the number of Restricted Stock Units awarded;
- (b) the purchase price, if any, to be paid by the Participant for each Restricted Stock Unit;
- (c) the restriction period established, if any;
- (d) whether dividend equivalents will be credited with respect to Restricted Stock Units, and, if so, any accrual, forfeiture or payout restrictions on the dividend equivalents;
- (e) rights of the Participant upon termination of employment or service as a director; and
- (f) any other terms or conditions established by the Administrator.

To the extent a Restricted Stock Unit Award constitutes “deferred compensation” within the meaning of Code Section 409A, the Administrator shall establish Grant Agreement terms and provisions that comply with Code Section 409A and regulations thereunder.

10.2 *Restriction Period.* At the time of the grant of Restricted Stock Units, the Administrator may establish a restriction period, which may be time-based, based on the achievement of specified Performance Goals, a combination of time- and Performance Goal-based, or based on any other criteria the Administrator deems appropriate. The Administrator may divide the awarded Restricted Stock Units into classes and assign a different restriction period for each class. The Administrator may impose any additional conditions or restrictions upon the vesting of the Restricted Stock Units as it deems fit in its sole discretion. If all applicable conditions are satisfied, then upon the termination of the restriction period with respect to a Restricted Stock Unit, the Unit shall vest. To the extent required to ensure that a Performance Goal-based Award of Restricted Stock Units to an executive officer is deductible by the Company pursuant to Code Section 162(m), any such Award shall become vested only upon the Administrator’s determination that the Performance Goals applicable to the Award, if any, have been attained.

10.3 *Payment.* Upon vesting of a Restricted Stock Unit, the Participant shall be entitled to receive payment of an amount equal to the Fair Market Value of one share of Stock. Payment may be made in cash, Stock, or a combination of cash and Stock, in the Administrator’s sole discretion.

## **11. Performance Awards**

11.1 *Terms and Agreement.* Subject to the terms of the Plan, Performance Awards may be granted to Participants at any time as determined by the Administrator. The Administrator shall determine, and the Grant Agreement shall reflect, the following for the Performance Awards granted:

- (a) the number of shares or units awarded;
- (b) the performance period and performance criteria or Performance Goals applicable to the Award;
- (c) whether dividend equivalents will be credited with respect to Performance Awards, and if so, any accrual, forfeiture, or payout restrictions on the dividend equivalents;
- (d) the rights of the Participant upon termination of employment or service as a director (which may be different based on the reason for termination); and
- (e) any other terms or conditions established by the Administrator.

To the extent an Award constitutes “deferred compensation” within the meaning of Code Section 409A, the Administrator shall establish Grant Agreement terms and provisions that comply with Code Section 409A and regulations thereunder.

11.2 *Payment.* After the applicable performance period has ended, the Administrator will review the performance criteria and/or Performance Goals and determine the amount payable with respect to the Award, based upon the extent to which the performance criteria and/or Performance Goals have been attained within the performance period and any other applicable terms and conditions. Payment of an earned Performance Award may be made in cash, Common Stock, or a combination of cash and Common Stock, as determined by the Administrator in its sole discretion.

## **12. Other Stock-Based Awards**

The Administrator may from time to time grant other stock-based awards to eligible Participants in such amounts, on such terms and conditions, and for such consideration, including no consideration or such minimum consideration as may be required by law, as it shall determine. Other stock-based awards may be denominated in cash, in Common Stock or other securities, in stock-equivalent units, in stock appreciation units, in securities or debentures convertible into Common Stock, or in any combination of the foregoing and may be paid in Common Stock or other securities, in cash, or in a combination of Common Stock or other securities and cash, all as determined in the sole discretion of the Administrator.

## **13. Change in Control Provisions**

Except as otherwise provided in any written agreement between the Participant and the Company or its Affiliate in effect when a Change in Control occurs, in the event an acquiring company does not assume Plan Awards:

- (a) all outstanding Options and Stock Appreciation Rights shall become fully vested and exercisable;
- (b) for Performance- Awards, to the extent consistent with Section 162(m), all Performance Goals or performance criteria shall be deemed achieved at target levels and all other terms and conditions met, with Award payout prorated for the portion of the performance period completed as of the Change in Control and payment to occur within 45 days of the Change in Control;
- (c) all restrictions and conditional applicable to any restricted Stock Award shall lapse;
- (d) all restrictions and conditions applicable to any Restricted Stock Units shall lapse and payment shall be made within 45 days of the Change in Control;
- (e) all other Awards shall be delivered or paid within 45 days of the Change in Control.

#### **14. Miscellaneous**

14.1 *Withholding of Taxes.* Grantees and holders of Awards shall pay to the Company or its Affiliate, or make provision satisfactory to the Administrator for payment of, any taxes required to be withheld in respect of Awards under the Plan no later than the date of the event creating the tax liability. The Company or its Affiliate may, to the extent permitted by law, deduct any such tax obligations from any payment of any kind otherwise due to the grantee or holder of an Award. In the event that payment to the Company or its Affiliate of such tax obligations is made in shares of Common Stock, such shares shall be valued at Fair Market Value on the applicable date for such purposes.

14.2 *Transferability.* Except as otherwise provided in this Section, Awards shall not be transferable, and no Award or interest therein may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. However, the Award of a Nonstatutory Option or Restricted Stock may be transferred by the Participant through a gift or domestic relations order in settlement of marital property rights to any of the following donors or transferees and may be reacquired by the Participant from any of such donors or transferees (each a "Permitted Transferee"):

- (a) any "family member," which includes any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, former spouse, sibling, niece, nephew, mother-in-law, father-in-law, son-in-law, daughter-in-law, brother-in-law, or sister-in-law, including adoptive relationships and any individual sharing the Participant's household (other than a tenant or employee);
- (b) a trust in which family members have more than 50% of the beneficial interest;
- (c) a foundation in which family members (or the Participant) control the management of assets; and
- (d) any other entity in which family members (or the Participant) own more than 50% of the voting interests,

provided, that (x) any such transfer is without payment of any value whatsoever; and (y) subsequent transfers of transferred Awards shall be prohibited except in accordance with this Section. Following transfer, any such Awards and any securities issued pursuant thereto shall continue to be subject to the same terms and conditions as were applicable immediately prior to transfer (including but not limited to risks of forfeiture), provided that the term of the Plan and the Grant Agreement shall continue to be applied with respect to the original Participant, and any Awards shall be exercisable by the transferee only to the extent and for the periods specified in the Grant Agreement. No transfer of an Award by will or the laws of descent and distribution shall be effective to bind the Company unless the Administrator has been furnished with (a) written notice and a copy of the will and/or such evidence as the Administrator may deem necessary to establish the validity of the transfer, and (b) an agreement by the transferee to comply with all the terms and conditions of the Award that would have applied to the Participant and to be bound by the acknowledgments made by the Participant in connection with the grant of the Award. Unless otherwise determined by the Administrator in accord with the provisions of the first sentence of this subsection, an Award may be exercised during the lifetime of the grantee, only by the grantee or, during the period the grantee is under a legal disability, by the grantee's guardian or legal representative.

14.3 *Adjustments; Business Combinations.* In the event of changes in the Common Stock of the Company by reason of any stock dividend, spin-off, split-up, recapitalization, merger, consolidation, business combination or exchange of shares and the like, the Administrator shall, in its discretion and without the consent of holders of Awards, make appropriate adjustments to (i) the maximum number and kind of shares reserved for issuance or with respect to which Awards may be granted under the Plan as provided in Section 4 of the Plan, and (ii) the number, kind and price of shares covered by outstanding Awards. In the event of any such changes in the Common Stock, the Administrator shall, in its discretion and without the consent of holders of Awards, make any other adjustments in outstanding Awards, including but not limited to reducing the number of shares subject to Awards or providing or mandating alternative settlement methods such as settlement of the Awards in cash or in shares of Common Stock or other securities of the Company or of any other entity.

The Administrator is authorized to make, in its discretion and without the consent of holders of Awards, adjustments in the terms and conditions of, and the criteria included in, Awards in recognition of unusual or nonrecurring events affecting the Company, or the financial statements of the Company or any Affiliate, or of changes in applicable laws, regulations, or accounting principles, whenever the Administrator determines that such adjustments are appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan.

14.4 *Substitution of Awards in Mergers and Acquisitions.* Awards may be granted under the Plan from time to time in substitution for Awards held by employees, officers, consultants or directors of entities who become or are about to become employees, officers, consultants or directors of the Company or an Affiliate as the result of a merger or consolidation of the employing entity with the Company or an Affiliate, or the acquisition by the Company or an Affiliate of the assets or stock of the employing entity. The terms and conditions of any substitute Awards so granted may vary from the terms and conditions set forth herein to the extent that the Administrator deems appropriate at the time of grant to conform without dilution or enlargement of benefits the substitute Awards to the provisions of the awards for which they are substituted.

14.5 *Stock Restriction Agreement and Voting Trust.* As a condition precedent to the grant of any Award under the Plan, the exercise pursuant to such an Award, or to the delivery of certificates for shares issued pursuant to any Award, the Administrator may require the grantee or the grantee's successor or permitted transferee, as the case may be, to become a party to a stock restriction agreement of the Company and/or a voting trust agreement in such form(s) as the Administrator may determine from time to time.

14.6 *Termination, Amendment and Modification of the Plan.* The Board may terminate, amend or modify the Plan or any portion thereof at any time. Notwithstanding the foregoing, no amendment shall be made without shareholder approval if approval is required under applicable law or the rules of any stock exchange on which the Company is listed.

14.7 *Non-Guarantee of Employment or Service.* Nothing in the Plan or in any Grant Agreement thereunder shall confer any right on an individual to continue in the service of the Company or shall interfere in any way with the right of the Company to terminate such service at any time with or without cause or notice.

14.8 *Compliance with Securities Laws; Listing and Registration.* If at any time the Administrator determines that the delivery of Common Stock under the Plan is or may be unlawful under the laws of any applicable jurisdiction, or federal or state securities laws, the right to exercise an Award or receive shares of Common Stock pursuant to an Award shall be suspended until the Administrator determines that such delivery is lawful. The Company shall have no obligation to effect any registration or qualification of the Common Stock under federal or state laws.

The Company may require that a grantee, as a condition to exercise of an Award, and as a condition to the delivery of any share certificate, make such written representations (including representations to the effect that such person will not dispose of the Common Stock so acquired in violation of federal or state securities laws) and furnish such information as may, in the opinion of counsel for the Company, be appropriate to permit the Company to issue the Common Stock in compliance with applicable federal and state securities laws. The stock certificates for any shares of Common Stock issued pursuant to this Plan may bear a legend restricting transferability of the shares of Common Stock unless such shares are registered or an exemption from registration is available under the Securities Act and applicable state securities laws.

14.9 *No Trust or Fund Created.* Neither the Plan nor any Award shall create or be construed to create a trust or separate fund of any kind or a fiduciary relationship between the Company and a grantee or any other person. To the extent that any grantee or other person acquires a right to receive payments from the Company pursuant to an Award, such right shall be no greater than the right of any unsecured general creditor of the Company.

14.10 *Section 409A.* Unless the Administrator expressly determines otherwise, Awards (and any amendments thereto) are intended to be exempt from Code Section 409A as stock rights or short-term deferrals and, accordingly, the terms of any Awards shall be construed and administered to preserve such exemption (including with respect to the time of payment following a lapse of restrictions applicable to an Award). To the extent that Section 409A applies to a particular Award granted under the Plan (notwithstanding the preceding sentence), then the terms of the Award shall be construed and administered to permit the Award to comply with Section 409A, including, if necessary, by delaying the payment of any Award payable upon separation from service to a Participant who is a "specified employee" (as defined in Code Section 409A and determined consistently for all of the Company's arrangements that are subject to Code Section 409A), for a period of six months and one day after such Participant's separation from service, and by construing any reference to "termination of employment" or the like to be a "separation from service" within the meaning of Code Section 409A. In the event any person is subject to income inclusion, additional interest or taxes, or any other adverse consequences under Code Section 409A, then neither the Company, the Administrator, the Board nor its or their employees, designees, agents or contractors shall be liable to any Participant or other persons in connection with such adverse consequences under Code Section 409A.

14.11 *No Fractional Shares.* No fractional shares of Stock shall be issued or delivered pursuant to the Plan. The Administrator shall determine whether cash, other Awards, or other property shall be issued or paid in lieu of any fractional shares or whether fractional shares or any rights to fractional shares shall be forfeited or otherwise eliminated.

14.12 *Beneficiary.* A Participant may file with the Administrator a written designation of a beneficiary on the form prescribed by the Administrator and may, from time to time, amend or revoke the designation. If no designated beneficiary survives the Participant, the Participant's spouse, if any, shall be deemed to be the Participant's beneficiary. If the Participant does not have a spouse, the the executor or administrator of the Participant's estate shall be deemed to be the Participant's beneficiary.

14.13 *Section 162(m).* The Plan is designed and intended, and all provisions shall be construed in a manner, to comply, to the extent applicable, with Code Section 162(m) and the regulations thereunder. To the extent permitted by Code Section 162(m), the Administrator shall have sole discretion to reduce or eliminate payment of the amount of any Award which might otherwise become payable upon attainment of a Performance Goal.

14.14 *Form of Communication.* Any election, application, claim, notice, or other communication required or permitted to be made by a Participant to the Administrator or the Company shall be made in writing and in such form as the Company may prescribe. Any communication shall be effective upon receipt by Michael Bannon, President, at [mike@drone1usa.com](mailto:mike@drone1usa.com).

14.15 *Severability.* If any provision of the Plan is held to be invalid or unenforceable, the other provisions of the Plan shall not be affected.

14.16 *Governing Law.* The validity, construction and effect of the Plan, of Grant Agreements entered into pursuant to the Plan, and of any rules, regulations, determinations or decisions made by the Administrator relating to the Plan or such Grant Agreements, and the rights of any and all persons having or claiming to have any interest therein or thereunder, shall be determined exclusively in accordance with applicable federal laws and the laws of the State of Delaware without regard to its conflict of laws principles.

14.17 *Effective Date; Termination Date.* The Plan is effective as of the date on which the Plan is adopted by the Board, subject to approval of the stockholders within twelve months before or after such date. No Award shall be granted under the Plan after the close of business on the day immediately preceding the tenth anniversary of the effective date of the Plan. Subject to other applicable provisions of the Plan, all Awards made under the Plan prior to such termination of the Plan shall remain in effect until such Awards have been satisfied or terminated in accordance with the Plan and the terms of such Awards.

Date Approved by the Board: June 8, 2016

Date Approved by the Stockholders: June 9, 2016

**SENIOR SECURED CREDIT FACILITY AGREEMENT**

**IN THE MAXIMUM AMOUNT OF US\$6,500,000**

**BY AND AMONG**

**DRONE USA, INC.,  
as Borrower,**

**DRONE USA, LLC,  
as Guarantor,**

**AND**

**TCA GLOBAL CREDIT MASTER FUND, LP,  
as Lender**

**Dated as of May 31, 2016**

**Effective as of September 13, 2016**

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## SENIOR SECURED CREDIT FACILITY AGREEMENT

This SENIOR SECURED CREDIT FACILITY AGREEMENT (as amended, restated, modified or supplemented from time to time, this “**Agreement**”), dated as of May 31, 2016 and made effective as of September 13, 2016 (the “**Effective Date**”), is executed by and among: (i) **DRONE USA, INC.**, a corporation incorporated under the laws of the State of Delaware (the “**Borrower**”); (ii) **DRONE USA, LLC**, a limited liability company organized under the laws of the State of Delaware (the “**Corporate Guarantor**”) (iii) any Person to hereafter become a Subsidiary of the Borrower pursuant to Section 3.20 hereof, and any Person that from time to time may hereafter become liable for the Obligations, or any part thereof, as joint and several guarantors (the “**Additional Guarantors**”) (the Corporate Guarantor and the Additional Guarantors, together, jointly and severally, the “**Guarantors**” and together with the Borrower, the “**Credit Parties**”); and (iv) **TCA GLOBAL CREDIT MASTER FUND, LP**, a limited partnership organized and existing under the laws of the Cayman Islands, as lender (the “**Lender**”).

WHEREAS, Borrower has requested that Lender extend a senior secured credit facility to Borrower of up to Six Million Five Hundred Thousand and No/100 United States Dollars (US\$6,500,000.00) for working capital financing for Borrower and its Subsidiary, and for any other purposes permitted hereunder; and for these purposes, Lender is willing to make certain loans and extensions of credit available to Borrower of up to such amount and upon the terms and conditions set forth herein; and

WHEREAS, as a material inducement for Lender to make loans and extensions of credit to Borrower pursuant to the terms and conditions set forth herein: (i) the Corporate Guarantor has, inter alia, agreed to execute a Guaranty Agreement in favor of Lender, whereby Corporate Guarantor shall guarantee any and all of the Borrower’s Obligations owed under this Agreement and under any other Loan Documents; (ii) the Credit Parties have, inter alia, agreed to execute Security Agreements in favor of Lender, whereby each Credit Party shall grant to the Lender a first priority security interest in and Lien upon all of its existing and after-acquired tangible and intangible assets, as security for the payment and performance of any and all Obligations owed under this Agreement and under any other Loan Document; and (iii) the Borrower has agreed to execute a Pledge Agreement in favor of Lender, whereby the Borrower shall pledge to the Lender all of its right, title and interest in and to, and provide a first priority Lien and security interest on, all of the issued and outstanding membership interests of the Corporate Guarantor, as security for the payment and performance of any and all Obligations owed under this Agreement and under any other Loan Documents;

NOW, THEREFORE, in consideration of the premises and the mutual covenants hereinafter contained, and for other good and valuable consideration, the parties hereto agree as follows:

### 1. DEFINITIONS.

1.1 Defined Terms. For the purposes of this Agreement, the following capitalized words and phrases shall have the meanings set forth below.

- (a) “**Account**” shall mean, individually, and “**Accounts**” shall mean, collectively, any and all accounts (as such term is defined in the UCC) of any Credit Party.
- (b) “**ACH**” shall have the meaning given to it in Section 2.4(c) hereof.
- (c) “**Additional Closings**” means any closings hereunder after the First Closing, pursuant to which Lender makes Additional Loans to Borrower under the terms of this Agreement.
- (d) “**Additional Guarantors**” shall have the meaning given to such term in the preamble hereof.
- (e) “**Additional Loans**” means each advance, and the aggregate of all such advances, made by Lender to Borrower under and pursuant to this Agreement or any other Loan Documents after the Initial Loan.
- (f) “**Advisory Fee**” shall have the meaning given to it in Section 2.5(f) hereof.
- (g) “**Advisory Fee Shares**” shall have the meaning given to it in Section 2.5(f) hereof.
- (h) “**Affiliate**” (a) of Lender shall mean: (i) any entity which, directly or indirectly, Controls or is Controlled By or is under common Control with Lender; and (ii) any entity administered or managed by Lender, or an Affiliate or investment advisor thereof and which is engaged in making, purchasing, holding or otherwise investing in commercial loans; and (b) of any Credit Party shall mean any entity which, directly or indirectly, Controls or is Controlled By or is under common Control with any Credit Party.
- (i) “**Agreement**” shall mean this Senior Secured Credit Facility Agreement by and among the Credit Parties and the Lender.
- (j) “**Borrower**” shall have the meaning given to such term in the preamble hereof
- (k) “**Business Day**” shall mean any day other than a Saturday, Sunday or a legal holiday on which banks are authorized or required to be closed for the conduct of commercial banking business in the State of Nevada.
- (l) “**BSA**” shall have the meaning given to it in Section 14.22 hereof.
- (m) “**Capital Expenditures**” shall mean expenditures (including Capital Lease obligations which should be capitalized under GAAP) for the acquisition of fixed assets which are required to be capitalized under GAAP.

(n) **“Capital Lease”** shall mean, as to any Person, a lease of any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, by such Person as lessee that is, or should be, in accordance with Financial Accounting Standards Board Statement No. 13, as amended from time to time, or, if such Statement is not then in effect, such statement of GAAP as may be applicable, recorded as a “capital lease” on the balance sheets of any Credit Party prepared in accordance with GAAP.

(o) **“Change in Control”** shall mean any sale, conveyance, assignment or other transfer, directly or indirectly, of any ownership interest of any Credit Party, which results in any change in the identity of the individuals or entities in Control of such Credit Party as of the Effective Date or the grant of a security interest in any ownership interest of any Person, directly or indirectly Controlling the Credit Parties, which could result in a change in the identity of the individuals or entities in Control of such Credit Party as of the Effective Date.

(p) **“Closings”** means, collectively, the First Closing, and any Additional Closings, if any, under this Agreement.

(q) **“Collateral”** shall mean any and all assets and property of each of the Credit Parties, of any kind or description, tangible or intangible, wheresoever located and whether now existing or hereafter arising or acquired, including all “Collateral” as defined in the Security Agreements, and if there is more than one Security Agreement, it shall mean, as the context so requires, the “Collateral” for each individual Credit Party, as such term is defined in the Security Agreement for such applicable Credit Party, and all of the “Collateral,” in the aggregate, for all Credit Parties, collectively, under each of the Security Agreements.

(r) **“Common Stock”** shall mean the common stock of the Borrower, par value \$0.0001 per share.

(s) **“Compliance Certificate”** shall mean the covenant compliance certificate, the form of which is attached hereto as **Exhibit “A”**.

(t) **“Contingent Liability”** and **“Contingent Liabilities”** shall mean, respectively, each obligation and liability of the Credit Parties and all such obligations and liabilities of the Credit Parties incurred pursuant to any agreement, undertaking or arrangement by which any Credit Party either: (i) guarantees, endorses or otherwise becomes or is contingently liable upon (by direct or indirect agreement, contingent or otherwise, to provide funds for payment, to supply funds to, or otherwise to invest in, a debtor, or otherwise to assure a creditor against loss) the indebtedness, dividend, obligation or other liability of any other Person in any manner (other than by endorsement of instruments in the course of collection), including without limitation, any indebtedness, dividend or other obligation which may be issued or incurred at some future time; (ii) guarantees the payment of dividends or other distributions upon the shares or ownership interest of any other Person; (iii) undertakes or agrees (whether contingently or otherwise): (A) to purchase, repurchase, or otherwise acquire any indebtedness, obligation or liability of any other Person or any property or assets constituting security therefor; (B) to advance or provide funds for the payment or discharge of any indebtedness, obligation or liability of any other Person (whether in the form of loans, advances, stock purchases, capital contributions or otherwise), or to maintain solvency, assets, level of income, working capital or other financial condition of any other Person; or (C) to make payment to any other Person other than for value received; (iv) agrees to lease property or to purchase securities, property or services from such other Person with the purpose or intent of assuring the owner of such indebtedness or obligation of the ability of such other Person to make payment of the indebtedness or obligation; (v) to induce the issuance of, or in connection with the issuance of, any letter of credit for the benefit of such other Person; or (vi) undertakes or agrees otherwise to assure or insure a creditor against loss. The amount of any Contingent Liability shall (subject to any limitation set forth herein) be deemed to be the outstanding principal amount (or maximum permitted principal amount, if larger) of the indebtedness, obligation or other liability guaranteed or supported thereby.

(u) “**Control**,” “**Controlling**,” “**Controlled By**,” or words of similar import shall mean the possession, directly or indirectly, of the power to direct, or cause the direction of, the management and policies of a Person by contract, voting of securities, or otherwise.

(v) “**Conversion Shares**” shall have the meaning given to it in Section 2.5(f) hereof.

(w) “**Corporate Guarantor**” shall have the meaning given to such term in the preamble hereof.

(x) “**Credit Party(ies)**” shall have the meaning given to such term in the preamble hereof.

(y) “**Credit Party Leases**” shall have the meaning given to it in Section 7.18 hereof.

(z) “**Default Rate**” shall mean a per annum rate of interest equal to the highest non-usurious rate permitted by applicable law, and if there is no such rate under applicable law, then twenty-five percent (25%) per annum.

(aa) “**Dollars**” or “**\$**” means lawful currency of the United States of America.

(bb) “**Effective Date**” shall have the meaning given to it in the preamble hereof.

(cc) “**Eligible Accounts**” means, as applicable for each Credit Party:

(A) all sales of the Credit Parties arising from Point-of-Sale Transactions which meet each of the criteria set forth below (any sale that fails to meet the criteria below can still be deemed an Eligible Account, in Lender’s sole discretion):

(i) are genuine in all respects and have arisen in the Credit Parties’ Ordinary Course of Business from the sale of goods or performance of services by Credit Parties, which delivery of goods has occurred or performance of services have been fully performed;

(ii) payment for the sale has been made in full at the time of the sale, and such sale is not subject to any chargeback, credit, setoff, allowance, adjustment, repurchase or return agreement or obligation of any kind;

(iii) the Person obligated on the sale is not a Subsidiary or a director, officer, employee, agent, parent or Affiliate of any Credit Party; and

(iv) the proceeds from the sale are subject to a perfected, first priority Lien in favor of Lender and not subject to any Lien whatsoever, other than the Lien of Lender and except for Permitted Liens.

(B) all Accounts of the Credit Parties which meet each of the criteria set forth below (an Account that fails to meet the criteria below can still be deemed an Eligible Account, in Lender's sole discretion):

(i) are genuine in all respects and have arisen in the Credit Parties' Ordinary Course of Business from the sale of goods or performance of services by Credit Parties, which delivery of goods has occurred or performance of services have been fully performed;

(ii) are evidenced by an invoice delivered to the Person obligated under such Account, are due and payable within thirty (30) days after the date of the invoice, and are not more than ninety (90) days outstanding past the invoice date;

(iii) do not arise from a "sale on approval", "sale or return", "consignment", "guaranteed sale" or "bill and hold", or are subject to any other repurchase or return agreement;

(iv) have not arisen in connection with a sale to a Person obligated under such Account who is not a resident or citizen of, or an entity organized in, and is principally located within, the United States of America;

(v) are not due from a Person obligated under such Account which is a Subsidiary or a director, officer, employee, agent, parent or Affiliate of any Credit Party;

(vi) do not arise out of contracts with the United States or any Governmental Authority thereof, unless the a Credit Party has assigned its right to payment of such Account to Lender pursuant to the Federal Assignment of Claims Act of 1940 (or analogous statute), and evidence (satisfactory to Lender) of such assignment has been delivered to Lender;

(vii) do not arise in connection with a sale to a Person obligated under such Account who is located within a state or jurisdiction which requires any Credit Party, as a precondition to commencing or maintaining an action in the courts of that state or jurisdiction, either to: (A) receive a certificate of authority to do business and be in good standing in such state or jurisdiction; or (B) file a notice of business activities or similar report with such state's or jurisdiction's taxing authority, unless: (I) the applicable Credit Party has taken one of the actions described in clauses (A) or (B); (II) the failure to take one of the actions described in either clause (A) or (B) may be cured retroactively by the applicable Credit Party at its election; or (III) the applicable Credit Party has proven to the satisfaction of Lender that it is exempt from any such requirements under such state's or jurisdiction's laws;

(viii) do not arise out of a contract or order which, by its terms, forbids or makes void or unenforceable the assignment to Lender of the Account arising with respect thereto and are not assignable to Lender for any other reason;

(ix) are the valid, legally enforceable and unconditional obligation of the Person obligated under such Account, are not the subject of any setoff, counterclaim, credit, allowance or adjustment by the Person obligated under such Account, or of any claim by the Person obligated under such Account denying liability thereunder in whole or in part, and the Person obligated under such Account has not refused to accept and/or has not returned or offered to return any of the goods or services which are the subject of such Account;

(x) are subject to a perfected, first priority Lien in favor of Lender and not subject to any Lien whatsoever, other than the Lien of Lender and except for Permitted Liens;

(xi) no Proceedings are pending or threatened against the Person obligated under such Account which might result in any material adverse change in its financial condition or in its ability to pay any Account in full;

(xii) if the Account is evidenced by chattel paper or an instrument, the originals of such chattel paper or instrument shall have been endorsed and/or assigned and delivered to Lender or, in the case of electronic chattel paper, shall be in the control of Lender, in each case in a manner satisfactory to Lender; and

(xiii) there is no bankruptcy, insolvency or liquidation Proceeding pending by or against the Person obligated under such Account, nor has the Person obligated under such Account gone out of or suspended business, made a general assignment for the benefit of creditors or failed to pay its debts generally as they come due, and/or no condition or event has occurred having a Material Adverse Effect on the Person obligated under such Account which would require the Accounts of such Person to be deemed uncollectible in accordance with GAAP.

A sale or Account which is an Eligible Account shall cease to be an Eligible Account whenever it ceases to meet any one of the foregoing requirements. In addition, any sale or Account that otherwise meets each of the criteria above for an Eligible Account, may nonetheless be deemed not to be an Eligible Account, or may be deemed as an Eligible Account for a discounted value, all in Lender's sole and absolute discretion.

If Accounts representing Fifty Percent (50%) or more of the unpaid net amount of all Accounts from any one Person fail to qualify as Eligible Accounts, including because such Accounts are unpaid more than ninety (90) days after the due date of such Accounts, then all Accounts relating to such Person shall cease to be Eligible Accounts. If Accounts owed by a single Person exceed Fifty Percent (50%) of all Eligible Accounts, then all Accounts relating to such Person in excess of such amount shall cease to be Eligible Accounts.

(dd) “**Employee Plan**” includes any pension, stock bonus, employee stock ownership plan, retirement, disability, medical, dental or other health plan, life insurance or other death benefit plan, profit sharing, deferred compensation, stock option, bonus or other incentive plan, vacation benefit plan, severance plan or other employee benefit plan or arrangement, including, without limitation, those pension, profit-sharing and retirement plans of the Credit Parties described from time to time in the consolidated financial statements of the Credit Parties and any pension plan, welfare plan, Defined Benefit Pension Plans (as defined in ERISA) or any multi-employer plan, maintained or administered by the Credit Parties or to which the Credit Parties are a party or may have any liability or by which the Credit Parties are bound.

(ee) “**Environmental Laws**” shall mean all federal, state, district, local and foreign laws, rules, regulations, ordinances, and consent decrees relating to health, safety, hazardous substances, pollution and environmental matters, as now or at any time hereafter in effect, applicable to the Credit Parties’ business or facilities owned or operated by the Credit Parties, including laws relating to emissions, discharges, releases or threatened releases of pollutants, contamination, chemicals, or hazardous, toxic or dangerous substances, materials or wastes in the environment (including ambient air, surface water, land surface or subsurface strata) or otherwise relating to the generation, manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials.

(ff) “**ERISA**” shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time.

(gg) “**Event of Default**” shall mean any of the events or conditions set forth in Section 12 hereof.

(hh) “**Financial Statements**” shall have the meaning given to it in Section 7.10 hereof.

(ii) “**First Closing**” means the closing of the Initial Loan hereunder, which shall take place on the Effective Date.

(jj) “**Funded Indebtedness**” shall mean, as to any Person, without duplication: (i) all indebtedness for borrowed money of such Person (including principal, interest and, if not paid when due, fees and charges), whether or not evidenced by bonds, debentures, notes or similar instruments; (ii) all obligations to pay the deferred purchase price of property or services; (iii) all obligations, contingent or otherwise, with respect to the maximum face amount of all letters of credit (whether or not drawn), bankers’ acceptances and similar obligations issued for the account of such Person (including the Letters of Credit), and all unpaid drawings in respect of such letters of credit, bankers’ acceptances and similar obligations; and (iv) all indebtedness secured by any Lien on any property owned by such Person, whether or not such indebtedness has been assumed by such Person (provided, however, if such Person has not assumed or otherwise become liable in respect of such indebtedness, such indebtedness shall be deemed to be in an amount equal to the fair market value of the property subject to such Lien at the time of determination). Notwithstanding the foregoing, Funded Indebtedness shall not include trade payables and accrued expenses incurred by such Person in accordance with customary practices and in the Ordinary Course of Business of such Person.

(kk) “**GAAP**” shall mean United States generally accepted accounting principles set forth from time to time in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the U.S. accounting profession), which are applicable to the circumstances as of the date of determination; provided, however, that interim financial statements or reports shall be deemed in compliance with GAAP despite the absence of footnotes and fiscal year-end adjustments as required by GAAP.

(ll) “**Governmental Authority**” means any foreign, federal, state or local government, or any political subdivision thereof, or any court, agency or other body, organization, group, stock market or exchange exercising any executive, legislative, judicial, quasi-judicial, regulatory or administrative function of government.

(mm) “**Guarantors**” shall have the meaning given to it in the preamble hereof.

(nn) “**Guarantee Agreement(s)**” shall mean the guaranty agreement executed by the Corporate Guarantor in favor of the Lender, pursuant to which the Corporate Guarantor shall guarantee all of the Obligations of the Borrower, the form of which is attached hereto as **Exhibit “B”**.

(oo) “**Hazardous Materials**” shall mean any hazardous, toxic or dangerous substance, materials and wastes, including hydrocarbons (including naturally occurring or man-made petroleum and hydrocarbons), flammable explosives, asbestos, urea formaldehyde insulation, radioactive materials, biological substances, polychlorinated biphenyls, pesticides, herbicides and any other kind and/or type of pollutants or contaminants (including, without limitation, materials which include hazardous constituents), sewage, sludge, industrial slag, solvents and/or any other similar substances, materials or wastes that are or become regulated under any Environmental Law (including any that are or become classified as hazardous or toxic under any Environmental Law).

(pp) “**Income Projections**” shall have the meaning given to it in Section 10.8 hereof.

(qq) “**Initial Loan**” means the initial loan contemplated to be made by Lender to the Borrower at the First Closing in the amount of Three Million Five Hundred Thousand Dollars (\$3,500,000).

(rr) “**Insurance Policies**” shall have the meaning given to it in Section 7.23 hereof.

(ss) “**Interest Rate**” shall mean a fixed rate of interest equal to eighteen percent (18.0%) per annum, calculated on the actual number of days elapsed over a 360-day year.

(tt) “**IP Rights**” shall have the meaning given to it in Section 7.21 hereof.

(uu) “**Irrevocable Transfer Agent Instructions**” shall mean the Irrevocable Transfer Agent Instructions to be entered into by and among the Lender, the Borrower and the Borrower’s Transfer Agent, the form of which is attached hereto as **Exhibit “C”**.

(vv) “**Lender**” shall have the meaning given to it in the preamble hereof.

(ww) “**Lender Indemnitee(s)**” shall have the meaning given to it in Section 14.19 hereof.

(xx) “**License Agreements**” shall have the meaning given to it in Section 7.21 hereof.

(yy) “**Lien**” shall mean, with respect to any Person, any mortgage, pledge, hypothecation, judgment lien or similar legal process, title retention lien, or other lien, security interest or encumbrance of any nature or kind granted by such Person or arising by judicial process or otherwise, including the interest of a vendor under any conditional sale or other title retention agreement and the interest of a lessor under a lease of any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, by such Person as lessee that is, or should be, a Capital Lease on the balance sheet of such Person prepared in accordance with GAAP.

(zz) “**Loan**” or “**Loans**” means, collectively, the Initial Loan, and all Additional Loans, if any, made by Lender to Borrower from time to time hereunder.

(aaa) “**Loan Documents**” shall mean those documents listed in Sections 3.1, 3.2 and 3.3 hereof, and any other documents or instruments executed in connection with this Agreement or the Loans contemplated hereby, and all renewals, extensions, future advances, modifications, substitutions, or replacements thereof

(bbb) “**Material Adverse Effect**” shall mean: (i) a material adverse change in, or a material adverse effect upon, the assets, business, prospects, properties, financial condition or results of operations of any Credit Party; (ii) a material impairment of the ability of any Credit Party to perform any of its Obligations under any of the Loan Documents; or (iii) a material adverse effect on: (A) any material portion of the Collateral; (B) the legality, validity, binding effect or enforceability against any Credit Party of any of the Loan Documents; (C) the perfection or priority (subject to Permitted Liens) of any Lien granted to Lender under any Loan Document; (D) the rights or remedies of Lender under any Loan Document; or (E) the Lender’s ability to sell, without limitation or restriction, if applicable, any Advisory Fee Shares hereunder or any shares issued to the Lender upon a conversion pursuant to the Promissory Note. For purposes of determining whether any of the foregoing changes, effects, impairments, or other events have occurred, such determination shall be made by Lender, in its sole and absolute discretion.

(ccc) “**Material Contract**” shall mean any contract or agreement to which any Credit Party is a party or by which any Credit Party or any of its assets are bound and which: (i) must be disclosed to the SEC, the Principal Trading Market, or any other Governmental Authority pursuant to the Securities Act, the Exchange Act, the rules and regulations of the SEC, or any other laws, rules or regulations of any Governmental Authority or the Principal Trading Market; (ii) involves aggregate payments of Twenty-Five Thousand and No/100 United States Dollars (US\$25,000.00) or more to or from any Credit Party; (iii) involves delivery, purchase, licensing or provision, by or to any Credit Party, of any goods, services, assets or other items having a value (or potential value) over the term of such contract or agreement of Twenty-Five Thousand and No/100 United States Dollars (US\$25,000.00) or more or is otherwise material to the conduct of the Credit Party’s business as now conducted and as contemplated to be conducted in the future; (iv) involves a Credit Party Lease; (v) imposes any guaranty, surety or indemnification obligations on any Credit Party; or (vi) prohibits any Credit Party from engaging in any business or competing anywhere in the world.

(ddd) “**Material Shareholder**” shall have the meaning given to it in Section 7.31 hereof.

(eee) “**Maturity Date**” shall mean the earlier of: (i) eighteen (18) months from the Effective Date; (ii) upon prepayment of the Promissory Note by Borrower (subject to Section 2.4(b)); or (iii) the occurrence of an Event of Default and acceleration of the Promissory Note pursuant to this Agreement, unless the date in clause (i) shall be extended by Lender pursuant to any modification, extension or renewal note executed by Borrower and accepted by Lender in its sole and absolute discretion in substitution for the Promissory Note.

(fff) “**Obligations**” shall mean, whether now existing or hereafter arising, created or incurred: (i) all Loans, advances (whether of principal or otherwise) and other financial accommodations (whether primary, contingent or otherwise) made by Lender to Borrower under any Loan Documents; (ii) all interest accrued thereon (including interest which would be payable as post-petition in connection with any bankruptcy or similar Proceeding, whether or not permitted as a claim thereunder); (iii) any and all fees, charges or other amounts due to Lender under this Agreement or the other Loan Documents; (iv) any and all expenses incurred by Lender under, or in connection with, this Agreement or the other Loan Documents; (v) any and all other liabilities and obligations of any of the Credit Parties to Lender under this Agreement and any other Loan Documents; and (vi) the performance by the Credit Parties of all covenants, agreements and obligations of every nature and kind on the part of any of the Credit Parties to be performed under this Agreement and any other Loan Documents.

(ggg) “**OFAC**” shall have the meaning given to it in Section 14.22 hereof.

(hhh) “**Ordinary Course of Business**” means the Ordinary Course of Business of the Person in question consistent with past custom and practice (including with respect to quantity, quality and frequency).

(iii) “**Payment Account**” shall have the meaning given to it in Section 2.4(c) hereof.

(jjj) **“Permitted Liens”** shall mean: (i) Liens for Taxes, assessments or other governmental charges not at the time delinquent or thereafter payable without penalty or being contested in good faith by appropriate proceedings and, in each case, for which adequate reserves are maintained in accordance with GAAP and in respect of which no Lien has been filed; (ii) Liens of carriers, warehousemen, mechanics and materialmen arising in the Ordinary Course of Business; (iii) Liens in the form of deposits or pledges incurred in connection with worker’s compensation, unemployment compensation and other types of social security (excluding Liens arising under ERISA or in connection with surety bonds, bids, performance bonds and similar obligations) for sums not overdue or being contested in good faith by appropriate Proceedings and not involving any advances or borrowed money or the deferred purchase price of property or services, which do not in the aggregate materially detract from the value of the property or assets of the Credit Parties taken as a whole or materially impair the use thereof in the operation of the Credit Parties’ business and, in each case, for which adequate reserves are maintained in accordance with GAAP and in respect of which no Lien has been filed; (iv) Liens described in the Financial Statements and acceptable to Lender in its sole and absolute discretion, and the replacement, extension or renewal of any such Lien upon or in the same property subject thereto arising out of the extension, renewal or replacement of the indebtedness secured thereby (without increase in the amount thereof and without expansion of such Liens upon any other property); (v) attachments, appeal bonds, judgments and other similar Liens, for sums not exceeding Fifty Thousand and No/100 United States Dollars (US\$50,000.00) arising in connection with court Proceedings, provided the execution or other enforcement of such Liens is effectively stayed and the claims secured thereby are being actively contested in good faith and by appropriate Proceedings, and only to the extent such judgments or awards do not otherwise constitute an Event of Default; (vi) zoning and similar restrictions on the use of property and easements, rights of way, restrictions, minor defects or irregularities in title and other similar Liens not interfering in any material respect with the ordinary conduct of the business of the Credit Parties; (vii) Liens arising in connection with Capital Leases (and attaching only to the property being leased); (viii) Liens that constitute purchase money security interests on any property securing indebtedness incurred for the purpose of financing all or any part of the cost of acquiring such property, provided that any such Lien attaches to such property within sixty (60) days of the acquisition thereof and attaches solely to the property so acquired; (ix) Liens granted to Lender hereunder and under the Loan Documents; (x) any interest or title of a lessor, sublessor, licensor or sublicense under any lease or non-exclusive license permitted by this Agreement; (xi) Liens arising from precautionary uniform commercial code financing statements filed under any lease permitted by this Agreement; and (xii) banker’s Liens and rights of set-off of financial institutions arising in connection with items deposited in accounts maintained at such financial institutions and subsequently unpaid and unpaid fees and expenses that are charged to the Credit Parties by such financial institutions in the Ordinary Course of Business of the maintenance and operation of such accounts.

(kkk) **“Permit”** means any license, permit, approval, waiver, order, authorization, right or privilege of any nature whatsoever, granted, issued, approved or allowed by any Governmental Authority.

(lll) **“Person”** shall mean any individual, partnership, limited liability company, limited liability partnership, corporation, trust, joint venture, joint stock company, association, unincorporated organization, government or agency or political subdivision thereof, or other entity.

(mmm) **“Pledge Agreement(s)”** shall mean the pledge agreements executed by the Borrower in favor of the Lender, pursuant to which the Borrower grants a first priority lien and security interest in and to all of the shares or membership interests (as applicable) owned by the Borrower in the Corporate Guarantor, and any other Subsidiaries, to the Lender, the form of which is attached hereto as **Exhibit “D”**.

(nnn) **“Point-of-Sale Transactions”** means any sale transactions by any Credit Parties whereby the purchase price for the sale transaction is paid in full by the Person undertaking such sale transaction, at the time of the sale transaction.

(ooo) “**Preferred Stock**” shall have the meaning given to it in Section 7.4 hereof.

(ppp) “**Prepayment Penalty**” shall have the meaning given to it in Section 2.4(b) hereof.

(qqq) “**Principal Trading Market**” shall mean the Nasdaq Global Select Market, the Nasdaq Global Market, the Nasdaq Capital Market, the OTCQX, the OTCQB, the OTC Pink, the NYSE Euronext or the New York Stock Exchange, whichever is at the time the principal trading exchange or market for the Common Stock.

(rrr) “**Proceeding**” means any demand, claim, suit, action, litigation, investigation, audit, study, arbitration, administrative hearing, or any other proceeding of any nature whatsoever.

(sss) “**Promissory Note(s)**” means any promissory notes issued by the Borrower to Lender from time to time under this Agreement which evidence the Initial Loan or any Additional Loans, which promissory notes shall be substantially in the form and substance attached hereto as **Exhibit “E”**.

(ttt) “**Public Documents**” shall have the meaning given to it in Section 7.11 hereof.

(uuu) “**Real Property**” means any real estate, land, building, structure, improvement, fixture or other real property of any nature whatsoever, including, but not limited to, fee and leasehold interests, and specifically including the real property listed on **Schedule 7.18**.

(vvv) “**Rule 144**” shall mean Rule 144 or Rule 144A promulgated under the Securities Act (or a successor rule thereto).

(www) “**Rule 144 Certificate**” shall have the meaning given to it in Section 10.20 hereof. 10.20 hereof.

(xxx) “**Rule 144 Opinion**” shall have the meaning given to it in Section 10.20 hereof.

(yyy) “**Sale Reconciliation**” shall have the meaning given to it in Section 2.5(f) hereof.

(zzz) “**SEC**” shall mean the United States Securities and Exchange Commission.

(aaaa) “**Securities Act**” shall mean the Securities Act of 1933, as amended.

(bbbb) “**Securities Being Sold**” shall have the meaning given to it in Section 10.20 hereof.

(cccc) “**Security Agreement(s)**” shall mean the security agreements executed by the Credit Parties in favor of Lender, pursuant to which each of the Credit Parties grant a first priority lien and security interest in and to all of their respective Collateral as security for the Obligations, the forms of which are attached hereto as **Exhibit “F-1”** and **Exhibit “F-2”**.

(dddd) “**Share Reserve**” shall have the meaning given to it in **Section 10.21** hereof.

(eeee) “**Shell Company**” shall have the meaning given to it in **Section 10.20** hereof.

(ffff) “**Subsidiary**” and “**Subsidiaries**” shall mean, respectively, each and all such corporations, partnerships, limited partnerships, limited liability companies, limited liability partnerships or other entities of which or in which a Person owns, directly or indirectly, fifty percent (50%) or more of: (i) the combined voting power of all classes of stock having general voting power under ordinary circumstances to elect a majority of the board of directors of such entity if a corporation; (ii) the management authority and capital interest or profits interest of such entity, if a partnership, limited partnership, limited liability company, limited liability partnership, joint venture or similar entity; or (iii) the beneficial interest of such entity, if a trust, association or other unincorporated organization.

(gggg) “**Transfer Agent**” shall have the meaning given to it in **Section 2.5(k)** hereof.

(hhhh) “**UCC**” shall mean the Uniform Commercial Code in effect in Nevada from time to time.

(iiii) “**Use of Proceeds Confirmation**” shall have the meaning given to it in **Section 9.8** hereof.

(jjjj) “**Validity Certificates**” shall mean the Validity Certificates executed by certain officers and directors of the Borrower, the form of which is attached hereto as **Exhibit “G”**.

(kkkk) “**Valuation Date**” shall have the meaning given to it in **Section 2.5(f)** hereof.

(1111) “**VWAP**” shall have the meaning given to it in **Section 2.5(f)** hereof.

1.2 Accounting Terms. Any accounting terms used in this Agreement which are not specifically defined herein shall have the meanings customarily given them in accordance with GAAP. Calculations and determinations of financial and accounting terms used and not otherwise specifically defined hereunder and the preparation of financial statements to be furnished to Lender pursuant hereto shall be made and prepared, both as to classification of items and as to amount, in accordance with GAAP as used in the preparation of the financial statements of Borrower on the date of this Agreement. If any changes in accounting principles or practices from those used in the preparation of the financial statements are hereafter occasioned by the promulgation of rules, regulations, pronouncements and opinions by or required by the Financial Accounting Standards Board or the American Institute of Certified Public Accountants (or any successor thereto or agencies with similar functions), which results in a material change in the method of accounting in the financial statements required to be furnished to Lender hereunder or in the calculation of financial covenants, standards or terms contained in this Agreement, the parties hereto agree to enter into good faith negotiations to amend such provisions so as equitably to reflect such changes to the end that the criteria for evaluating the financial condition and performance of Borrower will be the same after such changes as they were before such changes; and if the parties fail to agree on the amendment of such provisions, Borrower will furnish financial statements in accordance with such changes but shall provide calculations for all financial covenants, perform all financial covenants and otherwise observe all financial standards and terms in accordance with applicable accounting principles and practices in effect immediately prior to such changes. Calculations with respect to financial covenants required to be stated in accordance with applicable accounting principles and practices in effect immediately prior to such changes shall be reviewed and certified by Borrower's accountants.

1.3 Other Terms Defined in UCC. All other words and phrases used herein and not otherwise specifically defined shall have the respective meanings assigned to such terms in the UCC, as amended from time to time, to the extent the same are used or defined therein.

1.4 Other Definitional Provisions; Construction. Whenever the context so requires, the neuter gender includes the masculine and feminine, the single number includes the plural, and vice versa. In addition: (i) the words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and references to Article, Section, Subsection, Annex, Schedule, Exhibit and like references are references to this Agreement unless otherwise specified; (ii) wherever the word "include," "includes" or "including" is used in this Agreement, it will be deemed to be followed by the words "without limitation;" (iii) an Event of Default shall "continue" or be "continuing" until such Event of Default has been cured in Lender's sole and absolute discretion, or waived by Lender in accordance with Section 14.3 hereof; (iv) any reference to the Credit Parties shall mean and refer to all the Credit Parties, collectively, and to each Credit Party, individually, and accordingly, each representation, warranty, covenant, obligation or other agreement, term or provision in this Agreement or any other Loan Documents, to the extent applicable to the Credit Parties, shall be deemed to be applicable and effective as to all Credit Parties, collectively, and to each Credit Party, individually, as the context may so require, regardless of the gender, singular, plural, or other tense used in the applicable provision; (v) references in this Agreement to any party shall include such party's successors and permitted assigns; and (vi) references to any "Section" shall be a reference to such Section of this Agreement unless otherwise stated. To the extent any of the provisions of the other Loan Documents are inconsistent with the terms of this Agreement, the provisions of this Agreement shall govern.

## 2. LOANS.

2.1 Initial Loan. Subject to the satisfaction (or waiver) of the terms and conditions of this Agreement, the Lender shall make the Initial Loan to Borrower at the First Closing.

## 2.2 Additional Loans.

(a) At any time after the First Closing, but prior to the Maturity Date or earlier termination of this Agreement, the Borrower may request that Lender make Additional Loans hereunder at Additional Closings by written notice to Lender. Any such Additional Loans shall be subject to Lender's prior written approval, and Lender shall have the absolute right to withhold, deny or condition approval of any such requests for any such Additional Loans in Lender's sole and absolute discretion, however, at a minimum, the following conditions must be satisfied, in Lender's sole and absolute discretion: (i) no Event of Default shall have occurred or be continuing; (ii) Borrower shall have executed and delivered a new or revised Promissory Note; (iii) after giving effect to such increase, the amount of the aggregate outstanding principal balance of all Loans shall not be in excess of the maximum amount of credit available under this Agreement; (iv) Lender shall have reviewed and accepted, in its sole and absolute discretion, the revenues, income, Collateral, and other financial or other underwriting criteria required for the increase; and (v) Lender shall have received any and all documents or agreements as it shall require in its sole and absolute discretion. If Lender approves any request for such Additional Loans, then subject to the satisfaction (or waiver) of the terms and conditions of this Agreement, Lender shall make such Additional Loans to Borrower in such amounts and at such Additional Closings as Lender and the Borrower may mutually agree. Borrower may only request Additional Loans if, in Lender's sole and absolute discretion, no default or "Event of Default" (as such term is defined in any of the Loan Documents) shall have occurred or be continuing under this Agreement or any other Loan Documents, and no event shall have occurred that, with the passage of time, the giving of notice, or both, would constitute a default or an Event of Default hereunder or thereunder.

(b) It is expressly agreed and acknowledged by each of the Credit Parties that, notwithstanding that this Agreement provides for the opportunity for Additional Loans as hereby provided: (i) Lender has no obligation of any nature or kind whatsoever to make any such Additional Loans to the Credit Parties; (ii) the Credit Parties did not enter into this Agreement based on any promise, express or implied, by Lender or any of its agents or representatives, or based on any expectation by any of the Credit Parties, that Additional Loans beyond the Initial Loan would be made or provided after the Effective Date; and (iii) each of the Credit Parties hereby fully and unconditionally waives any and all claims, counterclaims, and defenses any of them may have based on any argument that Lender had any obligation or otherwise promised to fund or make Additional Loans beyond the Initial Loan, or any argument or implied covenant of fair dealing and good faith that may in any way imply an obligation upon Lender to make such Additional Loans.

2.3 Form of Payment; Documents Delivered. Each Closing shall be undertaken between the Credit Parties and Lender through the use of overnight mails and subject to escrow instructions from Lender and its counsel. Any violation or breach of any such escrow instructions, whether by any Credit Parties or counsel for any Credit Parties, shall constitute an Event of Default hereunder. Subject to such escrow instructions and the satisfaction (or waiver) of the terms and conditions of this Agreement, at each Closing: (i) the Lender shall deliver to the Borrower, to a Borrower account designated by the Borrower, the aggregate proceeds of the applicable Loan being funded at such Closing, minus the fees to be paid directly from the proceeds of such Closing as set forth in this Agreement, in the form of wire transfers of immediately available Dollars; and (ii) the Credit Parties shall deliver to Lender the Promissory Note evidencing the Loan made at such Closing (or a consolidated Promissory Note for all Loans, in Lender's discretion), as well as all other documents required to be delivered pursuant to this Agreement or otherwise required by Lender and its counsel, duly executed on behalf of the Credit Parties, as applicable.

## 2.4 Payment of Loans.

(a) Loan Interest and Payments. Except as otherwise provided in this Section, the outstanding principal balance of the Loans and all other Obligations shall be repaid on or before the Maturity Date. The principal amount of the Loans outstanding from time to time shall bear interest at the Interest Rate. All Obligations shall be paid in accordance with the payment terms set forth in this Agreement and the Promissory Note. Any amount of principal or interest on the Obligations which is not paid when due, whether at stated maturity, by acceleration or otherwise, shall at Lender's option bear interest payable on demand at the Default Rate.

(b) Optional Prepayments. Borrower may from time to time prepay the Loans, in whole or in part, without penalty.

(c) Manner of Payments.

(i) ACH Payment. The Credit Parties agree that all payments due and owing under this Agreement or any other Loan Documents shall be made by wire transfer to an account designated by Lender to Borrower from time to time, or at Lender's election, shall be made through automated clearing house ("**ACH**") transfers from the Borrower's designated operating account (the "**Payment Account**") directly to Lender. In this regard, if the Lender elects to receive payments through ACH, the Borrower hereby agrees to execute and deliver to Lender an authorization agreement for direct payments whereby, among other things, Lender shall be irrevocably authorized to initiate ACH transfers from the Payment Account to Lender in the amounts required or permitted under this Agreement and all other Loan Documents, including for scheduled payments of principal and interest due under the Promissory Note, and payment of all other fees or charges due under this Agreement or any other Loan Documents. Lender's authorization for direct ACH transfers as hereby provided shall be irrevocable and such ACH transfers shall continue until all Obligations are paid in full. For so long as any Obligations remain outstanding, Borrower shall: (i) not revoke Lender's authority to initiate ACH transfers as hereby contemplated; (ii) not change, modify, close or otherwise affect the Payment Account; (iii) deposit all revenues of any nature or kind whatsoever relating to Credit Parties or their business only into the Payment Account; and (iv) be responsible for all costs, expenses or other fees and charges incurred by Lender as a result of any failed or returned ACH transfers, whether resulting from insufficient sums being available in the Payment Account, or otherwise. The Credit Parties hereby agree to undertake any and all required actions, execute any required documents, instruments or agreements, or to otherwise do any other thing required or requested by Lender in order to effectuate the requirements of this Section 2.4(c).

(d) Power of Attorney. It is intended that all revenues of any nature or kind whatsoever relating to Credit Parties or their business, and all other checks, drafts, instruments and other items of payment or proceeds of Collateral at any time received, due or owing to the Credit Parties from any Person, or otherwise, shall be deposited directly into the Payment Account, and if not deposited directly into the Payment Account, shall be immediately remitted or endorsed by the Credit Parties into the Payment Account, and, if that remittance or endorsement of any such item shall not be immediately made for any reason, Lender is hereby irrevocably authorized to remit or endorse the same on Credit Parties' behalf. For purpose of this Section, the Credit Parties irrevocably hereby make, constitute and appoint Lender (and all Persons designated by Lender for that purpose) as the Credit Parties' true and lawful attorney and agent-in-fact: (A) to endorse the Credit Parties' name upon items of payment and/or proceeds of Collateral and upon any chattel paper, document, instrument, invoice or similar document or agreement relating to any revenues of the Credit Parties; (B) to take control in any manner of any item of payment or proceeds thereof; (C) to have access to the Credit Parties' operating accounts, through the Credit Parties' online banking system, or otherwise, to make remittances of any revenues deposited therein into the Payment Account or otherwise as required hereby; (D) to have access to any lock box or postal box into which any of the Credit Parties' mail is deposited, and open and process all mail addressed to the Credit Parties and deposited therein; and (E) direct and otherwise deal with all Persons to insure that all revenues are remitted to the Payment Account or as otherwise hereby contemplated.

(e) Rights Upon Default. Lender may, at any time and from time to time after the occurrence and during the continuance of an Event of Default, whether before or after the maturity of any of the Obligations: (A) enforce collection of any Accounts or other amounts owed to the Credit Parties by suit or otherwise; (B) exercise all of the rights and remedies of the Credit Parties with respect to Proceedings brought to collect any Accounts or other amounts owed to the Credit Parties; (C) surrender, release or exchange all or any part of any Accounts or other amounts owed to the Credit Parties, or compromise or extend or renew for any period (whether or not longer than the original period) any indebtedness thereunder; (D) sell or assign any Account of the Credit Parties, or other amount owed to the Credit Parties, upon such terms, for such amount and at such time or times as Lender deems advisable; (E) prepare, file and sign any Credit Parties' name on any proof of claim in bankruptcy or other similar document against any Person obligated to the Credit Parties; and (F) do all other acts and things which are necessary, in Lender's sole discretion, to fulfill the Credit Parties' obligations under this Agreement and the other Loan Documents and to allow Lender to collect the Accounts, or other amounts owed to the Credit Parties. In addition to any other provision hereof, Lender may at any time after the occurrence and during the continuance of an Event of Default, at the Credit Parties' expense, notify any parties obligated on any of the Accounts to make payment directly to Lender of any amounts due or to become due thereunder.

(f) Statement. From time to time, Lender may deliver to Borrower an invoice and or an account statement showing all Loans, charges and payments, which shall be deemed final, binding and conclusive upon Borrower, unless Borrower notifies Lender in writing, specifying any error therein, within thirty (30) days of the date such account statement is sent to Borrower and any such notice shall only constitute an objection to the items specifically identified.

(g) View Access To Accounts. On the Effective Date, the Credit Parties shall undertake all required actions, including providing Lender with proper sign-in or log-in credentials, user names, passwords, and other required information, to provide Lender with, and to allow Lender to have, view-only access, through the Credit Parties' online banking system or otherwise, to any and all of the Credit Parties' bank accounts listed on **Schedule 7.28**, and any additional bank accounts of the Credit Parties as may exist from time to time. Credit Parties shall not undertake any action that prevents or impairs Lender's ability to have view-only access of all of the bank accounts of the Credit Parties as contemplated by this Section.

2.5 Fees.

(a) Intentionally Left Blank.

(b) Transaction Advisory Fee. In addition to the Advisory Fee contained in Section 2.5(f) herein, the Borrower agrees to pay to Lender a transaction advisory fee equal to two percent (2.0%) of the amount of the Initial Loan, and one percent (1.0%) on the amount of any Additional Loan, which shall be due and payable on the First Closing and at each Additional Closing.

(c) Due Diligence Fees. Borrower agrees to pay a due diligence fee equal to Fifteen Thousand and No/100 United States Dollars (US\$15,000.00), which shall be due and payable in full on the First Closing, or any remaining portion thereof shall be due and payable on the First Closing if a portion of such fee was paid upon the execution of any term sheet related to this Agreement.

(d) Document Review and Legal Fees. Borrower agrees to pay a document review and legal fee equal to Twenty Five Thousand and No/100 United States Dollars (US\$25,000.00) which shall be due and payable in full on the First Closing, or any remaining portion thereof shall be due and payable on the First Closing if a portion of such fee was paid upon the execution of any term sheet related to this Agreement.

(e) Other Fees. Borrower also agrees to pay to the Lender (or any designee of the Lender), upon demand, or to otherwise be responsible for the payment of, any and all other costs, fees and expenses, including the reasonable fees, costs, expenses and disbursements of counsel for the Lender and of any experts and agents, which the Lender may incur or which may otherwise be due and payable in connection with: (i) the preparation, negotiation, execution, delivery, recordation, administration, amendment, waiver, subordination, or other modification or termination of this Agreement or any other Loan Documents (provided that there shall be no fees for the preparation and negotiation of this Agreement other than as specifically set forth in the closing or settlement statement executed by Borrowers and Lender on the First Closing); (ii) any documentary stamp taxes, intangibles taxes, recording fees, filing fees, or other similar taxes, fees or charges imposed by or due to any Governmental Authority in connection with this Agreement or any other Loan Documents; (iii) the priority or perfection of any of Lender's Liens on any Collateral; (iv) the exercise or enforcement of any of the rights of the Lender under this Agreement or the Loan Documents; or (v) the failure by the Credit Parties to perform or observe any of the provisions of this Agreement or any of the Loan Documents. Included in the foregoing shall be the amount of all expenses paid or incurred by Lender in consulting with counsel concerning any of its rights under this Agreement or any other Loan Document or under applicable law. All such costs and expenses, if not so immediately paid when due or upon demand thereof, shall bear interest from the date of outlay until paid, at the Default Rate. All of such costs and expenses shall be additional Obligations of the Credit Parties to Lender secured under the Loan Documents. The provisions of this Subsection shall survive the termination of this Agreement.

(f) Advisory Fees. The Borrower shall pay to Lender a fee for advisory services provided by the Lender to the Borrower prior to the Effective Date in the amount of Eight Hundred Fifty Thousand and No/100 United States Dollars (US\$850,000.00) (the “**Advisory Fee**”) by issuing to Lender one hundred percent (100%) of that number of shares of the Borrower’s Common Stock equal to the Advisory Fee. For purposes of determining the number of shares issuable to Lender under this Section (the “**Advisory Fee Shares**”), the Borrower’s Common Stock shall be valued at price equal to the lowest volume weighted average price for the Common Stock for the five (5) Business Days immediately prior to the Effective Date (the “**Valuation Date**”), as reported by Bloomberg (the “**VWAP**”). The Lender shall confirm to the Borrower in writing, the VWAP for the Common Stock as of the Valuation Date, and simultaneously with the closing of the Initial Loan, the Borrower shall issue to Lender a number of Advisory Fee Shares equal to the lesser of: (A) one hundred percent (100%) of the Advisory Fee; or (B) 4.99% of the issued and outstanding number of shares of Common Stock (the “**Ownership Threshold**”) as of the Effective Date, based on such VWAP as of the Valuation Date. The Borrower shall instruct its transfer agent (the “**Transfer Agent**”) to issue certificates representing the Advisory Fee Shares issuable to the Lender immediately upon the Borrower’s execution of this Agreement, and shall cause its Transfer Agent to deliver such certificates to Lender within three (3) Business Days from the Effective Date. In the event such certificates representing the Advisory Fee Shares issuable hereunder shall not be delivered to the Lender within said three (3) Business Day period, same shall be an immediate default under this Agreement and the other Loan Documents. The Advisory Fee Shares, when issued, shall be deemed to be validly issued, fully paid, and non-assessable shares of the Borrower’s Common Stock. The Advisory Fee Shares shall be deemed fully earned as of the Effective Date, regardless of the amount or number of Loans made hereunder. Subject at all times to the adjustment provision in Section 2.5(f)(i) below, in the event the number of Advisory Fee Shares issued to Lender under this Section is based on Subsection (B) of this paragraph, then at any time the number of shares of Common Stock owned by Lender falls below the Ownership Threshold (whether as a result of Lender selling Advisory Fee Shares, or otherwise), Lender shall have the unconditional right to request that Borrower issue additional Advisory Fee Shares to Lender, up to the Ownership Threshold, until the Borrower has issued to Lender the number of Advisory Fee Shares required by Subsection (A) of this paragraph, and in such event, Borrower shall instruct its Transfer Agent to deliver such additional Advisory Fee Shares to Lender in the same manner as required by this Section..

(i) Adjustments. It is the intention of the Borrower and Lender that the Lender shall be able to sell (if Lender so elects, in Lender's sole and absolute discretion) the Advisory Fee Shares, and generate net proceeds (net of all brokerage commissions and other fees or charges payable by Lender in connection with the sale thereof) from such sale equal to the Advisory Fee. The Lender shall have the right (but not an obligation) to sell the Advisory Fee Shares in the Principal Trading Market or otherwise, at any time in accordance with applicable securities laws. At any time the Lender may elect after the sale of any Advisory Fee Shares, if any, the Lender shall deliver to the Borrower a reconciliation statement showing the net proceeds actually received by the Lender from the sale of the Advisory Fee Shares (the "Sale Reconciliation"). If, as of the date of the delivery by Lender of the Sale Reconciliation, the Lender has not realized net proceeds from the sale of such Advisory Fee Shares equal to at least the Advisory Fee (and there are not a sufficient number of shares remaining with Lender to reasonably expect that their sale will generate the balance of the Advisory Fee due), as shown on the Sale Reconciliation, then the Borrower shall immediately take all required action necessary or required in order to cause the issuance of additional shares of Common Stock to the Lender in an amount sufficient such that, when sold and the net proceeds thereof are added to the net proceeds from the sale of any of the previously issued and sold Advisory Fee Shares, the Lender shall have received total net funds equal to the Advisory Fee. If additional shares of Common Stock are issued pursuant to the immediately preceding sentence, and after the sale of such additional issued shares of Common Stock, the Lender still has not received net proceeds equal to at least the Advisory Fee, then the Borrower shall again be required to immediately take all required action necessary or required in order to cause the issuance of additional shares of Common Stock to the Lender as contemplated above, and such additional issuances shall continue until the Lender has received net proceeds from the sale of such Common Stock equal to the Advisory Fee. In the event the Lender receives net proceeds from the sale of Advisory Fee Shares equal to the Advisory Fee, and the Lender still has Advisory Fee Shares remaining to be sold, the Lender shall return all such remaining Advisory Fee Shares to the Borrower. Similarly, in the event that the net proceeds from the sale or redemption of Advisory Fee Shares or additional shares, exceed the amount of the Advisory Fee, the difference shall be paid immediately to the Borrower (along with the return of any remaining Advisory Fee Shares or additional shares that were issued to Lender). In the event additional Common Stock is required to be issued as outlined above, the Borrower shall instruct its Transfer Agent to issue certificates representing such additional shares of Common Stock to the Lender immediately subsequent to the Lender's notification to the Borrower that additional shares of Common Stock are issuable hereunder, and the Borrower shall in any event cause its Transfer Agent to deliver such certificates to Lender within ten (10) Business Days following the date Lender notifies the Borrower that additional shares of Common Stock are to be issued hereunder. In the event such certificates representing such additional shares of Common Stock issuable hereunder shall not be delivered to the Lender within said ten (10) Business Day period, same shall be an immediate default under this Agreement and the Loan Documents. Notwithstanding anything contained in this Section to the contrary, the Borrower shall have the right to redeem any Advisory Fee Shares then in the Lender's possession for an amount payable by the Borrower to Lender in cash equal to the Advisory Fee, less any net cash proceeds received by the Lender from any previous sales of Advisory Fee Shares. Upon Lender's receipt of such cash payment in accordance with the immediately preceding sentence, the Lender shall return any then remaining Advisory Fee Shares in its possession back to the Borrower and otherwise undertake any required actions reasonably requested by Borrower to have such then remaining Advisory Fee Shares returned to Borrower. The Borrower's obligation to pay the Advisory Fee contemplated by this Section 2.5(f), whether in cash or thru the sale of Advisory Fee Shares, shall be an Obligation hereunder, secured by all Loan Documents, and failure by the Borrower to pay such Advisory Fee in full as required by this Section 2.5(f) shall be an immediate Event of Default hereunder and under the other Loan Documents. In the event the Lender elects to make Additional Loans as permitted by this Agreement, the Borrower agrees to pay additional advisory fees to Lender either in cash or in a similar manner as set forth in this Section 2.5(f) through the issuance of additional Advisory Fee Shares, at Lender's sole discretion, in an amount to be mutually agreed upon between Lender and Borrower.

(ii) Mandatory Redemption. Notwithstanding anything contained in this Agreement to the contrary, in the event the Lender has not realized net proceeds from the sale of Advisory Fee Shares equal to at least the Advisory Fee by the earlier to occur of: (A) the twelve (12) month anniversary of the Effective Date; (B) the occurrence of an Event of Default; or (C) the Maturity Date, then at any time thereafter, the Lender shall have the right, upon written notice to the Borrower, to require that the Borrower redeem all Advisory Fee Shares then in Lender's possession for cash equal to the Advisory Fee, less any cash proceeds received by the Lender from any previous sales of Advisory Fee Shares, if any. In the event such redemption notice is given by the Lender, the Borrower shall redeem the then remaining Advisory Fee Shares in Lender's possession for an amount of Dollars equal to the Advisory Fee, less any cash proceeds received by the Lender from any previous sales of Advisory Fee Shares, if any, payable by wire transfer to an account designated by Lender within five (5) Business Days from the date the Lender delivers such redemption notice to the Borrower.

(iii) Piggyback Registration Rights. In the event that the Borrower files a registration statement with respect to its Common Stock with the SEC (other than a registration statement on Form S-4 or S-8 or any successor form thereto) after the Effective Date but before the Lender sells the Advisory Fee Shares, the Advisory Fee Shares shall be registered pursuant to such registration statement.

(g) Matters with Respect to Common Stock.

(i) Issuance of Conversion Shares. The parties hereto acknowledge that pursuant to the terms of the Promissory Note, Lender has the right, after the occurrence of an Event of Default, to convert amounts due under the Promissory Note into Common Stock in accordance with the terms of the Promissory Note. In the event, for any reason, the Borrower fails to issue, or cause the Transfer Agent to issue, any portion of the Common Stock issuable upon conversion of the Promissory Note (the “**Conversion Shares**”) to Lender in connection with the exercise by Lender of any of its conversion rights under the Promissory Note, then the parties hereto acknowledge that Lender shall irrevocably be entitled to deliver to the Transfer Agent, on behalf of itself and the Borrower, a “Conversion Notice” (as defined in the Promissory Note) requesting the issuance of the Conversion Shares then issuable in accordance with the terms of the Promissory Note, and the Transfer Agent, provided they are the acting transfer agent for the Borrower at the time, shall, and the Borrower hereby irrevocably authorizes and directs the Transfer Agent to, without any further confirmation or instructions from the Borrower, issue the Conversion Shares applicable to the Conversion Notice then being exercised, and surrender to a nationally recognized overnight courier for delivery to Lender at the address specified in the Conversion Notice, a certificate of the Common Stock of the Borrower, registered in the name of Lender or its designee, for the number of Conversion Shares to which Lender shall be then entitled under the Promissory Note, as set forth in the Conversion Notice.

(ii) Issuance of Additional Common Stock. The parties hereto acknowledge that the Borrower has agreed to issue, simultaneously with the execution of this Agreement and in the future, certain shares of the Borrower’s Common Stock in accordance with Section 2.5(f) above. In the event, for any reason, the Borrower fails to issue, or cause its Transfer Agent to issue, any portion of the Common Stock issuable to Lender hereunder, either now or in the future, then the parties hereto acknowledge that Lender shall irrevocably be entitled to deliver to the Transfer Agent, on behalf of itself and the Borrower, a written instruction requesting the issuance of the shares of Common Stock then issuable, and the Transfer Agent, provided they are the acting transfer agent for the Borrower at the time, shall, and the Borrower hereby irrevocably authorizes and directs the Transfer Agent to, without any further confirmation or instructions from the Borrower, issue such shares of the Borrower’s Common Stock as directed by Lender, and surrender to a nationally recognized overnight courier for delivery to Lender at the address specified in the Lender’s notice, a certificate of the Common Stock of the Borrower, registered in the name of Lender, for the number of shares of Common Stock issuable to Lender in accordance herewith.

(iii) Removal of Restrictive Legends. In the event that Lender has any shares of the Borrower's Common Stock bearing any restrictive legends, and Lender, through its counsel or other representatives, submits to the Transfer Agent any such shares for the removal of the restrictive legends thereon, whether in connection with a sale of such shares pursuant to any exemption to the registration requirements under the Securities Act, or otherwise, and the Borrower and or its counsel refuses or fails for any reason to render an opinion of counsel or any other documents, certificates or instructions required for the removal of the restrictive legends, then (except when such share are not eligible under Rule 144): (A) to the extent such legends could be lawfully removed under applicable laws, Borrower's failure to provide the required opinion of counsel or any other documents, certificates or instructions required for the removal of the restrictive legends shall be an immediate Event of Default under this Agreement and all other Loan Documents (except that where Rule 144 is not available, such refusal made in good faith by Borrower's counsel shall not constitute an Event of Default); and (B) the Borrower hereby agrees and acknowledges that, to the extent such legends could be lawfully removed under applicable laws, Lender is hereby irrevocably and expressly authorized to have counsel to Lender render any and all opinions and other certificates or instruments which may be required for purposes of removing such restrictive legends, and the Borrower hereby irrevocably authorizes and directs the Transfer Agent to, without any further confirmation or instructions from the Borrower, issue any such shares without restrictive legends as instructed by Lender, and surrender to a common carrier for overnight delivery to the address as specified by Lender, certificates, registered in the name of Lender or its designees, representing the shares of Common Stock to which Lender is entitled, without any restrictive legends and otherwise freely transferable on the books and records of the Borrower.

(iv) Authorized Agent of the Borrower. The Borrower hereby irrevocably appoints the Lender and its counsel and its representatives, each as the Borrower's duly authorized agent and attorney-in-fact for the Borrower for the purposes of authorizing and instructing the Transfer Agent to process issuances, transfers and legend removals upon instructions from Lender, or any counsel or representatives of Lender, as specifically contemplated herein. The authorization and power of attorney granted hereby is coupled with an interest and is irrevocable so long as any Obligations of the Borrower under this Agreement or any other Loan Documents remain outstanding, and so long as the Lender owns or has the right to receive, any shares of the Borrower's Common Stock hereunder or under the Promissory Note. In this regard, the Borrower hereby confirms to the Transfer Agent and the Lender that it can NOT and will NOT give instructions, including stop orders or otherwise, inconsistent with the terms of this Agreement with regard to the matters contemplated herein, and that the Lender shall have the absolute right to provide a copy of this Agreement to the Transfer Agent as evidence of the Borrower's irrevocable authority for Lender and Transfer Agent to process issuances, transfers and legend removals upon instructions from Lender, or any counsel or representatives of Lender, as specifically contemplated herein, without any further instructions, orders or confirmations from the Borrower.

(v) Injunction and Specific Performance. The Borrower specifically acknowledges and agrees that in the event of a breach or threatened breach by the Borrower of any provision of this Section, the Lender will be irreparably damaged and that damages at law would be an inadequate remedy if this Agreement were not specifically enforced. Therefore, in the event of a breach or threatened breach of any provision of this Section by the Borrower, the Lender shall be entitled to obtain, in addition to all other rights or remedies Lender may have, at law or in equity, an injunction restraining such breach, without being required to show any actual damage or to post any bond or other security, and/or to a decree for specific performance of the provisions of this Section.

(h) Surviving Obligations. The Credit Parties agree and acknowledge that notwithstanding the termination of this Agreement, or the payment in full of all of the Loans or other obligations hereunder or under any other Loan Documents, the Credit Parties' obligations and liability under this Agreement and the other Loan Documents, and the Lender's Lien and security interest on all Collateral, shall survive, shall remain valid and effective and shall not be released or terminated, until the Lender receives the full amount of the Advisory Fee in cash, either through the sale of Advisory Fee Shares, or through cash payments from Borrower as contemplated by Section 2.5(f). All of the Credit Parties' obligations under Section 2.5(f) and 2.5(g) shall survive termination of this Agreement.

(i) Right to Approve Transfer Agent. The Borrower hereby represents and warrants that the Borrower's current Transfer Agent is Action Stock Transfer Corporation, whose contact information is as follows: 2469 E. Fort Union Blvd., Suite 214, Salt Lake City, UT 84121. The Borrower hereby agrees that it shall not change the Transfer Agent, unless the Lender first approves the proposed new Transfer Agent, such approval to be in Lender's sole and absolute discretion.

(j) View Access To Accounts. On the Effective Date, the Credit Parties shall undertake all required actions, including providing Lender with proper sign-in or log-in credentials, user names, passwords, and other required information, to provide Lender with, and to allow Lender to have, view-only access, through the Credit Parties' online banking system or otherwise, to any and all of the Credit Parties' bank accounts listed on Schedule 7.28, and any additional bank accounts of the Credit Parties as may exist from time to time. Credit Parties shall not undertake any action that prevents or impairs Lender's ability to have view-only access of all of the bank accounts of the Credit Parties as contemplated by this Section.

2.6 Interest and Fee Computation; Collection of Funds. Interest accrued hereunder shall be payable as set forth in this Agreement and the Promissory Note. Except as otherwise set forth herein, all interest and fees shall be calculated on the basis of a year consisting of 360 days and shall be paid for the actual number of days elapsed. Principal payments submitted in funds not immediately available shall continue to bear interest until collected. If any payment to be made by Borrower hereunder or under the Promissory Note shall become due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day and such extension of time shall be included in computing any interest in respect of such payment. Any Obligations which are not paid when due (subject to applicable grace periods) shall bear interest at the Default Rate.

2.7 Automatic Debit. In order to effectuate the timely payment of any of the Obligations when due, Borrower hereby authorizes and directs Lender, at Lender's option, to: (i) debit, or cause or instruct the debit of, the amount of the Obligations to any ordinary deposit account of Borrower; or (ii) make an Additional Loan hereunder to pay the amount of the Obligations.

2.8 Discretionary Disbursements. Lender, in its sole and absolute discretion, may immediately upon notice to Borrower, disburse any or all proceeds of the Loans made or available to Borrower pursuant to this Agreement to pay any fees, costs, expenses or other amounts required to be paid by Borrower hereunder and not so paid. All monies so disbursed shall be a part of the Obligations, payable by Borrower on demand from Lender.

2.9 US Dollars; Currency Risk. All revenues collected by any Credit Parties and deposited into the Payment Account or any other accounts of any Credit Parties will be in Dollars. In the event any such revenues are not in Dollars, Borrower shall bear the risk of Lender's currency losses, and if Lender suffers a currency loss and the result is to increase the cost to Lender or to reduce the amount of any sum received or receivable by Lender under this Agreement or under the Promissory Note with respect thereto, then after demand by Lender (which demand shall be accompanied by a certificate setting forth reasonably detailed calculations of the basis of such demand), Borrower shall pay to Lender such additional amount or amounts as will compensate Lender for such increased cost or such reduction.

### 3. CONDITIONS OF BORROWING.

Notwithstanding any other provision of this Agreement, the obligation of Lender to disburse or make all or any portion of any Loans is subject to satisfaction of all of the following conditions precedent (unless a condition is waived in writing by Lender) contained in this Article 3.

3.1 Loan Documents to be Executed by Credit Parties. As a condition precedent to Lender's disbursal or making of the Loans pursuant to this Agreement, Credit Parties shall have executed or cause to be executed and delivered to Lender all of the following documents, each of which must be satisfactory to Lender and Lender's counsel in form, substance and execution:

- (a) Credit Agreement. An original of this Agreement, duly executed by Borrower and consented and agreed to by the Guarantors;
- (b) Promissory Note. An original Promissory Note, duly executed by Borrower and consented and agreed to by the Guarantors;
- (c) Security Agreement. An original of the Security Agreements, duly executed by the Credit Parties, as applicable;
- (d) Guaranty Agreement. An original of the Guaranty Agreement, duly executed by the Corporate Guarantor;
- (e) Validity Certificates. An original of each Validity Certificate, duly executed by such officers and directors of Borrower as Lender shall require;

- (f) ACH Agreement. An original of the ACH authorization agreement, duly executed by Borrower;
- (g) Pledge Agreements. An original of the Pledge Agreement, duly executed by the Borrower;
- (h) Irrevocable Transfer Agent Instructions. An original of the Irrevocable Transfer Agent Instructions, duly executed by the Borrower and the Borrower's Transfer Agent;
- (i) Closing Statement. An original of a closing or settlement statement, duly executed by the Borrower; and
- (j) Additional Documents. Such other agreements, documents, instruments, certificates, financial statements, schedules, resolutions, opinions of counsel, notes and other items which Lender shall require in connection with this Agreement.

3.2 Organizational and Authorization Documents. A certificate of the corporate secretary, manager, members or other officer, partner, manager or equivalent authorized Person of each Credit Party certifying and attaching: (i) copies of each Credit Parties' respective articles of incorporation (including any certificates of designation, is applicable), bylaws, operating agreement, partnership agreement, certificate of organization or other applicable formation or governing documents; (ii) resolutions of the board of directors, managers, members, general partners or other Persons with proper authority to manage the affairs of, and otherwise bind, each Credit Party, approving and authorizing the execution, delivery and performance of the Loan Documents to which it is party and the transactions contemplated thereby; (iii) resolution of the Guarantors' shareholders or members (if applicable), approving and authorizing the execution, delivery and performance of the Loan Documents to which it is party and the transactions contemplated thereby; and (iv) the signatures and incumbency of the officers, managers, members, partners or other authorized Persons of each Credit Party executing any of the Loan Documents, each of which Borrower hereby certifies to be true and complete, and in full force and effect without modification, it being understood that Lender may conclusively rely on each such document and certificate until formally advised by Borrower of any changes therein.

3.3 Certificates of Good Standing. Copies of certificates of good standing with respect to each Credit Party, issued by the Secretary of State of the state of incorporation of each Credit Party, dated such a date as is reasonably acceptable to Lender, evidencing the good standing thereof.

3.4 Search Results. Copies of UCC search reports dated such a date as is reasonably acceptable to Lender, listing all effective financing statements which name each Credit Party, under its present name and any previous names, as debtors, together with copies of such financing statements.

3.5 Insurance. Within thirty (30) days of the Effective Date, evidence satisfactory to Lender of the existence of insurance required to be maintained pursuant to this Agreement and the Security Agreement, together with evidence that Lender has been named as additional insured and lender's loss payee, as applicable, on all related insurance policies.

3.6 Use of Proceeds. A detailed summary of the Borrower's use of the proceeds being funded hereunder.

3.7 Certificates. Originals of certificates evidencing the shares and/or membership interests, as applicable, to be pledged in connection with the Pledge Agreement.

3.8 Income Statement / Profit and Loss Statement. An income statement or a profit and loss statement showing the consolidated revenues, expenses, profits and losses of the Credit Parties for the twelve (12) month period ending the Effective Date, as well as a reasonable projection of the consolidated revenues, expenses, profits and losses of the Credit Parties for the twelve (12) month period immediately following the Effective Date.

3.9 Opinion of Counsel. A customary opinion of Borrower's counsel, in form satisfactory to Lender.

3.10 Perfection of Lien on Collateral. The Credit Parties shall have duly authorized, executed and delivered any other related documentation necessary or advisable to perfect the Lien on the Collateral in the jurisdiction of incorporation of the Credit Parties, including such UCC-1 Financing Statements and any and all documents necessary to complete any filings which Lender shall require in connection with this Agreement.

3.11 Payment of Fees. Borrower shall have paid to Lender all fees, costs and expenses, including due diligence expenses, attorney's fees, search fees, title fees, documentation and filing fees (including documentary stamps and taxes payable on the face amount of the Promissory Note).

3.12 Press Release Authorization. Evidence satisfactory to the Lender that the Borrower has authorized the Lender to publish such press releases with respect to this Agreement and the instant transaction, including a copy of an e-mail delivered to Marketwire.com by the Borrower whereby the Borrower authorizes the Lender to use its name and, if applicable, stock symbol, in connection with current or future press releases.

3.13 Event of Default. No Event of Default, or event which, with notice or lapse of time, or both, would constitute an Event of Default, shall have occurred and be continuing.

3.14 Adverse Changes. There shall not have occurred any Material Adverse Effect.

3.15 Litigation. No pending claim, investigation, litigation or other Proceeding shall have been instituted against any Credit Party or any of their respective officers, shareholders, members, managers, partners, or other principals of any Credit Party.

3.16 Representations and Warranties. No representation or warranty of any of the Credit Parties contained herein or in any Loan Documents shall be untrue or incorrect in any material respect as of the date of any Loans as though made on such date, except to the extent such representation or warranty expressly relates to an earlier date.

3.17 Due Diligence. The business, legal and collateral due diligence review performed by Lender, including a review of the Credit Parties' historical performance and financial information, must be acceptable to Lender in its sole discretion. Lender reserves the right to increase any and all aspects of its due diligence in Lender's sole discretion.

3.18 Key Personnel Investigations. Lender shall be satisfied, in its sole discretion, with results from background investigations conducted on key members of Borrower's principals and management teams.

3.19 Repayment of Outstanding Indebtedness. The Credit Parties shall have repaid in full all outstanding indebtedness secured by Collateral, other than indebtedness giving rise to Permitted Liens.

3.20 Loan Documents to be Executed by any Subsidiary following the Effective Date. Within ten (10) days of any entity becoming a Subsidiary of any Credit Party, the following documents shall have executed or cause to be executed and delivered to Lender, each of which must be satisfactory to Lender and Lender's counsel in form, substance and execution:

(a) Consent and Agreement. An original of a Consent and Agreement duly executed by such Subsidiary, pursuant to which such Subsidiary consents and agrees to become a "Credit Party" hereunder and to be bound by the terms and conditions of this Agreement and all other Loan Documents;

(b) Security Agreement. An original of a Security Agreement, duly executed by such Subsidiary;

(c) Guaranty Agreement. An original of a Guaranty Agreement, duly executed by such Subsidiary;

(d) Pledge Agreement. An original of a Pledge Agreement, duly executed by the parent of the Subsidiary;

(e) Organizational and Authorization Documents. A certificate of the corporate secretary, manager, members or other officer, partner, manager or equivalent authorized Person of such Subsidiary certifying and attaching: (i) copies of such Subsidiary's articles of incorporation (including any certificates of designation, is applicable), bylaws, operating agreement, partnership agreement, certificate of organization or other applicable formation or governing documents; (ii) resolutions of the board of directors, managers, members, general partners or other Persons with proper authority to manage the affairs of, and authorizing the execution, delivery and performance of the Loan Documents to which it is party and the transactions contemplated thereby; (iii) resolution of the Subsidiary's shareholders (if applicable), approving and authorizing the execution, delivery and performance of the Loan Documents to which it is or will become a party and the transactions contemplated thereby; and (iv) the signatures and incumbency of the officers, managers, members, partners or other authorized Persons of such Subsidiary executing any of the Loan Documents, each of which Borrower hereby certifies to be true and complete, and in full force and effect without modification, it being understood that Lender may conclusively rely on each such document and certificate until formally advised by Borrower of any changes therein.

(f) Additional Documents. Such other agreements, documents, instruments, certificates, financial statements, schedules, resolutions, opinions of counsel, notes and other items which Lender shall require in connection with this Agreement and the other Loan Documents.

3.21 Loan Documents to be Executed by each Credit Party Upon Each Subsequent Advance. As a condition precedent to Lender's disbursal or making of additional advances of principal pursuant to this Agreement following the Effective Date, the Credit Parties shall have executed or caused to be executed and delivered to Lender all of the documents in this Section 3 applicable thereto, and such documents shall remain in full force and effect as of the date of the subsequent principal advance.

3.22 Funding of Transaction for Acquisition.

(a) The closing of this Agreement and the funding of the Initial Loan hereunder on the Effective Date, shall be subject to the simultaneous closing of that certain transaction between Borrower, as buyer, and Paul Charles Joy II, Trustee of the Paul C. Joy and Kathryn B. Joy Trust — Fund B, dated December 9, 2003, as amended, and Kathryn Blake Joy, Trustee of the Paul C. Joy and Kathryn B. Joy Trust — Fund C, dated December 9, 2003, as amended (collectively, the "HowCo Shareholder"), as seller, pursuant to which the Borrower shall purchase 100% of the issued and outstanding stock of HowCo Distributing Corp., a Washington corporation ("HowCo"), which issued and outstanding stock is owned by the HowCo Shareholder (such purchase transaction sometimes hereinafter referred to as the "Acquisition"). In order to satisfy the foregoing condition of simultaneous closing, the Credit Parties shall cooperate with the Lender in all respects to close the transactions contemplated by this Agreement in accordance with the terms and provisions of this Section 3.22.

(b) On the Effective Date, the transactions contemplated by this Agreement, and the funding of the Loan hereunder, and the closing of the Acquisition, shall be closed simultaneously, and in that regard, a portion of the proceeds of the Initial Loan hereunder in an amount required to close on the Acquisition, which amount shall be first approved by Lender, shall be funded and disbursed only as set forth in this Section 3.22 (and subject to all other conditions in this Agreement). In this regard, on the Effective Date (and subject to all other conditions in this Agreement), the Lender shall fund the Initial Loan hereunder in the amount of \$US3,500,000, which amount shall be paid and disbursed as follows: (i) all fees, costs and other charges payable by the Credit Parties shall be withheld from the Initial Loan hereunder on the Effective Date and paid to the applicable parties entitled to such fees in accordance with the Loan Settlement Statement and Joint Disbursement Instructions executed by the Borrower at Closing; (ii) \$US2,600,000 shall be paid and disbursed to the HowCo Shareholder in connection with the Acquisition (subject to Lender's receipt of the documentation required hereunder with respect to the Acquisition); and (iii) the remaining amount shall be paid and disbursed in accordance with the Loan Settlement Statement and Joint Disbursement Instructions executed by the Borrower at Closing.

(c) On the Effective Date, all of the documents required to be executed by HowCo (post-closing of the Acquisition) in accordance with Section 3.20 above shall be provided to Borrower, and Lender shall deliver to William Dudley, Esq., Landerhold P.S., 805 Broadway, Suite 1000, Vancouver, WA 98660, counsel for HowCo and the HowCo Shareholder (the “**Closing Agent**”), certain additional documents as required below. When the Acquisition is “Ready to Close” (as hereinafter defined), Closing Agent and/or Borrower or Borrower’s counsel, as applicable, shall deliver to Lender’s counsel: (i) a written confirmation from the Closing Agent, the HowCo Shareholder, and the Borrower’s counsel, each in form and substance acceptable to Lender, certifying and confirming that the Acquisition is Ready to Close; (ii) a copy of the final closing statement for the Acquisition, showing the net amount payable to the HowCo Shareholder (or other Persons payable thereunder); and (iii) copies of fully executed documents from the Acquisition as may be requested by Lender’s counsel. In addition, Borrower shall deliver to Lender’s counsel all documents and other items required to be executed, completed and delivered by HowCo in accordance with Section 3.20 above, so executed and completed by an authorized officer of HowCo (post-Acquisition), in accordance with the Lender’s closing instructions to the Borrower and Closing Agent. Although the Acquisition and the transactions contemplated by this Agreement are to be closed simultaneously as contemplated by this Section 3.22, for purposes of this Agreement, the Acquisition shall be deemed closed immediately prior to the closing of the transactions contemplated by this Agreement, such that at the time of the closing of the transactions contemplated hereby, and funding of the Initial Loan, HowCo shall be deemed already acquired by the Borrower, deemed a wholly-owned Subsidiary of the Borrower, and deemed a Corporate Guarantor and Credit Party hereunder.

(d) For purposes of this Section 3.22, the term “**Ready to Close**” shall mean, with respect to the Acquisition, that all documents relating to the Acquisition have been fully and finally executed and delivered by all applicable parties thereto, and all other terms and conditions of any nature or kind to closing on the Acquisition have been fully satisfied and performed, other than payment of the purchase price for such Acquisition to the HowCo Shareholder.

#### **4. NOTES EVIDENCING LOANS.**

4.1 Promissory Note. The Loans shall be evidenced by the Promissory Note (together with any and all renewal, extension, modification or replacement notes executed by Borrower and delivered to Lender and given in substitution therefor) duly executed by Borrower, and consented and agreed to by the Guarantors (if applicable), and payable to the order of Lender. At the time of the disbursement of the Initial Loan and at each time an Additional Loan shall be requested hereunder or a repayment made in whole or in part thereon, an appropriate notation thereof shall be made on the books and records of Lender. All amounts recorded shall be, absent demonstrable error, conclusive and binding evidence of: (i) the principal amount of the Loans advanced hereunder; (ii) any unpaid interest owing on the Loans; and (iii) all amounts repaid on the Loans. The failure to record any such amount or any error in recording such amounts shall not, however, limit or otherwise adversely affect the obligations of Borrower under the Promissory Note to repay the principal amount of the Loans, together with all other Obligations.

**5. INTENTIONALLY LEFT BLANK.**

**6. SECURITY FOR THE OBLIGATIONS.**

6.1 Security Agreement. To secure the payment and performance by Borrower of the Obligations hereunder, each of the Credit Parties grants, under and pursuant to the Security Agreement executed by the Credit Parties dated as of the Effective Date, to Lender, its successors and assigns, an unconditional, continuing, first-priority, perfected Lien and security interest in, and does hereby assign, transfer, mortgage, convey, pledge, hypothecate and set over to Lender, its successors and assigns, all of the right, title and interest of the Credit Parties in and to the Collateral, whether now owned or hereafter acquired, and all proceeds (including all insurance proceeds) and products of any of the Collateral. At any time upon Lender's request, the Credit Parties shall execute and deliver to Lender any other documents, instruments or certificates requested by Lender for the purpose of properly documenting and perfecting the security interests of Lender in and to the Collateral granted hereunder, including any additional security agreements, mortgages, control agreements, and financing statements. The Security Agreements executed by the Credit Parties shall terminate following the full payment and performance of all of the Obligations hereunder and under any Loan Document and upon Lender's express written acknowledgement of such full payment and performance being received by the Borrower.

6.2 Pledge Agreement. To secure the payment and performance by Borrower of the Obligations hereunder, the Borrower shall grant, under and pursuant to the Pledge Agreement executed by the Borrower dated as of the Effective Date, to Lender, its successors and assigns, a continuing, first-priority security interest in, and assignment, transference, mortgage, conveyance, pledge, hypothecation and set over to Lender, its successors and assigns, all of the Borrower's right, title and interest in and to all of the shares and/or membership interests, as applicable, of the Corporate Guarantor. At any time upon Lender's request, the Borrower shall execute and deliver to Lender any other documents, instruments or certificates requested by Lender for the purpose of properly documenting and perfecting the security interests of Lender in and to the membership interests of the Corporate Guarantor granted hereunder, including any additional pledge agreements and financing statements. The Pledge Agreement executed by the Borrower shall terminate following the full payment and performance of all of the Obligations hereunder and under any Loan Document and upon Lender's express written acknowledgement of such full payment and performance being received by the Borrower.

**7. REPRESENTATIONS AND WARRANTIES OF THE CREDIT PARTIES.**

To induce Lender to make the Loans, the Credit Parties make the following representations and warranties to Lender, each of which shall be true and correct in all material respects as of the date of the execution and delivery of this Agreement and as of the date of each Loan made hereunder, except to the extent such representation expressly relates to an earlier date, and which shall survive the execution and delivery of this Agreement:

7.1 Subsidiaries. A list of all of the Borrower's Subsidiaries and each of the Corporate Guarantor's subsidiaries are listed on Schedule 7.1 hereto. All of such Subsidiaries are wholly-owned Subsidiaries of the Borrower, or the Corporate Guarantor, as applicable, and except for such Subsidiaries as listed on Schedule 7.1, no Borrower or Guarantor has any Control over, any other Person.

7.2 Borrower Organization and Name. Each Credit Party is a corporation, limited liability company, or other form of legally recognized entity, as applicable, duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and has the full power and authority and all necessary Permits to: (i) enter into and execute this Agreement and the Loan Documents and to perform all of its obligations hereunder and thereunder; and (ii) own and operate its assets and properties and to conduct and carry on its business as and to the extent now conducted. Each Credit Party is duly qualified to transact business and is in good standing as a foreign corporation, company or other entity in each jurisdiction where the character of its business or the ownership or use and operation of its assets or properties requires such qualification. The exact legal names of each of the Credit Parties is as set forth in the first paragraph of this Agreement, and the Credit Parties do not currently conduct, nor have the Credit Parties conducted, during the last five (5) years, business under any other name or trade name.

7.3 Authorization; Validity. Each Credit Party has full right, power and authority to enter into this Agreement, to make the borrowings and execute and deliver the Loan Documents as provided herein and to perform all of its duties and obligations under this Agreement and the Loan Documents and no other action or consent on the part of the Credit Parties, its board of directors, stockholders, members, managers, partners, or any other Person is necessary or required by the Credit Parties to execute this Agreement and the Loan Documents, consummate the transactions contemplated herein and therein, and perform all of its obligations hereunder and thereunder. The execution and delivery of this Agreement and the Loan Documents will not, nor will the observance or performance of any of the matters and things herein or therein set forth, violate or contravene any provision of law or of the Credit Parties' articles of incorporation, bylaws, operating agreement, partnership agreement, or other governing documents. All necessary and appropriate action has been taken on the part of the Credit Parties to authorize the execution and delivery of this Agreement and the Loan Documents and the issuance of the Promissory Note. This Agreement and the Loan Documents are valid and binding agreements and contracts of the Credit Parties, enforceable against the Credit Parties in accordance with their respective terms, except to the extent that enforcement thereof may be limited by bankruptcy, insolvency, reorganization, moratorium and other laws enacted for the relief of debtors generally and other similar laws affecting the enforcement of creditors' rights generally or by equitable principles which may affect the availability of specific performance and other equitable remedies. The Credit Parties do not know of any reason why the Credit Parties cannot perform any of its obligations under this Agreement, the Loan Documents or any related agreements.

7.4 Capitalization. The authorized capital stock or other capitalization of each Credit Party, as applicable, is as set forth in **Schedule 7.4(a)** attached hereto. **Schedule 7.4(a)** shall specify, for each Credit Party, the total number of authorized shares of capital stock or other securities (or functional equivalents thereof in the applicable jurisdiction), and of such authorized shares or securities, the number which are designated as Common Stock, the number designated as preferred stock (the “**Preferred Stock**”), or any other applicable designations. **Schedule 7.4(a)** shall also specify, for each Credit Party, as applicable, as of the date hereof, the number of shares of Common Stock issued and outstanding and the number of shares of Preferred Stock issued and outstanding, or, if applicable, the number and classes of other securities issued and outstanding, and the names and amounts of such stock other securities owned by each Person who is a stockholder or owner of other securities in any Credit Party. All of the outstanding shares of capital stock or other securities of each Credit Party are validly issued, fully paid and non-assessable, have been issued in compliance with all foreign, federal and state securities laws and none of such outstanding shares or other securities were issued in violation of any preemptive rights or similar rights to subscribe for or purchase securities. As of the date of this Agreement, no shares of capital stock or other securities of any Credit Party are subject to preemptive rights or any other similar rights or any Liens suffered or permitted by any Credit Parties. The Common Stock is currently quoted by the Principal Trading Market on the OTC “Pink” under the trading symbol “DRUS”. The Borrower has received no notice, either oral or written, with respect to the continued eligibility of the Common Stock for quotation on the Principal Trading Market, and the Borrower has maintained all requirements on its part for the continuation of such quotation. Except for the securities to be issued pursuant to this Agreement, and except as set forth in **Schedule 7.4(b)**, as of the date of this Agreement: (i) there are no outstanding options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into, any shares of capital stock or other securities of any Credit Party, or contracts, commitments, understandings or arrangements by which any Credit Party is or may become bound to issue additional shares of capital stock or other securities of any Credit Party, or options, warrants, scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to, or securities or rights convertible into, any shares of capital stock or other securities of any Credit Party; (ii) there are no outstanding debt securities, notes, credit agreements, credit facilities or other contracts or instruments evidencing Funded Indebtedness of any Credit Party, or by which any Credit Party is or may become bound; (iii) there are no outstanding registration statements with respect to any Credit Party or any of its securities and there are no outstanding comment letters from any Governmental Authority with respect to any securities of any Credit Party; (iv) there are no agreements or arrangements under which any Credit Party is obligated to register the sale of any of its securities under the Securities Act or any other laws of any Governmental Authority; (v) there are no financing statements or other security interests or Liens filed with any Governmental Authority securing any obligations of any Credit Party, or filed in connection with any assets or properties of any Credit Party; (vi) there are no securities or instruments containing anti-dilution or similar provisions that will be triggered by this Agreement or any related agreement or the consummation of the transactions described herein or therein; and (vii) there are no outstanding securities or instruments of any Credit Party which contain any redemption or similar provisions, and there are no contracts or agreements by which any Credit Party is or may become bound to redeem a security of any Credit Party. Borrower has furnished to the Lender true, complete and correct copies of, as applicable, each Credit Parties’ respective articles of incorporation (including any certificates of designation, is applicable), bylaws, operating agreement, partnership agreement, certificate of organization or similar organizational and governing documents. Except for the documents delivered to Lender in accordance with the immediately preceding sentence, there are no other shareholder agreements, voting agreements, operating agreements, or other contracts or agreements of any nature or kind that restrict, limit or in any manner impose obligations, restrictions or limitations on the governance of any Credit Party.

7.5 No Conflicts; Consents and Approvals. The execution, delivery and performance of this Agreement and the Loan Documents, and the consummation of the transactions contemplated hereby and thereby, including the issuance of the Promissory Note, will not: (i) constitute a violation of or conflict with the any Credit Parties' respective articles of incorporation (including any certificates of designation, is applicable), bylaws, operating agreement, partnership agreement, certificate of organization or similar governing or organizational documents; (ii) constitute a violation of, or a default or breach under (either immediately, upon notice, upon lapse of time, or both), or conflicts with, or gives to any other Person any rights of termination, amendment, acceleration or cancellation of, any provision of any contract or agreement to which any Credit Party is a party or by which any of its or their assets or properties may be bound; (iii) constitute a violation of, or a default or breach under (either immediately, upon notice, upon lapse of time, or both), or conflicts with, any order, writ, injunction, decree, or any other judgment of any nature whatsoever; (iv) constitute a violation of, or conflict with, any law, rule, ordinance or other regulation (including foreign and United States federal and state securities laws); or (v) result in the loss or adverse modification of, or the imposition of any fine, penalty or other Lien, claim or encumbrance with respect to, any Permit granted or issued to, or otherwise held by or for the use of, any Credit Party or any of its assets. The Credit Parties are not in violation of any Credit Parties' respective articles of incorporation (including any certificates of designation, is applicable), bylaws, operating agreement, partnership agreement, certificate of organization or similar governing or organizational documents, as applicable, and the Credit Parties are not in default or breach (and no event has occurred which with notice or lapse of time or both could put any Credit Party in default or breach) under, and the Credit Parties have not taken any action or failed to take any action that would give to any other Person any rights of termination, amendment, acceleration or cancellation of, any contract or agreement to which any Credit Party is a party or by which any property or assets of any Credit Party are bound or affected. No business of any Credit Party is being conducted, and shall not be conducted, in violation of any law, rule, ordinance or other regulation. Except as specifically contemplated by this Agreement, the Credit Parties are not required to obtain any consent or approval of, from, or with any Governmental Authority, or any other Person, in order for it to execute, deliver or perform any of its obligations under this Agreement or the Loan Documents in accordance with the terms hereof or thereof. All consents and approvals which any Credit Party is required to obtain pursuant to the immediately preceding sentence have been obtained or effected on or prior to the Effective Date.

7.6 Issuance of Securities. The Advisory Fee Shares are duly authorized and, upon issuance in accordance with the terms hereof, shall be duly issued, fully paid and non-assessable, and free from all Liens, claims, charges, taxes, or other encumbrances with respect to the issue thereof (except for the standard 144 legend), and will be issued in compliance with all applicable United States federal and state securities laws and the laws of any foreign jurisdiction applicable to the issuance thereof. Any shares issuable upon conversion of the Promissory Note, in accordance with the terms of the Promissory Note, are duly authorized and, upon issuance in accordance with the terms hereof, shall be duly issued, fully paid and non-assessable, and free from all Liens, claims, charges, taxes, or other encumbrances with respect to the issue thereof, and will be issued in compliance with all applicable United States federal and state securities laws and the laws of any foreign jurisdiction applicable to the issuance thereof (including Rule 144). The issuance of the Promissory Note, any shares issuable pursuant to the Promissory Note and the Advisory Fee Shares are and will be exempt from: (i) the registration and prospectus delivery requirements of the Securities Act; (ii) the registration and/or qualification provisions of all applicable state and provincial securities and "blue sky" laws; and (iii) any similar registration or qualification requirements of any foreign jurisdiction or other Governmental Authority. Such securities will be issued pursuant to applicable exemptions from registration and will bear the standard Rule 144 restriction.

7.7 Compliance With Laws. The nature and transaction of the Credit Parties' business and operations and the use of its properties and assets, including the Collateral or any real estate owned, leased, or occupied by the Credit Parties, do not and during the term of the Loans shall not, violate or conflict with any applicable law, statute, ordinance, rule, regulation or order of any kind or nature, including the provisions of the Fair Labor Standards Act or any zoning, land use, building, noise abatement, occupational health and safety or other laws, any Permit or any condition, grant, easement, covenant, condition or restriction, whether recorded or not, except to the extent such violation or conflict would not result in a Material Adverse Effect.

7.8 Environmental Laws and Hazardous Substances. Except to the extent that any of the following would not have a Material Adverse Effect (including financial reserves, insurance policies and cure periods relating to compliance with applicable laws and Permits) and are used in such amounts as are customary in the Ordinary Course of Business in compliance with all applicable Environmental Laws, the Credit Parties represent and warrant to Lender that, to the best knowledge of each of the Credit Parties: (i) the Credit Parties have not generated, used, stored, treated, transported, manufactured, handled, produced or disposed of any Hazardous Materials, on or off any of the premises of the Credit Parties (whether or not owned by the Credit Parties) in any manner which at any time violates any Environmental Law or any Permit, certificate, approval or similar authorization thereunder; (ii) the operations of the Credit Parties comply in all material respects with all Environmental Laws and all Permits certificates, approvals and similar authorizations thereunder; (iii) there has been no investigation, Proceeding, complaint, order, directive, claim, citation or notice by any Governmental Authority or any other Person, nor is any of same pending or, to Credit Parties' knowledge, threatened; and (iv) the Credit Parties do not have any liability, contingent or otherwise, in connection with a release, spill or discharge, threatened or actual, of any Hazardous Materials or the generation, use, storage, treatment, transportation, manufacture, handling, production or disposal of any Hazardous Material.

7.9 Collateral Representations. No Person other than the Credit Parties, owns or has other rights in the Collateral, and the Collateral is valid and genuine Collateral, free from any Lien of any kind, other than the Lien of Lender and Permitted Liens.

7.10 Financial Statements. The Borrower has delivered to the Lender unaudited Balance Sheets for Credit Parties as of March 31, 2016, and for Howco as of May 31, 2016 and unaudited Statements of Income for Credit Parties and Howco for the twelve months ended May 31, 2016 (collectively, together with any financial statements filed by the Borrower with the SEC, any Principal Trading Market, or any other Governmental Authority, if applicable, the "**Financial Statements**"). The Financial Statements have been prepared in accordance with GAAP, consistently applied, during the periods involved (except: (i) as may be otherwise indicated in such Financial Statements or the notes thereto; or (ii) in the case of unaudited interim statements, to the extent they may exclude footnotes or may be condensed or summary statements), and fairly and accurately present in all material respects the consolidated financial position of the Credit Parties as of the dates thereof and the consolidated results of its operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments). To the best knowledge of the Credit Parties, no other information provided by or on behalf of the Credit Parties to the Lender, either as a disclosure schedule to this Agreement, or otherwise in connection with Lender's due diligence investigation of the Credit Parties, contains any untrue statement of a material fact or omits to state any material fact necessary in order to make the statements therein, in the light of the circumstance under which they are or were made, not misleading.

7.11 Public Documents. The Common Stock of the Borrower is not registered pursuant to Section 12 of the Exchange Act and the Borrower is not currently subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act. The Borrower has otherwise timely filed all reports, schedules, forms, statements and other documents required to be filed by it with the SEC, the Principal Trading Market, or any other Governmental Authority, as applicable (all of the foregoing filed within the two (2) years preceding the date hereof or amended after the date hereof and all exhibits included therein and financial statements and schedules thereto and documents incorporated by reference therein, being hereinafter referred to as the “**Public Documents**”). The Borrower is current with its filing obligations with the SEC, the Principal Trading Market, or any other Governmental Authority, as applicable, and all Public Documents have been filed on a timely basis by the Borrower. The Borrower represents and warrants that true and complete copies of the Public Documents are available on the SEC website or the Principal Trading Market website, as applicable (www.sec.gov, or www.otcm Markets.com) at no charge to Lender, and Lender acknowledges that it may retrieve all Public Documents from such websites and Lender’s access to such Public Documents through such website shall constitute delivery of the Public Documents to Lender; provided, however, that if Lender is unable to obtain any of such Public Documents from such websites at no charge, as result of such websites not being available or any other reason beyond Lender’s control, then upon request from Lender, the Borrower shall deliver to Lender true and complete copies of such Public Documents. The Borrower shall also deliver to Lender true and complete copies of all draft filings, reports, schedules, statements and other documents required to be filed with the requirements of the Principal Trading Market that have been prepared but not filed with the Principal Trading Market as of the date hereof. None of the Public Documents, at the time they were filed with the SEC, the Principal Trading Market, or other Governmental Authority, as applicable, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. None of the statements made in any such Public Documents is, or has been, required to be amended or updated under applicable law (except for such statements as have been amended or updated in subsequent filings prior the date hereof, which amendments or updates are also part of the Public Documents). As of their respective dates, the consolidated financial statements of the Borrower and its Subsidiaries included in the Public Documents complied in all material respects with applicable accounting requirements and any published rules and regulations of the SEC and Principal Trading Market with respect thereto.

7.12 Absence of Certain Changes. Since the date of the most recent of the Financial Statements, none of the following have occurred:

- (a) There has been no event or circumstance of any nature whatsoever that has resulted in, or could reasonably be expected to result in, a Material Adverse Effect; or
- (b) Any transaction, event, action, development, payment, or any other matter of any nature whatsoever entered into by the Credit Parties other than in the Ordinary Course of Business of the Credit Parties.

7.13 Litigation and Taxes. There is no Proceeding pending, or to the best knowledge of the Credit Parties, threatened, against any Credit Party or its officers, managers, members, shareholders or other principals, or against or affecting any of its assets. In addition, there is no outstanding judgments, orders, writs, decrees or other similar matters or items against or affecting the Credit Parties, its business or assets. The Credit Parties have not received any material complaint from any Customer, supplier, vendor or employee. The Credit Parties have duly filed all applicable income or other tax returns and has paid all income or other taxes when due. There is no Proceeding, controversy or objection pending or threatened in respect of any tax returns of the Credit Parties.

7.14 Event of Default. No Event of Default has occurred and is continuing, and no event has occurred and is continuing which, with the lapse of time, the giving of notice, or both, would constitute such an Event of Default under this Agreement or any of the other Loan Documents, and the Credit Parties are not in default (without regard to grace or cure periods) under any contract or agreement to which it is a party or by which any of their respective assets are bound.

7.15 ERISA Obligations. To the best knowledge of each of the Credit Parties, all Employee Plans of the Credit Parties meet the minimum funding standards of Section 302 of ERISA, where applicable, and each such Employee Plan that is intended to be qualified within the meaning of Section 401 of the Internal Revenue Code of 1986 is qualified. No withdrawal liability has been incurred under any such Employee Plans and no "Reportable Event" or "Prohibited Transaction" (as such terms are defined in ERISA), has occurred with respect to any such Employee Plans, unless approved by the appropriate Governmental Authority. To the best knowledge of each of the Credit Parties, the Credit Parties have promptly paid and discharged all obligations and liabilities arising under the ERISA of a character which if unpaid or unperformed might result in the imposition of a Lien against any of its properties or assets.

7.16 Adverse Circumstances. No condition, circumstance, event, agreement, document, instrument, restriction, litigation or Proceeding (or threatened litigation or Proceeding or basis therefor) exists which: (i) could adversely affect the validity or priority of the Liens granted to Lender under the Loan Documents; (ii) could adversely affect the ability of the Credit Parties to perform its obligations under the Loan Documents; (iii) would constitute a default under any of the Loan Documents; (iv) would constitute such a default with the giving of notice or lapse of time or both; or (v) would constitute or give rise to a Material Adverse Effect.

7.17 Liabilities and Indebtedness of the Borrower. The Credit Parties do not have any Funded Indebtedness or any liabilities or obligations of any nature whatsoever, except: (i) as disclosed in the Financial Statements; or (ii) liabilities and obligations incurred in the Ordinary Course of Business since the date of the last Financial Statements which do not or would not, individually or in the aggregate, exceed Ten Thousand and No/100 United States Dollars (US\$10,000.00) or otherwise have a Material Adverse Effect.

7.18 Real Estate.

(a) Real Property Ownership. Except for the Credit Party Leases and as otherwise disclosed in **Schedule 7.18**, Borrower does not own any Real Property.

(b) Real Property Leases. Except for ordinary leases for office space from which the Credit Parties conduct its business (the “**Credit Party Leases**”), the Credit Parties do not lease any other Real Property. With respect to each of the Credit Party Leases: (i) the Credit Parties have been in peaceful possession of the property leased thereunder and neither the Credit Parties nor the landlord is in default thereunder; (ii) no waiver, indulgence or postponement of any of the obligations thereunder has been granted by the Credit Parties or landlord thereunder; and (iii) there exists no event, occurrence, condition or act known to the officers or directors of the Credit Parties which, upon notice or lapse of time or both, would be or could become a default thereunder or which could result in the termination of the Credit Party Leases, or any of them, or have a Material Adverse Effect. The Credit Parties have not violated nor breached any provision of any such Credit Party Leases, and all obligations required to be performed by the Credit Parties under any of such Credit Party Leases have been fully, timely and properly performed. The Credit Parties have delivered to the Lender true, correct and complete copies of all Credit Party Leases, including all modifications and amendments thereto, whether in writing or otherwise. The Credit Parties have not received any written or oral notice to the effect that any of the Credit Party Leases will not be renewed at the termination of the term of such Credit Party Leases, or that the Credit Party Leases will be renewed only at higher rents.

7.19 Material Contracts. An accurate, current and complete copy of each of the Material Contracts has been furnished to Lender, and each of the Material Contracts constitutes the entire agreement of the respective parties thereto relating to the subject matter thereof. There are no outstanding offers, bids, proposals or quotations made by any Credit Party which, if accepted, would create a Material Contract with any Credit Party. Each of the Material Contracts is in full force and effect and is a valid and binding obligation of the parties thereto in accordance with the terms and conditions thereof. To the best knowledge of each Credit Party, all obligations required to be performed under the terms of each of the Material Contracts by any party thereto have been fully performed by all parties thereto, and no party to any Material Contracts is in default with respect to any term or condition thereof, nor has any event occurred which, through the passage of time or the giving of notice, or both, would constitute a default thereunder or would cause the acceleration or modification of any obligation of any party thereto or the creation of any Lien, claim, charge or other encumbrance upon any of the assets or properties of any Credit Party. Further, no Credit Party has received any notice, nor does any Credit Party have any knowledge, of any pending or contemplated termination of any of the Material Contracts and, no such termination is proposed or has been threatened, whether in writing or orally.

7.20 Title to Assets. The Credit Parties have good and marketable title to, or a valid leasehold interest in, all of its assets and properties which are material to its business and operations as presently conducted, free and clear of all Liens, claims, charges or other encumbrances or restrictions on the transfer or use of same. Except as would not have a Material Adverse Effect, the assets and properties of each Credit Party are in good operating condition and repair, ordinary wear and tear excepted, and are free of any latent or patent defects which might impair their usefulness, and are suitable for the purposes for which they are currently used and for the purposes for which they are proposed to be used.

7.21 Intellectual Property. The Credit Parties own or possess adequate and legally enforceable rights or licenses to use all trademarks, trade names, service marks, service mark registrations, service names, patents, patent rights, copyrights, inventions, licenses, approvals, governmental authorizations, trade secrets and all other intellectual property rights necessary to conduct its business as now conducted (collectively, the “**IP Rights**”). All IP Rights, and any federal, state, local or foreign patent and trademark office, or functional equivalent thereof where any such IP Rights may be filed or registered, is set forth in **Schedule 7.21**. All of the IP Rights are owned by the Credit Parties, except for IP rights licensed by the Credit Parties, which licensed IP Rights are specifically outlined and described in **Schedule 7.21**. If any IP Rights are licensed by any Credit Party, the underlying license agreement or other agreement pursuant to which such IP Rights are licensed (collectively, the “**License Agreements**”), permits Lender to encumber such License Agreements without any further consent or approval of any other Person, including the underlying owner of such IP Rights, such that if there was an Event of Default and Lender foreclosed on all Collateral, Lender would have the right to use such IP Rights under the License Agreements, subject only to Lender’s obligation to comply with the terms of such License Agreements. The Credit Parties do not have any knowledge of any infringement by any Credit Party of any IP Rights of others, and, to the knowledge of the Credit Parties, there is no claim, demand or Proceeding, or other demand of any nature being made or brought against, or to any Credit Party’s knowledge, being threatened against, any Credit Party regarding IP Rights or other intellectual property infringement; and is the Credit Parties are not aware of any facts or circumstances which might give rise to any of the foregoing.

7.22 Labor and Employment Matters. The Credit Parties are not involved in any labor dispute or, to the knowledge of the Credit Parties, is any such dispute threatened. To the knowledge of the Credit Parties and its officers, none of the employees of any Credit Party is a member of a union and the Credit Parties believe that its relations with its employees are good. To the knowledge of the Credit Parties and its officers, the Credit Parties have complied in all material respects with all laws, rules, ordinances and regulations relating to employment matters, civil rights and equal employment opportunities.

7.23 Insurance. The Credit Parties are each covered by valid, outstanding and enforceable policies of insurance which were issued to it by reputable insurers of recognized financial responsibility, covering its properties, assets and business against losses and risks normally insured against by other corporations or entities in the same or similar lines of businesses as the Credit Parties are engaged and in coverage amounts which are prudent and typically and reasonably carried by such other corporations or entities (the “**Insurance Policies**”). Such Insurance Policies are in full force and effect, and all premiums due thereon have been paid. None of the Insurance Policies will lapse or terminate as a result of the transactions contemplated by this Agreement. The Credit Parties have complied with the provisions of such Insurance Policies. The Credit Parties have not been refused any insurance coverage sought or applied for and the Credit Parties do not have any reason to believe that it will not be able to renew its existing Insurance Policies as and when such Insurance Policies expire or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not materially and adversely affect the condition, financial or otherwise, or the earnings, business or operations of the Credit Parties.

7.24 Permits. The Credit Parties possess all Permits necessary to conduct its business, and the Credit Parties have not received any notice of, or is otherwise involved in, any Proceedings relating to the revocation or modification of any such Permits. All such Permits are valid and in full force and effect and the Credit Parties are in full compliance with the respective requirements of all such Permits.

7.25 Lending Relationship. The Credit Parties acknowledge and agree that the relationship hereby created with Lender is and has been conducted on an open and arm’s length basis in which no fiduciary relationship exists and that Borrower has not relied, nor is relying on, any such fiduciary relationship in executing this Agreement and in consummating the Loans.

7.26 Compliance with Regulation U. No portion of the proceeds of the Loans shall be used by Borrower, or any Affiliates of Borrower, either directly or indirectly, for the purpose of purchasing or carrying any margin stock, within the meaning of Regulation U as adopted by the Board of Governors of the Federal Reserve System.

7.27 Governmental Regulation. The Credit Parties are not, nor after giving effect to any Loan, will be, subject to regulation under the Public Utility Holding Borrower Act of 1935, the Federal Power Act or the Investment Company Act of 1940 or to any federal or state statute or regulation limiting its ability to incur indebtedness for borrowed money.

7.28 Bank Accounts. **Schedule 7.28** sets forth, with respect to each account of the Credit Parties with any bank, broker, or other depository institution: (i) the name and account number of such account; (ii) the name and address of the institution where such account is held; (iii) the name of any Person(s) holding a power of attorney with respect to such account, if any; and (iv) the names of all authorized signatories and other Persons authorized to withdraw funds from each such account.

7.29 Places of Business. The principal place of business of each of the Credit Parties is set forth on **Schedule 7.29** and the Credit Parties shall promptly notify Lender of any change in such location. The Credit Parties will not remove or permit the Collateral to be removed from such locations without the prior written consent of Lender, except for: (i) certain heavy equipment kept at third party sites when conducting business or maintenance; (ii) vehicles, containers and rolling stock; (iii) Inventory sold or leased in the Ordinary Course of Business of the Credit Parties; and (iv) temporary removal of Collateral to other locations for repair or maintenance as may be required from time to time in each instance in the Ordinary Course of Business of the Credit Parties.

7.30 Illegal Payments. Neither the Credit Parties, nor any director, officer, member, manager, agent, employee or other Person acting on behalf of the Credit Parties has, in the course of his actions for, or on behalf of, the Credit Parties: (i) used any corporate funds for any unlawful contribution, gift, entertainment or other unlawful expenses relating to political activity; (ii) made any direct or indirect unlawful payment to any foreign or domestic government official or employee from corporate funds; (iii) violated or is in violation of any provision of the U.S. Foreign Corrupt Practices Act of 1977, as amended; or (iv) made any bribe, rebate, payoff, influence payment, kickback or other unlawful payment to any foreign or domestic government official or employee.

7.31 Related Party Transactions. Except for arm's length transactions pursuant to which the Credit Parties make payments in the Ordinary Course of Business of the Credit Parties upon terms no less favorable than the Credit Parties could obtain from third parties, none of the officers, directors, managers, or employees of the Credit Parties, nor any stockholders, members or partners who own, legally or beneficially, five percent (5%) or more of the ownership interests of the Credit Parties (each a "**Material Shareholder**"), is presently a party to any transaction with the Credit Parties (other than for services as employees, officers and directors), including any contract providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from, any officer, director or such employee or Material Shareholder or, to the best knowledge of the Credit Parties, any other Person in which any officer, director, or any such employee or Material Shareholder has a substantial or material interest in or of which any officer, director or employee of Borrower or Material Shareholder is an officer, director, trustee or partner. There are no claims, demands, disputes or Proceedings of any nature or kind between the Credit Parties and any officer, director or employee of the Credit Parties or any Material Shareholder, or between any of them, relating to the Credit Parties.

7.32 Internal Accounting Controls. The Credit Parties maintain a system of internal accounting controls sufficient to provide reasonable assurance that: (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

7.33 Brokerage Fees. Except for Wellington Shields & Co., LLC ("**Finder**"), there is no Person acting on behalf of any Credit Party who is entitled to or has any claim for any brokerage or finder's fee or commission in connection with the execution of this Agreement or the consummation of the transactions contemplated hereby. Credit Parties represent that Finder is a FINRA registered securities brokerage firm, and Finder shall be paid a finder's fee by the Credit Parties, at Closing, in accordance with a separate agreement between the Borrower and Finder; provided, however, such fee shall not exceed four percent (4%) of the amount of the Initial Loan.

7.34 Acknowledgment Regarding Lender's Loans. The Credit Parties acknowledge and agree that Lender is acting solely in the capacity of an arm's length lender with respect to this Agreement and the transactions contemplated hereby. The Credit Parties further acknowledge that Lender is not acting as a financial advisor or fiduciary of the Credit Parties (or in any similar capacity) with respect to this Agreement and the transactions contemplated hereby and any advice given by Lender or any of its representatives or agents in connection with this Agreement and the transactions contemplated hereby is merely incidental to the making of the Loans hereunder by Lender. The Credit Parties further represent to Lender that the Credit Parties' decision to enter into this Agreement has been based solely on the independent evaluation by the Credit Parties and its representatives.

7.35 Seniority. No Funded Indebtedness or other equity or debt security of the Credit Parties is senior to the Obligations in right of payment, whether with respect to interest or upon liquidation or dissolution, or otherwise.

7.36 No General Solicitation. Neither the Credit Parties, nor any of its Affiliates, nor any Person acting on its or their behalf, has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D under the Securities Act) in connection with the offer or issuance of the Promissory Note.

7.37 No Integrated Offering. Neither the Credit Parties, nor any of its Affiliates, nor any Person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would require registration of the Promissory Note under the Securities Act or any similar laws of any foreign jurisdiction, or cause this offering of such securities to be integrated with prior offerings by the Credit Parties for purposes of the Securities Act or any similar laws of any foreign jurisdiction.

7.38 Private Placement. Assuming the accuracy of the Lender's representations and warranties set forth in Section 8 below, no registration under the Securities Act or the laws, rules or regulation of any other Governmental Authority is required for the issuance of the Promissory Note.

7.39 Complete Information. This Agreement and all financial statements, schedules, certificates, confirmations, agreements, contracts, and other materials submitted to Lender in connection with or in furtherance of this Agreement by or on behalf of the Credit Parties fully and fairly states the matters with which they purport to deal, and do not misstate any material fact nor, separately or in the aggregate, fail to state any material fact necessary to make the statements made not misleading.

7.40 Interpretation; Reliance; Survival. Each warranty and representation made by the Credit Parties in this Agreement or pursuant hereto, or in any other Loan Documents, is independent of all other warranties and representations made by the Credit Parties in this Agreement or pursuant hereto, or in any other Loan Documents (whether or not covering identical, related or similar matters) and must be independently and separately satisfied. Exceptions or qualifications to any such warranty or representation shall not be construed as exceptions or qualifications to any other warranty or representation. Notwithstanding any investigation made by Lender or any of its agents or representatives, or any rights to conduct such investigations, and notwithstanding any knowledge of facts determined or determinable by Lender as a result of such investigation or right of investigation, the Lender has the unqualified right to rely upon the representations and warranties made by the Credit Parties in this Agreement and in the Schedules attached hereto or pursuant hereto, or in any other Loan Documents. Each and every representation and warranty of the Credit Parties made herein, pursuant hereto, or in any other Loan Documents has been relied upon by Lender, and is material to the decision of the Lender to enter into this Agreement and to make the Loans contemplated herein. All representations and warranties of the Credit Parties made in this Agreement or pursuant hereto, or in any other Loan Documents, shall survive the Effective Date, the consummation of any Loans made hereunder, and any investigation, and shall be deemed and construed as continuing representations and warranties.

## **8. REPRESENTATIONS AND WARRANTIES OF LENDER.**

Lender makes the following representations and warranties to the Borrower, each of which shall be true and correct in all material respects as of the date of the execution and delivery of this Agreement and as of the date of each Loan made hereunder, except to the extent such representation expressly relates to an earlier date, and which shall survive the execution and delivery of this Agreement:

8.1 Investment Purpose. Lender is acquiring the Promissory Note for its own account, for investment only and not with a view towards, or for resale in connection with, the public sale or distribution thereof, except pursuant to sales registered or exempted under the Securities Act.

8.2 Accredited Investor Status. Lender is an “Accredited Investor” as that term is defined in Rule 501 of Regulation D promulgated under the Securities Act.

8.3 Reliance on Exemptions. Lender understands that the Promissory Note is being offered and sold to it in reliance on specific exemptions from the registration requirements of United States federal and state securities laws and that Borrower is relying in part upon the truth and accuracy of, and Lender’s compliance with, the representations, warranties, agreements, acknowledgments and understandings of Lender set forth herein in order to determine the availability of such exemptions and the eligibility of Lender to acquire such securities.

8.4 Information. Lender has been furnished with all materials it has requested relating to the business, finances and operations of the Credit Parties and information deemed material by Lender to making an informed investment decision regarding the Promissory Note. Lender has been afforded the opportunity to ask questions of the Credit Parties and its management. Neither such inquiries nor any other due diligence investigations conducted by Lender or its representatives shall modify, amend or affect Lender’s right to rely on the Credit Parties’ representations and warranties contained in Article 7 above or elsewhere in this Agreement or in any other Loan Documents. Lender understands that its investment in the Promissory Note involves a high degree of risk. Lender is in a position regarding the Credit Parties, which, based upon economic bargaining power, enabled and enables Lender to obtain information from the Credit Parties in order to evaluate the merits and risks of this investment. Lender has sought such accounting, legal and tax advice, as it has considered necessary to make an informed investment decision with respect to the Promissory Note.

8.5 No Governmental Review. Lender understands that no United States federal or state agency or any other Governmental Authority has passed on or made any recommendation or endorsement of the Promissory Note, or the fairness or suitability of the investment in the Promissory Note, nor have such authorities passed upon or endorsed the merits of the offering of the Promissory Note.

8.6 Transfer or Resale. Lender understands that: (i) the Promissory Note has not been and is not being registered under the Securities Act or any other foreign or state securities laws, and may not be offered for sale, sold, assigned or transferred unless: (A) subsequently registered thereunder; or (B) such securities to be sold, assigned or transferred may be sold, assigned or transferred pursuant to an exemption from such registration requirements; and (ii) neither the Credit Parties nor any other Person is under any obligation to register such securities under the Securities Act or any foreign or state securities laws or to comply with the terms and conditions of any exemption thereunder, except as otherwise set forth in this Agreement.

8.7 Authorization, Enforcement. This Agreement has been duly and validly authorized, executed and delivered on behalf of Lender and is a valid and binding agreement of Lender enforceable in accordance with its terms, except as such enforceability may be limited by general principles of equity or applicable bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws relating to, or affecting generally, the enforcement of applicable creditors’ rights and remedies.

8.8 Due Formation of Lender. Lender is an entity that has been formed and validly exists and has not been organized for the specific purpose of purchasing the Promissory Note and is not prohibited from doing so.

8.9 No Legal Advice from Credit Parties. Lender acknowledges that it had the opportunity to review this Agreement and the transactions contemplated by this Agreement with his or its own legal counsel and investment and tax advisors. Lender is relying solely on such counsel and advisors and not on any statements or representations of the Credit Parties or any of its representatives or agents for legal, tax or investment advice with respect to this investment, the transactions contemplated by this Agreement or the securities laws of any jurisdiction; provided, however, the foregoing shall not modify, amend or affect Lender's right to rely on the Credit Parties' representations and warranties contained in Article 7 above or in any other Loan Documents.

## 9. NEGATIVE COVENANTS.

9.1 Indebtedness. The Credit Parties shall not, either directly or indirectly, create, assume, incur or have outstanding any Funded Indebtedness (including purchase money indebtedness), or become liable, whether as endorser, guarantor, surety or otherwise, for any debt or obligation of any other Person, except:

- (a) the Obligations;
- (b) endorsement for collection or deposit of any commercial paper secured in the Ordinary Course of Business of the Credit Parties;
- (c) obligations for taxes, assessments, municipal or other governmental charges; provided, the same are being contested in good faith by appropriate Proceedings and are insured against or bonded over to the satisfaction of Lender;
- (d) obligations for accounts payable, including any such obligations for any new Credit Party Leases entered into after the Effective Date, other than for money borrowed, incurred in the Ordinary Course of Business of the Credit Parties; provided that any fees or other sums, other than salary accrued in the Credit Parties' Ordinary Course of Business, payable by the Credit Parties to any officer, director, member, manager, principal, or Material Shareholder, shall be fully subordinated in right of payment to the prior payment in full of the Obligations hereunder;
- (e) unsecured intercompany Funded Indebtedness incurred in the Ordinary Course of Business of the Credit Parties;
- (f) Funded Indebtedness existing on the Effective Date and set forth in the Financial Statements, including any extensions or refinancings of the foregoing, which do not increase the principal amount of such Funded Indebtedness as of the date of such extension or refinancing; provided such Funded Indebtedness is subordinated to the Obligations owed to Lender pursuant to a subordination agreement, in form and content acceptable to Lender in its sole discretion, which shall include an indefinite standstill on remedies and payment blockage rights during any default;

(g) Funded Indebtedness consisting of Capital Lease obligations or secured by Permitted Liens of the type described in clause (vii) of the definition thereof not to exceed Fifty Thousand and No/100 United States Dollars (US\$50,000.00) in the aggregate at any time;

(h) Contingent Liabilities arising with respect to customary indemnification obligations in favor of purchasers in connection with dispositions permitted hereunder;

(i) Contingent Liabilities incurred in the Ordinary Course of Business with respect to surety and appeal bonds, performance bonds and other similar obligations; and

(j) Contingent Liabilities arising under indemnity agreements to title insurers to cause such title insurers to issue to Lender title insurance policies.

9.2 Encumbrances. The Credit Parties shall not, either directly or indirectly, create, assume, incur or suffer or permit to exist any Lien or charge of any kind or character upon any asset of the Credit Parties, whether owned at the date hereof or hereafter acquired, except Permitted Liens or as otherwise authorized by Lender in writing.

9.3 Investments. The Credit Parties shall not, either directly or indirectly, make or have outstanding any new investments (whether through purchase of stocks, obligations or otherwise) in, or loans or advances to, any other Person, or acquire all or any substantial part of the assets, business, stock or other evidence of beneficial ownership of any other Person, except following:

- (a) The stock or other ownership interests in a Subsidiary existing as of the Effective Date;
- (b) investments in direct obligations of the United States or any state in the United States;
- (c) trade credit extended by the Credit Parties in the Ordinary Course of Business of the Credit Parties;
- (d) investments in securities of Customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such Customers;
- (e) investments existing on the Effective Date and set forth in the Financial Statements;
- (f) Contingent Liabilities permitted pursuant to Section 9.1; or
- (g) Capital Expenditures permitted under Section 9.5.

9.4 Transfer; Merger. The Credit Parties shall not, either directly or indirectly, permit a Change in Control, merge, consolidate, sell, transfer, license, lease, encumber or otherwise dispose of all or any part of its property or business or all or any substantial part of its assets, or sell or discount (with or without recourse) any of its Notes (as defined in the UCC), Chattel Paper, Payment Intangibles or Accounts; provided, however, that the Credit Parties may:

- (a) sell or lease Inventory and Equipment in the Ordinary Course of Business of the Credit Parties;
- (b) upon not less than three (3) Business Days' prior written notice to Lender, any Subsidiary of Borrower may merge with (so long as the Borrower remains the surviving entity), or dissolve or liquidate into, or transfer its property to Borrower;
- (c) dispose of used, worn-out or surplus equipment in the Ordinary Course of Business of the Credit Parties;
- (d) discount or write-off overdue Accounts for collection in the Ordinary Course of Business of the Credit Parties;
- (e) sell or otherwise dispose (including cancellation of Funded Indebtedness) of any Investment permitted under Section 9.3 in the Ordinary Course of Business of the Credit Parties; and
- (f) grant Permitted Liens; and
- (g) consummate the "Spin-Off" (as hereinafter defined), but only to the extent of the "Spin-Off Assets" (as hereinafter defined); it being acknowledged by the Credit Parties that no assets of the Borrower or any Guarantors shall be transferred as part of the Spin-Off, other than the Spin-Off Assets. The Credit Parties shall provide to Lender, prior to consummating the Spin-Off, copies of all final documents that will evidence the Spin-Off, and subsequent to the consummation of the Spin-Off, true, accurate, and complete copies of all final, and fully executed documents evidencing the Spin-Off transaction. The Credit Parties have represented to Lender that, pursuant to an Equity Exchange Agreement dated January 26, 2016 (the "Exchange Agreement"), Michael Bannon, the then holder of 100% of the issued and outstanding membership interests in the Corporate Guarantor, transferred such membership interests to Texas Wyoming Drilling, Inc., a Delaware corporation ("TWDI"), and in exchange, Michael Bannon acquired approximately 90% of the issued and outstanding common stock of TWDI, as well as all of the issued and outstanding preferred stock of TWDI, and immediately following this exchange, TWDI changed its name to the name of the Borrower herein, such that, after such exchange, Michael Bannon owns approximately 90% of the issued and outstanding common stock of Borrower, as well as all of the issued and outstanding preferred stock of Borrower, and Borrower is the owner of 100% of the issued and outstanding membership interests of the Corporate Guarantor (the foregoing transactions referred to herein as the "Exchange"). The Credit Parties have further represented to Lender that, as part of the Exchange, Borrower agreed to spin-off the assets of TWDI, as same existed prior to consummation of the Exchange, which assets are listed on Schedule 9.4(g) attached hereto (the "Spin-Off Assets"), to a group of shareholders of TWDI pre-Acquisition (such contemplated spin-off transaction herein referred to as the "Spin-Off").

9.5 Capital Expenditures. Without Lender's prior written consent, the Credit Parties shall not make or incur obligations for any Capital Expenditures.

9.6 Issuance of Stock. The Credit Parties shall not, either directly or indirectly, issue or distribute any capital stock or other securities (including any securities convertible or exercisable into capital stock or other securities) of any Credit Party without the prior written consent of Lender, such consent not to be unreasonably withheld by Lender. The Borrower must send any request for approval of any transaction pursuant to this Section 9.6 (a "**Borrower Request**") to [dsilverman@tcaglobalfund.com](mailto:dsilverman@tcaglobalfund.com), [bpress@tcaglobalfund.com](mailto:bpress@tcaglobalfund.com), [erondon@tcaglobalfund.com](mailto:erondon@tcaglobalfund.com), and [tfenton@tcaglobalfund.com](mailto:tfenton@tcaglobalfund.com). If the Lender fails to respond to any Borrower Request pursuant to this Section 9.6 within two (2) Business Days, such failure to respond shall be deemed to be an approval of such Borrower Request.

9.7 Distributions; Restricted Payments; Change in Management. The Credit Parties shall not: (i) purchase or redeem any shares of its capital stock or other securities, or declare or pay any dividends or distributions, whether in cash or otherwise, set aside any funds for any such purpose, or make any distribution of any kind to its shareholders, partners, or members, make any distribution of its property or assets, or make any loans, advances or extensions of credit to, or investments in, any Persons, including such Credit Parties' Affiliates, officers, directors, members, managers, principals, Material Shareholders, or employees, without the prior written consent of Lender; (ii) make any payments of any Funded Indebtedness other than as specifically permitted under the Use of Proceeds Confirmation and as otherwise permitted hereunder; (iii) increase the annual salary paid to any officers of the Credit Parties as of the Effective Date, unless any such increase is part of a written employment contract with any such officers entered into prior to the Effective Date, a copy of which has been delivered to and approved by the Lender; or (iv) add, replace, remove, or otherwise change any officers, managers, senior management positions or Persons with authority to bind the Borrower from the officers, managers, senior management positions, or other such Persons existing as of the Effective Date, unless approved by Lender in writing.

9.8 Use of Proceeds. The Credit Parties shall not use any portion of the proceeds of the Loans, either directly or indirectly, for the purpose of purchasing any securities underwritten by any Affiliate of Lender. In addition, the Credit Parties shall not use any portion of the proceeds of the Loans, either directly or indirectly, for any of the following purposes: (i) to make any payment towards any Funded Indebtedness of the Credit Parties or any Affiliates thereof, except as specifically permitted under the Use of Proceeds Confirmation; (ii) to pay any taxes of any nature or kind that may be due by the Credit Parties or any Affiliates thereof; (iii) to pay any obligations or liabilities of any nature or kind due or owing to any managers, officers, directors, employees, members, principals, or Material Shareholders of the Credit Parties or any Affiliates thereof. The Credit Parties shall only use the proceeds of the Loans (or any portion thereof) for the purposes set forth in a "**Use of Proceeds Confirmation**" to be executed by Borrower on the Effective Date, unless Borrower obtains the prior written consent of Lender to use proceeds of Loans for any other purpose, which consent may be granted or withheld by Lender in its sole and absolute discretion.

9.9 Business Activities; Change of Legal Status and Organizational Documents. The Credit Parties shall not: (i) engage in any line of business other than the businesses engaged in on the date hereof and business reasonably related thereto; (ii) change its name, its type of organization, its jurisdictions of organization or other legal structure; or (iii) permit its articles of incorporation (including any certificates of designation, is applicable), bylaws, operating agreement, partnership agreement, certificate of organization or similar governing or organizational documents to be amended or modified in any way which could reasonably be expected to have a Material Adverse Effect.

9.10 Transactions with Affiliates. The Credit Parties shall not enter into any transaction with any of its Affiliates, except in the Ordinary Course of Business of the Credit Parties and upon fair and reasonable terms that are no less favorable to the Credit Parties than it would obtain in a comparable arm's length transaction with a Person not an Affiliate of the Credit Parties.

9.11 Bank Accounts. The Credit Parties shall not maintain any bank, deposit or credit card payment processing accounts with any financial institution, or any other Person, for the Credit Parties or any Affiliate of the Credit Parties, other than the accounts of the Credit Parties listed in the attached Schedule 7.28.

## **10. AFFIRMATIVE COVENANTS.**

10.1 Compliance with Regulatory Requirements. Upon demand by Lender, Borrower shall reimburse Lender for Lender's additional costs and/or reductions in the amount of principal or interest received or receivable by Lender if at any time after the date of this Agreement any law, treaty or regulation or any change in any law, treaty or regulation or the interpretation thereof by any Governmental Authority charged with the administration thereof or any other authority having jurisdiction over Lender or the Loans, whether or not having the force of law, shall impose, modify or deem applicable any reserve and/or special deposit requirement against or in respect of assets held by or deposits in or for the account of the Loans by Lender or impose on Lender any other condition with respect to this Agreement or the Loans, the result of which is to either increase the cost to Lender of making or maintaining the Loans or to reduce the amount of principal or interest received or receivable by Lender with respect to such Loans. Said additional costs and/or reductions will be those which directly result from the imposition of such requirement or condition on the making or maintaining of such Loans.

10.2 Corporate Existence. The Credit Parties shall at all times preserve and maintain its: (i) existence and good standing in the jurisdiction of its organization; and (ii) its qualification to do business and good standing in each jurisdiction where the nature of its business makes such qualification necessary (other than such jurisdictions in which the failure to be qualified or in good standing could not reasonably be expected to have a Material Adverse Effect), and shall at all times continue as a going concern in the business which Borrower is presently conducting.

10.3 Maintain Property. The Credit Parties shall at all times maintain, preserve and keep its plants, properties and equipment, including, but not limited to, any Collateral, in good repair, working order and condition, normal wear and tear excepted, and shall from time to time, as Borrower deems appropriate in its reasonable judgment, make all needful and proper repairs, renewals, replacements, and additions thereto so that at all times the efficiency thereof shall be fully preserved and maintained. The Credit Parties shall permit Lender to examine and inspect such plant, properties and equipment, including any Collateral, at all reasonable times upon reasonable notice during business hours. During the continuance of any Event of Default, Lender shall, at the Credit Parties' expense, have the right to make additional inspections without providing advance notice.

10.4 Maintain Insurance. The Credit Parties' shall at all times insure and keep insured with insurance companies acceptable to Lender, all insurable property owned by the Credit Parties which is of a character usually insured by companies similarly situated and operating like properties, against loss or damage from environmental, fire and such other hazards or risks as are customarily insured against by companies similarly situated and operating like properties; and shall similarly insure employers', public and professional liability risks. Prior to the date of the funding of any Loans under this Agreement, Borrower shall deliver to Lender a certificate setting forth in summary form the nature and extent of the insurance maintained pursuant to this Section. All such policies of insurance must be satisfactory to Lender in relation to the amount and term of the Obligations and type and value of the Collateral and assets of the Credit Parties, shall identify Lender as sole/lender's loss payee and as an additional insured. In the event the Credit Parties fail to provide Lender with evidence of the insurance coverage required by this Section or at any time hereafter shall fail to obtain or maintain any of the policies of insurance required above, or to pay any premium in whole or in part relating thereto, then Lender, without waiving or releasing any obligation or default by Borrower hereunder, may at any time (but shall be under no obligation to so act), obtain and maintain such policies of insurance and pay such premium and take any other action with respect thereto, which Lender deems advisable. This insurance coverage: (i) may, but need not, protect the Credit Parties' interest in such property, including, but not limited to, the Collateral; and (ii) may not pay any claim made by, or against, the Credit Parties in connection with such property, including, but not limited to, the Collateral. The Credit Parties may later cancel any such insurance purchased by Lender, but only after providing Lender with evidence that the insurance coverage required by this Section is in force. The costs of such insurance obtained by Lender, through and including the effective date such insurance coverage is canceled or expires, shall be payable on demand by the Credit Parties to Lender, together with interest at the Default Rate on such amounts until repaid and any other charges by Lender in connection with the placement of such insurance. The costs of such insurance, which may be greater than the cost of insurance which the Credit Parties may be able to obtain on its own, together with interest thereon at the Default Rate and any other charges by Lender in connection with the placement of such insurance may be added to the total Obligations due and owing to the extent not paid by the Credit Parties.

10.5 Tax Liabilities.

(a) The Credit Parties shall at all times pay and discharge all property, income and other taxes, assessments and governmental charges upon, and all claims (including claims for labor, materials and supplies) against the Credit Parties or any of its properties, Equipment or Inventory, before the same shall become delinquent and before penalties accrue thereon, unless and to the extent that the same are being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP are being maintained.

(b) Borrower shall be solely responsible for the payment of any and all documentary stamps and other taxes in connection with the execution of the Loan Documents.

10.6 ERISA Liabilities; Employee Plans. The Credit Parties shall: (i) keep in full force and effect any and all Employee Plans which are presently in existence or may, from time to time, come into existence under ERISA, and not withdraw from any such Employee Plans, unless such withdrawal can be effected or such Employee Plans can be terminated without liability to the Credit Parties; (ii) make contributions to all of such Employee Plans in a timely manner and in a sufficient amount to comply with the standards of ERISA, including the minimum funding standards of ERISA; (iii) comply with all material requirements of ERISA which relate to such Employee Plans; (iv) notify Lender immediately upon receipt by the Credit Parties of any notice concerning the imposition of any withdrawal liability or of the institution of any Proceeding or other action which may result in the termination of any such Employee Plans or the appointment of a trustee to administer such Employee Plans; (v) promptly advise Lender of the occurrence of any "Reportable Event" or "Prohibited Transaction" (as such terms are defined in ERISA), with respect to any such Employee Plans; and (vi) amend any Employee Plan that is intended to be qualified within the meaning of Section 401 of the Internal Revenue Code of 1986 to the extent necessary to keep the Employee Plan qualified, and to cause the Employee Plan to be administered and operated in a manner that does not cause the Employee Plan to lose its qualified status.

10.7 Financial Statements. The Credit Parties shall at all times maintain a system of accounting capable of producing its individual and consolidated financial statements in compliance with GAAP (provided that monthly financial statements shall not be required to have footnote disclosure, are subject to normal year-end adjustments and need not be consolidated), and shall furnish to Lender or its authorized representatives such information regarding the business affairs, operations and financial condition of the Credit Parties as Lender may from time to time request or require, including, but not limited to:

(a) If the Maturity Date is extended beyond the original term, as soon as available, and in any event, within ninety (90) days after the close of each fiscal year, a copy of the annual audited consolidated financial statements of each of the Credit Parties, including balance sheet, statement of income and retained earnings, statement of cash flows for the fiscal year then ended, in reasonable detail, prepared and reviewed by an independent certified public accountant reasonably acceptable to Lender, containing an unqualified opinion of such accountant;

(b) as soon as available, and in any event, within thirty (30) days after the close of each fiscal quarter, a copy of the quarterly unaudited consolidated financial statements of each of the Credit Parties, including balance sheet, statement of income and retained earnings, statement of cash flows for the fiscal year then ended, in reasonable detail, prepared and certified as accurate in all material respects by the President, Chief Executive Officer or Chief Financial Officer of the Credit Parties; and

(c) as soon as available, and in any event, within ten (10) days following the end of each calendar month, a consolidated cash flow report of the Borrower for the month then ended, in reasonable detail, prepared and certified as accurate in all material respects by the President, Chief Executive Officer or Chief Financial Officer of Borrower.

No change with respect to such accounting principles shall be made by the Credit Parties without giving prior notification to Lender. The Credit Parties represent and warrant to Lender that the financial statements delivered to Lender at or prior to the execution and delivery of this Agreement and to be delivered at all times thereafter accurately reflect and will accurately reflect the financial condition of the Credit Parties in all material respects. Lender shall have the right at all times (and on reasonable notice so long as there then does not exist any Event of Default) during business hours to inspect the books and records of the Credit Parties and make extracts therefrom.

Borrower agrees to advise Lender immediately, in writing, of the occurrence of any Material Adverse Effect, or the occurrence of any event, circumstance or other happening that could be reasonably expected to lead to or become a Material Adverse Effect.

10.8 Additional Reporting Requirements. Borrower shall provide the following reports and statements to Lender as follows:

(a) On or prior to the Effective Date, Borrower shall provide to Lender an income statement or profit and loss statement showing actual results of the Borrower's consolidated operations for the prior twelve (12) months, as well as an income statement projection showing, in reasonable detail, the Borrower's consolidated income statement projections for the twelve (12) calendar months following the Effective Date (the "**Income Projections**"). In addition, on the first (1<sup>st</sup>) day of every calendar month after the Effective Date, the Borrower shall provide to Lender a report comparing the Income Projections to actual results. Any variance in the Income Projections to actual results that is more than ten percent (10%) (either above or below) will require the Borrower to submit to Lender written explanations as to the nature and circumstances for the variance.

(b) On the first (1<sup>st</sup>) day of every calendar month after the Effective Date, the Borrower shall provide to Lender a report comparing the use of the proceeds of the Loans set forth in the Use of Proceeds Confirmation, with the actual use of such proceeds. Any variance in the actual use of such proceeds from the amounts set forth in the approved Use of Proceeds Confirmation will require the Borrower to submit to Lender written explanations as to the nature and circumstances for the variance.

(c) Borrower shall submit to Lender true and correct copies of all bank statements (and statements from any other depository accounts, brokerage accounts, or accounts with any Payment Processing Companies) received by the Credit Parties within five (5) days after the Credit Parties' receipt thereof from its bank.

(d) Promptly upon receipt thereof, Borrower shall provide to Lender copies of interim and supplemental reports, if any, submitted to Borrower by independent accountants in connection with any interim audit or review of the books of the Credit Parties.

10.9 Aged Accounts/Payables Schedules. Upon request of Lender, Borrower shall promptly deliver to Lender an aged schedule of the Accounts of the Credit Parties, listing the name and amount due from each customer and showing the aggregate amounts due from: (i) 0-30 days; (ii) 31-60 days; (iii) 61-90 days; (iv) 91-120 days; and (v) more than 120 days, and certified as accurate by the Chief Financial Officer or the President of Borrower. Upon request by Lender, Borrower shall promptly deliver to Lender an aged schedule of the accounts payable of the Credit Parties, listing the name and amount due to each creditor and showing the aggregate amounts due from: (v) 0-30 days; (w) 31-60 days; (x) 61-90 days; (y) 91-120 days; and (z) more than 120 days, and certified as accurate by the Chief Financial Officer or the President of Borrower.

10.10 Failure to Provide Reports. If at any time during the term of this Agreement, Borrower shall fail to timely provide any reports required to be provided by any Credit Party to Lender under this Agreement or any other Loan Document, in addition to all other rights and remedies that Lender may have under this Agreement and the other Loan Documents, Lender shall have the right to require, at each instance of any such failure, upon written notice to Borrower, that the Borrower redeem 2.5% of the aggregate amount of the Advisory Fee then outstanding, which cash redemption payment shall be due and payable by ACH transfer from the Payment Account or by wire transfer of Dollars to an account designated by Lender, at Lender's sole discretion within five (5) Business Days from the date the Lender delivers such redemption notice to the Borrower.

10.11 Covenant Compliance. Borrower shall, within thirty (30) days after the end of each calendar month, deliver to Lender a Compliance Certificate showing compliance by Borrower with the covenants therein, and certified as accurate by the President or Chief Executive Officer of the Borrower.

10.12 Continued Due Diligence/Field Audits. Borrower acknowledges that during the term of this Agreement, Lender and its agents and representatives undertake ongoing and continuing due diligence reviews of the Credit Parties and its business and operations. Such ongoing due diligence reviews may include, and the Credit Parties do hereby allow Lender, to conduct site visits and field examinations of the office locations of the Credit Parties and the assets and records of the Credit Parties, the results of which must be satisfactory to Lender in Lender's sole and absolute discretion. In this regard, in order to cover Lender's expenses of the ongoing due diligence reviews and any site visits or field examinations which Lender may undertake from time to time while this Agreement is in effect, the Borrower shall pay to Lender, within five (5) Business Days after receipt of an invoice or demand therefor from Lender, a fee of up to Ten Thousand and No/100 Dollars (US\$10,000.00) per year (based on four (4) expected field audits and ongoing due diligence of Two Thousand Five Hundred and No/100 Dollars (US\$2,500.00) per audit) to cover such ongoing expenses. Failure to pay such fee as and when required shall be deemed an Event of Default under this Agreement and all other Loan Documents. The foregoing notwithstanding, from and after the occurrence of an Event of Default or any event which with notice, lapse of time or both, would become an Event of Default, Lender may conduct site visits, field examinations and other ongoing reviews of the Credit Parties' records, assets and operations at any time, in its sole discretion, without any limitations in terms of number of site visits or examinations and without being limited to the fee hereby contemplated, all at the sole expense of Borrower.

10.13 Notice and Other Reports. Borrower shall provide prompt written notice to Lender if at any time the Credit Parties fail to comply with any of the covenants in Section 11 herein. In addition, Borrower shall, within such period of time as Lender may reasonably specify, deliver to Lender such other schedules and reports as Lender may reasonably require.

10.14 Collateral Records. The Credit Parties shall keep full and accurate books and records relating to the Collateral and shall mark such books and records to indicate Lender's Lien in the Collateral including placing a legend, in form and content reasonably acceptable to Lender, on all Chattel Paper created by the Credit Parties indicating that Lender has a Lien in such Chattel Paper.

10.15 Notice of Proceedings. Borrower shall, promptly, but not more than five (5) days after knowledge thereof shall have come to the attention of any officer of the Credit Parties, give written notice to Lender of all threatened or pending actions, suits, and Proceedings before any Governmental Agency or other administrative agency, or before or involving any other Person, which may have a Material Adverse Effect.

10.16 Notice of Default. Borrower shall, promptly, but not more than five (5) days after the commencement thereof, give notice to Lender in writing of the occurrence of an Event of Default or of any event which, with the lapse of time, the giving of notice or both, would constitute an Event of Default hereunder.

10.17 Environmental Matters. If any release or threatened release or other disposal of Hazardous Substances shall occur or shall have occurred on any real property or any other assets of the Credit Parties or any Subsidiary or Affiliate of the Credit Parties, the Credit Parties shall cause the prompt containment and/or removal of such Hazardous Substances and the remediation and/or operation of such real property or other assets as necessary to comply with all Environmental Laws and to preserve the value of such real property or other assets. Without limiting the generality of the foregoing, the Credit Parties shall comply with any Federal or state judicial or administrative order requiring the performance at any real property of the Credit Parties of activities in response to the release or threatened release of a Hazardous Substance. To the extent that the transportation of Hazardous Substances is permitted by this Agreement, Borrower shall dispose of such Hazardous Substances, or of any other wastes, only at licensed disposal facilities operating in compliance with Environmental Laws.

10.18 Subsidiaries. Any Subsidiary which is formed or acquired or otherwise becomes a Subsidiary of the Credit Parties following the date hereof, within five (5) Business Days of such event, shall become an additional the Credit Party hereto, and the Borrower shall take any and all actions necessary or required by Lender to cause said Subsidiary to execute a counterpart to this Agreement and any and all other documents which the Lender shall require, including causing such party to execute those documents contained in Section 3.12 hereof.

10.19 Rule 144. With a view to making available to Lender the benefits of Rule 144 under the Securities Act ("**Rule 144**"), or any similar rule or regulation of the SEC that may at any time permit Lender to sell the Advisory Fee Shares or other shares of Common Stock issuable to Lender under any Loan Documents to the public without registration, the Borrower represents and warrants that: (i) Borrower is not an issuer defined as a "Shell Company" (as hereinafter defined); and (ii) if Borrower has, at any time, been an issuer defined as a "Shell Company," Borrower has not been an issuer defined as a Shell Company for at least twelve (12) months prior to the Effective Date. For the purposes hereof, the term "**Shell Company**" shall mean an issuer that meets the description defined under Rule 144. In addition, so long as Lender owns, legally or beneficially, any securities of Borrower, Borrower shall, at its sole expense:

(a) Make, keep and ensure that adequate current public information with respect to Borrower, as required in accordance with Rule 144, is publicly available;

(b) furnish to the Lender, promptly upon reasonable request: (A) a written statement by Borrower that it has complied with the reporting requirements of Rule 144; and (b) such other information as may be reasonably requested by Lender to permit the Lender to sell any of the Advisory Fee Shares or other shares of Common Stock acquired hereunder or under the Promissory Note pursuant to Rule 144 without limitation or restriction; and

(c) promptly at the request of Lender, give Borrower's Transfer Agent instructions to the effect that, upon the Transfer Agent's receipt from Lender of a certificate (a "**Rule 144 Certificate**") certifying that Lender's holding period (as determined in accordance with the provisions of Rule 144) for any portion of the Advisory Fee Shares or shares of Common Stock issuable upon conversion of the Promissory Note which Lender proposes to sell (or any portion of such shares which Lender is not presently selling, but for which Lender desires to remove any restrictive legends applicable thereto) (the "**Securities Being Sold**") is not less than the required holding period pursuant to Rule 144, and receipt by the Transfer Agent of the "Rule 144 Opinion" (as hereinafter defined) from Borrower or its counsel (or from Lender and its counsel as permitted below), the Transfer Agent is to effect the transfer (or issuance of a new certificate without restrictive legends, if applicable) of the Securities Being Sold and issue to Lender or transferee(s) thereof one or more stock certificates representing the transferred (or re-issued) Securities Being Sold without any restrictive legend and without recording any restrictions on the transferability of such shares on the Transfer Agent's books and records. In this regard, provided the Securities Being Sold are eligible for resale under Rule 144, upon Lender's request, Borrower shall have an affirmative obligation to cause its counsel to promptly issue to the Transfer Agent a legal opinion providing that, based on the Rule 144 Certificate, the Securities Being Sold may be sold pursuant to the provisions of Rule 144, even in the absence of an effective registration statement, or re-issued without any restrictive legends pursuant to the provisions of Rule 144, even in the absence of an effective registration statement (the "**Rule 144 Opinion**"). If the Transfer Agent requires any additional documentation in connection with any proposed transfer (or re-issuance) by Lender of any Securities Being Sold, Borrower shall promptly deliver or cause to be delivered to the Transfer Agent or to any other Person, all such additional documentation as may be necessary to effectuate the transfer (or re-issuance) of the Securities Being Sold and the issuance of an unlegended certificate to any such Lender or any transferee thereof, all at Borrower's expense. Any and all fees, charges or expenses, including, without limitation, attorneys' fees and costs, incurred by Lender in connection with issuance of any such shares, or the removal of any restrictive legends thereon, or the transfer of any such shares to any assignee of Lender, shall be paid by Borrower, and if not paid by Borrower, the Lender may, but shall not be required to, pay any such fees, charges or expenses, and the amount thereof, together with interest thereon at the highest non-usurious rate permitted by law, from the date of outlay, until paid in full, shall be due and payable by Borrower to Lender immediately upon demand therefor, and all such amounts advanced by the Lender shall be additional Obligations due under this Agreement and the Promissory Note and secured under the Loan Documents. Provided the Securities Being Sold are eligible for resale under Rule 144, in the event that the Borrower and/or its counsel refuses or fails for any reason to render the Rule 144 Opinion or any other documents, certificates or instructions required to effectuate the transfer (or re-issuance) of the Securities Being Sold and the issuance of an unlegended certificate to any such Lender or any transferee thereof, then: (A) Borrower's failure to promptly provide the Rule 144 Opinion or any other documents, certificates or instructions required to effectuate the transfer (or re-issuance) of the Securities Being Sold and the issuance of an unlegended certificate to any such Lender or any transferee thereof shall be an immediate Event of Default under this Agreement and all other Loan Documents; and (B) the Borrower hereby agrees and acknowledges that Lender is hereby irrevocably and expressly authorized to have counsel to Lender render any and all opinions and other certificates or instruments which may be required for purposes of effectuating the transfer (or re-issuance) of the Securities Being Sold and the issuance of an unlegended certificate to any such Lender or any transferee thereof, and the Borrower hereby irrevocably authorizes and directs the Transfer Agent to, without any further confirmation or instructions from the Borrower, transfer or re-issue any such Securities Being Sold as instructed by Lender and its counsel.

10.20 Reporting Status; Listing. The Borrower shall, within one hundred twenty (120) days from the Closing Date (the “**Reporting Date**”), provide to Lender a complete set of audited financial statements of the Borrower and all of its Subsidiaries, in a form and content as required by the SEC for fully reporting companies. In addition, by the Reporting Date, the Borrower shall have become a full reporting company required to file periodic reports with the SEC under the Exchange Act, and have its Common Stock registered with the SEC under Section 12 of the Exchange Act, and provide to Lender evidence acceptable to the Lender of compliance with each of the foregoing requirements. In addition, immediately after the Reporting Date, the Borrower shall obtain approval for the listing and quotation of the Common Stock on the OTC Bulletin Board, or another Principal Trading Market more senior and established than the OTC Pink Sheets and approved by Lender, and to have such Common Stock trading in such Principal Trading Market. In that regard, the Borrower shall file all required applications, reports, statements and all other documents, and pay all required fees and costs, necessary or required in order for the Borrower to accomplish the foregoing requirements. Once the Borrower becomes a fully reporting company with the SEC, then so long as Lender owns, legally or beneficially, or has the right to receive, any shares of Common Stock, the Borrower shall: (i) file in a timely manner all reports required to be filed under the Securities Act, the Exchange Act or any securities laws and regulations thereof applicable to the Borrower of any state of the United States or any foreign jurisdiction, or by the rules and regulations of the Principal Trading Market, and, to provide a copy thereof to the Lender promptly after such filing; (ii) not terminate its status as an issuer required to file reports under the Exchange Act even if the Exchange Act or the rules and regulations thereunder would otherwise permit such termination; (iii) if required by the rules and regulations of the Principal Trading Market, promptly secure the listing of the Advisory Fee Shares or any other shares of Common Stock issuable to Lender under any of the Loan Documents upon the Principal Trading Market (subject to official notice of issuance) and, take all reasonable action under its control to maintain the continued listing, quotation and trading of its Common Stock (including, without limitation, the Advisory Fee Shares or any other shares of Common Stock issuable to Lender under any of the Loan Documents) on the Principal Trading Market, and the Borrower shall comply in all respects with the Borrower’s reporting, filing and other obligations under the bylaws or rules of the Principal Trading Market, the Financial Industry Regulatory Authority, Inc. and such other Governmental Authorities, as applicable. The Borrower shall promptly provide to Lender copies of any notices it receives from the SEC or any Principal Trading Market, to the extent any such notices could in any way have or be reasonably expected to have a Material Adverse Effect.

10.21 Reservation of Shares. Borrower shall take all action reasonably necessary to at all times have authorized, and reserved for the purpose of issuance, such number of shares of Common Stock as shall be necessary to effect the full conversion of the Promissory Note in accordance with its terms (the “**Share Reserve**”). If at any time the Share Reserve is insufficient to effect the full conversion of the Promissory Note then outstanding, Borrower shall increase the Share Reserve accordingly. If Borrower does not have sufficient authorized and unissued shares of Common Stock available to increase the Share Reserve, Borrower shall call and hold a special meeting of the shareholders within forty-five (45) days of such occurrence, or take action by the written consent of the holders of a majority of the outstanding shares of Common Stock, if possible, for the sole purpose of increasing the number of shares authorized. Borrower’s management shall recommend to the shareholders to vote in favor of increasing the number of shares of Common Stock authorized.

10.22 Debt-Exchange. If at any time: (i) the Borrower is in an “Over-Advance” (as such term is hereinafter defined); (ii) there is an Event of Default; or (iii) if there is an event which has occurred that, with the passage of time, the giving of notice, or both, would constitute an Event of Default, the Lender shall have the option to sell the Obligations, or a portion thereof, to a debt buyer approved by Lender, which debt buyer shall then convert such debt into equity through a debt exchange under Section 3(a)(9) or 3(a)(10) of the Securities Act (the “**Debt Exchange**”). The Credit Parties agree to enter into the Debt Exchange upon Lender’s demand, and the Credit Parties shall execute and deliver any and all agreements or documents related to such Debt Exchange, as may be required by Lender or such debt buyer, and to otherwise cooperate in any other respect to accomplish the Debt Exchange.

## **11. FINANCIAL COVENANTS.**

11.1 Revenue Covenant. For each calendar quarter while this Agreement remains in effect, the Credit Parties shall have sales revenues for such calendar quarter that are not less than seventy-five percent (75%) of the sales revenues shown for the corresponding calendar quarter on the most recent of the Financial Statements (i.e. comparing third quarter results to the prior years’ third quarter results).

11.2 Loan to Value Ratio. The aggregate outstanding principal balance of all Loans hereunder shall never exceed the lesser of: (i) eighty percent (80%) of the then existing Eligible Accounts; or (ii) eighty percent (80%) of the value of all Collateral, as determined by Lender in its sole and absolute discretion (the “Loan Availability”). In the event at any time the aggregate outstanding principal balance of all Loans hereunder exceeds the Loan Availability (an “Over-advance”), Borrower shall be obligated to eliminate such Over-advance as follows: (A) if the Over-advance exists as of the Effective Date, then: (I) Lender shall determine the amount of the Over-advance, as well as the estimated amount of a payment (“Estimated Over-advance Payment”) to be made by Borrower at such payment intervals as Lender may determine, to be applied against the principal balance of the outstanding Loans, such that the Over-advance would be eliminated over a one hundred twenty (120) day period from the Effective Date (Lender shall have the right to modify the amount of the Estimated Over-advance Payment from time to time upon notice to Borrower as necessary to cause the elimination of the Over-advance over the one hundred twenty (120) day period contemplated hereby); and (II) Lender shall notify Borrower of the amount of the Estimated Over-advance Payment, and on each payment interval selected by Lender, Borrower shall make the Estimated Over-Advance Payment to Lender; or (B) if an Over-advance should occur after the Effective Date and during the term of this Agreement, then: (I) Lender shall determine, in its sole discretion, whether: (1) the Over-advance needs to be paid immediately; or (2) the Over-advance can be cured during a period of time as determined by Lender, in its sole discretion, and if so, what other conditions Lender may impose in connection with such cure period. If Lender elects option (1), then Borrower shall, upon notice or demand from Lender, immediately make such repayments of the Loans or take such other actions as shall be necessary to immediately eliminate such Over-advance in full. If Lender elects option (2) above, then Lender shall determine the amount of the Over-advance, the cure period available to Borrower in which to eliminate the Over-advance, and any other conditions to be satisfied by Borrower in connection with the cure period selected by Lender for elimination of the Over-advance, as well as the Estimated Over-advance Payment to be made by Borrower at such payment intervals as Lender may determine, to be applied against the principal balance of the outstanding Loans, such that the Over-advance would be eliminated over whatever cure period shall have been elected by Lender, in its sole discretion (Lender shall have the right to modify the amount of the Estimated Over-advance Payment from time to time upon notice to Borrower as necessary to cause the elimination of the Over-advance over the cure period selected by Lender); and (II) Lender shall notify Borrower of the amount of the Estimated Over-advance Payment, the cure period selected by Lender during which the Over-advance must be eliminated, and any other conditions applicable thereto, and on each payment interval selected by Lender, Borrower shall make the Estimated Over-Advance Payment to Lender, such that the Over-advance is eliminated in full in the period of time selected by Lender therefor. Credit Parties shall also satisfy whatever other conditions may be imposed by Lender as conditions to allowing Credit Parties a cure period to eliminate the Over-advance.

## 12. EVENTS OF DEFAULT.

Credit Parties, without notice or demand of any kind (except as specifically provided in this Agreement), shall be in default under this Agreement upon the occurrence of any of the following events (each an “Event of Default”):

12.1 Nonpayment of Obligations. Any amount due and owing on the Promissory Note or any of the Obligations, whether by its terms or as otherwise provided herein, is not paid on the date such amount is due.

12.2 Misrepresentation. Any written warranty, representation, certificate or statement of the Credit Parties in this Agreement, the Loan Documents or any other agreement with Lender shall be false or misleading in any material respect when made or deemed made.

12.3 Nonperformance. Any failure to perform or default in the performance of any covenant, condition or agreement contained in this Agreement (not otherwise addressed in this Article 12), which failure to perform or default in performance continues for a period of ten (10) days after any Credit Party receives notice from Lender of such failure to perform or default in performance (provided that if the failure to perform or default in performance is not capable of being cured, in Lender’s reasonable discretion, then the cure period set forth herein shall not be applicable and the failure or default shall be an immediate Event of Default hereunder).

12.4 Default under Loan Documents. Any failure to perform or default in the performance by any Credit Party that continues after applicable grace and cure periods under any covenant, condition or agreement contained in any of the other Loan Documents or any other agreement with Lender, all of which covenants, conditions and agreements are hereby incorporated in this Agreement by express reference.

12.5 Default under Other Obligations. Any default by Borrower in the payment of principal, interest or any other sum for any other obligation beyond any period of grace provided with respect thereto or in the performance of any, other term, condition or covenant contained in any agreement (including any capital or operating lease or any agreement in connection with the deferred purchase price of property), the effect of which default is to cause or permit the holder of such obligation (or the other party to such other agreement) to cause such obligation or agreement to become due prior to its stated maturity, to terminate such other agreement, or to otherwise modify or adversely affect such obligation or agreement in a manner that could have a Material Adverse Effect on any Credit Party.

12.6 Assignment for Creditors. Any Credit Party makes an assignment for the benefit of creditors, fails to pay, or admits in writing its inability to pay its debts as they mature; or if a trustee of any substantial part of the assets of the Credit Parties is applied for or appointed, and in the case of such trustee being appointed in a Proceeding brought against any of the Credit Parties, the Credit Parties, by any action or failure to act indicates its approval of, consent to, or acquiescence in such appointment and such appointment is not vacated, stayed on appeal or otherwise shall not have ceased to continue in effect within sixty (60) days after the date of such appointment.

12.7 Bankruptcy. Any Proceeding involving any of the Credit Parties, is commenced by or against any of the Credit Parties under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or liquidation law or statute of the federal government or any state government, and in the case of any such Proceeding being instituted against any of the Credit Parties: (i) the Credit Parties, by any action or failure to act, indicates its approval of, consent to or acquiescence therein; or (ii) an order shall be entered approving the petition in such Proceedings and such order is not vacated, stayed on appeal or otherwise shall not have ceased to continue in effect within sixty (60) days after the entry thereof.

12.8 Judgments. The entry of any judgment, decree, levy, attachment, garnishment or other process, or the filing of any Lien against the property of any of the Credit Parties, unless such judgment or other process shall have been, within sixty (60) days from the entry thereof: (i) bonded over to the satisfaction of Lender and appealed; (ii) vacated; or (iii) discharged.

12.9 Material Adverse Effect. A Material Adverse Effect shall occur.

12.10 Change in Control. Except as permitted under this Agreement, any Change in Control shall occur; provided, however, a Change in Control shall not constitute an Event of Default if: (i) it arises out of an event or circumstance beyond the reasonable control of the Credit Parties (for example, but not by way of limitation, a transfer of ownership interest due to death or incapacity); and (ii) within sixty (60) days after such Change in Control, the Credit Parties provide Lender with information concerning the identity and qualifications of the individual or individuals who will be in Control, and such individual or individuals shall be acceptable to Lender, in Lender's sole discretion.

12.11 Collateral Impairment. The entry of any judgment, decree, levy, attachment, garnishment or other process, or the filing of any Lien against, any of the Collateral or any collateral under a separate security agreement securing any of the Obligations, and such judgment or other process shall not have been, within thirty (30) days from the entry thereof: (i) bonded over to the satisfaction of Lender and appealed; (ii) vacated; or (iii) discharged, or the loss, theft, destruction, seizure or forfeiture, or the occurrence of any material deterioration or impairment of any of the Collateral or any of the Collateral under any security agreement securing any of the Obligations, or any material decline or depreciation in the value or market price thereof (whether actual or reasonably anticipated), which causes the Collateral, in the sole opinion of Lender acting in good faith, to become unsatisfactory as to value or character, or which causes Lender to reasonably believe that it is insecure and that the likelihood for repayment of the Obligations is or will soon be impaired, time being of the essence. The cause of such deterioration, impairment, decline or depreciation shall include, but is not limited to, the failure by the Credit Parties to do any act deemed reasonably necessary by Lender to preserve and maintain the value and collectability of the Collateral.

12.12 Adverse Change in Financial Condition. The determination in good faith by Lender that a material adverse change has occurred in the financial condition or operations of the any of the Credit Parties, or the Collateral, which change could have a Material Adverse Effect, or otherwise adversely affect the prospect for Lender to fully and punctually realize the full benefits conferred on Lender by this Agreement, or the prospect of repayment of all Obligations.

12.13 Adverse Change in Value of Collateral. The determination in good faith by Lender that the security for the Obligations is or has become inadequate.

12.14 Prospect of Payment or Performance. The determination in good faith by Lender that the prospect for payment or performance of any of the Obligations is impaired for any reason.

### **13. REMEDIES.**

(a) Upon the occurrence and during the continuance of an Event of Default, Lender shall have all rights, powers and remedies set forth in the Loan Documents, in any written agreement or instrument (other than this Agreement or the Loan Documents) relating to any of the Obligations or any security therefor, or as otherwise provided at law or in equity. Without limiting the generality of the foregoing, Lender may, at its option, upon the occurrence and during the continuance of an Event of Default, declare its commitments to Borrower to be terminated and all Obligations to be immediately due and payable; provided, however, that upon the occurrence of an Event of Default under either Section 12.6, "Assignment for Creditors", or Section 12.7, "Bankruptcy", all commitments of Lender to Borrower shall immediately terminate and all Obligations shall be automatically due and payable, all without demand, notice or further action of any kind required on the part of Lender. The Credit Parties hereby waive any and all presentment, demand, notice of dishonor, protest, and all other notices and demands in connection with the enforcement of Lender's rights under the Loan Documents, and hereby consents to, and waives notice of release, with or without consideration, of the Credit Parties or of any Collateral, notwithstanding anything contained herein or in the Loan Documents to the contrary.

(b) No Event of Default shall be waived by Lender, except and unless such waiver is in writing and signed by Lender. No failure or delay on the part of Lender in exercising any right, power or remedy hereunder shall operate as a waiver of the exercise of the same or any other right at any other time; nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy hereunder. There shall be no obligation on the part of Lender to exercise any remedy available to Lender in any order. The remedies provided for herein are cumulative and not exclusive of any remedies provided at law or in equity. The Credit Parties agree that in the event that Borrower fails to perform, observe or discharge any of its Obligations or liabilities under this Agreement, the Promissory Note, and other Loan Documents, or any other agreements with Lender, no remedy of law will provide adequate relief to Lender, and further agrees that Lender shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving actual damages.

#### **14. MISCELLANEOUS.**

14.1 Obligations Absolute. None of the following shall affect the Obligations of the Credit Parties to Lender under this Agreement or Lender's rights with respect to the Collateral:

- (a) acceptance or retention by Lender of other property or any interest in property as security for the Obligations;
- (b) release by Lender of all or any part of the Collateral or of any party liable with respect to the Obligations (other than Borrower);
- (c) release, extension, renewal, modification or substitution by Lender of the Promissory Note, or any note evidencing any of the Obligations; or
- (d) failure of Lender to resort to any other security or to pursue the Credit Parties or any other obligor liable for any of the Obligations before resorting to remedies against the Collateral.

14.2 Entire Agreement. This Agreement and the other Loan Documents: (i) are valid, binding and enforceable against the Credit Parties and Lender in accordance with its provisions and no conditions exist as to their legal effectiveness; (ii) constitute the entire agreement between the parties; and (iii) are the final expression of the intentions of the Credit Parties and Lender. No promises, either expressed or implied, exist between the Credit Parties and Lender, unless contained herein or in the Loan Documents. This Agreement and the Loan Documents supersede all negotiations, representations, warranties, commitments, offers, contracts (of any kind or nature, whether oral or written) prior to or contemporaneous with the execution hereof.

14.3 Amendments; Waivers. No amendment, modification, termination, discharge or waiver of any provision of this Agreement or of the Loan Documents, or consent to any departure by the Credit Parties therefrom, shall in any event be effective unless the same shall be in writing and signed by Lender, and then such waiver or consent shall be effective only for the specific purpose for which given.

14.4 WAIVER OF DEFENSES. THE CREDIT PARTIES WAIVE EVERY PRESENT AND FUTURE DEFENSE, CAUSE OF ACTION, COUNTERCLAIM OR SETOFF WHICH THE CREDIT PARTIES MAY HAVE AS OF THE DATE HEREOF TO ANY ACTION BY LENDER IN ENFORCING THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS. THE CREDIT PARTIES WAIVE ANY IMPLIED COVENANT OF GOOD FAITH AND RATIFIES AND CONFIRMS WHATEVER LENDER MAY DO PURSUANT TO THE TERMS OF THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS AS OF THE DATE OF THIS AGREEMENT. THIS PROVISION IS A MATERIAL INDUCEMENT FOR LENDER GRANTING ANY FINANCIAL ACCOMMODATION TO BORROWER.

14.5 WAIVER OF JURY TRIAL. LENDER AND CREDIT PARTIES, AFTER CONSULTING OR HAVING HAD THE OPPORTUNITY TO CONSULT WITH COUNSEL, KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE, IRREVOCABLY, THE RIGHT TO TRIAL BY JURY WITH RESPECT TO ANY LEGAL PROCEEDING BASED HEREON, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS AGREEMENT, THE PROMISSORY NOTE, ANY LOAN DOCUMENT OR ANY OF THE OBLIGATIONS, THE COLLATERAL, OR ANY OTHER AGREEMENT EXECUTED OR CONTEMPLATED TO BE EXECUTED IN CONJUNCTION WITH THIS AGREEMENT, OR ANY COURSE OF CONDUCT OR COURSE OF DEALING IN WHICH LENDER AND CREDIT PARTIES ARE ADVERSE PARTIES. THIS PROVISION IS A MATERIAL INDUCEMENT FOR LENDER GRANTING ANY FINANCIAL ACCOMMODATION TO BORROWER.

14.6 MANDATORY FORUM SELECTION. TO INDUCE LENDER TO MAKE THE LOANS, CREDIT PARTIES IRREVOCABLY AGREE THAT ANY DISPUTE ARISING UNDER, RELATING TO, OR IN CONNECTION WITH, DIRECTLY OR INDIRECTLY, THIS AGREEMENT OR RELATED TO ANY MATTER WHICH IS THE SUBJECT OF OR INCIDENTAL TO THIS AGREEMENT ANY OTHER LOAN DOCUMENT, OR THE COLLATERAL (WHETHER OR NOT SUCH CLAIM IS BASED UPON BREACH OF CONTRACT OR TORT) SHALL, EXCEPT AS HEREINAFTER PROVIDED, BE SUBJECT TO THE EXCLUSIVE JURISDICTION AND VENUE OF THE STATE AND/OR FEDERAL COURTS LOCATED IN BROWARD COUNTY, FLORIDA; PROVIDED, HOWEVER, LENDER MAY, AT LENDER'S SOLE OPTION, ELECT TO BRING ANY ACTION IN ANY OTHER JURISDICTION. THIS PROVISION IS INTENDED TO BE A "MANDATORY" FORUM SELECTION CLAUSE AND GOVERNED BY AND INTERPRETED CONSISTENT WITH FLORIDA LAW. BORROWER HEREBY CONSENTS TO THE EXCLUSIVE JURISDICTION AND VENUE OF ANY STATE OR FEDERAL COURT HAVING ITS SITUS IN SAID COUNTY (OR TO ANY OTHER JURISDICTION OR VENUE, IF LENDER SO ELECTS), AND WAIVES ANY OBJECTION BASED ON FORUM NON CONVENIENS. CREDIT PARTIES HEREBY WAIVE PERSONAL SERVICE OF ANY AND ALL PROCESS AND CONSENTS THAT ALL SUCH SERVICE OF PROCESS MAY BE MADE BY CERTIFIED MAIL, RETURN RECEIPT REQUESTED, DIRECTED TO BORROWER, AS SET FORTH HEREIN OR IN THE MANNER PROVIDED BY APPLICABLE STATUTE, LAW, RULE OF COURT OR OTHERWISE.

14.7 Usury Savings Clause. Notwithstanding any provision in this Agreement or the other Loan Documents, the total liability for payments of interest and payments in the nature of interest, including, without limitation, all charges, fees, exactions, or other sums which may at any time be deemed to be interest, shall not exceed the limit imposed by the usury laws of the jurisdiction governing this Agreement or any other applicable law. In the event the total liability of payments of interest and payments in the nature of interest, including, without limitation, all charges, fees, exactions or other sums which may at any time be deemed to be interest, shall, for any reason whatsoever, result in an effective rate of interest, which for any month or other interest payment period exceeds the limit imposed by the usury laws of the jurisdiction governing this Agreement, all sums in excess of those lawfully collectible as interest for the period in question shall, without further agreement or notice by, between, or to any party hereto, be applied to the reduction of the outstanding principal balance of this Agreement immediately upon receipt of such sums by the Lender, with the same force and effect as though the Borrower had specifically designated such excess sums to be so applied to the reduction of such outstanding principal balance and the Lender hereof had agreed to accept such sums as a penalty-free payment of principal; provided, however, that the Lender may, at any time and from time to time, elect, by notice in writing to the Borrower, to waive, reduce, or limit the collection of any sums in excess of those lawfully collectible as interest rather than accept such sums as a prepayment of the outstanding principal balance. It is the intention of the parties that the Borrower do not intend or expect to pay nor does the Lender intend or expect to charge or collect any interest under this Agreement greater than the highest non-usurious rate of interest which may be charged under applicable law.

14.8 Assignability. Lender may at any time assign Lender's rights in this Agreement, the Promissory Note, any Loan Documents, the Obligations, or any part thereof, and transfer Lender's rights in any or all of the Collateral, all without the Credit Parties' consent or approval, and Lender thereafter shall be relieved from all liability with respect to such instrument or Collateral so transferred. In addition, Lender may at any time sell one or more participations in the Loans, all without the Credit Parties' consent or approval. The Credit Parties may not sell or assign this Agreement, any Loan Document or any other agreement with Lender, or any portion thereof, either voluntarily or by operation of law, nor delegate any of its duties of obligations hereunder or thereunder, without the prior written consent of Lender, which consent may be withheld in Lender's sole and absolute discretion. This Agreement shall be binding upon Lender and the Credit Parties and their respective legal representatives, successors and permitted assigns. All references herein to a Credit Party shall be deemed to include any successors, whether immediate or remote. In the case of a joint venture or partnership, the term "Borrower" or "Credit Party" shall be deemed to include all joint venturers or partners thereof, who shall be jointly and severally liable hereunder.

14.9 Confidentiality. Each of the Credit Parties shall keep confidential any information obtained from Lender (except information publicly available or in Credit Parties' domain prior to disclosure of such information from Lender, and except as required by applicable laws) and shall promptly return to the Lender all schedules, documents, instruments, work papers and other written information without retaining copies thereof, previously furnished by it as a result of this Agreement or in connection herewith.

14.10 Publicity. Lender shall have the right to approve, before issuance, any press release or any other public statement with respect to the transactions contemplated hereby made by the Credit Parties; provided, however, that the Credit Parties shall be entitled, without the prior approval of Lender, to issue any press release or other public disclosure with respect to such transactions required under applicable securities or other laws or regulations. Notwithstanding the foregoing, the Credit Parties shall use its best efforts to consult Lender in connection with any such press release or other public disclosure prior to its release and Lender shall be provided with a copy thereof upon release thereof. Lender shall have the right to make any press release with respect to the transactions contemplated hereby without the Credit Parties' approval. In addition, with respect to any press release to be made by Lender, Borrower hereby authorizes and grants blanket permission to Lender to include the Borrower's stock symbol, if any, in any press releases. Borrower shall, promptly upon request, execute any additional documents of authority or permission as may be requested by Lender in connection with any such press releases.

14.11 Binding Effect. This Agreement shall become effective upon execution by the Credit Parties and Lender.

14.12 Governing Law. Except in the case of the Mandatory Forum Selection Clause in Section 14.6 above, which clause shall be governed and interpreted in accordance with Florida law, this Agreement, the Loan Documents and the Promissory Note shall be delivered and accepted in, and shall be deemed to be contracts made under and governed by, the internal laws of the State of Nevada, and for all purposes shall be construed in accordance with the laws of the State of Nevada, without giving effect to the choice of law provisions of such State. The governing law provisions of this Section 14.12 are a material inducement for Lender to enter into this Agreement, and the Borrower hereby agrees, acknowledges and understands that the Lender would not have entered into this Agreement, nor made or provided the Loans, without the full agreement and consent of the Credit Parties, with full knowledge and understanding, that except in the case of the Mandatory Forum Selection Clause in Section 14.6 above, which clause shall be governed and interpreted in accordance with Florida law, this Agreement, and each of the Loan Documents, shall be governed by the internal laws of the State of Nevada, and for all purposes shall be construed in accordance with the laws of the State of Nevada, without giving effect to the choice of law provisions. In this regard, each of the Credit Parties hereby acknowledges that it has reviewed this Agreement and all Loan Documents, and specifically, this Section 14.12, with competent counsel selected by the Credit Parties, and in that regard, each of the Credit Parties fully understands the choice of law provisions set forth in this Section. In addition, each of the Credit Parties agrees, and acknowledges that it has had an opportunity to negotiate the terms and provisions of this Agreement and the other Loan Documents with and through its counsel, and that the Credit Parties have sufficient leverage and economic bargaining power, and have used such leverage and economic bargaining power, to fairly and fully negotiate this Agreement and the other Loan Documents in a manner that is acceptable to the Credit Parties. Moreover, because of the material nature of this choice of law provision in inducing Lender to enter into this Agreement and to make the Loans to the Credit Parties, each of the Credit Parties hereby fully and absolutely waives any and all rights to make any claims, counterclaims, defenses, to raise or make any arguments (including any claims, counterclaims, defenses, or arguments based on grounds of public policy, unconscionability, or implied covenants of fair dealing and good faith), or to otherwise undertake any litigation strategy or maneuver of any nature or kind that would result in, or which otherwise seeks to, invalidate this choice of law provision, or that would otherwise result in or require the application of the laws of any other State other than the State of Nevada in the interpretation or governance of this Agreement or any other Loan Documents (except for the Mandatory Forum Selection clause in Section 14.6 hereof). Each of the Credit Parties has carefully considered this Section 14.12 and has carefully reviewed its application and effect with competent counsel, and in that regard, fully understands and agrees that Lender would not have entered into this Agreement, nor made the Loans, without the express agreement and acknowledgement of each of the Credit Parties to this choice of law provision, and the express waivers set forth herein.

14.13 Enforceability. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by, unenforceable or invalid under any jurisdiction, such provision shall as to such jurisdiction, be severable and be ineffective to the extent of such prohibition or invalidity, without invalidating the remaining provisions of this Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

14.14 Survival of Borrower's Representations. All covenants, agreements, representations and warranties made by the Credit Parties herein shall, notwithstanding any investigation by Lender, be deemed material and relied upon by Lender and shall survive the making and execution of this Agreement and the Loan Documents and the issuance of the Promissory Note, and shall be deemed to be continuing representations and warranties until such time as the Credit Parties have fulfilled all of its Obligations to Lender, and Lender has been indefeasibly paid in full. Lender, in extending financial accommodations to Borrower, is expressly acting and relying on the aforesaid representations and warranties.

14.15 Extensions of Lender's Commitment and the Promissory Note. This Agreement shall secure and govern the terms of any extensions or renewals of Lender's commitment hereunder and the Promissory Note pursuant to the execution of any modification, extension or renewal note executed by Borrower, consented and agreed to by the Guarantors, and accepted by Lender in its sole and absolute discretion in substitution for the Promissory Note.

14.16 Time of Essence. Time is of the essence in making payments of all amounts due Lender under this Agreement and in the performance and observance by the Credit Parties of each covenant, agreement, provision and term of this Agreement.

14.17 Execution. This Agreement may be executed in one or more counterparts, all of which taken together shall be deemed and considered one and the same Agreement. In the event that any signature of this Agreement or any other Loan Documents is delivered by facsimile transmission or by e-mail delivery of a ".pdf" format file or other similar format file, such signature shall be deemed an original for all purposes and shall create a valid and binding obligation of the party executing same with the same force and effect as if such facsimile or ".pdf" signature page was an original thereof. Notwithstanding the foregoing, Lender shall not be obligated to accept any document or instrument signed by facsimile transmission or by e-mail delivery of a ".pdf" format file or other similar format file as an original, and may in any instance require that an original document be submitted to Lender in lieu of, or in addition to, any such document executed by facsimile transmission or by e-mail delivery of a ".pdf" format file or other similar format file.

14.18 Notices. Any notices, consents, waivers, or other communications required or permitted to be given under the terms of this Agreement must be in writing and in each case properly addressed to the party to receive the same in accordance with the information below, and will be deemed to have been delivered: (i) if mailed by certified mail, return receipt requested, postage prepaid and properly addressed to the address below, then three (3) Business Days after deposit of same in a regularly maintained U.S. Mail receptacle; or (ii) if mailed by Federal Express, UPS or other nationally recognized overnight courier service, overnight delivery, then one (1) Business Day after deposit of same in a regularly maintained receptacle of such overnight courier; or (iii) if hand delivered, then upon hand delivery thereof to the address indicated on or prior to 5:00 p.m., EST, on a Business Day. Any notice hand delivered after 5:00 p.m., EST, shall be deemed delivered on the following Business Day. Notwithstanding the foregoing, notice, consents, waivers or other communications referred to in this Agreement may be sent by facsimile, e-mail, or other method of delivery, but shall be deemed to have been delivered only when the sending party has confirmed (by reply e-mail or some other form of written confirmation) that the notice has been received by the other party. The addresses and facsimile numbers for such communications shall be as set forth below, unless such address or information is changed by a notice conforming to the requirements hereof. No notice to or demand on Borrower in any case shall entitle Borrower to any other or further notice or demand in similar or other circumstances:

If to any Credit Party:

Drone USA, Inc.  
One World Trade Center  
285 Fulton Street, Suite 8500  
New York, NY 10007  
Attention: Mike Bannon, CEO  
E-Mail: [mike@dronelusa.com](mailto:mike@dronelusa.com)

With a copy to:

Davisson & Associates, PA  
4124 Quebec Avenue North, Suite 306  
Minneapolis, MN 55427  
Attention: Peder Davisson, Esq.  
E-mail: [pederd@davissonpa.com](mailto:pederd@davissonpa.com)

If to the Lender:

TCA Global Credit Master Fund, LP  
3960 Howard Hughes Parkway, Suite 500  
Las Vegas, Nevada 89169  
Attention: Robert Press, Director  
E-Mail: [bpress@tcaglobalfund.com](mailto:bpress@tcaglobalfund.com)

With a copy to:

TCA Global Credit Master Fund, LP  
19950 W. Country Club Dr., First Floor  
Aventura, FL 33180  
Attention: Robert Press, Director  
E-Mail: [bpress@tcaglobalfund.com](mailto:bpress@tcaglobalfund.com)

With a copy to:

David Kahan, P.A.  
6420 Congress Ave., Suite 1800  
Boca Raton, FL 33487  
Attention: David Kahan, Esq.  
E-Mail: [david@dkpalaw.com](mailto:david@dkpalaw.com)

14.19 Indemnification. As a material inducement for Lender to enter into this Agreement, the Credit Parties agree to defend, protect, indemnify and hold harmless Lender, and its parent companies, Subsidiaries, Affiliates, divisions, and their respective attorneys, officers, directors, agents, shareholders, members, partners, employees, and representatives, and the predecessors, successors, assigns, personal representatives, heirs and executors of each of them (including those retained in connection with the transactions contemplated by this Agreement) (each, a “**Lender Indemnatee**” and collectively, the “**Lender Indemnitees**”) from and against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, Proceedings, suits, claims, costs, expenses and distributions of any kind or nature (including the disbursements and the reasonable fees of counsel and paralegals for each Lender Indemnatee thereto throughout all trial and appellate levels, bankruptcy Proceedings, mediations, arbitrations, administrative hearings and at all other levels and tribunals), which may be imposed on, incurred by, or asserted against, any Lender Indemnatee (whether direct, indirect or consequential and whether based on any federal, state or local laws or regulations, including securities, Environmental Laws and commercial laws and regulations, under common law or in equity, or based on contract, tort, or otherwise) in any manner relating to or arising out of this Agreement or any of the Loan Documents, or any act, event or transaction related or attendant thereto, the preparation, execution and delivery of this Agreement and the Loan Documents, including the making or issuance and management of the Loans, the use or intended use of the proceeds of the Loans, the enforcement of Lender’s rights and remedies under this Agreement, the Loan Documents, the Promissory Note, any other instruments and documents delivered hereunder, or under any other agreement between Borrower and Lender. To the extent that the undertaking to indemnify set forth in the preceding sentence may be unenforceable because it violates any law or public policy, the Credit Parties shall satisfy such undertaking to the maximum extent permitted by applicable law. Any liability, obligation, loss, damage, penalty, cost or expense covered by this indemnity shall be paid to each Lender Indemnatee on demand, and, failing prompt payment, shall, together with interest thereon at the Default Rate from the date incurred by each Lender Indemnatee until paid by Borrower, be added to the Obligations of Borrower and be secured by the Collateral. The provisions of this Section shall survive the satisfaction and payment of the other Obligations and the termination of this Agreement.

14.20 Release. In consideration of the mutual promises and covenants made herein, and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, each Credit Party hereby agrees to fully, finally and forever release and forever discharge and covenant not to sue the Lender Indemnitees, and each one of them, from any and all debts, fees, attorneys’ fees, liens, costs, expenses, damages, sums of money, accounts, bonds, bills, covenants, promises, judgments, charges, demands, claims, causes of action, Proceedings, suits, liabilities, expenses, obligations or contracts of any kind whatsoever, whether in law or in equity, whether asserted or unasserted, whether known or unknown, fixed or contingent, under statute or otherwise, from the beginning of time through the Effective Date, including any and all claims relating to or arising out of any financing transactions, credit facilities, notes, debentures, security agreements, and other agreements, including each of the Loan Documents, entered into by the Credit Parties with Lender and any and all claims that the Credit Parties do not know or suspect to exist, whether through ignorance, oversight, error, negligence, or otherwise, and which, if known, would materially affect their decision to enter into this Agreement or the related Loan Documents. The provisions of this Section shall survive the satisfaction and payment of the other Obligations and the termination of this Agreement.

14.21 Interpretation. If any provision in this Agreement requires judicial or similar interpretation, the judicial or other such body interpreting or construing such provision shall not apply the assumption that the terms hereof shall be more strictly construed against one party because of the rule that an instrument must be construed more strictly against the party which itself or through its agents prepared the same. The parties hereby agree that all parties and their agents have participated in the preparation hereof equally.

14.22 Compliance with Federal Law. The Credit Parties shall: (i) ensure that no Person who owns a controlling interest in or otherwise controls the Credit Parties is or shall be listed on the Specially Designated Nationals and Blocked Person List or other similar lists maintained by the Office of Foreign Assets Control ("OFAC"), the Department of the Treasury, included in any Executive Orders or any other similar lists from any Governmental Authority; (ii) not use or permit the use of the proceeds of the Loans to violate any of the foreign asset control regulations of OFAC or any enabling statute or Executive Order relating thereto, or any other similar national or foreign governmental regulations; and (iii) comply with all applicable Lender Secrecy Act ("BSA") laws and regulations, as amended. As required by federal law and Lender's policies and practices, Lender may need to obtain, verify and record certain customer identification information and documentation in connection with opening or maintaining accounts or establishing or continuing to provide services.

14.23 Consents. With respect to any provisions of this Agreement or any other Loan Documents which require the consent or approval of Lender, unless expressly otherwise provided in any such provision, such consent or approval may be granted, conditioned, or withheld by Lender in its sole and absolute discretion. In any event, when any consent or approval of Lender is required under this Agreement or any other Loan Documents, the Credit Parties shall not be entitled to make any claim for, and the Credit Parties hereby expressly waives any claim for, damages incurred by the Credit Parties by reason of Lender's granting, conditioning or withholding any such consent or approval, and the Credit Parties' sole and absolute remedy with respect thereto shall be an action for specific performance. To the extent any consent or approval is given by Lender under any provision hereunder or under any other Loan Documents, such consent or approval shall only be applicable to the specific instance to which it relates and shall not be deemed to be a continuing or future consent or approval, and any such consent or approval shall not impose any liability or warranty obligation on the Lender.

14.24 Non-U.S. Status. THE LENDER IS A NON-U.S. PERSON AS THAT TERM IS DEFINED IN THE UNITED STATES INTERNAL REVENUE CODE. IT IS HEREBY AGREED AND UNDERSTOOD THAT THE OBLIGATIONS HEREUNDER MAY BE SOLD OR RESOLD ONLY TO NON-U.S. PERSONS. THE INTEREST PAYABLE HEREUNDER IS PAYABLE ONLY OUTSIDE THE UNITED STATES. ANY U.S. PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAW.

#### 14.25 Escrow for Auditors Fees.

(a) The Credit Parties have disclosed to Lender that the Credit Parties have certain anticipated obligations for auditor's fees due to Friedman LLP in connection with the completion of 2014 and 2015 audits of Drone USA, Inc. and Howco Distributing Co., in an anticipated approximate amount of \$75,000 (the "**Auditor's Fee Obligations**"). In this regard, in connection with the funding of the Initial Loan hereunder on the Effective Date, the Lender shall fund and disburse the full amount of the Initial Loan; provided, however, the Escrow Agent shall withhold, from the Initial Loan proceeds, an amount on account of the Auditor's Fee Obligations of \$75,000 (the "**Withheld Amount**"). The Withheld Amount shall be held by David Kahan, P.A., as "**Escrow Agent**" hereunder, and shall only be released in accordance with the terms and provisions set forth in this Section 14.25 and Section 14.26 below. The Credit Parties acknowledge and agree that the Withheld Amount shall be deemed to be disbursed as of the Effective Date and shall thus accrue interest as of the Effective Date in accordance with this Agreement and the other Loan Documents. The Withheld Amount shall be released if, as, and when the Credit Parties incur and are billed for the Auditor's Fee Obligations, or any portion thereof, and the Credit Parties timely pay any such billing and promptly thereafter provide to Lender and Escrow Agent evidence of payment thereof satisfactory to Lender. Upon receipt of such evidence of payment acceptable to Lender, so long as no Event of Default under this Agreement or any other Loan Documents exists, and so long as no event has occurred that, with the passage of time, the giving of notice, or both, would constitute an Event of Default under this Agreement or any other Loan Documents, Lender shall then direct and authorize Escrow Agent to release to the Credit Parties, from the then remaining Withheld Amount, the amount paid by the Credit Parties, and evidenced by the payment evidence provided to Lender hereunder.

#### 14.26 Matters Relating to Escrow Agent.

(a) The Escrow Agent undertakes to perform only such duties as are expressly set forth herein and no implied duties or obligations shall be read into this Agreement against the Escrow Agent. Escrow Agent agrees to hold the Withheld Amount (the "**Escrowed Property**") in a non-interest bearing account and to release same only in accordance with the terms and conditions set forth in this Agreement and only upon a written direction from Lender.

(b) The Escrow Agent may act in reliance upon any writing or instrument (including e-mail) or signature which it, in good faith, believes to be genuine, may assume the validity and accuracy of any statement or assertion contained in such a writing or instrument, and may assume that any Person purporting to give any writing, notice, advice or instructions in connection with the provisions hereof has been duly authorized to do so. The Escrow Agent shall not be liable in any manner for the sufficiency or correctness as to form, manner, and execution, or validity of any instrument deposited in this escrow or given to Escrow Agent under this Agreement, nor as to the identity, authority, or right of any Person executing the same; and its duties hereunder shall be limited to the safekeeping of the Escrowed Property, and for the disposition of the same in accordance with this Agreement. Escrow Agent shall not be deemed to have knowledge of any matter or thing unless and until Escrow Agent has actually received written notice of such matter or thing and Escrow Agent shall not be charged with any constructive notice whatsoever.

(c) Escrow Agent shall hold in escrow, pursuant to this Agreement, the Escrowed Property actually delivered and received by Escrow Agent hereunder, and Escrow Agent shall not be obligated to ascertain the existence of (or initiate recovery of) any other property other than property actually received by Escrow Agent. If all or any portion of the Escrowed Property is in the form of a check or in any other form other than cash, Escrow Agent shall deposit same as required but shall not be liable for the nonpayment thereof, nor responsible to enforce collection thereof. Escrow Agent shall not be liable for failure of any financial institution where the Escrowed Property is deposited.

(d) In the event instructions from Lender, any Credit Parties, or any other Person would require Escrow Agent to expend any monies or to incur any cost, Escrow Agent shall be entitled to refrain from taking any action until it receives payment for such costs. It is agreed that the duties of Escrow Agent are purely ministerial in nature and shall be expressly limited to the safekeeping of the Escrowed Property and for the disposition of same in accordance with this Agreement. The Credit Parties and Lender, jointly and severally, each hereby indemnifies Escrow Agent and holds it harmless from and against any and all claims, actions, liabilities, costs and other expenses of any nature or kind, which it may incur or with which it may be threatened, directly or indirectly, including all attorneys' fees and costs of litigation, arising from or in any way connected with this Agreement or which may result from Escrow Agent's following of instructions from Lender in accordance with this Agreement, except those arising as a result of Escrow Agent's gross negligence or willful misconduct. Escrow Agent shall be vested with a lien on all Escrowed Property under the terms of this Agreement, for indemnification, attorneys' fees, court costs and all other costs and expenses arising from any such claims or expenses, interpleader or otherwise, or other expenses, fees or charges of any character or nature, which may be incurred by Escrow Agent by reason of disputes arising between the Lender and the Credit Parties, or any other Person, as to the correct interpretation of this Agreement, and instructions given to Escrow Agent hereunder, or otherwise, with the right of Escrow Agent, regardless of the instruments aforesaid and without the necessity of instituting any proceeding, to hold any property hereunder until and unless said additional expenses, fees and charges shall be fully paid. Any fees and costs charged by the Escrow Agent for serving hereunder shall be paid by the Credit Parties.

(e) In the event Escrow Agent shall be uncertain as to its duties or rights hereunder or shall receive instructions, claims or demands from Lender, the Credit Parties or from any other Person with respect to the Escrowed Property, which, in Escrow Agent's sole opinion, are in conflict with each other or with any provision of this Agreement, Escrow Agent shall be entitled to refrain from taking any action until it shall be directed otherwise in writing by Lender and the Credit Parties and said other Persons, if any, or by a final order or judgment of a court of competent jurisdiction. If any of the parties shall be in disagreement about the interpretation of this Agreement, or about the rights and obligations, or the propriety of any action contemplated by the Escrow Agent hereunder, the Escrow Agent may, at its sole discretion, deposit the Escrowed Property with a court having jurisdiction over this Agreement, and, upon notifying all parties concerned of such action, all liability on the part of the Escrow Agent shall fully cease and terminate. The Escrow Agent shall be indemnified by the Lender and the Credit Parties for all costs, including reasonable attorneys' fees, in connection with the aforesaid proceeding, and shall be fully protected in suspending all or a part of its activities under this Agreement until a final decision or other settlement in the proceeding is received. In the event Escrow Agent is joined as a party to a lawsuit by virtue of the fact that it is holding the Escrowed Property, Escrow Agent shall, at its sole option, either: (i) tender the Escrowed Property in its possession to the registry of the appropriate court; or (ii) disburse the Escrowed Property in its possession in accordance with the court's ultimate disposition of the case, and Lender and the Credit Parties hereby, jointly and severally, indemnify and hold Escrow Agent harmless from and against any damages or losses in connection therewith including, but not limited to, reasonable attorneys' fees and court costs at all trial and appellate levels.

(f) The Escrow Agent may consult with counsel of its own choice (and the costs of such counsel shall be paid by the Credit Parties and Lender) and shall have full and complete authorization and protection for any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such counsel. The Escrow Agent shall not be liable for any mistakes of fact or error of judgment, or for any actions or omissions of any kind, unless caused by its willful misconduct or gross negligence.

(g) The Escrow Agent may resign upon ten (10) days' written notice to the parties in this Agreement. If a successor Escrow Agent is not appointed by the Lender and Credit Parties within this ten (10) day period, the Escrow Agent may petition a court of competent jurisdiction to name a successor.

(h) Conflict Waiver. The Credit Parties hereby acknowledge that the Escrow Agent is counsel to the Lender in connection with the transactions contemplated and referred herein. The Credit Parties agree that in the event of any dispute arising in connection with this Agreement or otherwise in connection with any transaction or agreement contemplated and referred herein, the Escrow Agent shall be permitted to continue to represent the Lender and the Credit Parties will not seek to disqualify such counsel and waives any objection the Credit Parties might have with respect to the Escrow Agent acting as the Escrow Agent pursuant to this Agreement. The Lender and the Credit Parties acknowledge and agree that nothing in this Agreement shall prohibit Escrow Agent from: (i) serving in a similar capacity on behalf of others; or (ii) acting in the capacity of attorneys for one or more of the parties hereto in connection with any matter.

**[REMAINDER OF PAGE LEFT BLANK, SIGNATURE PAGE FOLLOWS]**



## CONSENT AND AGREEMENT

The undersigned, referred to in the foregoing senior secured credit facility agreement as a guarantor, hereby consents and agrees to said senior secured credit facility agreement and to the payment of the amounts contemplated therein, documents contemplated thereby, representations and warranties made therein, and to the provisions contained therein relating to conditions to be fulfilled and obligations to be performed by it pursuant to or in connection with said senior secured credit facility agreement to the same extent as if the undersigned were a party to said senior secured credit facility agreement.

**GUARANTOR:**

**DRONE USA, LLC**, a Delaware  
limited liability company

By: /s/ Michael Bannon  
Name: Michael Bannon  
Title: CEO

STATE OF CONNECTICUT           )  
SS.  
COUNTY OF NEW HAVEN         )

The foregoing instrument was acknowledged before me this 9 day of September, 2016 by Michael Bannon, who is the CEO of Drone USA, LLC, a Delaware limited liability company, on behalf of such entity. He/She is personally known to me or has produced Driver's license as identification.

My Commission Expires: 01/31/2021

/s/ Nadia Sarmiento  
Notary Public

Nadia Sarmiento  
Name of Notary typed or printed



## **INDEX OF EXHIBITS**

<b>Exhibit A</b>	<b>Form of Compliance Certificate</b>
<b>Exhibit B</b>	<b>Form of Guarantee Agreement</b>
<b>Exhibit C</b>	<b>Form of Irrevocable Transfer Agent Instructions</b>
<b>Exhibit D</b>	<b>Form of Pledge Agreements</b>
<b>Exhibit E</b>	<b>Form of Promissory Note</b>
<b>Exhibit F-1</b>	<b>Form of Security Agreement (Borrower)</b>
<b>Exhibit F-2</b>	<b>Form of Security Agreement (Corporate Guarantor)</b>
<b>Exhibit G</b>	<b>Form of Validity Certificate</b>

## **INDEX OF SCHEDULES**

<b>Schedule 7.1</b>	<b>Subsidiaries</b>
<b>Schedule 7.4</b>	<b>Capitalization</b>
<b>Schedule 7.18</b>	<b>Real Property</b>
<b>Schedule 7.21</b>	<b>IP Rights</b>
<b>Schedule 7.28</b>	<b>Bank Accounts and Deposit Accounts</b>
<b>Schedule 7.29</b>	<b>Places of Business</b>

**Exhibit A**  
**Form of Compliance Certificate**

## FORM OF COMPLIANCE CERTIFICATE

TCA Global Credit Master Fund, LP  
19950 West Country Club Drive, 1st Floor  
Aventura, FL 33180  
Attention: Bob Press  
Facsimile: 786-323-1651

**Re: DRONE USA, INC., a Delaware corporation (the “Borrower”) Covenant Compliance Certificate for the Period Ending on \_\_\_\_\_, 2016 (the “Reporting Date”)**

Dear Bob:

Reference is made to that certain Credit Agreement, dated as of May 31, 2016, but made effective as of September 13, 2016 (the “Credit Agreement”), by and among Borrower, the Guarantors, and TCA Global Credit Master Fund, LP (“Lender”). Capitalized terms used, but not defined, herein shall have the respective meanings assigned to such terms in the Credit Agreement.

Pursuant to Section 10.11 of the Credit Agreement, the undersigned, the President or other chief executive of the Borrower, hereby certifies to Lender that: (a) all representations and warranties in Section 7 of the Credit Agreement are true and correct as of the Reporting Date; (b) the undersigned has no knowledge of any default or Event of Default under the Credit Agreement or any other Loan Documents that has not been cured or waived, except as set forth on Schedule 1 attached hereto; (c) the Credit Parties are in compliance with the financial covenants contained in Section 11 of the Credit Agreement; (d) to the best of the undersigned’s knowledge, the Credit Parties have, in all material respects, observed and performed all of their other covenants and other agreements, and have satisfied every condition contained in the Credit Agreement and the other Loan Documents to be observed, performed or satisfied by the Credit Parties during the calendar month ending on the Reporting Date; (e) no changes, effects, impairments, or other events have occurred as of the Reporting Date that could be deemed a Material Adverse Effect; and (f) attached hereto as Schedule 2 are the computations necessary to determine that Credit Parties are in compliance with Section 11 of the Credit Agreement as of the Reporting Date referenced above.

**[THE NEXT PAGE IS THE SIGNATURE PAGE]**

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IN WITNESS WHEREOF, the undersigned President, Manager or other chief executive of each of the Credit Parties hereby certifies to the above as of the Reporting Date.

**CREDIT PARTIES:**

**DRONE USA, INC.**, a Delaware corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

**DRONE USA, LLC**, a Delaware limited liability company

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

\_\_\_\_\_

**Schedule 1 to Compliance Certificate**

**Events of Default**

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**Schedule 2 to Compliance Certificate**

**1. Revenue Covenant (Section 11.1):**

As of the Reporting Date:

- (a) For each calendar quarter while this Agreement remains in effect, Credit Parties shall have sales revenues for such calendar quarter that are not less than seventy-five percent (75%) of the sales revenues shown on the most recent Financial Statements.

- (b) Credit Parties hereby certify that as of the Reporting Date, Credit Parties' sales revenues are \$\_\_\_\_\_, and based on such numbers and expected revenue through the end of the quarter, Credit Parties **[expect/do not expect]** to be in compliance with the revenue covenant set forth in Section 11.1 of the Credit Agreement as of the end of the next upcoming calendar quarter.

Please provide calculations below or on an attached sheet.

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**Exhibit B**  
**Form of Guarantee Agreement**

## **GUARANTY AGREEMENT**

(Corporate)

This GUARANTY AGREEMENT is dated as of May 31, 2016, but made effective as of September 13, 2016 (as amended, restated or modified from time to time, the “**Guaranty**”), and is made by **DRONE USA, LLC**, a Delaware limited liability company and **HOWCO DISTRIBUTING CO.**, a Washington corporation (each of the foregoing parties hereinafter referred to separately as a “**Guarantor**” and collectively as the “**Guarantors**”), in favor of **TCA GLOBAL CREDIT MASTER FUND, LP**, a limited partnership organized and existing under the laws of the Cayman Islands (the “**Lender**”).

WHEREAS, pursuant to a Credit Agreement dated of even date herewith (the “**Credit Agreement**”) by and between **DRONE USA, INC.**, a Delaware corporation (the “**Borrower**”), certain additional Credit Parties, and the Lender, the Borrower desires to borrow funds and obtain financial accommodations from Lender (such financial accommodations hereinafter referred to as the “**Loan**”); and

WHEREAS, in order to induce Lender to enter into the Loan with the Borrower, and with full knowledge that Lender would not enter into this Loan without this Guaranty, Guarantors, jointly and severally, have agreed to execute and deliver this Guaranty to Lender, for the benefit of Lender, as security for the Obligations; and

WHEREAS, Guarantors will significantly benefit from the Borrower obtaining the Loan from the Lender;

NOW, THEREFORE, in consideration of the mutual covenants and agreements of the parties hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties each intending to be legally bound, hereby do agree as follows:

### **1. OBLIGATIONS GUARANTEED**

Guarantors, jointly and severally, hereby guarantee and become surety to Lender for the full, prompt and unconditional payment of the Obligations, when and as the same shall become due, whether at the stated maturity date, by acceleration or otherwise, and the full, prompt and unconditional performance of each term and condition to be performed by Borrower under the Credit Agreement and other Loan Documents. This Guaranty is a primary obligation of Guarantors and shall be a continuing inexhaustible Guaranty. This is a guaranty of payment and not of collection. Lender may require Guarantors to pay and perform their liabilities and obligations under this Guaranty and may proceed immediately against Guarantors without being required to bring any proceeding or take any action against Borrower or any other Person prior thereto; the liability of Guarantors hereunder being independent of and separate from the liability of Borrower, any other guarantor, any other Person, and the availability of other Collateral security for the Loan and the other Loan Documents.

## 2. DEFINITIONS

All capitalized terms used in this Guaranty that are defined in the Credit Agreement shall have the meanings assigned to them in the Credit Agreement, unless the context of this Guaranty requires otherwise.

## 3. REPRESENTATIONS AND WARRANTIES. Each Guarantor represents and warrants to Lender as follows:

3.1. Organization, Powers. Each Guarantor is duly incorporated or organized and validly exists and is in good standing under their respective jurisdiction of organization. Each Guarantor has the power and authority to own its properties and assets and to carry on its business as now being conducted and as now contemplated and has the power and authority to execute, deliver and perform and by all necessary action has authorized the execution, delivery and performance of, all of its obligations under this Guaranty and any other Loan Documents to which it is a party.

3.2. Execution of Guaranty. This Guaranty, and each of the other Loan Documents to which any Guarantor is a party, have been duly executed and delivered by each Guarantor. Execution, delivery and performance of this Guaranty and each of the other Loan Documents to which each Guarantor is a party, will not: (i) violate any provision of any law, rule or regulation, any judgment, order, writ, decree or other instrument of any Governmental Authority, or any provision of any contract or other instrument to which the Guarantor is a party or by which the Guarantor or any of its properties or assets are bound; (ii) result in the creation or imposition of any Lien, claim or other encumbrance of any nature or kind, other than the Liens created by the Loan Documents; and (iii) require any consent from, exemption of, or filing or registration with, any Governmental Authority or any other Person, other than any filings in connection with the Liens created by the Loan Documents.

3.3. Obligations of Guarantors. This Guaranty and all other Loan Documents to which any Guarantor is a party, are the legal, valid and binding obligations of each of the Guarantors, enforceable against each of the Guarantors in accordance with their terms, except as the same may be limited by bankruptcy, insolvency, reorganization or other laws relating to or affecting the enforcement of creditors' rights generally or by equitable principles which may affect the availability of specific performance and other equitable remedies. The Loan made by Lender and the assumption by Guarantors of their obligations hereunder and under any other Loan Documents to which a Guarantor is a party will result in material benefits to the Guarantors. This Guaranty was entered into by Guarantors for commercial purposes.

3.4. Litigation. There is no demand, claim, suit, action, litigation, investigation, audit, study, arbitration, administrative hearing, or any other Proceeding of any nature whatsoever at law or in equity or by or before any Governmental Authority now pending or, to the knowledge of any Guarantor, threatened, against or affecting any Guarantor or any of their properties, assets or rights which, if adversely determined, would materially impair or affect: (i) the value of any Collateral securing the Obligations; (ii) any Guarantor's right to carry on its business substantially as now conducted (and as now contemplated); (iii) any Guarantor's financial condition; (iv) any Guarantor's capacity to consummate and perform its obligations under this Guaranty or any other Loan Documents to which any Guarantor is a party; or (v) that would otherwise result in a Material Adverse Effect.

3.5. No Defaults. No Guarantor is in default beyond the expiration of any applicable grace or cure periods, in the performance, observance or fulfillment of any of the obligations, covenants or conditions contained herein or in any contract or other instrument to which any Guarantor is a party or by which any Guarantor or any of their properties or assets are bound.

3.6. No Untrue Statements. To the knowledge of each Guarantor, no Loan Documents or other document, certificate or statement furnished to Lender by or on behalf of Borrower or Guarantors contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein not misleading. Each Guarantor acknowledges that all such statements, representations and warranties shall be deemed to have been relied upon by Lender as an inducement in providing the Loan.

#### 4. NO LIMITATION OF LIABILITY

4.1. Each Guarantor acknowledges that the obligations undertaken herein involve the guaranty of obligations of a Person other than Guarantors and, in full recognition of that fact, each Guarantor consents and agrees that Lender may, at any time and from time to time, without notice or demand, and without affecting the enforceability or continuing effectiveness of this Guaranty: (i) change the manner, place or terms of payment of (including, without limitation, any increase or decrease in the principal amount of the Obligations or the interest rate), and/or change or extend the time for payment of, or renew, supplement or modify, any of the Obligations, any security therefor, or any of the Loan Documents evidencing same, and the Guaranty herein made shall apply to the Obligations and the Loan Documents as so changed, extended, renewed, supplemented or modified; (ii) sell, exchange, release, surrender, realize upon or otherwise deal with in any manner and in any order, any property securing the Obligations; (iii) supplement, modify, amend or waive, or enter into or give any agreement, approval, waiver or consent with respect to, any of the Obligations, or any part thereof, or any of the Loan Documents, or any additional security or guaranties, or any condition, covenant, default, remedy, right, representation or term thereof or thereunder; (iv) exercise or refrain from exercising any rights against Borrower or other Persons (including Guarantors) or against any security for the Obligations; (v) accept new or additional instruments, documents or agreements in exchange for or relative to any of the Loan Documents or the Obligations, or any part thereof; (vi) accept partial payments on the Obligations; (vii) receive and hold additional security or guaranties for the Obligations, or any part thereof; (viii) release, reconvey, terminate, waive, abandon, fail to perfect, subordinate, exchange, substitute, transfer and/or enforce any security or guaranties, and apply any security and direct the order or manner of sale thereof as Lender, in its sole and absolute discretion, may determine; (ix) add, release, settle, modify or discharge the obligation of any maker, endorser, guarantor, surety, obligor or any other Person who is in any way obligated for any of the Obligations, or any part thereof; (x) settle or compromise any Obligation, whether in a Proceeding or not, and whether voluntarily or involuntarily, dispose of any security therefor (with or without consideration and in whatever manner Lender deems appropriate), and subordinate the payment of any of the Obligations, whether or not due, to the payment of liabilities owing to creditors of Borrower other than Lender and Guarantors; (xi) consent to the merger, change or any other restructuring or termination of the corporate existence of Borrower or any other Person, and correspondingly restructure the Obligations, and any such merger, change, restructuring or termination shall not affect the liability of Guarantors or the continuing effectiveness hereof, or the enforceability hereof with respect to all or any part of the Obligations; (xii) apply any sums it receives, by whomever paid or however realized, to any of the Obligations and/or (xiii) take any other action which might constitute a defense available to, or a discharge of, Borrower or any other Person (including Guarantors) in respect of the Obligations.

4.2. The invalidity, irregularity or unenforceability of all or any part of the Obligations or any Loan Documents, or the impairment or loss of any security therefor, whether caused by any action or inaction of Lender, or otherwise, shall not affect, impair or be a defense to any of the Guarantors' obligations under this Guaranty.

4.3. Upon the occurrence of any Event of Default, Lender may enforce this Guaranty independently of any other remedy, guaranty or security Lender at any time may have or hold in connection with the Obligations, and it shall not be necessary for Lender to marshal assets in favor of Borrower, any other guarantor of the Obligations or any other Person or to proceed upon or against and/or exhaust any security or remedy before proceeding to enforce this Guaranty. Each Guarantor expressly waives any right to require Lender to marshal assets in favor of Borrower or any other Person, or to proceed against Borrower or any other guarantor of the Obligations or any Collateral provided by any Person, and agrees that Lender may proceed against any obligor (including each Guarantor) and/or the Collateral in such order as Lender shall determine in its sole and absolute discretion. Lender may file a separate action or actions against any Guarantor, whether action is brought or prosecuted with respect to any security or against any other Person, or whether any other Person is joined in any such action or actions. Each Guarantor agrees that Lender and Borrower may deal with each other in connection with the Obligations or otherwise, or alter any contracts or agreements now or hereafter existing between them, in any manner whatsoever, all without in any way altering or affecting the security of this Guaranty.

4.4. Each Guarantor expressly waives, to the fullest extent permitted by applicable law, any and all defenses which each Guarantor shall or may have as of the date hereof arising or asserted by reason of: (i) any disability or other defense of Borrower, or any other guarantor for the Obligations, with respect to the Obligations; (ii) the unenforceability or invalidity of any security for or guaranty of the Obligations or the lack of perfection or continuing perfection or failure of priority of any security for the Obligations; (iii) the cessation for any cause whatsoever of the liability of Borrower, or any other guarantor of the Obligations (other than by reason of the full payment and performance of all Obligations (other than contingent indemnification obligations)); (iv) any failure of Lender to marshal assets in favor of Borrower or any other Person; (v) any failure of Lender to give notice of sale or other disposition of Collateral to Borrower or any other Person or any defect in any notice that may be given in connection with any sale or disposition of Collateral; (vi) any failure of Lender to comply with applicable laws in connection with the sale or other disposition of any Collateral or other security for any Obligations, including, without limitation, any failure of Lender to conduct a commercially reasonable sale or other disposition of any Collateral or other security for any Obligations; (vii) any act or omission of Lender or others that directly or indirectly results in or aids the discharge or release of Borrower or any other guarantor of the Obligations, or of any security or guaranty therefor by operation of law or otherwise; (viii) any law which provides that the obligation of a surety or guarantor must neither be larger in amount or in other respects more burdensome than that of the principal or which reduces a surety's or guarantor's obligation in proportion to the principal obligation; (ix) any failure of Lender to file or enforce a claim in any bankruptcy or other proceeding with respect to any Person; (x) the election by Lender, in any bankruptcy proceeding of any Person, of the application or non-application of Section 1111(b)(2) of the United States Bankruptcy Code; (xi) any extension of credit or the grant of any lien under Section 364 of the United States Bankruptcy Code; (xii) any use of Collateral under Section 363 of the United States Bankruptcy Code; (xiii) any agreement or stipulation with respect to the provision of adequate protection in any bankruptcy proceeding of any Person; (xiv) the avoidance of any lien or security interest in favor of Lender for any reason; (xv) any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, liquidation or dissolution proceeding commenced by or against any Person, including without limitation any discharge of, or bar or stay against collecting, all or any of the Obligations (or any interest thereon) in or as a result of any such proceeding; or (xvi) any action taken by Lender that is authorized by this Section or any other provision of any Loan Documents. Each Guarantor expressly waives all setoffs and counterclaims and all presentments, demands for payment or performance, notices of nonpayment or nonperformance, protests, notices of protest, notices of dishonor and all other notices or demands of any kind or nature whatsoever with respect to the Obligations, and all notices of acceptance of this Guaranty or of the existence, creation or incurrence of new or additional Obligations.

4.5. This is a continuing guaranty and shall remain in full force and effect as to all of the Obligations until such date (the "**Termination Date**") as all Obligations owing by the Credit Parties to Lender shall have been indefeasibly paid in full and for cash and all obligations of Borrower with respect to any of the Obligations shall have terminated or expired (other than contingent indemnification obligations).

## 5. LIMITATION ON SUBROGATION

Until the Termination Date, each Guarantor waives any present or future right to which Guarantors are or may become entitled to be subrogated to Lender's rights against Borrower or to seek contribution, reimbursement, indemnification, payment or the like, or participation in any claim, right or remedy of Lender against Borrower or any security which Lender now has or hereafter acquires, whether or not such claim, right or remedy arises under contract, in equity, by statute, under common law or otherwise. If, notwithstanding such waiver, any funds or property shall be paid or transferred to any Guarantor on account of such subrogation, contribution, reimbursement, or indemnification at any time when all of the Obligations have not been paid in full, the Guarantors shall hold such funds or property in trust for Lender and shall forthwith pay over to Lender such funds and/or property to be applied by Lender to the Obligations.

## 6. COVENANTS

6.1. Financial Statements; Compliance Certificate. No later than ten (10) days after written request therefore from Lender, each Guarantor shall deliver to Lender: (a) financial statements disclosing all of Guarantor's assets, liabilities, net worth, income and contingent liabilities, all in reasonable detail and in form acceptable to Lender, signed by the Guarantor, and certified by the Guarantor to Lender to be true, correct and complete in all material respects; (b) complete copies of federal tax returns, including all schedules, each of which shall be signed and certified by each Guarantor to be true and complete copies of such returns; and (c) such other information respecting the Guarantor as Lender may from time to time reasonably request.

6.2. Subordination of Other Debts. Each Guarantor hereby: (a) subordinates the obligations now or hereafter owed by Borrower to the Guarantors ("**Subordinated Debt**") to any and all Obligations of Borrower to Lender now or hereafter existing while this Guaranty is in effect, and hereby agree that the Guarantors will not request or accept payment of or any security for any part of the Subordinated Debt, and any proceeds of the Subordinated Debt paid to the Guarantors, through error or otherwise, shall immediately be forwarded to Lender by the Guarantors, properly endorsed to the order of Lender, to apply to the Obligations.

6.3. Security for Guaranty. All of Guarantors' obligations and liabilities evidenced by this Guaranty are also secured by all of the Collateral of the Guarantors pursuant to that certain Security Agreement by and between the Guarantors and Lender made of even date herewith (the "**Security Agreement**"). All of the agreements, conditions, covenants, provisions, representations, warranties and stipulations contained in the Security Agreement or any other Loan Documents to which Guarantors are a party which are to be kept and performed by the Guarantors are hereby made a part of this Guaranty to the same extent and with the same force and effect as if they were fully set forth herein, and the Guarantors covenant and agree to keep and perform them, or cause them to be kept or performed, strictly in accordance with their terms.

6.4. No Material Changes. Until the Termination Date, Guarantors shall not: (i) transfer, assign, convey, hypothecate, pledge or otherwise transfer or encumber any material portion of their assets, whether or not disclosed by Guarantors to Lender in the financial statements of Guarantors provided to Lender and accepted by Lender prior to the execution hereof; (ii) incur or become liable for, whether directly or indirectly, any material liabilities or obligations not already disclosed by Guarantors to Lender in the financial statements of Guarantors provided to Lender and accepted by Lender prior to the execution hereof, including any contingent liabilities; and (iii) enter into any transaction or become bound by any agreement or obligation that could have a material adverse effect on the financial condition of the Guarantors.

## 7. EVENTS OF DEFAULT

Each of the following shall constitute a default (each, an "**Event of Default**") hereunder:

7.1. The occurrence of any "Event of Default" (as defined in the Credit Agreement) under the Credit Agreement or any other Loan Documents, whether by Borrower, Guarantors or any other Credit Parties;

7.2. A breach by any Guarantor of any term, covenant, condition, obligation or agreement under this Guaranty; and

7.3. Any representation or warranty made by any Guarantor in this Guaranty shall prove to be false, incorrect or misleading in any material respect as of the date when made.

## 8. REMEDIES.

8.1. Upon the occurrence of an Event of Default, all liabilities and obligations of each Guarantor hereunder shall become immediately due and payable without demand or notice and, in addition to any other remedies provided by law or in equity, Lender may:

8.1.1. Enforce the obligations of Guarantors under this Guaranty.

8.1.2. To the extent not prohibited by and in addition to any other remedy provided by law or equity, setoff against any of the Obligations any sum owed by Lender in any capacity to Guarantors whether due or not.

8.1.3. Perform any covenant or agreement of Guarantors in default hereunder (but without obligation to do so) and in that regard pay such money as may be required or as Lender may reasonably deem expedient. Any costs, expenses or fees, including reasonable attorneys' fees and costs, incurred by Lender in connection with the foregoing shall be included in the Obligations guaranteed hereby, and shall be due and payable on demand, together with interest at the highest non-usurious rate permitted by applicable law, such interest to be calculated from the date of such advance to the date of repayment thereof. Any such action by Lender shall not be deemed to be a waiver or release of Guarantors hereunder and shall be without prejudice to any other right or remedy of Lender.

8.2. Settlement of any claim by Lender against Borrower, whether in any Proceeding or not, and whether voluntary or involuntary, shall not reduce the amount due under the terms of this Guaranty, except to the extent of the amount actually paid by Borrower or any other obligated Person and legally retained by Lender in connection with the settlement (unless otherwise provided for herein).

## 9. MISCELLANEOUS.

9.1. Disclosure of Financial Information. Lender is hereby authorized to disclose any financial or other information about any Guarantor to any Governmental Authority having jurisdiction over Lender or to any present, future or prospective participant or successor in interest in the Loan. The information provided may include, without limitation, amounts, terms, balances, payment history, return item history and any financial or other information about any Guarantor.

9.2. Remedies Cumulative. The rights and remedies of Lender, as provided herein and in any other Loan Documents, shall be cumulative and concurrent, may be pursued separately, successively or together, may be exercised as often as occasion therefor shall arise, and shall be in addition to any other rights or remedies conferred upon Lender at law or in equity. The failure, at any one or more times, of Lender to exercise any such right or remedy shall in no event be construed as a waiver or release thereof. Lender shall have the right to take any action it deems appropriate without the necessity of resorting to any Collateral securing this Guaranty.

9.3. Integration. This Guaranty and the other Loan Documents constitute the sole agreement of the parties with respect to the transactions contemplated hereby and thereby and supersede all oral negotiations and prior writings with respect thereto.

9.4. Attorneys' Fees and Expenses. If Lender retains the services of counsel by reason of a claim of an Event of Default hereunder or under any of the other Loan Documents, or on account of any matter involving this Guaranty, or for examination of matters subject to Lender's approval under the Loan Documents, all costs of suit and all reasonable attorneys' fees and such other reasonable expenses so incurred by Lender shall forthwith, on demand, become due and payable and shall be guaranteed hereby.

9.5. No Implied Waiver. Lender shall not be deemed to have modified or waived any of its rights or remedies hereunder unless such modification or waiver is in writing and signed by Lender, and then only to the extent specifically set forth therein. A waiver in one event shall not be construed as continuing or as a waiver of or bar to such right or remedy on a subsequent event.

9.6. Waiver. Except as otherwise provided herein or in any of the Loan Documents, each Guarantor waives notice of acceptance of this Guaranty and notice of the Obligations and waives notice of default, non-payment, partial payment, presentment, demand, protest, notice of protest or dishonor, and all other notices to which the Guarantor might otherwise be entitled or which might be required by law to be given by Lender. Each Guarantor waives the right to any stay of execution and the benefit of all exemption laws, to the extent permitted by law, and any other protection granted by law to guarantors, now or hereafter in effect with respect to any action or proceeding brought by Lender against it. Each Guarantor irrevocably waives all claims of waiver, release, surrender, alteration or compromise and the right to assert against Lender any defenses, set-offs, counterclaims, or claims that the Guarantor may have at any time against Borrower or any other party liable to Lender.

9.7. No Third Party Beneficiary. Except as otherwise provided herein, Guarantors and Lender do not intend the benefits of this Guaranty to inure to any third party and no third party (including Borrower) shall have any status, right or entitlement under this Guaranty.

9.8. Partial Invalidity. The invalidity or unenforceability of any one or more provisions of this Guaranty shall not render any other provision invalid or unenforceable. In lieu of any invalid or unenforceable provision, there shall be added automatically a valid and enforceable provision as similar in terms to such invalid or unenforceable provision as may be possible.

9.9. Binding Effect. The covenants, conditions, waivers, releases and agreements contained in this Guaranty shall bind, and the benefits thereof shall inure to, the parties hereto and their respective heirs, executors, administrators, successors and permitted assigns; provided, however, that this Guaranty cannot be assigned by any Guarantor without the prior written consent of Lender, and any such assignment or attempted assignment by the Guarantor shall be void and of no effect with respect to the Lender.

9.10. Modifications. This Guaranty may not be supplemented, extended, modified or terminated except by an agreement in writing signed by the party against whom enforcement of any waiver, change, modification or discharge is sought.

9.11. Sales or Participations. Lender may from time to time sell or assign the Loan, in whole or in part, or grant participations in the Loan and/or the obligations evidenced thereby without the consent of Borrower or Guarantors (other than as provided in the Credit Agreement). The holder of any such sale, assignment or participation, if the applicable agreement between Lender and such holder so provides, shall be: (a) entitled to all of the rights, obligations and benefits of Lender (to the extent of such holder's interest or participation); and (b) deemed to hold and may exercise the rights of setoff or banker's lien with respect to any and all obligations of such holder to Guarantors (to the extent of such holder's interest or participation), in each case as fully as though Guarantors were directly indebted to such holder. Lender may in its discretion give notice to Guarantors of such sale, assignment or participation; however, the failure to give such notice shall not affect any of Lender's or such holder's rights hereunder.

9.12. MANDATORY FORUM SELECTION. TO INDUCE LENDER TO MAKE THE LOAN, GUARANTORS IRREVOCABLY AGREE THAT ANY DISPUTE ARISING UNDER, RELATING TO, OR IN CONNECTION WITH, DIRECTLY OR INDIRECTLY, THIS AGREEMENT OR RELATED TO ANY MATTER WHICH IS THE SUBJECT OF OR INCIDENTAL TO THIS AGREEMENT ANY OTHER LOAN DOCUMENTS, OR THE COLLATERAL (WHETHER OR NOT SUCH CLAIM IS BASED UPON BREACH OF CONTRACT OR TORT) SHALL, EXCEPT AS HEREINAFTER PROVIDED, BE SUBJECT TO THE EXCLUSIVE JURISDICTION AND VENUE OF THE STATE AND/OR FEDERAL COURTS LOCATED IN BROWARD COUNTY, FLORIDA; PROVIDED, HOWEVER, LENDER MAY, AT LENDER'S SOLE OPTION, ELECT TO BRING ANY ACTION IN ANY OTHER JURISDICTION. THIS PROVISION IS INTENDED TO BE A "MANDATORY" FORUM SELECTION CLAUSE AND GOVERNED BY AND INTERPRETED CONSISTENT WITH FLORIDA LAW. GUARANTORS HEREBY CONSENT TO THE EXCLUSIVE JURISDICTION AND VENUE OF ANY STATE OR FEDERAL COURT HAVING ITS SITUS IN SAID COUNTY (OR TO ANY OTHER JURISDICTION OR VENUE, IF LENDER SO ELECTS), AND WAIVES ANY OBJECTION BASED ON FORUM NON CONVENIENS. GUARANTORS HEREBY WAIVE PERSONAL SERVICE OF ANY AND ALL PROCESS AND CONSENT THAT ALL SUCH SERVICE OF PROCESS MAY BE MADE BY CERTIFIED MAIL, RETURN RECEIPT REQUESTED, DIRECTED TO GUARANTORS, AS SET FORTH HEREIN OR IN THE MANNER PROVIDED BY APPLICABLE STATUTE, LAW, RULE OF COURT OR OTHERWISE.

9.13. Notices. All notices, requests and demands to or upon Lender or Guarantors, to be effective, shall be delivered in the manner and addressed at the applicable address set forth in the Credit Agreement. Each of the Guarantors agrees and acknowledges that notice to each of them may be sent and delivered to the Borrower, as required under the Credit Agreement, and such notice to the Borrower shall be deemed valid and effective notice to Guarantors hereunder.

9.14. Governing Law. Except in the case of the Mandatory Forum Selection clause set forth in Section 9.12 hereof, this Guaranty shall be governed by and construed in accordance with the substantive laws of the State of Nevada without reference to conflict of laws principles.

9.15. Joint and Several Liability. The word “Guarantor” or “Guarantors” shall mean all of the undersigned Persons, if more than one, and their liability shall be joint and several. The liability of Guarantors shall also be joint and several with the liability of any other guarantor or obligor of the Obligations, under any other guaranty or other Loan Documents.

9.16. Continuing Enforcement. If, after receipt of any payment of all or any part of the Obligations, Lender is compelled or reasonably agrees, for settlement purposes, to surrender such payment to any person or entity for any reason (including, without limitation, a determination that such payment is void or voidable as a preference or fraudulent conveyance, an impermissible setoff, or a diversion of trust funds), then this Guaranty shall continue in full force and effect or be reinstated, as the case may be, and Guarantors shall be liable for, and shall indemnify, defend and hold harmless Lender with respect to the full amount so surrendered. The provisions of this Section shall survive the termination of this Guaranty and shall remain effective notwithstanding the payment of the Obligations, the cancellation or conversion of the Loan, this Guaranty or any other Loan Document, the release of any security interest, lien or encumbrance securing the Obligations or any other action which Lender may have taken in reliance upon its receipt of such payment. Any cancellation, release or other such action shall be deemed to have been conditioned upon any payment of the Obligations having become final and irrevocable.

9.17. WAIVER OF JURY TRIAL. GUARANTORS AGREE THAT, TO THE EXTENT PERMITTED BY APPLICABLE LAW, ANY SUIT, ACTION OR PROCEEDING, WHETHER CLAIM OR COUNTERCLAIM, BROUGHT BY LENDER OR GUARANTORS ON OR WITH RESPECT TO THIS GUARANTY OR ANY OTHER LOAN DOCUMENT OR THE DEALINGS OF THE PARTIES WITH RESPECT HERETO OR THERETO, SHALL BE TRIED ONLY BY A COURT AND NOT BY A JURY. LENDER AND GUARANTORS HEREBY KNOWINGLY, VOLUNTARILY, INTENTIONALLY AND INTELLIGENTLY, AND WITH THE ADVICE OF THEIR RESPECTIVE COUNSEL, WAIVE, TO THE EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT TO A TRIAL BY JURY IN ANY SUCH SUIT, ACTION OR PROCEEDING. FURTHER, LENDER AND GUARANTORS WAIVE ANY RIGHT THEY MAY HAVE TO CLAIM OR RECOVER, IN ANY SUCH SUIT, ACTION OR PROCEEDING, ANY SPECIAL, EXEMPLARY, PUNITIVE, CONSEQUENTIAL OR OTHER DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES. GUARANTORS ACKNOWLEDGE AND AGREE THAT THIS SECTION IS A SPECIFIC AND MATERIAL ASPECT OF THIS GUARANTY AND THAT LENDER WOULD NOT HAVE MADE THIS LOAN IF THE WAIVERS SET FORTH IN THIS SECTION WERE NOT A PART OF THIS GUARANTY.

9.18. Increase in Obligations. This Guaranty shall secure payment of the Obligations, as the amount of such Obligations may increase from time to time in accordance with the terms and provisions of the Loan Documents, and all of the Obligations, as so increased from time to time, shall be and are guaranteed hereby.

[Signature page follows]

IN WITNESS WHEREOF, Guarantors, intending to be legally bound, have duly executed and delivered this Guaranty Agreement as of the day and year first above written.

**DRONE USA, LLC**, a Delaware limited liability company

**HOWCO DISTRIBUTING CO.**, a Washington corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

STATE OF \_\_\_\_\_ )  
SS.  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 2016 by \_\_\_\_\_, who is the \_\_\_\_\_ of the two above named entities, on behalf of such entities. He/She is personally known to me or has produced \_\_\_\_\_ as identification.

My Commission Expires:

\_\_\_\_\_  
Notary Public

\_\_\_\_\_  
Name of Notary typed or printed

**Exhibit C**  
**Form of Irrevocable Transfer Agent Agreement**

**IRREVOCABLE TRANSFER AGENT INSTRUCTIONS**  
**AND**  
**TRANSFER AGENT ACKNOWLEDGEMENT AND AGREEMENT**

THESE IRREVOCABLE TRANSFER AGENT INSTRUCTIONS AND TRANSFER AGENT ACKNOWLEDGEMENT AND AGREEMENT (the “**Agreement**”) is made and entered into as of this \_\_\_\_ day of \_\_\_\_\_, 2016, by and between **DRONE USA, INC.**, a Delaware corporation (the “**Borrower**”), **ACTION STOCK TRANSFER COMPANY** (the “**Transfer Agent**”), and **TCA GLOBAL CREDIT MASTER FUND, LP**, a Cayman Islands limited partnership (the “**Lender**” or “**TCA**”).

**RECITALS**

**WHEREAS**, contemporaneously with the execution and delivery of this Agreement, the Borrower and the Lender are executing and delivering a Credit Agreement dated as of May 31, 2016, but made effective as of September 13, 2016 (as amended, supplemented, renewed, or modified from time to time, the “**Credit Agreement**”) pursuant to which the Lender has agreed to make certain financial accommodations to and for the benefit of Borrower, all in accordance with the terms of the Credit Agreement; and

**WHEREAS**, in connection with the Credit Agreement, the Borrower is issuing to the Lender, and may in the future be required to issue to Lender, a certain number of shares of the Borrower’s common stock, which is no par value stock (the “**Common Stock**”); and

**WHEREAS**, the parties hereto desire to enter into certain agreements with respect to the shares of Common Stock issued or issuable to Lender under the Credit Agreement, all in accordance with the terms of this Agreement;

**NOW, THEREFORE**, in consideration of the mutual covenants and agreements herein contained, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Recitals; Definitions.** The recitations set forth in the preamble of this Agreement are true and correct and incorporated herein by this reference. Capitalized terms used herein and not otherwise defined in this Agreement shall have the same meaning ascribed to such terms in the Credit Agreement.

2. **Stock Issued Under Credit Agreement.**

(a) **Issuance of Advisory Fee Shares.** The parties hereto acknowledge that pursuant to the terms of the Credit Agreement, the Borrower has issued and has agreed to possibly issue in the future, to Lender, certain shares of the Borrower’s Common Stock. In the event, for any reason, the Borrower fails to deliver, or to cause the Transfer Agent to deliver, to Lender any portion of the shares of Common Stock issuable to Lender at such times when such shares are to be issued and delivered to Lender in accordance with the Credit Agreement, then the parties hereto acknowledge and agree that the Lender shall irrevocably be entitled to deliver to the Transfer Agent, on behalf of itself and the Borrower, a notice requesting the issuance of the shares of Common Stock then issuable in accordance with the terms of the Credit Agreement (the “**Issuance Notice**”). Upon the Transfer Agent’s receipt of an Issuance Notice from the Lender, the Transfer Agent, provided they are the acting transfer agent for the Borrower at the time, shall, without any further confirmation, approval, instructions or other action from the Borrower, and within three (3) business days from Transfer Agent’s receipt of the Issuance Notice, issue and surrender to a nationally recognized overnight courier for delivery to Lender at the address specified in the Issuance Notice, a certificate of the Common Stock of the Borrower, as applicable and as set forth in the Issuance Notice, registered in the name of the Lender, for the number of shares to which the Lender shall be then entitled under the Credit Agreement, as set forth in the Issuance Notice.

(b) Issuance of Conversion Shares. The parties hereto acknowledge that pursuant to the terms of the Note, Lender has the right, in certain circumstances, to convert amounts due under the Note into Common Stock in accordance with the terms of the Note. In the event, for any reason, the Borrower fails to issue or cause the Transfer Agent to issue to Lender any portion of the shares of Common Stock issuable upon conversion of the Note in connection with the exercise by Lender of any of its conversion rights under the Note, then the parties hereto acknowledge that Lender shall irrevocably be entitled to deliver to the Transfer Agent, on behalf of itself and the Borrower, a "Conversion Notice" (as defined in the Note) requesting the issuance of the shares of Common Stock then issuable in accordance with the terms of the Note. Upon the Transfer Agent's receipt of an executed Conversion Notice from Lender, the Transfer Agent, provided they are the acting transfer agent for the Company at the time, shall, without any further confirmation, approval, instructions or other action from the Borrower, and within three (3) business days from Transfer Agent's receipt of the Conversion Notice, issue and surrender to a nationally recognized overnight courier for delivery to Lender at the address specified in the Conversion Notice, a certificate of the Common Stock of the Borrower, registered in the name of Lender or its designee, for the number of shares of Common Stock to which Lender shall be then entitled under the Note, as set forth in the Conversion Notice.

(c) Restrictive Legends. Unless the Lender can provide to the Transfer Agent appropriate and customary documentation that any shares of Common Stock issuable to Lender under the Credit Agreement can be issued without restriction under the Securities Act of 1933, as amended (the "Securities Act"), the certificates representing the Common Stock issuable to Lender under the Credit Agreement, when issued by the Transfer Agent, shall bear the following legend, or its equivalent:

**"THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS. THE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR APPLICABLE STATE SECURITIES LAWS, OR AN OPINION OF COUNSEL, IN A FORM REASONABLY ACCEPTABLE TO THE BORROWER, THAT REGISTRATION IS NOT REQUIRED UNDER SAID ACT OR APPLICABLE STATE SECURITIES LAWS OR UNLESS SOLD PURSUANT TO RULE 144 UNDER SAID ACT."**

(d) Removal of Restrictive Legends. In the event that the Lender, through its counsel or other representatives, submits to the Transfer Agent any shares of Common Stock (or certificates representing same) previously issued to Lender for the removal of the restrictive legends thereon in connection with a sale of such shares pursuant to any exemption to the registration requirements under the Securities Act, or otherwise, and the Borrower and or its counsel refuses or fails for any reason to render an opinion of counsel required for the removal of the restrictive legends, then the Borrower hereby agrees and acknowledges that the Lender is hereby irrevocably and expressly authorized to have counsel to the Lender render any and all opinions which may be required for purposes of removing such restrictive legends, and in the event the Lender submits an opinion of counsel from its own counsel as hereby contemplated, the Transfer Agent hereby acknowledges and agrees that, provided the opinions and other documentation delivered to Transfer Agent comply with customary legal requirements permitting or allowing for the removal of restrictive legends, Transfer Agent will rely on and accept such opinion of counsel and all documentation submitted in connection therewith, and without any confirmation, approval, instructions or other action from the Borrower, issue such shares of Common Stock, as the case may be, without restrictive legends as instructed by the Lender, and within three (3) business days of receipt of the required request and opinions from the Lender, its agent or counsel, issue and surrender to a common carrier for overnight delivery to the address as specified by the Lender, certificates, registered in the name of the Lender or its designees, representing the shares of Common Stock to which the Lender is entitled, without any restrictive legends and otherwise freely transferable on the books and records of the Borrower.

3. Authorized Agent of the Borrower. The Borrower hereby irrevocably appoints the Lender and its counsel and its representatives, each as the Borrower's duly authorized agent and attorney-in-fact for the Borrower for the purposes of authorizing and instructing the Transfer Agent to process issuances and transfers upon instructions from Lender, or any counsel or representatives of Lender, as specifically contemplated herein. The authorization and power of attorney granted hereby is coupled with an interest and is irrevocable so long as any obligations of the Borrower under the Credit Agreement remain outstanding, and so long as the Lender owns or has the right to receive, any shares of the Borrower's Common Stock thereunder. hi this regard, the Transfer Agent agrees as follows:

(a) The Transfer Agent shall accept and rely exclusively on any Issuance Notice or Conversion Notice submitted by the Lender and shall not seek confirmation, approval, instructions or other action from the Borrower to process any Issuance Notice or Conversion Notice, or any other instruction or order from the Lender that, pursuant to the terms hereof, does not require confirmation, approval, instruction or other action from the Borrower.

(b) The Transfer Agent shall, provided the opinions of counsel and other documentation delivered to Transfer Agent comply with customary legal requirements permitting or allowing for the removal of restrictive legends, accept and rely exclusively on the opinions of counsel and other documentation submitted by the Lender for the removal of any restrictive legends as contemplated by this Agreement, and Transfer Agent shall not seek confirmation, approval, instructions or other action from the Borrower to process such submissions by the Lender.

(c) The Transfer Agent shall have no liability to the Borrower hereunder for relying or acting on instructions from the Lender as hereby contemplated. Any Issuance Notice, Conversion Notice, or other instruction or request made by Lender hereunder, for removal of restrictive legends or otherwise, together with any supporting documentation delivered hereunder, shall constitute an irrevocable instruction to the Transfer Agent to process such notice or instruction in accordance with the terms thereof, and the Borrower hereby indemnifies and holds the Transfer Agent forever harmless of and from any action taken by the Transfer Agent in reliance upon instructions of the Lender as hereby provided. Any notices, instructions, opinions or other documents required hereunder may be transmitted by the Lender to the Transfer Agent by facsimile, e-mail or any other commercially reasonable method.

(d) The Borrower hereby confirms to the Transfer Agent and the Lender that it can NOT and will NOT give instructions, including stop orders or otherwise, inconsistent with the terms of this Agreement with regard to the matters contemplated herein, and Transfer Agent agrees and acknowledges that, even if the Borrower gives any such inconsistent instructions or orders, Transfer Agent shall disregard such instructions or orders and will not abide by any such instructions or orders, and Transfer Agent will act in accordance with the Lender's instructions as hereby contemplated and permitted.

(e) The Borrower shall not be entitled to, nor will the Transfer Agent grant a suspension or delay in undertaking of its obligations hereunder for any time period in order for the Borrower to review any matters contemplated herein with its counsel, to obtain a court order or its equivalent in order to prevent the Transfer Agent from acting hereunder, or to otherwise allow the Borrower, through any tactic, maneuver, or strategy, to impair, hinder, delay or prevent Transfer Agent from timely acting in accordance with the Lender's instructions as hereby contemplated and permitted within the time periods herein provided.

(f) The Borrower and the Transfer Agent hereby acknowledge and confirm that Transfer Agent's compliance with the terms of this Agreement does not and will not in any way prohibit the Transfer Agent from satisfying any and all responsibilities and duties it may owe to the Borrower.

(g) The Transfer Agent, within one (1) business day after request of the Lender, and without instruction, approval, confirmation or other action by the Borrower, will provide to the Lender the total number of authorized shares of the Borrower's Common Stock, as well as the current outstanding shares of the Borrower's Common Stock as of the date of the request.

(h) Any issuance of Borrower's Common Stock required or permitted hereunder, or under the terms of the Credit Agreement and other Loan Documents, may be issued to Lender, or to Lender's designee or nominee, and to the extent Lender elects to have such issuance to Lender's nominee or designee, Transfer Agent agrees to issue any such shares of Borrower's Common Stock to Lender's nominee or designee, only upon a written instruction from Lender, and without the need for stock powers, or any medallion guaranty signatures or other requirements other than Lender's written instruction to issue the shares to Lender's nominee or designee.

(i) Borrower and Transfer Agent hereby confirm that a share reserve of Borrower's Common Stock has been established by Transfer Agent of 7,000,000 shares of Borrower's Common Stock for the purpose of issuance in connection with any of the transactions contemplated by Sections 2(a) and 2(b) above. If at any time the Lender reasonably believes that such share reserve is insufficient to effect the issuances contemplated by Sections 2(a) and 2(b) above, then the Lender shall have the right to require that such share reserve be increased, upon written notice to Borrower and Transfer Agent.

4. Replacement of Transfer Agent. The Borrower hereby agrees that it shall not replace the Transfer Agent as the Borrower's transfer agent without the prior written consent of the Lender. The Borrower agrees that, in the event the Transfer Agent resigns as the Borrower's transfer agent, the Borrower will engage a suitable replacement transfer agent that has agreed to serve as transfer agent and to be bound by the terms and conditions of this Agreement within ten (10) business days of the resignation of the Transfer Agent. The Borrower's obligation to obtain a suitable replacement transfer agent shall not affect the current Transfer Agent's ability to resign.

5. Miscellaneous.

(a) Material Inducement. The Borrower acknowledges that the Lender is relying on the representations and covenants made by the Borrower and the Transfer Agent hereunder and such representations and covenants are a material inducement to the Lender entering into the Credit Agreement. The Borrower further acknowledges that without such representations and covenants of the Borrower and Transfer Agent made hereunder, the Lender would not enter into the Credit Agreement.

(b) Injunction and Specific Performance. The Borrower and Transfer Agent each specifically acknowledges and agrees that in the event of a breach or threatened breach by either the Borrower or the Transfer Agent of any provision hereof, the Lender will be irreparably damaged and that damages at law would be an inadequate remedy if this Agreement were not specifically enforced. Therefore, in the event of a breach or threatened breach of any provision of this Agreement by the Borrower or the Transfer Agent, including, without limitation, the attempted termination of the agency relationship created by this instrument, the Lender shall be entitled to obtain, in addition to all other rights or remedies Lender may have, at law or in equity, an injunction restraining such breach, without being required to show any actual damage or to post any bond or other security, and/or to a decree for specific performance of the provisions of this Agreement.

(c) Notices. All notices of request, demand and other communications hereunder shall be addressed to the parties as follows:

If to the Borrower:	Drone USA, Inc. One World Trade Center 285 Fulton Street, Suite 8500 New York, NY 10007 Attention: Michael Bannon, CEO E-Mail: <a href="mailto:mike@dronelusa.com">mike@dronelusa.com</a>
If to the Lender:	TCA Global Credit Master Fund, LP 3960 Howard Hughes Parkway, Suite 500 Las Vegas, Nevada 89169 Attention: Robert Press, Director E-Mail: <a href="mailto:bpress@tcaglobalfund.com">bpress@tcaglobalfund.com</a>
With a copy to:	TCA Global Credit Master Fund, LP 19950 W. Country Club Dr., First Floor Aventura, FL 33180 Attention: Robert Press, Director E-Mail: <a href="mailto:bpress@tcaglobalfund.com">bpress@tcaglobalfund.com</a>
With a copy to:	David Kahan, P.A. 6420 Congress Ave., Suite 1800 Boca Raton, FL 33487 Attn: David Kahan, Esq. Telephone: (561) 672-8330 Facsimile: (561) 672-8301 E-Mail: <a href="mailto:david@dkpalaw.com">david@dkpalaw.com</a>
If to the Transfer Agent:	Action Stock Transfer Corporation 2469 E. Fort Union Blvd, Suite 214 Salt Lake City, UT 84121 Attn: Justeene Blankenship Telephone: (801) 274-1088

unless the address is changed by the party by like notice given to the other parties. Notice shall be in writing and shall be deemed received: (i) if mailed by certified mail, return receipt requested, postage prepaid and properly addressed to the address above, then three (3) business days after deposit of same in a regularly maintained U.S. Mail receptacle; or (ii) if mailed by Federal Express, UPS or other nationally recognized overnight courier service, next business morning delivery, then one (1) business day after deposit of same in a regularly maintained receptacle of such overnight courier; or (iii) if hand delivered, then upon hand delivery thereof to the address indicated on or prior to 5:00 p.m., EST, on a business day. Any notice hand delivered after 5:00 p.m., EST, shall be deemed delivered on the following business day. Notwithstanding the foregoing, notice, requests or demands or other communications referred to in this Agreement may be sent by facsimile, by e-mail or other method of delivery, but shall be deemed to have been given only when the sending party has confirmed (by reply e-mail or some other form of written confirmation from the receiving party) that the receiving party has received such notice.

(d) Applicable Law and Consent to Jurisdiction. The Borrower and Transfer Agent irrevocably agree that any dispute arising under, relating to, or in connection with, directly or indirectly, this Agreement, or related to any matter which is the subject of or incidental to this Agreement (whether or not such claim is based upon breach of contract or tort) shall be subject to the exclusive jurisdiction and venue of the state and/or federal courts located in Broward County, Florida. This provision is intended to be a “mandatory” forum selection clause and governed by and interpreted consistent with Florida law. Borrower and Transfer Agent hereby consent to the exclusive jurisdiction and venue of any state or federal court having its situs in said county, and each waives any objection based on forum non conveniens. Borrower and Transfer Agent hereby waive personal service of any and all process and consent that all such service of process may be made by certified mail, return receipt requested, directed to a borrower, as applicable, as set forth herein in the manner provided by applicable statute, law, rule of court or otherwise. Except for the foregoing mandatory forum selection clause, all terms and provisions hereof and the rights and obligations of the parties hereunder shall be governed, construed and interpreted in accordance with the laws of the State of Nevada, without reference to conflict of laws principles.

(e) Severability. If any term, provision or condition, or any part thereof, of this Agreement shall for any reason be found or held invalid or unenforceable by any court or governmental authority of competent jurisdiction, such invalidity or unenforceability shall not affect the remainder of such term, provision or condition nor any other term, provision or condition, and this Agreement shall survive and be construed as if such invalid or unenforceable term, provision or condition had not been contained therein.

(f) Execution. This Agreement may be executed in one or more counterparts, all of which taken together shall be deemed and considered one and the same Agreement. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format file or other similar format file, such signature shall be deemed an original for all purposes and shall create a valid and binding obligation of the party executing same with the same force and effect as if such facsimile or “.pdf” signature page was an original thereof.

(g) Headings. The headings and sub-headings contained in the titling of this Agreement are intended to be used for convenience only and shall not be used or deemed to limit or diminish any of the provisions hereof.

(h) Gender and Use of Singular and Plural. All pronouns shall be deemed to refer to the masculine, feminine, neuter, singular or plural, as the identity of the party or parties or their personal representatives, successors and assigns may require.

(i) Prevailing Party. If any legal action or other proceeding is brought for the enforcement of this Agreement or any other Loan Documents, or because of an alleged dispute, breach, default or misrepresentation in connection with any provisions of this Agreement or any other Loan Documents, the successful or prevailing party or parties shall be entitled to recover from the non-prevailing party, reasonable attorneys’ fees, court costs and all expenses, even if not taxable as court costs (including, without limitation, all such fees, costs and expenses incident to appeals), incurred in that action or proceeding, in addition to any other relief to which such party or parties may be entitled.

**[Signatures on the following page]**

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

BORROWER:

**DRONE USA, INC.**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

LENDER:

**TCA GLOBAL CREDIT MASTER FUND, LP**

By: TCA Global Credit Fund GP, Ltd., its general partner

By: \_\_\_\_\_  
Robert Press, Director

Date: \_\_\_\_\_

TRANSFER AGENT:

**ACTION STOCK TRANSFER CORPORATION**

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_  
Date: \_\_\_\_\_

**Exhibit D**  
**Form of Pledge Agreement**

## **PLEDGE AND ESCROW AGREEMENT**

THIS PLEDGE AND ESCROW AGREEMENT ("**Agreement**") is made and entered into as of May 31, 2016, but made effective as of September 13, 2016, by and between **DRONE USA, INC.**, a Delaware corporation (the "**Pledgor**"), and **TCA GLOBAL CREDIT MASTER FUND, LP**, a Cayman Islands limited partnership (the "**Secured Party**"), with the joinder of **DAVID KAHAN, P.A.** ("**Escrow Agent**").

### **RECITALS**

**WHEREAS**, the Secured Party has made certain financial accommodations for the benefit of the Pledgor pursuant to that certain Credit Agreement of even date herewith among the Pledgor and Secured Party, among others (the "**Credit Agreement**"); and

**WHEREAS**, in order to secure the full and prompt payment when due (whether at the stated maturity, by acceleration or otherwise) of all of the Pledgor's Obligations to the Secured Party, or any successor to the Secured Party, under the Credit Agreement and all other Loan Documents, Pledgor has agreed to irrevocably pledge to the Secured Party 100% of the issued and outstanding shares of the capital stock and/or membership interests, as applicable, of **DRONE USA, LLC**, a Delaware limited liability company (the "**Company**") (such shares of stock and/or membership interests in the Company hereinafter referred to as the "**Pledged Securities**");

**NOW, THEREFORE**, in consideration of the mutual covenants, agreements, warranties, and representations herein contained, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Recitals, Construction and Defined Terms.** The recitations set forth in the preamble of this Agreement are true and correct and incorporated herein by this reference. In this Agreement, unless the express context otherwise requires: (i) the words "herein," "hereof" and "hereunder" and words of similar import refer to this Agreement as a whole and not to any particular provision of this Agreement; (ii) references to the words "Section" or "Subsection" refer to the respective Sections and Subsections of this Agreement, and references to "Exhibit" or "Schedule" refer to the respective Exhibits and Schedules attached hereto; and (iii) wherever the word "include," "includes," "including" or words of similar import are used in this Agreement, such words will be deemed to be followed by the words "without limitation." All capitalized terms used in this Agreement that are defined in the Credit Agreement shall have the meanings assigned to them in the Credit Agreement, unless the context of this Agreement requires otherwise (provided that if a capitalized term used herein is defined in the Credit Agreement and separately defined in this Agreement, the meaning of such term as defined in this Agreement shall control for purposes of this Agreement).

2. **Pledge.** In order to secure the full and timely payment and performance of all of the Pledgor's Obligations to the Secured Party under the Loan Documents, the Pledgor hereby transfers, pledges, assigns, sets over, delivers and grants to the Secured Party a continuing lien and security interest in and to all of the following property of Pledgor, both now owned and existing and hereafter created, acquired and arising (all being collectively hereinafter referred to as the "**Collateral**") and all right, title and interest of Pledgor in and to the Collateral, to-wit:

- (a) the Pledged Securities owned by Pledgor;
- (b) any certificates representing or evidencing the Pledged Securities, if any;

(c) any and all distributions thereon, and cash and non-cash proceeds and products thereof, including all dividends, cash, distributions, income, profits, instruments, securities, stock dividends, distributions of capital stock or other securities of the Company and all other property from time to time received, receivable or otherwise distributed in respect of, in exchange for or upon conversion of the Pledged Securities, whether in connection with stock splits, recapitalizations, merger, conversions, combinations, reclassifications, exchanges of securities or otherwise; and

(d) any and all voting, management, and other rights, powers and privileges accruing or incidental to an owner of the Pledged Securities and the other property referred to in subsections 2(a) through 2(c) above.

3. Transfer of Pledged Securities. Simultaneously with the execution of this Agreement, Pledgor shall deliver to the Escrow Agent: (i) if the Pledged Securities are evidenced by physical certificates, then all original certificates representing or evidencing the Pledged Securities, together with undated, irrevocable and duly executed assignments or stock powers thereof in form and substance acceptable to Secured Party (together with medallion guaranteed signatures, if required by Secured Party), executed in blank by Pledgor; (ii) if the Pledged Securities are not represented by physical certificates, then undated, irrevocable and duly executed assignment instruments in form and substance acceptable to Secured Party, executed in blank by Pledgor; and (iii) all other property, instruments, documents and papers comprising, representing or evidencing the Collateral, or any part thereof, together with proper instruments of assignment or endorsement, as Secured Party may request or require, duly executed by Pledgor (collectively, the “**Transfer Documents**”). The Pledged Securities and other Transfer Documents (collectively, the “**Pledged Materials**”) shall be held by the Escrow Agent pursuant to this Agreement until the full payment and performance of all of the Obligations, the termination or expiration of this Agreement, or delivery of the Pledged Materials in accordance with this Agreement. In addition, all non-cash dividends, dividends paid or payable in cash or otherwise in connection with a partial or total liquidation or dissolution of the Company, instruments, securities and any other distributions, whether paid or payable in cash or otherwise, made on or in respect of the Pledged Securities, whether resulting from a subdivision, combination, or reclassification of the outstanding capital stock or other securities of the Company, or received in exchange for the Pledged Securities or any part thereof, or in redemption thereof, as a result of any merger, consolidation, acquisition, or other exchange of assets to which the Company may be a party or otherwise, or any other property that constitutes part of the Collateral from time to time, including any additional certificates representing any portion of the Collateral hereafter acquired by the Pledgor, shall be immediately delivered or cause to be delivered by Pledgor to the Escrow Agent in the same form as so received, together with proper instruments of assignment or endorsement duly executed by Pledgor.

4. Security Interest Only. The security interests in the Collateral granted to Secured Party hereunder are granted as security only and shall not subject the Secured Party to, or transfer or in any way affect or modify, any obligation or liability of the Pledgor with respect to any of the Collateral or any transaction in connection therewith.

5. Record Owner of Collateral. Until an “Event of Default” (as hereinafter defined) under this Agreement shall occur, the Pledged Securities shall remain registered in the name of the Pledgor. Pledgor will promptly give to the Secured Party copies of any notices or other communications received by it and with respect to Collateral registered in the name of Pledgor.

6. Rights Related to Pledged Securities. Subject to the terms of this Agreement, unless and until an Event of Default under this Agreement shall occur:

(a) Pledgor shall be entitled to exercise any and all voting, management, and other rights, powers and privileges accruing to an owner of the Pledged Securities, or any part thereof, for any purpose consistent with the terms of this Agreement; provided, however, such action would not materially and adversely affect the rights inuring to Secured Party under any of the Loan Documents, or adversely affect the remedies of the Secured Party under any of the Loan Documents, or the ability of the Secured Party to exercise same.

(b) Upon the occurrence of an Event of Default, all rights of the Pledgor in and to the Pledged Securities and all other Collateral shall cease and all such rights shall immediately vest in Secured Party, as may be determined by Secured Party, although Secured Party shall not have any duty to exercise such rights or be required to sell or to otherwise realize upon the Collateral, as hereinafter authorized, or to preserve the same, and Secured Party shall not be responsible for any failure to do so or delay in doing so. To effectuate the foregoing, Pledgor hereby grants to Secured Party a proxy to vote the Pledged Securities for and on behalf of Pledgor, which proxy is irrevocable and coupled with an interest and which proxy shall be effective upon the occurrence of any Event of Default. Such proxy shall remain in effect so long as the Obligations remain outstanding. The Company hereby agrees that any vote by Pledgor in violation of this Section 6 shall be null, void and of no force or effect. Furthermore, all dividends or other distributions received by the Pledgor shall be subject to delivery to Escrow Agent in accordance with Section 3 above, and until such delivery, any of such dividends and other distributions shall be received in trust for the benefit of the Secured Party, shall be segregated from other property or funds of the Pledgor and shall be forthwith delivered to Escrow Agent in accordance with Section 3 above.

7. Release of Pledged Securities. Upon the timely payment in full of all of the Obligations in accordance with the terms thereof, Secured Party shall notify the Escrow Agent in writing to such effect. Upon receipt of such written notice, the Escrow Agent shall return all of the Pledged Materials in Escrow Agent's possession to the Pledgor, whereupon any and all rights of Secured Party in and to the Pledged Materials and all other Collateral shall be terminated.

8. Representations, Warranties, and Covenants of the Pledgor and the Company. The Pledgor and the Company each hereby covenant, warrant and represent, for the benefit of the Secured Party, as follows (the following representations and warranties shall be made as of the date of this Agreement and as of each date when Pledged Securities are delivered to Escrow Agent hereunder, as applicable):

(a) The Pledged Securities are free and clear of any and all Liens, other than as created by this Agreement.

(b) The Pledged Securities have been duly authorized and are validly issued, fully paid and non-assessable, and are subject to no options to purchase, or any similar rights or to any restrictions on transferability.

(c) Each certificate or document of title constituting the Pledged Securities is genuine in all respects and represents what it purports to be.

(d) By virtue of the execution and delivery of this Agreement and upon delivery to Escrow Agent of the Pledged Securities in accordance with this Agreement, Secured Party will have a valid and perfected, first priority security interest in the Collateral, subject to no prior or other Liens of any nature whatsoever.

(e) Pledgor covenants, that for so long as this Agreement is in effect, Pledgor will defend the Collateral and the priority of Secured Party's security interests therein, at its sole cost and expense, against the claims and demands of all Persons at anytime claiming the same or any interest therein.

(f) At its option, Secured Party may pay, for Pledgor's account, any taxes (including documentary stamp taxes), Liens, security interests, or other encumbrances at any time levied or placed on the Collateral. Pledgor agrees to reimburse Secured Party on demand for any payment made or expense incurred by Secured Party pursuant to the foregoing authorization. Any such amount, if not promptly paid upon demand therefor, shall accrue interest at the highest non-usurious rate permitted by applicable law from the date of outlay, until paid, and shall constitute an Obligation secured hereby.

(g) The Pledgor and the Company acknowledge, represent and warrant that Secured Party is not an "affiliate" of the Pledgor or the Company, as such term is used and defined under Rule 144 of the federal securities laws.

(h) The Pledged Securities constitute all of the securities owned, legally or beneficially, by the Pledgor, and such securities represent 100% of the issued and outstanding capital stock or other securities, on a fully diluted basis, of the Company. At all times while this Agreement remains in effect, the Pledged Securities shall constitute and represent 100% of the issued and outstanding shares of the capital stock or other securities of the Company, on a fully-diluted basis.

(i) The Company and the Pledgor hereby authorize Secured Party to prepare and file such financing statements, amendments and other documents and do such acts as Secured Party deems necessary in order to establish and maintain valid, attached and perfected, first priority security interests in the Collateral in favor of Secured Party, for its own benefit and as agent for its Affiliates, free and clear of all Liens and claims and rights of third parties whatsoever. The Company and Pledgor hereby irrevocably authorize Secured Party at any time, and from time to time, to file in any jurisdiction any initial financing statements, amendments, continuations and other documents in furtherance of the foregoing.

9. Events of Default. The occurrence of any one or more of the following events shall constitute an "**Event of Default**" hereunder:

(a) Default. The occurrence of any breach, default or "Event of Default" (as such term may be defined in any Loan Documents), after applicable notice and cure periods, under any of the Loan Documents.

(b) Covenants and Agreements. The failure of Pledgor or the Company to perform, observe or comply with any and all of the covenants, promises and agreements of the Pledgor and the Company in this Agreement, which such failure is not cured by the Pledgor or the Company within ten (10) days after receipt of written notice thereof from Secured Party, except that there shall be no notice or cure period with respect to any failure to pay any sums due under or as part of the Obligations (provided that if the failure to perform or default in performance is not capable of being cured, in Secured Party's sole discretion, then the cure period set forth herein shall not be applicable and the failure or default shall be an immediate Event of Default hereunder).

(c) Information, Representations and Warranties. If any representation or warranty made herein or in any other Loan Documents, or if any information contained in any financial statement, application, schedule, report or any other document given by the Company to Secured Party in connection with the Obligations, with the Collateral, or with the Loan Documents, is not in all material respects true, accurate and complete, or if the Pledgor or the Company omitted to state any material fact or any fact necessary to make such information not misleading.

10. Rights and Remedies. Subject at all times to the Uniform Commercial Code as then in effect in the State governing this Agreement, the Secured Party shall have the following rights and remedies upon the occurrence and continuation of an Event of Default:

(a) Upon and anytime after the occurrence and continuation of an Event of Default, the Secured Party shall have the right to acquire the Pledged Securities and all other Collateral in accordance with the following procedure: (i) the Secured Party shall provide written notice of such Event of Default (the “**Default Notice**”) to the Escrow Agent, with a copy to the Pledgor and the Company; (ii) as soon as practicable after receipt of a Default Notice, the Escrow Agent shall deliver the Pledged Securities and all other Collateral, along with the applicable Transfer Documents, to the Secured Party.

(b) Upon receipt of the Pledged Securities and other Collateral issued to the Secured Party, the Secured Party shall have the right to, without notice or demand to Pledgor or the Company: (i) sell the Collateral and to apply the proceeds of such sales, net of any selling commissions, to the Obligations owed to the Secured Party by the Company under the Loan Documents, including outstanding principal, interest, legal fees, and any other amounts owed to the Secured Party; and (ii) exercise in any jurisdiction in which enforcement hereof is sought, any rights and remedies available to Secured Party under the provisions of any of the Loan Documents, the rights and remedies of a secured party under the Uniform Commercial Code as then in effect in the State governing this Agreement, and all other rights and remedies available to the Secured Party, under equity or applicable law, all such rights and remedies being cumulative and enforceable alternatively, successively or concurrently. In furtherance of the foregoing rights and remedies:

(i) Secured Party may sell the Pledged Securities, or any part thereof, or any other portion of the Collateral, in one or more sales, at public or private sale, conducted by any agent of, or auctioneer or attorney for Secured Party, at Secured Party’s place of business or elsewhere, or at any broker’s board or on any securities exchange, for cash, upon credit or for future delivery, and at such price or prices, all as Secured Party may deem appropriate. Secured Party may be a purchaser at any such sale of any or all of the Collateral so sold. In the event Secured Party is a purchaser at any such sale, Secured Party may apply to such purchase all or any portion of the sums then due and owing by the Company to Secured Party under any of the Loan Documents or otherwise, and the Secured Party may, upon compliance with the terms of the sale, hold, retain and dispose of such property without further accountability to the Pledgor or the Company therefore. Secured Party is authorized, in its absolute discretion, to restrict the prospective bidders or purchasers of any of the Collateral at any public or private sale as to their number, nature of business and investment intention, including the restricting of bidders or purchasers to one or more persons who represent and agree, to the satisfaction of Secured Party, that they are purchasing the Collateral, or any part thereof, for their own account, for investment, and not with a view to the distribution or resale of any of such Collateral.

(ii) Upon any such sale, Secured Party shall have the right to deliver, assign and transfer to each purchaser thereof the Collateral so sold to such purchaser. Each purchaser (including Secured Party) at any such sale shall, to the full extent permitted by law, hold the Collateral so purchased absolutely free from any claim or right whatsoever, including, without limitation, any equity or right of redemption of the Pledgor, who, to the full extent that it may lawfully do so, hereby specifically waives all rights of redemption, stay, valuation or appraisal which she now has or may have under any rule of law or statute now existing or hereafter adopted.

(iii) At any such sale, the Collateral may be sold in one lot as an entirety, in separate blocks or individually as Secured Party may determine, in its sole and absolute discretion. Secured Party shall not be obligated to make any sale of any Collateral if it shall determine in its sole and absolute discretion, not to do so, regardless of the fact that notice of sale of such Collateral shall have been given. Secured Party may, without notice or publication, adjourn any public or private sale from time to time by announcement at the time and place fixed for such sale, or any adjournment thereof, and any such sale may be made at any time or place to which the same may be so adjourned without further notice or publication.

(iv) The Pledgor and the Company acknowledge that compliance with applicable federal and state securities laws (including, without limitation, the Securities Act of 1933, as amended, blue sky or other state securities laws or similar laws now or hereafter existing analogous in purpose or effect) might very strictly limit or restrict the course of conduct of Secured Party if Secured Party were to attempt to sell or otherwise dispose of all or any part of the Collateral, and might also limit or restrict the extent to which or the manner in which any subsequent transferee of any such securities could sell or dispose of the same. The Pledgor and the Company further acknowledge that under applicable laws, Secured Party may be held to have certain general duties and obligations to the Pledgor, as pledgors of the Collateral, or the Company, to make some effort toward obtaining a fair price for the Collateral even though the obligations of the Pledgor and the Company may be discharged or reduced by the proceeds of sale at a lesser price. The Pledgor and the Company understand and agree that, to the extent allowable under applicable law, Secured Party is not to have any such general duty or obligation to the Pledgor or the Company, and neither the Pledgor nor the Company will attempt to hold Secured Party responsible for selling all or any part of the Collateral at an inadequate price even if Secured Party shall accept the first offer received or does not approach more than one possible purchaser. Without limiting their generality, the foregoing provisions would apply if, for example, Secured Party were to place all or any part of such securities for private placement by an investment banking firm, or if such investment banking firm purchased all or any part of such securities for its own account, or if Secured Party placed all or any part of such securities privately with a purchaser or purchasers.

(c) To the extent that the net proceeds received by the Secured Party are insufficient to satisfy the Obligations in full, the Secured Party shall be entitled to a deficiency judgment against the Company and any other Person obligated for the Obligations for such deficiency amount. The Secured Party shall have the absolute right to sell or dispose of the Collateral, or any part thereof, in any manner it sees fit and shall have no liability to the Pledgor, the Company, or any other party for selling or disposing of such Collateral even if other methods of sales or dispositions would or allegedly would result in greater proceeds than the method actually used. The Company and any other Person obligated for the Obligations shall remain liable for all deficiencies and shortfalls, if any, that may exist after the Secured Party has exhausted all remedies hereunder.

(d) Each right, power and remedy of the Secured Party provided for in this Agreement or any other Transaction Document shall be cumulative and concurrent and shall be in addition to every other such right, power or remedy. The exercise or beginning of the exercise by the Secured Party of any one or more of the rights, powers or remedies provided for in this Agreement or any other Loan Documents, or now or hereafter existing at law or in equity or by statute or otherwise, shall not preclude the simultaneous or later exercise by the Secured Party of all such other rights, powers or remedies, and no failure or delay on the part of the Secured Party to exercise any such right, power or remedy shall operate as a waiver thereof. No notice to or demand on the Pledgor in any case shall entitle it to any other or further notice or demand in similar or other circumstances or constitute a waiver of any of the rights of the Secured Party to any other further action in any circumstances without demand or notice. The Secured Party shall have the full power to enforce or to assign or contract its rights under this Agreement to a third party.

(e) In addition to all other remedies available to the Secured Party, upon the issuance of the Pledged Securities to the Secured Party after an Event of Default, Pledgor and the Company each agree to: (i) take such action and prepare, distribute and/or file such documents and papers, as are required or advisable in the opinion of Secured Party and/or its counsel, to permit the sale of the Pledged Securities, whether at public sale, private sale or otherwise, including, without limitation, issuing, or causing its counsel to issue, any opinion of counsel for Pledgor or the Company required to allow the Secured Party to sell the Pledged Securities or any other Collateral under Rule 144; (ii) to bear all costs and expenses of carrying out its obligations under this Section 8(e), which shall be a part of the Obligations secured hereby; and (iv) that there is no adequate remedy at law for the failure by the Pledgor and the Company to comply with the provisions of this Section 8(e) and that such failure would not be adequately compensable in damages, and therefore agrees that its agreements contained in this subsection may be specifically enforced.

11. Concerning the Escrow Agent.

(a) The Escrow Agent undertakes to perform only such duties as are expressly set forth herein and no implied duties or obligations shall be read into this Agreement against the Escrow Agent. Escrow Agent agrees to release any property held by it hereunder (the “**Escrowed Property**”) in accordance with the terms and conditions set forth in this Agreement.

(b) The Escrow Agent may act in reliance upon any writing or instrument or signature which it, in good faith, believes to be genuine, may assume the validity and accuracy of any statement or assertion contained in such a writing or instrument, and may assume that any person purporting to give any writing, notice, advice or instructions in connection with the provisions hereof has been duly authorized to do so. The Escrow Agent shall not be liable in any manner for the sufficiency or correctness as to form, manner, and execution, or validity of any instrument deposited in this escrow, nor as to the identity, authority, or right of any person executing the same; and its duties hereunder shall be limited to the safekeeping of the Escrowed Property, and for the disposition of the same in accordance with this Agreement. Escrow Agent shall not be deemed to have knowledge of any matter or thing unless and until Escrow Agent has actually received written notice of such matter or thing and Escrow Agent shall not be charged with any constructive notice whatsoever.

(c) Escrow Agent shall hold in escrow, pursuant to this Agreement, the Escrowed Property actually delivered and received by Escrow Agent hereunder, but Escrow Agent shall not be obligated to ascertain the existence of (or initiate recovery of) any other property that may be part or portion of the Collateral, or to become or remain informed with respect to the possibility or probability of additional Collateral being realized upon or collected at any time in the future, or to inform any parties to this Agreement or any third party with respect to the nature and extent of any Collateral realized and received by Escrow Agent (except upon the written request of such party), or to monitor current market values of the Collateral. Further, Escrow Agent shall not be obligated to proceed with any action or inaction based on information with respect to market values of the Collateral which Escrow Agent may in any manner learn, nor shall Escrow Agent be obligated to inform the parties hereto or any third party with respect to market values of any of the Collateral at any time, Escrow Agent having no duties with respect to investment management or information, all parties hereto understanding and intending that Escrow Agent’s responsibilities are purely ministerial in nature. Any reduction in the market value or other value of the Collateral while deposited with Escrow Agent shall be at the sole risk of Pledgor and Secured Party. If all or any portion of the Escrowed Property is in the form of a check or in any other form other than cash, Escrow Agent shall deposit same as required but shall not be liable for the nonpayment thereof, nor responsible to enforce collection thereof.

(d) In the event instructions from Secured Party, Pledgor, or any other Person would require Escrow Agent to expend any monies or to incur any cost, Escrow Agent shall be entitled to refrain from taking any action until it receives payment for such costs. It is agreed that the duties of Escrow Agent are purely ministerial in nature and shall be expressly limited to the safekeeping of the Escrowed Property and for the disposition of same in accordance with this Agreement. Secured Party, Pledgor and the Company, jointly and severally, each hereby indemnifies Escrow Agent and holds it harmless from and against any and all claims, liabilities, damages, costs, penalties, losses, actions, suits or proceedings at law or in equity, or any other expenses, fees or charges of any character or nature (collectively, the "Claims"), which it may incur or with which it may be threatened, directly or indirectly, arising from or in any way connected with this Agreement or which may result from Escrow Agent's following of instructions from Secured Party, Pledgor or the Company, and in connection therewith, indemnifies Escrow Agent against any and all expenses, including attorneys' fees and the cost of defending any action, suit, or proceeding or resisting any Claim, whether or not litigation is instituted, unless any such Claims arise as a result of Escrow Agent's gross negligence or willful misconduct. Escrow Agent shall be vested with a lien on all Escrowed Property under the terms of this Agreement, for indemnification, attorneys' fees, court costs and all other costs and expenses arising from any suit, interpleader or otherwise, or other expenses, fees or charges of any character or nature, which may be incurred by Escrow Agent by reason of disputes arising between Pledgor, the Company, Secured Party, or any third party as to the correct interpretation of this Agreement, and instructions given to Escrow Agent hereunder, or otherwise, with the right of Escrow Agent, regardless of the instruments aforesaid and without the necessity of instituting any action, suit or proceeding, to hold any property hereunder until and unless said additional expenses, fees and charges shall be fully paid. Any fees and costs charged by the Escrow Agent for serving hereunder shall be paid by the Pledgor and the Company, jointly and severally.

(e) In the event Escrow Agent shall be uncertain as to its duties or rights hereunder or shall receive instructions, claims or demands from Secured Party, the Company, Pledgor or from third persons with respect to the Escrowed Property, which, in Escrow Agent's sole opinion, are in conflict with each other or with any provision of this Agreement, Escrow Agent shall be entitled to refrain from taking any action until it shall be directed otherwise in writing by Pledgor, the Company and Secured Party and said third persons, if any, or by a final order or judgment of a court of competent jurisdiction. If any of the parties shall be in disagreement about the interpretation of this Agreement, or about the rights and obligations, or the propriety of any action contemplated by the Escrow Agent hereunder, the Escrow Agent may, at its sole discretion, deposit the Escrowed Property with a court having jurisdiction over this Agreement, and, upon notifying all parties concerned of such action, all liability on the part of the Escrow Agent shall fully cease and terminate. The Escrow Agent shall be indemnified by the Pledgor, the Company and Secured Party for all costs, including reasonable attorneys' fees, in connection with the aforesaid proceeding, and shall be fully protected in suspending all or a part of its activities under this Agreement until a final decision or other settlement in the proceeding is received. In the event Escrow Agent is joined as a party to a lawsuit by virtue of the fact that it is holding the Escrowed Property, Escrow Agent shall, at its sole option, either: (i) tender the Collateral in its possession to the registry of the appropriate court; or (ii) disburse the Collateral in its possession in accordance with the court's ultimate disposition of the case, and Secured Party, the Company and Pledgor hereby, jointly and severally, indemnify and hold Escrow Agent harmless from and against any damages or losses in connection therewith including, but not limited to, reasonable attorneys' fees and court costs at all trial and appellate levels.

(f) The Escrow Agent may consult with counsel of its own choice (and the costs of such counsel shall be paid by the Pledgor, the Company and Secured Party, jointly and severally) and shall have full and complete authorization and protection for any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such counsel. The Escrow Agent shall not be liable for any mistakes of fact or error of judgment, or for any actions or omissions of any kind, unless caused by its willful misconduct or gross negligence.

(g) The Escrow Agent may resign upon ten (10) days' written notice to the parties in this Agreement. If a successor Escrow Agent is not appointed by Secured Party and Pledgor within this ten (10) day period, the Escrow Agent may petition a court of competent jurisdiction to name a successor.

(h) Conflict Waiver. The Pledgor and the Company hereby acknowledges that the Escrow Agent is counsel to the Secured Party in connection with the transactions contemplated and referred herein. The Pledgor and the Company agree that in the event of any dispute arising in connection with this Agreement or otherwise in connection with any transaction or agreement contemplated and referred herein, the Escrow Agent shall be permitted to continue to represent the Secured Party and neither the Pledgor, nor the Company, will seek to disqualify such counsel and each of them waives any objection Pledgor or the Company might have with respect to the Escrow Agent acting as the Escrow Agent pursuant to this Agreement. Pledgor, the Company and Secured Party acknowledge and agree that nothing in this Agreement shall prohibit Escrow Agent from: (i) serving in a similar capacity on behalf of others; or (ii) acting in the capacity of attorneys for one or more of the parties hereto in connection with any matter.

12. Increase in Obligations. It is the intent of the parties to secure payment of the Obligations, as the amount of such Obligations may increase from time to time in accordance with the terms and provisions of the Loan Documents, and all of the Obligations, as so increased from time to time, shall be and are secured hereby. Upon the execution hereof, Pledgor and the Company shall pay any and all documentary stamp taxes and/or other charges required to be paid in connection with the execution and enforcement of the Loan Documents, and if, as and to the extent the Obligations are increased from time to time in accordance with the terms and provisions of the Loan Documents, then Pledgor and the Company shall immediately pay any additional documentary stamp taxes or other charges in connection therewith.

13. Irrevocable Authorization and Instruction. If applicable, Pledgor and the Company hereby authorize and instruct the transfer agent for the Company (or transfer agents if there is more than one) to comply with any instruction received by it from Secured Party in writing that: (i) states that an Event of Default hereunder exists or has occurred; and (b) is otherwise in accordance with the terms of this Agreement, without any other or further instructions from Pledgor or the Company, and Pledgor and the Company agree that such transfer agents shall be fully protected in so complying with any such instruction from Secured Party.

14. Appointment as Attorney-in-Fact. The Company and Pledgor hereby irrevocably constitutes and appoints Secured Party and any officer or agent of Secured Party, with full power of substitution, as its true and lawful attorney-in-fact, with full irrevocable power and authority in the place and stead of Pledgor or the Company, as applicable, and in the name of Pledgor, the Company, or in the name of Secured Party, as applicable, from time to time in the discretion of Secured Party, so long as an Event of Default hereunder exists, for the purpose of carrying out the terms of this Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Agreement, including any financing statements, endorsements, assignments or other instruments of transfer. Pledgor and the Company each hereby ratify all that said attorneys shall lawfully do or cause to be done pursuant to the power of attorney granted in this Section 14. All powers, authorizations and agencies contained in this Agreement are coupled with an interest and are irrevocable until the Obligations are paid and performed in full.

15. Continuing Obligation of Pledgor and the Company. The obligations, covenants, agreements and duties of the Pledgor and the Company under this Agreement shall in no way be affected or impaired by: (i) the modification or amendment (whether material or otherwise) of any of the obligations of the Pledgor or the Company or any other Person, as applicable; (ii) the voluntary or involuntary bankruptcy, assignment for the benefit of creditors, reorganization, or other similar proceedings affecting the Company, Pledgor or any other Person, as applicable; (iii) the release of the Company, Pledgor or any other Person from the performance or observance of any of the agreements, covenants, terms or conditions contained in any Loan Documents, by the operation of law or otherwise, including the release of the Company's or Pledgor's obligation to pay interest or attorney's fees.

Pledgor and the Company further agree that Secured Party may take other guaranties or collateral or security to further secure the Obligations, and consent that any of the terms, covenants and conditions contained in any of the Loan Documents may be renewed, altered, extended, changed or modified by Secured Party or may be released by Secured Party, without in any manner affecting this Agreement or releasing Pledgor herefrom, and Pledgor shall continue to be liable hereunder to pay and perform pursuant hereto, notwithstanding any such release or the taking of such other guaranties, collateral or security. This Agreement is additional and supplemental to any and all other guaranties, security agreements or collateral heretofore and hereafter executed by Pledgor and the Company for the benefit of Secured Party, whether relating to the indebtedness evidenced by any of the Loan Documents or not, and shall not supersede or be superseded by any other document or guaranty executed by Pledgor, the Company or any other Person for any purpose. Pledgor and the Company hereby agree that Pledgor, the Company, and any additional parties who may become liable for repayment of the sums due under the Loan Documents, may hereafter be released from their liability hereunder and thereunder; and Secured Party may take, or delay in taking or refuse to take, any and all action with reference to any of the Loan Documents (regardless of whether same might vary the risk or alter the rights, remedies or recourses of Pledgor), including specifically the settlement or compromise of any amount allegedly due thereunder, all without notice to, consideration to or the consent of the Pledgor, and without in any way releasing, diminishing or affecting in any way the absolute nature of Pledgor's obligations and liabilities hereunder.

No delay on the part of the Secured Party in exercising any rights hereunder or failure to exercise the same shall operate as a waiver of such rights. Pledgor and the Company hereby waives any and all legal requirements, statutory or otherwise, that Secured Party shall institute any action or proceeding at law or in equity or exhaust its rights, remedies and recourses against Pledgor, any Company or anyone else with respect to the Loan Documents, as a condition precedent to bringing an action against Pledgor or the Company upon this Agreement or as a condition precedent to Secured Party's rights to sell the Pledged Securities or any other Collateral. Pledgor and the Company agree that Secured Party may simultaneously maintain an action upon this Agreement and an action or proceeding upon the Loan Documents. All remedies afforded by reason of this Agreement are separate and cumulative remedies and may be exercised serially, simultaneously and in any order, and the exercise of any of such remedies shall not be deemed an exclusion of the other remedies and shall in no way limit or prejudice any other contractual, legal, equitable or statutory remedies which Secured Party may have in the Pledged Securities, any other Collateral, or under the Loan Documents. Until the Obligations, and all extensions, renewals and modifications thereof, are paid in full, and until each and all of the terms, covenants and conditions of this Agreement are fully performed, Pledgor shall not be released by any act or thing which might, but for this provision of this Agreement, be deemed a legal or equitable discharge of a surety, or by reason of any waiver, extension, modification, forbearance or delay of Secured Party or any obligation or agreement between the Company or its successors or assigns, and the then holder of the Loan Documents, relating to the payment of any sums evidenced or secured thereby or to any of the other terms, covenants and conditions contained therein, and Pledgor hereby expressly waive and surrender any defense to liability hereunder based upon any of the foregoing acts, things, agreements or waivers, or any of them. Pledgor and Company also waives any defense arising by virtue of any disability, insolvency, bankruptcy, lack of authority or power or dissolution of Pledgor or Company, even though rendering the Loan Documents void, unenforceable or otherwise uncollectible, it being agreed that Pledgor and the Company shall remain liable hereunder, regardless of any claim which Pledgor or the Company might otherwise have against Secured Party by virtue of Secured Party's invocation of any right, remedy or recourse given to it hereunder or under the Loan Documents. In addition, Pledgor waives and renounces any right of subrogation, reimbursement or indemnity whatsoever, and any right of recourse to security for the Obligations of the Company to Secured Party, unless and until all of said Obligations have been paid in full to Secured Party.

16. Miscellaneous.

(a) Performance for Pledgor or the Company. The Pledgor and the Company agree and hereby acknowledge that Secured Party may, in Secured Party's sole discretion, but Secured Party shall not be obligated to, whether or not an Event of Default shall have occurred, advance funds on behalf of the Company or Pledgor, without prior notice to the Pledgor or the Company, in order to insure the Company's and Pledgor's compliance with any covenant, warranty, representation or agreement of the Pledgor or the Company made in or pursuant to this Agreement or the other Loan Documents, to continue or complete, or cause to be continued or completed, performance of the Pledgor's and the Company's obligations under any contracts of the Pledgor or the Company, or to preserve or protect any right or interest of Secured Party in the Collateral or under or pursuant to this Agreement or the other Loan Documents; provided, however, that the making of any such advance by Secured Party shall not constitute a waiver by Secured Party of any Event of Default with respect to which such advance is made, nor relieve the Pledgor or the Company of any such Event of Default. The Pledgor and the Company, respectively and as applicable, shall pay to Secured Party upon demand all such advances made by Secured Party with interest thereon at the highest rate permitted by applicable law. All such advances shall be deemed to be included in the Obligations and secured by the security interest granted Secured Party hereunder; provided, however, that the provisions of this Subsection shall survive the termination of this Agreement and Secured Party's security interest hereunder and the payment of all other Obligations.

(b) Applications of Payments and Collateral. Except as may be otherwise specifically provided in this Agreement or the other Loan Documents, all Collateral and proceeds of Collateral coming into Secured Party's possession may be applied by Secured Party (after payment of any costs, fees and other amounts incurred by Secured Party in connection therewith) to any of the Obligations, whether matured or unmatured, as Secured Party shall determine in its sole discretion. Any surplus held by the Secured Party and remaining after the indefeasible payment in full in cash of all of the Obligations shall be paid over to whomsoever shall be lawfully entitled to receive the same or as a court of competent jurisdiction shall direct. In the event that the proceeds of any such sale, collection or realization are insufficient to pay all amounts to which the Secured Party is legally entitled, the Company shall be liable for the deficiency, together with interest thereon at the highest rate permitted by applicable law, together with the costs of collection and the reasonable fees, costs, expenses and other client charges of any attorneys employed by the Secured Party to collect such deficiency.

(c) Waivers by Pledgor and the Company. The Company and the Pledgor hereby waives, to the extent the same may be waived under applicable law: (i) notice of acceptance of this Agreement; (ii) all claims and rights of the Pledgor and the Company against Secured Party on account of actions taken or not taken by Secured Party in the exercise of Secured Party's rights or remedies hereunder, under any other Loan Documents or under applicable law; (iii) all claims of the Pledgor and the Company for failure of Secured Party to comply with any requirement of applicable law relating to enforcement of Secured Party's rights or remedies hereunder, under the other Loan Documents or under applicable law; (iv) all rights of redemption of the Pledgor with respect to the Collateral; (v) in the event Secured Party seeks to repossess any or all of the Collateral by judicial proceedings, any bond(s) or demand(s) for possession which otherwise may be necessary or required; (vi) presentment, demand for payment, protest and notice of non-payment and all exemptions applicable to any of the Collateral or the Pledgor or the Company; (vii) any and all other notices or demands which by applicable law must be given to or made upon the Pledgor or the Company by Secured Party; (viii) settlement, compromise or release of the obligations of any person or entity primarily or secondarily liable upon any of the Obligations; (ix) all rights of the Pledgor or the Company to demand that Secured Party release account debtors or other persons or entities liable on any of the Collateral from further obligation to Secured Party; and (x) substitution, impairment, exchange or release of any Collateral for any of the Obligations. The Pledgor and the Company agree that Secured Party may exercise any or all of its rights and/or remedies hereunder and under any other Loan Documents and under applicable law without resorting to and without regard to any Collateral or sources of liability with respect to any of the Obligations.

(d) Waivers by Secured Party. No failure or any delay on the part of Secured Party in exercising any right, power or remedy hereunder or under any other Loan Documents or under applicable law, shall operate as a waiver thereof

(e) Secured Party's Setoff. Secured Party shall have the right, in addition to all other rights and remedies available to it, following an Event of Default, to set off against any Obligations due Secured Party, any debt owing to the Pledgor or the Company by Secured Party.

(f) Modifications, Waivers and Consents. No modifications or waiver of any provision of this Agreement or any other Loan Documents, and no consent by Secured Party to any departure by the Pledgor or the Company therefrom, shall in any event be effective unless the same shall be in writing, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given, and any single or partial written waiver by Secured Party of any term, provision or right of Secured Party hereunder shall only be applicable to the specific instance to which it relates and shall not be deemed to be a continuing or future waiver of any other right, power or remedy. No notice to or demand upon the Pledgor or the Company in any case shall entitle Pledgor or the Company to any other or further notice or demand in the same, similar or other circumstances.

(g) Notices. All notices of request, demand and other communications hereunder shall be addressed, sent and deemed delivered in accordance with the Credit Agreement, including delivery of any such notices or communications to the Pledgor on behalf of the Company, which the Company hereby agrees and acknowledges shall be valid and effective notice to the Company hereunder.

(h) Applicable Law and Consent to Jurisdiction. The Pledgor, the Company and the Secured Party each irrevocably agrees that any dispute arising under, relating to, or in connection with, directly or indirectly, this Agreement or related to any matter which is the subject of or incidental to this Agreement (whether or not such claim is based upon breach of contract or tort) shall be subject to the exclusive jurisdiction and venue of the state and/or federal courts located in Broward County, Florida; provided, however, Secured Party may, at Secured Party's sole option, elect to bring any action in any other jurisdiction. This provision is intended to be a "mandatory" forum selection clause and governed by and interpreted consistent with Florida law. The Pledgor, the Company and Secured Party each hereby consents to the exclusive jurisdiction and venue of any state or federal court having its situs in said county (or to any other jurisdiction or venue, if Secured Party so elects), and each waives any objection based on forum non conveniens. The Pledgor and the Company each hereby waives personal service of any and all process and consent that all such service of process may be made by certified mail, return receipt requested, directed to the Pledgor or the Company, as applicable, as set forth herein and in the manner provided by applicable statute, law, rule of court or otherwise. Except for the foregoing mandatory forum selection clause, this Agreement shall be construed in accordance with the laws of the State of Nevada, without regard to the principles of conflicts of laws.

(i) Survival: Successors and Assigns. All covenants, agreements, representations and warranties made herein shall survive the execution and delivery hereof, and shall continue in full force and effect until all Obligations have been paid in full, there exists no commitment by Secured Party which could give rise to any Obligations. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party. In the event that Secured Party assigns this Agreement and/or its security interest in the Collateral, such assignment shall be binding upon and recognized by the Pledgor. All covenants, agreements, representations and warranties by or on behalf of the Pledgor or the Company which are contained in this Agreement shall inure to the benefit of Secured Party, its successors and assigns. Neither the Pledgor, nor the Company, may assign this Agreement or delegate any of their respective rights or obligations hereunder, without the prior written consent of Secured Party, which consent may be withheld in Secured Party's sole and absolute discretion.

(j) Severability. If any term, provision or condition, or any part thereof, of this Agreement shall for any reason be found or held invalid or unenforceable by any court or governmental authority of competent jurisdiction, such invalidity or unenforceability shall not affect the remainder of such term, provision or condition nor any other term, provision or condition, and this Agreement shall survive and be construed as if such invalid or unenforceable term, provision or condition had not been contained therein.

(k) Merger and Integration. This Agreement and the other Loan Documents contain the entire agreement of the parties hereto with respect to the matters covered and the transactions contemplated hereby, and no other agreement, statement or promise made by any party hereto, or by any employee, officer, agent or attorney of any party hereto, which is not contained herein shall be valid or binding.

(l) WAIVER OF JURY TRIAL. THE PLEDGOR AND THE COMPANY EACH HEREBY: (i) COVENANTS AND AGREES NOT TO ELECT A TRIAL BY JURY OF ANY ISSUE TRIABLE OF RIGHT BY A JURY; AND (ii) WAIVES TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO WHICH THE PLEDGORS, THE COMPANY AND SECURED PARTY MAY BE PARTIES, ARISING OUT OF, IN CONNECTION WITH OR IN ANY WAY PERTAINING TO THIS AGREEMENT, AND/OR ANY TRANSACTIONS, OCCURRENCES, COMMUNICATIONS, OR UNDERSTANDINGS (OR THE LACK OF ANY OF THE FOREGOING) RELATING IN ANY WAY TO DEBTOR-CREDITOR RELATIONSHIP BETWEEN THE PARTIES. IT IS UNDERSTOOD AND AGREED THAT THIS WAIVER CONSTITUTES A WAIVER OF TRIAL BY JURY OF ALL CLAIMS AGAINST ALL PARTIES TO SUCH ACTIONS OR PROCEEDINGS, INCLUDING CLAIMS AGAINST PARTIES WHO ARE NOT PARTIES TO THIS AGREEMENT. THIS WAIVER OF JURY TRIAL IS SEPARATELY GIVEN, KNOWINGLY, WILLINGLY AND VOLUNTARILY MADE BY THE PLEDGORS AND THE COMPANY AND THE PLEDGOR AND THE COMPANY HEREBY AGREE THAT NO REPRESENTATIONS OF FACT OR OPINION HAVE BEEN MADE BY ANY INDIVIDUAL TO INDUCE THIS WAIVER OF TRIAL BY JURY OR TO IN ANY WAY MODIFY OR NULLIFY ITS EFFECT. SECURED PARTY IS HEREBY AUTHORIZED TO SUBMIT THIS AGREEMENT TO ANY COURT HAVING JURISDICTION OVER THE SUBJECT MATTER AND THE PLEDGORS, THE COMPANY AND SECURED PARTY, SO AS TO SERVE AS CONCLUSIVE EVIDENCE OF SUCH WAIVER OF RIGHT TO TRIAL BY JURY. THE PLEDGORS AND THE COMPANY REPRESENT AND WARRANT THAT EACH OF THEM HAS BEEN REPRESENTED IN THE SIGNING OF THIS AGREEMENT AND IN THE MAKING OF THIS WAIVER BY INDEPENDENT LEGAL COUNSEL, SELECTED OF ITS OWN FREE WILL, AND/OR THAT IT HAS HAD THE OPPORTUNITY TO DISCUSS THIS WAIVER WITH COUNSEL.

(m) Execution. This Agreement may be executed in one or more counterparts, all of which taken together shall be deemed and considered one and the same Agreement. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format file or other similar format file, such signature shall be deemed an original for all purposes and shall create a valid and binding obligation of the party executing same with the same force and effect as if such facsimile or “.pdf” signature page was an original thereof.

(n) Headings. The headings and sub-headings contained in the titling of this Agreement are intended to be used for convenience only and shall not be used or deemed to limit or diminish any of the provisions hereof.

(o) Gender and Use of Singular and Plural. All pronouns shall be deemed to refer to the masculine, feminine, neuter, singular or plural, as the identity of the party or parties or their personal representatives, successors and assigns may require. The word “Company” or “Companies” shall mean all of the undersigned Persons.

(p) Further Assurances. The parties hereto will execute and deliver such further instruments and do such further acts and things as may be reasonably required to carry out the intent and purposes of this Agreement, including the execution and filing of UCC-1 Financing Statements in any jurisdiction as Secured Party may require.

(q) Time is of the Essence. The parties hereby agree that time is of the essence with respect to performance of each of the parties’ obligations under this Agreement. The parties agree that in the event that any date on which performance is to occur falls on a Saturday, Sunday or state or national holiday, then the time for such performance shall be extended until the next business day thereafter occurring.

(r) Joint Preparation. The preparation of this Agreement has been a joint effort of the parties and the resulting documents shall not, solely as a matter of judicial construction, be construed more severely against one of the parties than the other.

(s) Prevailing Party. If any legal action or other proceeding is brought for the enforcement of this Agreement or any other Loan Documents, or because of an alleged dispute, breach, default or misrepresentation in connection with any provisions of this Agreement or any other Loan Documents, the successful or prevailing party or parties shall be entitled to recover from the non-prevailing party, reasonable attorneys’ fees, court costs and all expenses, even if not taxable as court costs (including, without limitation, all such fees, costs and expenses incident to appeals), incurred in that action or proceeding, in addition to any other relief to which such party or parties may be entitled.

(t) Costs and Expenses. The Pledgor and the Company, jointly and severally, agree to pay to the Secured Party, upon demand, the amount of any and all costs and expenses, including the reasonable fees, costs, expenses and disbursements of counsel for the Secured Party and of any experts and agents, which the Secured Party may incur in connection with: (i) the preparation, negotiation, execution, delivery, recordation, administration, amendment, waiver or other modification or termination of this Agreement; (ii) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any Collateral; (iii) the exercise or enforcement of any of the rights of the Secured Party hereunder; or (iv) the failure by the Pledgor or the Company to perform or observe any of the provisions hereof. Included in the foregoing shall be the amount of all expenses paid or incurred by Secured Party in consulting with counsel concerning any of its rights hereunder, under any Loan Documents or under applicable law, as well as such portion of Secured Party's overhead as Secured Party shall allocate to collection and enforcement of the Obligations in Secured Party's sole but reasonable discretion. All such costs and expenses shall bear interest from the date of outlay until paid, at the highest rate allowed by law. The provisions of this Subsection shall survive the termination of this Agreement and Secured Party's security interest hereunder and the payment of all Obligations.

(u) Joint and Several Liability. The liability of Pledgor shall be joint and several with the liability of the Company and any other Person liable for the Obligations.

**[Signatures on the following page]**

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

**PLEDGOR:**

**DRONE USA, INC.**, a Delaware corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

STATE OF \_\_\_\_\_ )  
SS.  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_ day of \_\_\_\_\_, 2016 by \_\_\_\_\_, who is the CEO of DRONE USA, INC., a Delaware corporation, on behalf of such entity. He/She is personally known to me or has produced \_\_\_\_\_ as identification.

My Commission Expires:

\_\_\_\_\_  
Notary Public

\_\_\_\_\_  
Name of Notary typed or printed



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

**SECURED PARTY:**

**TCA GLOBAL CREDIT MASTER FUND, LP**

By: **TCA Global Credit Fund GP, Ltd.**

Its: **General Partner**

By: \_\_\_\_\_  
Robert Press, Director

## **PLEDGE AND ESCROW AGREEMENT**

THIS PLEDGE AND ESCROW AGREEMENT ("**Agreement**") is made and entered into as of May 31, 2016, but made effective as of September 13, 2016, by and between **DRONE USA, LLC**, a Delaware limited liability company (the "**Pledgor**"), and **TCA GLOBAL CREDIT MASTER FUND, LP**, a Cayman Islands limited partnership (the "**Secured Party**"), with the joinder of **DAVID KAHAN, P.A.** ("**Escrow Agent**").

### **RECITALS**

**WHEREAS**, the Secured Party has made certain financial accommodations for the benefit of the Pledgor pursuant to that certain Credit Agreement of even date herewith among the Pledgor and Secured Party, among others (the "**Credit Agreement**"); and

**WHEREAS**, in order to secure the full and prompt payment when due (whether at the stated maturity, by acceleration or otherwise) of all of the Pledgor's Obligations to the Secured Party, or any successor to the Secured Party, under the Credit Agreement and all other Loan Documents, Pledgor has agreed to irrevocably pledge to the Secured Party 100% of the issued and outstanding shares of the capital stock and/or membership interests, as applicable, of **HOWCO DISTRIBUTING CO.**, a Washington corporation (the "**Company**") (such shares of stock and/or membership interests in the Company hereinafter referred to as the "**Pledged Securities**");

**NOW, THEREFORE**, in consideration of the mutual covenants, agreements, warranties, and representations herein contained, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. **Recitals, Construction and Defined Terms.** The recitations set forth in the preamble of this Agreement are true and correct and incorporated herein by this reference. In this Agreement, unless the express context otherwise requires: (i) the words "herein," "hereof" and "hereunder" and words of similar import refer to this Agreement as a whole and not to any particular provision of this Agreement; (ii) references to the words "Section" or "Subsection" refer to the respective Sections and Subsections of this Agreement, and references to "Exhibit" or "Schedule" refer to the respective Exhibits and Schedules attached hereto; and (iii) wherever the word "include," "includes," "including" or words of similar import are used in this Agreement, such words will be deemed to be followed by the words "without limitation." All capitalized terms used in this Agreement that are defined in the Credit Agreement shall have the meanings assigned to them in the Credit Agreement, unless the context of this Agreement requires otherwise (provided that if a capitalized term used herein is defined in the Credit Agreement and separately defined in this Agreement, the meaning of such term as defined in this Agreement shall control for purposes of this Agreement).

2. **Pledge.** In order to secure the full and timely payment and performance of all of the Pledgor's Obligations to the Secured Party under the Loan Documents, the Pledgor hereby transfers, pledges, assigns, sets over, delivers and grants to the Secured Party a continuing lien and security interest in and to all of the following property of Pledgor, both now owned and existing and hereafter created, acquired and arising (all being collectively hereinafter referred to as the "**Collateral**") and all right, title and interest of Pledgor in and to the Collateral, to-wit:

- (a) the Pledged Securities owned by Pledgor;
- (b) any certificates representing or evidencing the Pledged Securities, if any;

(c) any and all distributions thereon, and cash and non-cash proceeds and products thereof, including all dividends, cash, distributions, income, profits, instruments, securities, stock dividends, distributions of capital stock or other securities of the Company and all other property from time to time received, receivable or otherwise distributed in respect of, in exchange for or upon conversion of the Pledged Securities, whether in connection with stock splits, recapitalizations, merger, conversions, combinations, reclassifications, exchanges of securities or otherwise; and

(d) any and all voting, management, and other rights, powers and privileges accruing or incidental to an owner of the Pledged Securities and the other property referred to in subsections 2(a) through 2(c) above.

3. Transfer of Pledged Securities. Simultaneously with the execution of this Agreement, Pledgor shall deliver to the Escrow Agent: (i) if the Pledged Securities are evidenced by physical certificates, then all original certificates representing or evidencing the Pledged Securities, together with undated, irrevocable and duly executed assignments or stock powers thereof in form and substance acceptable to Secured Party (together with medallion guaranteed signatures, if required by Secured Party), executed in blank by Pledgor; (ii) if the Pledged Securities are not represented by physical certificates, then undated, irrevocable and duly executed assignment instruments in form and substance acceptable to Secured Party, executed in blank by Pledgor; and (iii) all other property, instruments, documents and papers comprising, representing or evidencing the Collateral, or any part thereof, together with proper instruments of assignment or endorsement, as Secured Party may request or require, duly executed by Pledgor (collectively, the “**Transfer Documents**”). The Pledged Securities and other Transfer Documents (collectively, the “**Pledged Materials**”) shall be held by the Escrow Agent pursuant to this Agreement until the full payment and performance of all of the Obligations, the termination or expiration of this Agreement, or delivery of the Pledged Materials in accordance with this Agreement. In addition, all non-cash dividends, dividends paid or payable in cash or otherwise in connection with a partial or total liquidation or dissolution of the Company, instruments, securities and any other distributions, whether paid or payable in cash or otherwise, made on or in respect of the Pledged Securities, whether resulting from a subdivision, combination, or reclassification of the outstanding capital stock or other securities of the Company, or received in exchange for the Pledged Securities or any part thereof, or in redemption thereof, as a result of any merger, consolidation, acquisition, or other exchange of assets to which the Company may be a party or otherwise, or any other property that constitutes part of the Collateral from time to time, including any additional certificates representing any portion of the Collateral hereafter acquired by the Pledgor, shall be immediately delivered or cause to be delivered by Pledgor to the Escrow Agent in the same form as so received, together with proper instruments of assignment or endorsement duly executed by Pledgor.

4. Security Interest Only. The security interests in the Collateral granted to Secured Party hereunder are granted as security only and shall not subject the Secured Party to, or transfer or in any way affect or modify, any obligation or liability of the Pledgor with respect to any of the Collateral or any transaction in connection therewith.

5. Record Owner of Collateral. Until an “Event of Default” (as hereinafter defined) under this Agreement shall occur, the Pledged Securities shall remain registered in the name of the Pledgor. Pledgor will promptly give to the Secured Party copies of any notices or other communications received by it and with respect to Collateral registered in the name of Pledgor.

6. Rights Related to Pledged Securities. Subject to the terms of this Agreement, unless and until an Event of Default under this Agreement shall occur:

(a) Pledgor shall be entitled to exercise any and all voting, management, and other rights, powers and privileges accruing to an owner of the Pledged Securities, or any part thereof, for any purpose consistent with the terms of this Agreement; provided, however, such action would not materially and adversely affect the rights inuring to Secured Party under any of the Loan Documents, or adversely affect the remedies of the Secured Party under any of the Loan Documents, or the ability of the Secured Party to exercise same.

(b) Upon the occurrence of an Event of Default, all rights of the Pledgor in and to the Pledged Securities and all other Collateral shall cease and all such rights shall immediately vest in Secured Party, as may be determined by Secured Party, although Secured Party shall not have any duty to exercise such rights or be required to sell or to otherwise realize upon the Collateral, as hereinafter authorized, or to preserve the same, and Secured Party shall not be responsible for any failure to do so or delay in doing so. To effectuate the foregoing, Pledgor hereby grants to Secured Party a proxy to vote the Pledged Securities for and on behalf of Pledgor, which proxy is irrevocable and coupled with an interest and which proxy shall be effective upon the occurrence of any Event of Default. Such proxy shall remain in effect so long as the Obligations remain outstanding. The Company hereby agrees that any vote by Pledgor in violation of this Section 6 shall be null, void and of no force or effect. Furthermore, all dividends or other distributions received by the Pledgor shall be subject to delivery to Escrow Agent in accordance with Section 3 above, and until such delivery, any of such dividends and other distributions shall be received in trust for the benefit of the Secured Party, shall be segregated from other property or funds of the Pledgor and shall be forthwith delivered to Escrow Agent in accordance with Section 3 above.

7. Release of Pledged Securities. Upon the timely payment in full of all of the Obligations in accordance with the terms thereof, Secured Party shall notify the Escrow Agent in writing to such effect. Upon receipt of such written notice, the Escrow Agent shall return all of the Pledged Materials in Escrow Agent's possession to the Pledgor, whereupon any and all rights of Secured Party in and to the Pledged Materials and all other Collateral shall be terminated.

8. Representations, Warranties, and Covenants of the Pledgor and the Company. The Pledgor and the Company each hereby covenant, warrant and represent, for the benefit of the Secured Party, as follows (the following representations and warranties shall be made as of the date of this Agreement and as of each date when Pledged Securities are delivered to Escrow Agent hereunder, as applicable):

(a) The Pledged Securities are free and clear of any and all Liens, other than as created by this Agreement.

(b) The Pledged Securities have been duly authorized and are validly issued, fully paid and non-assessable, and are subject to no options to purchase, or any similar rights or to any restrictions on transferability.

(c) Each certificate or document of title constituting the Pledged Securities is genuine in all respects and represents what it purports to be.

(d) By virtue of the execution and delivery of this Agreement and upon delivery to Escrow Agent of the Pledged Securities in accordance with this Agreement, Secured Party will have a valid and perfected, first priority security interest in the Collateral, subject to no prior or other Liens of any nature whatsoever.

(e) Pledgor covenants, that for so long as this Agreement is in effect, Pledgor will defend the Collateral and the priority of Secured Party's security interests therein, at its sole cost and expense, against the claims and demands of all Persons at anytime claiming the same or any interest therein.

(f) At its option, Secured Party may pay, for Pledgor's account, any taxes (including documentary stamp taxes), Liens, security interests, or other encumbrances at any time levied or placed on the Collateral. Pledgor agrees to reimburse Secured Party on demand for any payment made or expense incurred by Secured Party pursuant to the foregoing authorization. Any such amount, if not promptly paid upon demand therefor, shall accrue interest at the highest non-usurious rate permitted by applicable law from the date of outlay, until paid, and shall constitute an Obligation secured hereby.

(g) The Pledgor and the Company acknowledge, represent and warrant that Secured Party is not an "affiliate" of the Pledgor or the Company, as such term is used and defined under Rule 144 of the federal securities laws.

(h) The Pledged Securities constitute all of the securities owned, legally or beneficially, by the Pledgor, and such securities represent 100% of the issued and outstanding capital stock or other securities, on a fully diluted basis, of the Company. At all times while this Agreement remains in effect, the Pledged Securities shall constitute and represent 100% of the issued and outstanding shares of the capital stock or other securities of the Company, on a fully-diluted basis.

(i) The Company and the Pledgor hereby authorize Secured Party to prepare and file such financing statements, amendments and other documents and do such acts as Secured Party deems necessary in order to establish and maintain valid, attached and perfected, first priority security interests in the Collateral in favor of Secured Party, for its own benefit and as agent for its Affiliates, free and clear of all Liens and claims and rights of third parties whatsoever. The Company and Pledgor hereby irrevocably authorize Secured Party at any time, and from time to time, to file in any jurisdiction any initial financing statements, amendments, continuations and other documents in furtherance of the foregoing.

9. Events of Default. The occurrence of any one or more of the following events shall constitute an "**Event of Default**" hereunder:

(a) Default. The occurrence of any breach, default or "Event of Default" (as such term may be defined in any Loan Documents), after applicable notice and cure periods, under any of the Loan Documents.

(b) Covenants and Agreements. The failure of Pledgor or the Company to perform, observe or comply with any and all of the covenants, promises and agreements of the Pledgor and the Company in this Agreement, which such failure is not cured by the Pledgor or the Company within ten (10) days after receipt of written notice thereof from Secured Party, except that there shall be no notice or cure period with respect to any failure to pay any sums due under or as part of the Obligations (provided that if the failure to perform or default in performance is not capable of being cured, in Secured Party's sole discretion, then the cure period set forth herein shall not be applicable and the failure or default shall be an immediate Event of Default hereunder).

(c) Information, Representations and Warranties. If any representation or warranty made herein or in any other Loan Documents, or if any information contained in any financial statement, application, schedule, report or any other document given by the Company to Secured Party in connection with the Obligations, with the Collateral, or with the Loan Documents, is not in all material respects true, accurate and complete, or if the Pledgor or the Company omitted to state any material fact or any fact necessary to make such information not misleading.

10. Rights and Remedies. Subject at all times to the Uniform Commercial Code as then in effect in the State governing this Agreement, the Secured Party shall have the following rights and remedies upon the occurrence and continuation of an Event of Default:

(a) Upon and anytime after the occurrence and continuation of an Event of Default, the Secured Party shall have the right to acquire the Pledged Securities and all other Collateral in accordance with the following procedure: (i) the Secured Party shall provide written notice of such Event of Default (the “**Default Notice**”) to the Escrow Agent, with a copy to the Pledgor and the Company; (ii) as soon as practicable after receipt of a Default Notice, the Escrow Agent shall deliver the Pledged Securities and all other Collateral, along with the applicable Transfer Documents, to the Secured Party.

(b) Upon receipt of the Pledged Securities and other Collateral issued to the Secured Party, the Secured Party shall have the right to, without notice or demand to Pledgor or the Company: (i) sell the Collateral and to apply the proceeds of such sales, net of any selling commissions, to the Obligations owed to the Secured Party by the Company under the Loan Documents, including outstanding principal, interest, legal fees, and any other amounts owed to the Secured Party; and (ii) exercise in any jurisdiction in which enforcement hereof is sought, any rights and remedies available to Secured Party under the provisions of any of the Loan Documents, the rights and remedies of a secured party under the Uniform Commercial Code as then in effect in the State governing this Agreement, and all other rights and remedies available to the Secured Party, under equity or applicable law, all such rights and remedies being cumulative and enforceable alternatively, successively or concurrently. In furtherance of the foregoing rights and remedies:

(i) Secured Party may sell the Pledged Securities, or any part thereof, or any other portion of the Collateral, in one or more sales, at public or private sale, conducted by any agent of, or auctioneer or attorney for Secured Party, at Secured Party’s place of business or elsewhere, or at any broker’s board or on any securities exchange, for cash, upon credit or for future delivery, and at such price or prices, all as Secured Party may deem appropriate. Secured Party may be a purchaser at any such sale of any or all of the Collateral so sold. In the event Secured Party is a purchaser at any such sale, Secured Party may apply to such purchase all or any portion of the sums then due and owing by the Company to Secured Party under any of the Loan Documents or otherwise, and the Secured Party may, upon compliance with the terms of the sale, hold, retain and dispose of such property without further accountability to the Pledgor or the Company therefore. Secured Party is authorized, in its absolute discretion, to restrict the prospective bidders or purchasers of any of the Collateral at any public or private sale as to their number, nature of business and investment intention, including the restricting of bidders or purchasers to one or more persons who represent and agree, to the satisfaction of Secured Party, that they are purchasing the Collateral, or any part thereof, for their own account, for investment, and not with a view to the distribution or resale of any of such Collateral.

(ii) Upon any such sale, Secured Party shall have the right to deliver, assign and transfer to each purchaser thereof the Collateral so sold to such purchaser. Each purchaser (including Secured Party) at any such sale shall, to the full extent permitted by law, hold the Collateral so purchased absolutely free from any claim or right whatsoever, including, without limitation, any equity or right of redemption of the Pledgor, who, to the full extent that it may lawfully do so, hereby specifically waives all rights of redemption, stay, valuation or appraisal which she now has or may have under any rule of law or statute now existing or hereafter adopted.

(iii) At any such sale, the Collateral may be sold in one lot as an entirety, in separate blocks or individually as Secured Party may determine, in its sole and absolute discretion. Secured Party shall not be obligated to make any sale of any Collateral if it shall determine in its sole and absolute discretion, not to do so, regardless of the fact that notice of sale of such Collateral shall have been given. Secured Party may, without notice or publication, adjourn any public or private sale from time to time by announcement at the time and place fixed for such sale, or any adjournment thereof, and any such sale may be made at any time or place to which the same may be so adjourned without further notice or publication.

(iv) The Pledgor and the Company acknowledge that compliance with applicable federal and state securities laws (including, without limitation, the Securities Act of 1933, as amended, blue sky or other state securities laws or similar laws now or hereafter existing analogous in purpose or effect) might very strictly limit or restrict the course of conduct of Secured Party if Secured Party were to attempt to sell or otherwise dispose of all or any part of the Collateral, and might also limit or restrict the extent to which or the manner in which any subsequent transferee of any such securities could sell or dispose of the same. The Pledgor and the Company further acknowledge that under applicable laws, Secured Party may be held to have certain general duties and obligations to the Pledgor, as pledgors of the Collateral, or the Company, to make some effort toward obtaining a fair price for the Collateral even though the obligations of the Pledgor and the Company may be discharged or reduced by the proceeds of sale at a lesser price. The Pledgor and the Company understand and agree that, to the extent allowable under applicable law, Secured Party is not to have any such general duty or obligation to the Pledgor or the Company, and neither the Pledgor nor the Company will attempt to hold Secured Party responsible for selling all or any part of the Collateral at an inadequate price even if Secured Party shall accept the first offer received or does not approach more than one possible purchaser. Without limiting their generality, the foregoing provisions would apply if, for example, Secured Party were to place all or any part of such securities for private placement by an investment banking firm, or if such investment banking firm purchased all or any part of such securities for its own account, or if Secured Party placed all or any part of such securities privately with a purchaser or purchasers.

(c) To the extent that the net proceeds received by the Secured Party are insufficient to satisfy the Obligations in full, the Secured Party shall be entitled to a deficiency judgment against the Company and any other Person obligated for the Obligations for such deficiency amount. The Secured Party shall have the absolute right to sell or dispose of the Collateral, or any part thereof, in any manner it sees fit and shall have no liability to the Pledgor, the Company, or any other party for selling or disposing of such Collateral even if other methods of sales or dispositions would or allegedly would result in greater proceeds than the method actually used. The Company and any other Person obligated for the Obligations shall remain liable for all deficiencies and shortfalls, if any, that may exist after the Secured Party has exhausted all remedies hereunder.

(d) Each right, power and remedy of the Secured Party provided for in this Agreement or any other Transaction Document shall be cumulative and concurrent and shall be in addition to every other such right, power or remedy. The exercise or beginning of the exercise by the Secured Party of any one or more of the rights, powers or remedies provided for in this Agreement or any other Loan Documents, or now or hereafter existing at law or in equity or by statute or otherwise, shall not preclude the simultaneous or later exercise by the Secured Party of all such other rights, powers or remedies, and no failure or delay on the part of the Secured Party to exercise any such right, power or remedy shall operate as a waiver thereof. No notice to or demand on the Pledgor in any case shall entitle it to any other or further notice or demand in similar or other circumstances or constitute a waiver of any of the rights of the Secured Party to any other further action in any circumstances without demand or notice. The Secured Party shall have the full power to enforce or to assign or contract its rights under this Agreement to a third party.

(e) In addition to all other remedies available to the Secured Party, upon the issuance of the Pledged Securities to the Secured Party after an Event of Default, Pledgor and the Company each agree to: (i) take such action and prepare, distribute and/or file such documents and papers, as are required or advisable in the opinion of Secured Party and/or its counsel, to permit the sale of the Pledged Securities, whether at public sale, private sale or otherwise, including, without limitation, issuing, or causing its counsel to issue, any opinion of counsel for Pledgor or the Company required to allow the Secured Party to sell the Pledged Securities or any other Collateral under Rule 144; (ii) to bear all costs and expenses of carrying out its obligations under this Section 8(e), which shall be a part of the Obligations secured hereby; and (iv) that there is no adequate remedy at law for the failure by the Pledgor and the Company to comply with the provisions of this Section 8(e) and that such failure would not be adequately compensable in damages, and therefore agrees that its agreements contained in this subsection may be specifically enforced.

11. Concerning the Escrow Agent.

(a) The Escrow Agent undertakes to perform only such duties as are expressly set forth herein and no implied duties or obligations shall be read into this Agreement against the Escrow Agent. Escrow Agent agrees to release any property held by it hereunder (the “**Escrowed Property**”) in accordance with the terms and conditions set forth in this Agreement.

(b) The Escrow Agent may act in reliance upon any writing or instrument or signature which it, in good faith, believes to be genuine, may assume the validity and accuracy of any statement or assertion contained in such a writing or instrument, and may assume that any person purporting to give any writing, notice, advice or instructions in connection with the provisions hereof has been duly authorized to do so. The Escrow Agent shall not be liable in any manner for the sufficiency or correctness as to form, manner, and execution, or validity of any instrument deposited in this escrow, nor as to the identity, authority, or right of any person executing the same; and its duties hereunder shall be limited to the safekeeping of the Escrowed Property, and for the disposition of the same in accordance with this Agreement. Escrow Agent shall not be deemed to have knowledge of any matter or thing unless and until Escrow Agent has actually received written notice of such matter or thing and Escrow Agent shall not be charged with any constructive notice whatsoever.

(c) Escrow Agent shall hold in escrow, pursuant to this Agreement, the Escrowed Property actually delivered and received by Escrow Agent hereunder, but Escrow Agent shall not be obligated to ascertain the existence of (or initiate recovery of) any other property that may be part or portion of the Collateral, or to become or remain informed with respect to the possibility or probability of additional Collateral being realized upon or collected at any time in the future, or to inform any parties to this Agreement or any third party with respect to the nature and extent of any Collateral realized and received by Escrow Agent (except upon the written request of such party), or to monitor current market values of the Collateral. Further, Escrow Agent shall not be obligated to proceed with any action or inaction based on information with respect to market values of the Collateral which Escrow Agent may in any manner learn, nor shall Escrow Agent be obligated to inform the parties hereto or any third party with respect to market values of any of the Collateral at any time, Escrow Agent having no duties with respect to investment management or information, all parties hereto understanding and intending that Escrow Agent’s responsibilities are purely ministerial in nature. Any reduction in the market value or other value of the Collateral while deposited with Escrow Agent shall be at the sole risk of Pledgor and Secured Party. If all or any portion of the Escrowed Property is in the form of a check or in any other form other than cash, Escrow Agent shall deposit same as required but shall not be liable for the nonpayment thereof, nor responsible to enforce collection thereof.

(d) In the event instructions from Secured Party, Pledgor, or any other Person would require Escrow Agent to expend any monies or to incur any cost, Escrow Agent shall be entitled to refrain from taking any action until it receives payment for such costs. It is agreed that the duties of Escrow Agent are purely ministerial in nature and shall be expressly limited to the safekeeping of the Escrowed Property and for the disposition of same in accordance with this Agreement. Secured Party, Pledgor and the Company, jointly and severally, each hereby indemnifies Escrow Agent and holds it harmless from and against any and all claims, liabilities, damages, costs, penalties, losses, actions, suits or proceedings at law or in equity, or any other expenses, fees or charges of any character or nature (collectively, the “**Claims**”), which it may incur or with which it may be threatened, directly or indirectly, arising from or in any way connected with this Agreement or which may result from Escrow Agent’s following of instructions from Secured Party, Pledgor or the Company, and in connection therewith, indemnifies Escrow Agent against any and all expenses, including attorneys’ fees and the cost of defending any action, suit, or proceeding or resisting any Claim, whether or not litigation is instituted, unless any such Claims arise as a result of Escrow Agent’s gross negligence or willful misconduct. Escrow Agent shall be vested with a lien on all Escrowed Property under the terms of this Agreement, for indemnification, attorneys’ fees, court costs and all other costs and expenses arising from any suit, interpleader or otherwise, or other expenses, fees or charges of any character or nature, which may be incurred by Escrow Agent by reason of disputes arising between Pledgor, the Company, Secured Party, or any third party as to the correct interpretation of this Agreement, and instructions given to Escrow Agent hereunder, or otherwise, with the right of Escrow Agent, regardless of the instruments aforesaid and without the necessity of instituting any action, suit or proceeding, to hold any property hereunder until and unless said additional expenses, fees and charges shall be fully paid. Any fees and costs charged by the Escrow Agent for serving hereunder shall be paid by the Pledgor and the Company, jointly and severally.

(e) In the event Escrow Agent shall be uncertain as to its duties or rights hereunder or shall receive instructions, claims or demands from Secured Party, the Company, Pledgor or from third persons with respect to the Escrowed Property, which, in Escrow Agent’s sole opinion, are in conflict with each other or with any provision of this Agreement, Escrow Agent shall be entitled to refrain from taking any action until it shall be directed otherwise in writing by Pledgor, the Company and Secured Party and said third persons, if any, or by a final order or judgment of a court of competent jurisdiction. If any of the parties shall be in disagreement about the interpretation of this Agreement, or about the rights and obligations, or the propriety of any action contemplated by the Escrow Agent hereunder, the Escrow Agent may, at its sole discretion, deposit the Escrowed Property with a court having jurisdiction over this Agreement, and, upon notifying all parties concerned of such action, all liability on the part of the Escrow Agent shall fully cease and terminate. The Escrow Agent shall be indemnified by the Pledgor, the Company and Secured Party for all costs, including reasonable attorneys’ fees, in connection with the aforesaid proceeding, and shall be fully protected in suspending all or a part of its activities under this Agreement until a final decision or other settlement in the proceeding is received. In the event Escrow Agent is joined as a party to a lawsuit by virtue of the fact that it is holding the Escrowed Property, Escrow Agent shall, at its sole option, either: (i) tender the Collateral in its possession to the registry of the appropriate court; or (ii) disburse the Collateral in its possession in accordance with the court’s ultimate disposition of the case, and Secured Party, the Company and Pledgor hereby, jointly and severally, indemnify and hold Escrow Agent harmless from and against any damages or losses in connection therewith including, but not limited to, reasonable attorneys’ fees and court costs at all trial and appellate levels.

(f) The Escrow Agent may consult with counsel of its own choice (and the costs of such counsel shall be paid by the Pledgor, the Company and Secured Party, jointly and severally) and shall have full and complete authorization and protection for any action taken or suffered by it hereunder in good faith and in accordance with the opinion of such counsel. The Escrow Agent shall not be liable for any mistakes of fact or error of judgment, or for any actions or omissions of any kind, unless caused by its willful misconduct or gross negligence.

(g) The Escrow Agent may resign upon ten (10) days' written notice to the parties in this Agreement. If a successor Escrow Agent is not appointed by Secured Party and Pledgor within this ten (10) day period, the Escrow Agent may petition a court of competent jurisdiction to name a successor.

(h) Conflict Waiver. The Pledgor and the Company hereby acknowledges that the Escrow Agent is counsel to the Secured Party in connection with the transactions contemplated and referred herein. The Pledgor and the Company agree that in the event of any dispute arising in connection with this Agreement or otherwise in connection with any transaction or agreement contemplated and referred herein, the Escrow Agent shall be permitted to continue to represent the Secured Party and neither the Pledgor, nor the Company, will seek to disqualify such counsel and each of them waives any objection Pledgor or the Company might have with respect to the Escrow Agent acting as the Escrow Agent pursuant to this Agreement. Pledgor, the Company and Secured Party acknowledge and agree that nothing in this Agreement shall prohibit Escrow Agent from: (i) serving in a similar capacity on behalf of others; or (ii) acting in the capacity of attorneys for one or more of the parties hereto in connection with any matter.

12. Increase in Obligations. It is the intent of the parties to secure payment of the Obligations, as the amount of such Obligations may increase from time to time in accordance with the terms and provisions of the Loan Documents, and all of the Obligations, as so increased from time to time, shall be and are secured hereby. Upon the execution hereof, Pledgor and the Company shall pay any and all documentary stamp taxes and/or other charges required to be paid in connection with the execution and enforcement of the Loan Documents, and if, as and to the extent the Obligations are increased from time to time in accordance with the terms and provisions of the Loan Documents, then Pledgor and the Company shall immediately pay any additional documentary stamp taxes or other charges in connection therewith.

13. Irrevocable Authorization and Instruction. If applicable, Pledgor and the Company hereby authorize and instruct the transfer agent for the Company (or transfer agents if there is more than one) to comply with any instruction received by it from Secured Party in writing that: (i) states that an Event of Default hereunder exists or has occurred; and (b) is otherwise in accordance with the terms of this Agreement, without any other or further instructions from Pledgor or the Company, and Pledgor and the Company agree that such transfer agents shall be fully protected in so complying with any such instruction from Secured Party.

14. Appointment as Attorney-in-Fact. The Company and Pledgor hereby irrevocably constitutes and appoints Secured Party and any officer or agent of Secured Party, with full power of substitution, as its true and lawful attorney-in-fact, with full irrevocable power and authority in the place and stead of Pledgor or the Company, as applicable, and in the name of Pledgor, the Company, or in the name of Secured Party, as applicable, from time to time in the discretion of Secured Party, so long as an Event of Default hereunder exists, for the purpose of carrying out the terms of this Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this Agreement, including any financing statements, endorsements, assignments or other instruments of transfer. Pledgor and the Company each hereby ratify all that said attorneys shall lawfully do or cause to be done pursuant to the power of attorney granted in this Section 14. All powers, authorizations and agencies contained in this Agreement are coupled with an interest and are irrevocable until the Obligations are paid and performed in full.

15. Continuing Obligation of Pledgor and the Company. The obligations, covenants, agreements and duties of the Pledgor and the Company under this Agreement shall in no way be affected or impaired by: (i) the modification or amendment (whether material or otherwise) of any of the obligations of the Pledgor or the Company or any other Person, as applicable; (ii) the voluntary or involuntary bankruptcy, assignment for the benefit of creditors, reorganization, or other similar proceedings affecting the Company, Pledgor or any other Person, as applicable; (iii) the release of the Company, Pledgor or any other Person from the performance or observance of any of the agreements, covenants, terms or conditions contained in any Loan Documents, by the operation of law or otherwise, including the release of the Company's or Pledgor's obligation to pay interest or attorney's fees.

Pledgor and the Company further agree that Secured Party may take other guaranties or collateral or security to further secure the Obligations, and consent that any of the terms, covenants and conditions contained in any of the Loan Documents may be renewed, altered, extended, changed or modified by Secured Party or may be released by Secured Party, without in any manner affecting this Agreement or releasing Pledgor herefrom, and Pledgor shall continue to be liable hereunder to pay and perform pursuant hereto, notwithstanding any such release or the taking of such other guaranties, collateral or security. This Agreement is additional and supplemental to any and all other guaranties, security agreements or collateral heretofore and hereafter executed by Pledgor and the Company for the benefit of Secured Party, whether relating to the indebtedness evidenced by any of the Loan Documents or not, and shall not supersede or be superseded by any other document or guaranty executed by Pledgor, the Company or any other Person for any purpose. Pledgor and the Company hereby agree that Pledgor, the Company, and any additional parties who may become liable for repayment of the sums due under the Loan Documents, may hereafter be released from their liability hereunder and thereunder; and Secured Party may take, or delay in taking or refuse to take, any and all action with reference to any of the Loan Documents (regardless of whether same might vary the risk or alter the rights, remedies or recourses of Pledgor), including specifically the settlement or compromise of any amount allegedly due thereunder, all without notice to, consideration to or the consent of the Pledgor, and without in any way releasing, diminishing or affecting in any way the absolute nature of Pledgor's obligations and liabilities hereunder.

No delay on the part of the Secured Party in exercising any rights hereunder or failure to exercise the same shall operate as a waiver of such rights. Pledgor and the Company hereby waives any and all legal requirements, statutory or otherwise, that Secured Party shall institute any action or proceeding at law or in equity or exhaust its rights, remedies and recourses against Pledgor, any Company or anyone else with respect to the Loan Documents, as a condition precedent to bringing an action against Pledgor or the Company upon this Agreement or as a condition precedent to Secured Party's rights to sell the Pledged Securities or any other Collateral. Pledgor and the Company agree that Secured Party may simultaneously maintain an action upon this Agreement and an action or proceeding upon the Loan Documents. All remedies afforded by reason of this Agreement are separate and cumulative remedies and may be exercised serially, simultaneously and in any order, and the exercise of any of such remedies shall not be deemed an exclusion of the other remedies and shall in no way limit or prejudice any other contractual, legal, equitable or statutory remedies which Secured Party may have in the Pledged Securities, any other Collateral, or under the Loan Documents. Until the Obligations, and all extensions, renewals and modifications thereof, are paid in full, and until each and all of the terms, covenants and conditions of this Agreement are fully performed, Pledgor shall not be released by any act or thing which might, but for this provision of this Agreement, be deemed a legal or equitable discharge of a surety, or by reason of any waiver, extension, modification, forbearance or delay of Secured Party or any obligation or agreement between the Company or its successors or assigns, and the then holder of the Loan Documents, relating to the payment of any sums evidenced or secured thereby or to any of the other terms, covenants and conditions contained therein, and Pledgor hereby expressly waive and surrender any defense to liability hereunder based upon any of the foregoing acts, things, agreements or waivers, or any of them. Pledgor and Company also waives any defense arising by virtue of any disability, insolvency, bankruptcy, lack of authority or power or dissolution of Pledgor or Company, even though rendering the Loan Documents void, unenforceable or otherwise uncollectible, it being agreed that Pledgor and the Company shall remain liable hereunder, regardless of any claim which Pledgor or the Company might otherwise have against Secured Party by virtue of Secured Party's invocation of any right, remedy or recourse given to it hereunder or under the Loan Documents. In addition, Pledgor waives and renounces any right of subrogation, reimbursement or indemnity whatsoever, and any right of recourse to security for the Obligations of the Company to Secured Party, unless and until all of said Obligations have been paid in full to Secured Party.

16. Miscellaneous.

(a) Performance for Pledgor or the Company. The Pledgor and the Company agree and hereby acknowledge that Secured Party may, in Secured Party's sole discretion, but Secured Party shall not be obligated to, whether or not an Event of Default shall have occurred, advance funds on behalf of the Company or Pledgor, without prior notice to the Pledgor or the Company, in order to insure the Company's and Pledgor's compliance with any covenant, warranty, representation or agreement of the Pledgor or the Company made in or pursuant to this Agreement or the other Loan Documents, to continue or complete, or cause to be continued or completed, performance of the Pledgor's and the Company's obligations under any contracts of the Pledgor or the Company, or to preserve or protect any right or interest of Secured Party in the Collateral or under or pursuant to this Agreement or the other Loan Documents; provided, however, that the making of any such advance by Secured Party shall not constitute a waiver by Secured Party of any Event of Default with respect to which such advance is made, nor relieve the Pledgor or the Company of any such Event of Default. The Pledgor and the Company, respectively and as applicable, shall pay to Secured Party upon demand all such advances made by Secured Party with interest thereon at the highest rate permitted by applicable law. All such advances shall be deemed to be included in the Obligations and secured by the security interest granted Secured Party hereunder; provided, however, that the provisions of this Subsection shall survive the termination of this Agreement and Secured Party's security interest hereunder and the payment of all other Obligations.

(b) Applications of Payments and Collateral. Except as may be otherwise specifically provided in this Agreement or the other Loan Documents, all Collateral and proceeds of Collateral coming into Secured Party's possession may be applied by Secured Party (after payment of any costs, fees and other amounts incurred by Secured Party in connection therewith) to any of the Obligations, whether matured or unmatured, as Secured Party shall determine in its sole discretion. Any surplus held by the Secured Party and remaining after the indefeasible payment in full in cash of all of the Obligations shall be paid over to whomsoever shall be lawfully entitled to receive the same or as a court of competent jurisdiction shall direct. In the event that the proceeds of any such sale, collection or realization are insufficient to pay all amounts to which the Secured Party is legally entitled, the Company shall be liable for the deficiency, together with interest thereon at the highest rate permitted by applicable law, together with the costs of collection and the reasonable fees, costs, expenses and other client charges of any attorneys employed by the Secured Party to collect such deficiency.

(c) Waivers by Pledgor and the Company. The Company and the Pledgor hereby waives, to the extent the same may be waived under applicable law: (i) notice of acceptance of this Agreement; (ii) all claims and rights of the Pledgor and the Company against Secured Party on account of actions taken or not taken by Secured Party in the exercise of Secured Party's rights or remedies hereunder, under any other Loan Documents or under applicable law; (iii) all claims of the Pledgor and the Company for failure of Secured Party to comply with any requirement of applicable law relating to enforcement of Secured Party's rights or remedies hereunder, under the other Loan Documents or under applicable law; (iv) all rights of redemption of the Pledgor with respect to the Collateral; (v) in the event Secured Party seeks to repossess any or all of the Collateral by judicial proceedings, any bond(s) or demand(s) for possession which otherwise may be necessary or required; (vi) presentment, demand for payment, protest and notice of non-payment and all exemptions applicable to any of the Collateral or the Pledgor or the Company; (vii) any and all other notices or demands which by applicable law must be given to or made upon the Pledgor or the Company by Secured Party; (viii) settlement, compromise or release of the obligations of any person or entity primarily or secondarily liable upon any of the Obligations; (ix) all rights of the Pledgor or the Company to demand that Secured Party release account debtors or other persons or entities liable on any of the Collateral from further obligation to Secured Party; and (x) substitution, impairment, exchange or release of any Collateral for any of the Obligations. The Pledgor and the Company agree that Secured Party may exercise any or all of its rights and/or remedies hereunder and under any other Loan Documents and under applicable law without resorting to and without regard to any Collateral or sources of liability with respect to any of the Obligations.

(d) Waivers by Secured Party. No failure or any delay on the part of Secured Party in exercising any right, power or remedy hereunder or under any other Loan Documents or under applicable law, shall operate as a waiver thereof.

(e) Secured Party's Setoff. Secured Party shall have the right, in addition to all other rights and remedies available to it, following an Event of Default, to set off against any Obligations due Secured Party, any debt owing to the Pledgor or the Company by Secured Party.

(f) Modifications, Waivers and Consents. No modifications or waiver of any provision of this Agreement or any other Loan Documents, and no consent by Secured Party to any departure by the Pledgor or the Company therefrom, shall in any event be effective unless the same shall be in writing, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given, and any single or partial written waiver by Secured Party of any term, provision or right of Secured Party hereunder shall only be applicable to the specific instance to which it relates and shall not be deemed to be a continuing or future waiver of any other right, power or remedy. No notice to or demand upon the Pledgor or the Company in any case shall entitle Pledgor or the Company to any other or further notice or demand in the same, similar or other circumstances.

(g) Notices. All notices of request, demand and other communications hereunder shall be addressed, sent and deemed delivered in accordance with the Credit Agreement, including delivery of any such notices or communications to the Pledgor on behalf of the Company, which the Company hereby agrees and acknowledges shall be valid and effective notice to the Company hereunder.

(h) Applicable Law and Consent to Jurisdiction. The Pledgor, the Company and the Secured Party each irrevocably agrees that any dispute arising under, relating to, or in connection with, directly or indirectly, this Agreement or related to any matter which is the subject of or incidental to this Agreement (whether or not such claim is based upon breach of contract or tort) shall be subject to the exclusive jurisdiction and venue of the state and/or federal courts located in Broward County, Florida; provided, however, Secured Party may, at Secured Party's sole option, elect to bring any action in any other jurisdiction. This provision is intended to be a "mandatory" forum selection clause and governed by and interpreted consistent with Florida law. The Pledgor, the Company and Secured Party each hereby consents to the exclusive jurisdiction and venue of any state or federal court having its situs in said county (or to any other jurisdiction or venue, if Secured Party so elects), and each waives any objection based on forum non conveniens. The Pledgor and the Company each hereby waives personal service of any and all process and consent that all such service of process may be made by certified mail, return receipt requested, directed to the Pledgor or the Company, as applicable, as set forth herein and in the manner provided by applicable statute, law, rule of court or otherwise. Except for the foregoing mandatory forum selection clause, this Agreement shall be construed in accordance with the laws of the State of Nevada, without regard to the principles of conflicts of laws.

(i) Survival: Successors and Assigns. All covenants, agreements, representations and warranties made herein shall survive the execution and delivery hereof, and shall continue in full force and effect until all Obligations have been paid in full, there exists no commitment by Secured Party which could give rise to any Obligations. Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the successors and assigns of such party. In the event that Secured Party assigns this Agreement and/or its security interest in the Collateral, such assignment shall be binding upon and recognized by the Pledgor. All covenants, agreements, representations and warranties by or on behalf of the Pledgor or the Company which are contained in this Agreement shall inure to the benefit of Secured Party, its successors and assigns. Neither the Pledgor, nor the Company, may assign this Agreement or delegate any of their respective rights or obligations hereunder, without the prior written consent of Secured Party, which consent may be withheld in Secured Party's sole and absolute discretion.

(j) Severability. If any term, provision or condition, or any part thereof, of this Agreement shall for any reason be found or held invalid or unenforceable by any court or governmental authority of competent jurisdiction, such invalidity or unenforceability shall not affect the remainder of such term, provision or condition nor any other term, provision or condition, and this Agreement shall survive and be construed as if such invalid or unenforceable term, provision or condition had not been contained therein.

(k) Merger and Integration. This Agreement and the other Loan Documents contain the entire agreement of the parties hereto with respect to the matters covered and the transactions contemplated hereby, and no other agreement, statement or promise made by any party hereto, or by any employee, officer, agent or attorney of any party hereto, which is not contained herein shall be valid or binding.

(1) WAIVER OF JURY TRIAL. THE PLEDGOR AND THE COMPANY EACH HEREBY: (i) COVENANTS AND AGREES NOT TO ELECT A TRIAL BY JURY OF ANY ISSUE TRIABLE OF RIGHT BY A JURY; AND (ii) WAIVES TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO WHICH THE PLEDGORS, THE COMPANY AND SECURED PARTY MAY BE PARTIES, ARISING OUT OF, IN CONNECTION WITH OR IN ANY WAY PERTAINING TO THIS AGREEMENT, AND/OR ANY TRANSACTIONS, OCCURRENCES, COMMUNICATIONS, OR UNDERSTANDINGS (OR THE LACK OF ANY OF THE FOREGOING) RELATING IN ANY WAY TO DEBTOR-CREDITOR RELATIONSHIP BETWEEN THE PARTIES. IT IS UNDERSTOOD AND AGREED THAT THIS WAIVER CONSTITUTES A WAIVER OF TRIAL BY JURY OF ALL CLAIMS AGAINST ALL PARTIES TO SUCH ACTIONS OR PROCEEDINGS, INCLUDING CLAIMS AGAINST PARTIES WHO ARE NOT PARTIES TO THIS AGREEMENT. THIS WAIVER OF JURY TRIAL IS SEPARATELY GIVEN, KNOWINGLY, WILLINGLY AND VOLUNTARILY MADE BY THE PLEDGORS AND THE COMPANY AND THE PLEDGOR AND THE COMPANY HEREBY AGREE THAT NO REPRESENTATIONS OF FACT OR OPINION HAVE BEEN MADE BY ANY INDIVIDUAL TO INDUCE THIS WAIVER OF TRIAL BY JURY OR TO IN ANY WAY MODIFY OR NULLIFY ITS EFFECT. SECURED PARTY IS HEREBY AUTHORIZED TO SUBMIT THIS AGREEMENT TO ANY COURT HAVING JURISDICTION OVER THE SUBJECT MATTER AND THE PLEDGORS, THE COMPANY AND SECURED PARTY, SO AS TO SERVE AS CONCLUSIVE EVIDENCE OF SUCH WAIVER OF RIGHT TO TRIAL BY JURY. THE PLEDGORS AND THE COMPANY REPRESENT AND WARRANT THAT EACH OF THEM HAS BEEN REPRESENTED IN THE SIGNING OF THIS AGREEMENT AND IN THE MAKING OF THIS WAIVER BY INDEPENDENT LEGAL COUNSEL, SELECTED OF ITS OWN FREE WILL, AND/OR THAT IT HAS HAD THE OPPORTUNITY TO DISCUSS THIS WAIVER WITH COUNSEL.

(m) Execution. This Agreement may be executed in one or more counterparts, all of which taken together shall be deemed and considered one and the same Agreement. In the event that any signature is delivered by facsimile transmission or by e-mail delivery of a “.pdf” format file or other similar format file, such signature shall be deemed an original for all purposes and shall create a valid and binding obligation of the party executing same with the same force and effect as if such facsimile or “.pdf” signature page was an original thereof.

(n) Headings. The headings and sub-headings contained in the titling of this Agreement are intended to be used for convenience only and shall not be used or deemed to limit or diminish any of the provisions hereof.

(o) Gender and Use of Singular and Plural. All pronouns shall be deemed to refer to the masculine, feminine, neuter, singular or plural, as the identity of the party or parties or their personal representatives, successors and assigns may require. The word “Company” or “Companies” shall mean all of the undersigned Persons.

(p) Further Assurances. The parties hereto will execute and deliver such further instruments and do such further acts and things as may be reasonably required to carry out the intent and purposes of this Agreement, including the execution and filing of UCC-1 Financing Statements in any jurisdiction as Secured Party may require.

(q) Time is of the Essence. The parties hereby agree that time is of the essence with respect to performance of each of the parties’ obligations under this Agreement. The parties agree that in the event that any date on which performance is to occur falls on a Saturday, Sunday or state or national holiday, then the time for such performance shall be extended until the next business day thereafter occurring.

(r) Joint Preparation. The preparation of this Agreement has been a joint effort of the parties and the resulting documents shall not, solely as a matter of judicial construction, be construed more severely against one of the parties than the other.

(s) Prevailing Party. If any legal action or other proceeding is brought for the enforcement of this Agreement or any other Loan Documents, or because of an alleged dispute, breach, default or misrepresentation in connection with any provisions of this Agreement or any other Loan Documents, the successful or prevailing party or parties shall be entitled to recover from the non-prevailing party, reasonable attorneys’ fees, court costs and all expenses, even if not taxable as court costs (including, without limitation, all such fees, costs and expenses incident to appeals), incurred in that action or proceeding, in addition to any other relief to which such party or parties may be entitled.

(t) Costs and Expenses. The Pledgor and the Company, jointly and severally, agree to pay to the Secured Party, upon demand, the amount of any and all costs and expenses, including the reasonable fees, costs, expenses and disbursements of counsel for the Secured Party and of any experts and agents, which the Secured Party may incur in connection with: (i) the preparation, negotiation, execution, delivery, recordation, administration, amendment, waiver or other modification or termination of this Agreement; (ii) the custody, preservation, use or operation of, or the sale of, collection from, or other realization upon, any Collateral; (iii) the exercise or enforcement of any of the rights of the Secured Party hereunder; or (iv) the failure by the Pledgor or the Company to perform or observe any of the provisions hereof. Included in the foregoing shall be the amount of all expenses paid or incurred by Secured Party in consulting with counsel concerning any of its rights hereunder, under any Loan Documents or under applicable law, as well as such portion of Secured Party's overhead as Secured Party shall allocate to collection and enforcement of the Obligations in Secured Party's sole but reasonable discretion. All such costs and expenses shall bear interest from the date of outlay until paid, at the highest rate allowed by law. The provisions of this Subsection shall survive the termination of this Agreement and Secured Party's security interest hereunder and the payment of all Obligations.

(u) Joint and Several Liability. The liability of Pledgor shall be joint and several with the liability of the Company and any other Person liable for the Obligations.

**[Signatures on the following page]**



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

**COMPANY:**

**HOWCO DISTRIBUTING CO., a**  
Washington corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

STATE OF \_\_\_\_\_ )  
SS.  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 2016 by \_\_\_\_\_, who is the \_\_\_\_\_ of Howco Distributing Co., a Washington corporation. He/She is personally known to me or has produced \_\_\_\_\_ as identification.

My Commission Expires:

\_\_\_\_\_  
Notary Public

\_\_\_\_\_  
Name of Notary typed or printed

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

**SECURED PARTY:**

**TCA GLOBAL CREDIT MASTER FUND, LP**

By: **TCA Global Credit Fund GP, Ltd.**

Its: **General Partner**

By: \_\_\_\_\_  
Robert Press, Director

**Exhibit E**  
**Form of Promissory Note**

NEITHER THIS NOTE NOR THE SECURITIES THAT ARE ISSUABLE TO THE HOLDER UPON CONVERSION HEREOF (COLLECTIVELY, THE "SECURITIES") HAVE BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "1933 ACT"), OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION. NEITHER THE SECURITIES NOR ANY INTEREST OR PARTICIPATION THEREIN MAY BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED: (I) IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR THE SECURITIES UNDER THE 1933 ACT OR APPLICABLE STATE SECURITIES LAWS; OR (II) IN THE ABSENCE OF AN OPINION OF COUNSEL IN CUSTOMARY FORM, THAT REGISTRATION IS NOT REQUIRED UNDER THE 1933 ACT OR; (HI) UNLESS SOLD, TRANSFERRED OR ASSIGNED PURSUANT TO RULE 144 OR ANY EXEMPTION FROM REGISTRATION UNDER THE 1933 ACT.

BY ACCEPTING THIS OBLIGATION, THE HOLDER REPRESENTS AND WARRANTS THAT IT IS NOT A UNITED STATES PERSON (OTHER THAN AN EXEMPT RECIPIENT DESCRIBED IN SEC 6049(B)(4) OF THE INTERNAL REVENUE CODE AND REGULATIONS THEREUNDER) AND THAT IT IS NOT ACTING FOR OR ON BEHALF OF A UNITED STATES PERSON (OTHER THAN AN EXEMPT RECIPIENT DESCRIBED IN SEC. 6049(B)(4) OF THE INTERNAL REVENUE CODE AND THE REGULATIONS THEREUNDER).

### CONVERTIBLE PROMISSORY NOTE

Issuance Date: As of May 31, 2016

Effective Date: As of September 13, 2016

**\$3,500,000.00**

**FOR VALUE RECEIVED, DRONE USA, INC.**, a Delaware corporation ("**Borrower**"), whose address is One World Trade Center, 285 Fulton Street, Suite 8500, New York, NY 10007, hereby promises to pay to the order of **TCA Global Credit Master Fund, LP**, a Cayman Islands limited partnership, with an office located at 3960 Howard Hughes Parkway, Suite 500, Las Vegas, Nevada 89169, and its successors or assigns (collectively, the "**Holder**"), on or before the Maturity Date (as defined in the Credit Agreement): (i) the principal amount of Three Million Five Hundred Thousand and No/100 Dollars (\$3,500,000.00); together with (ii) interest on the unpaid principal balance hereof at the rate of eighteen percent (18%) per annum commencing as of the effective date hereof; together with (iii) all other Obligations due, owing and payable under the terms of the Credit Agreement and all other Loan Documents, all in accordance with the terms hereof and the terms and provisions of that certain Credit Agreement between the Borrower and the Holder dated as of May 31, 2016, but made effective as of September 12, 2016 (such Credit Agreement, as amended, supplemented, renewed, or modified from time to time, the "**Credit Agreement**"). This Promissory Note (this note, and all modifications, extensions, future advances, supplements, and renewals thereof, and any substitutions therefor, hereinafter referred to as the "**Note**") shall be payable in accordance with the terms of the Credit Agreement and the specific terms set forth below. Capitalized words and phrases not otherwise defined herein shall have the meanings assigned thereto in the Credit Agreement.

1. **Payments.**

(a) **Monthly Payments.** The Borrower shall make monthly payments of principal and interest, as applicable, to the Holder, commencing on the thirteenth (13<sup>th</sup>) day of October, 2016 and on the thirteenth (13<sup>th</sup>) day of each consecutive calendar month thereafter while this Note is outstanding, until the Maturity Date, based on the payment and amortization schedule attached hereto as **Exhibit "A"**. In the event the thirteenth (13<sup>th</sup>) day of any calendar month on which a payment is due hereunder is not a Business Day, then said payment shall be due on the first Business Day thereafter occurring.

(b) Prepayment Prior to Maturity. The Borrower, at its option, shall have the right to prepay this Note in full and for cash, at any time prior to the Maturity Date, with three (3) Business Days advance written notice (the “**Prepayment Notice**”) to the Holder. The amount required to prepay this Note in full pursuant to this Section 1(c) shall be equal to: (i) the aggregate principal amount then outstanding under this Note; plus (ii) all accrued and unpaid interest due under this Note as of the prepayment date; plus (iii) all other costs, fees, charges, and all other Obligations due and payable hereunder or under any other “Loan Documents” (as hereinafter defined) (collectively, the “**Prepayment Amount**”). The Borrower shall deliver the Prepayment Amount to the Holder on the third (3<sup>rd</sup>) Business Day after the date of the Prepayment Notice.

(c) Payment at Maturity. The principal amount of this Note, together with all accrued and unpaid interest, and all other sums due and payable hereunder and/or under any other Loan Documents, are and shall be due and payable in full to the Holder by no later than 2:00 P.M., EST, on the Maturity Date.

(d) Payment of Default Interest. Any amount of principal, interest, or other sums due on this Note or any other Loan Documents which are not paid when due shall bear interest from the date due until such past due amount is paid in full at the Default Rate.

(e) Late Fee. If all or any portion of the payments of principal, interest, or other charges due hereunder are not received by the Holder within five (5) days of the date such payment is due, then the Borrower shall pay to the Holder a late charge (in addition to any other remedies that Holder may have) equal to five percent (5%) of each such unpaid payment or sum. Any payments returned to Holder for any reason must be covered by wire transfer of immediately available funds to an account designated by Holder, plus a \$100.00 administrative fee charge. Holder shall have no responsibility or liability for payments purportedly made hereunder but not actually received by Holder, and the Borrower shall not be discharged from the obligation to make such payments due to loss of same in the mails or due to any other excuse or justification ultimately involving facts where such payments were not actually received by Holder.

(f) General Payment Provisions. Interest shall be calculated on the basis of a 360-day year, and shall accrue daily on the outstanding principal amount outstanding from time to time for the actual number of days elapsed, commencing as of the effective date hereof until payment in full of the outstanding principal, together with all accrued and unpaid interest, and other amounts which may become due hereunder or under any Loan Documents, has been received and cleared to the Holder. All payments received and actually collected by Holder hereunder shall be applied first to any costs, fees and expenses due or incurred hereunder or under any other Loan Documents, second to accrued and unpaid interest hereunder, and last to reduce the outstanding principal balance of this Note. All payments on this Note shall be made in lawful money of the United States of America in the manner required by the Credit Agreement.

2. Secured Nature of Note. This Note is being issued in connection with the Credit Agreement. The indebtedness evidenced by this Note is also secured by all of the Collateral of the Borrower and various other instruments and documents referred to in the Credit Agreement as the “**Loan Documents**” (which term shall have the same meaning in this Note as such term is given in the Credit Agreement). All of the agreements, conditions, covenants, provisions, representations, warranties and stipulations contained in any of the Loan Documents which are to be kept and performed by the Borrower are hereby made a part of this Note to the same extent and with the same force and effect as if they were fully set forth herein, and the Borrower covenants and agrees to keep and perform them, or cause them to be kept or performed, strictly in accordance with their terms.

### 3. Defaults and Remedies.

(a) Events of Default. The occurrence of any of the following events shall constitute an “**Event of Default**” hereunder: (i) the Borrower shall fail to pay any installment of interest, principal, or other sums due under this Note or any other Loan Documents when any such payment shall be due and payable; (ii) the Borrower or any of its Subsidiaries makes an assignment for the benefit of creditors; (iii) any order or decree is rendered by a court which appoints or requires the appointment of a receiver, liquidator or trustee for the Borrower or any of its Subsidiaries, and the order or decree is not vacated within thirty (30) days from the date of entry thereof; (iv) any order or decree is rendered by a court adjudicating the Borrower or any of its Subsidiaries, insolvent, and the order or decree is not vacated within thirty (30) days from the date of entry thereof; (v) the Borrower or any of its Subsidiaries files a petition in bankruptcy under the provisions of any bankruptcy law or any insolvency act; (vi) the Borrower or any of its Subsidiaries admits, in writing, its inability to pay its debts as they become due; (vii) a proceeding or petition in bankruptcy is filed against the Borrower or any of its Subsidiaries, and such proceeding or petition is not dismissed within thirty (30) days from the date it is filed; (viii) the Borrower or any of its Subsidiaries files a petition or answer seeking reorganization or arrangement under the bankruptcy laws or any law or statute of the United States or any other foreign country or state; (ix) the occurrence of any breach, default or “Event of Default” (as such term may be defined in any of the other Loan Documents) under the Credit Agreement or any other Loan Documents; or (x) the Borrower shall fail to perform, comply with or abide by any of the material stipulations, agreements, conditions and/or covenants contained in this Note or any other Loan Documents on the part of the Borrower to be performed, complied with, or abided by, and such failure is not cured within ten (10) days after written notice of such failure is delivered by Holder to the Borrower (provided that if the failure to perform or default in performance is not capable of being cured, in Holder’s sole discretion, then the cure period set forth herein shall not be applicable and the failure or default shall be an immediate Event of Default hereunder).

(b) Remedies. Upon the occurrence of an Event of Default, the interest on this Note shall immediately accrue at the Default Rate, and, in addition to all other rights or remedies the Holder may have, at law or in equity, the Holder may, in its sole discretion, accelerate full repayment of all principal amounts outstanding hereunder, together with accrued interest thereon, together with all other fees, charges and amounts due under any Loan Documents, together with all attorneys’ fees, paralegals’ fees and costs and expenses incurred by the Holder in collecting or enforcing payment hereof (whether such fees, costs or expenses are incurred in negotiations, all trial and appellate levels, administrative proceedings, bankruptcy proceedings or otherwise), and together with all other Obligations due by the Borrower hereunder and under the Loan Documents, and all such amounts shall thereafter accrue interest at the Default Rate, all without any relief whatsoever from any valuation or appraisal laws, and payment thereof may be enforced and recovered in whole or in part at any time by one or more of the remedies provided to the Holder at law, in equity, or under this Note or any of the other Loan Documents. In connection with the Holder’s rights hereunder upon an Event of Default, the Holder need not provide, and the Borrower hereby waives, any presentment, demand, protest or other notice of any kind, and the Holder may immediately enforce any and all of its rights and remedies hereunder and all other remedies available to it in equity or under applicable law.

(c) Exercise of Remedies. The remedies of the Holder as provided herein and in any of the other Loan Documents shall be cumulative and concurrent and may be pursued singly, successively or together, at the sole discretion of the Holder, and may be exercised as often as occasion therefor shall occur; and the failure to exercise any such right or remedy shall in no event be construed as a waiver or release thereof.

4. Lost or Stolen Note. Upon notice to the Borrower of the loss, theft, destruction or mutilation of this Note, and, in the case of loss, theft or destruction, of an indemnification undertaking by the Holder to the Borrower in a form reasonably acceptable to the Borrower and customary for similar circumstances in commercial lender/borrower circumstances, and, in the case of mutilation, upon surrender and cancellation of the mutilated Note, the Borrower shall promptly execute and deliver a new Note of like tenor and date and in substantially the same form as this Note.

5. Cancellation. After all principal, accrued interest, and all other Obligations at any time owed on this Note or any other Loan Documents have been indefeasibly paid in full, and there are no existing or outstanding commitments for Holder to make any loans or other advances of credit to Borrower under the Credit Agreement or otherwise, this Note shall be canceled by Holder.

6. Waivers. Borrower hereby waives and releases all benefit that might accrue to the Borrower by virtue of any present or future laws exempting any property that may serve as security for this Note, or any other property or Collateral, real or personal, or any part of the proceeds arising from any sale of any such property or Collateral, from attachment, levy, or sale under execution, exemption from civil process, or extension of time for payment, including, without limitation, any and all homestead exemption rights of the Borrower; and the Borrower agrees that any property that may be levied upon pursuant to a judgment obtained by virtue hereof, on any writ of execution issued thereon, may be sold upon any such writ in whole or in part in any order or manner desired by Holder. In addition, the Borrower and all others who are, or may become liable for the payment hereof: (i) severally waive presentment for payment, demand, notice of nonpayment or dishonor, protest and notice of protest of this Note or the other Loan Documents, and all other notices in connection with the delivery, acceptance, performance, default, or enforcement of the payment of this Note or the other Loan Documents; (ii) expressly consent to all extensions of time, renewals or postponements of time of payment of this Note or the other Loan Documents from time to time prior to or after the maturity of this Note without notice, consent or further consideration to any of the foregoing; (iii) expressly agree that the Holder shall not be required first to institute any suit, or to exhaust its remedies against the Borrower, or any other Person or party to become liable hereunder or against any Collateral that may secure this Note in order to enforce the payment of this Note; and (iv) expressly agree that, notwithstanding the occurrence of any of the foregoing (except the express written release by the Holder of any such Person), the undersigned shall be and remain, directly and primarily liable for all sums due under this Note.

7. Governing Law; Venue. The Borrower irrevocably agrees that any dispute arising under, relating to, or in connection with, directly or indirectly, this Note or related to any matter which is the subject of or incidental to this Note (whether or not such claim is based upon breach of contract or tort) shall be subject to the exclusive jurisdiction and venue of the state and/or federal courts located in Broward County, Florida. This provision is intended to be a "mandatory" forum selection clause and governed by and interpreted consistent with Florida law. Borrower hereby consents to the exclusive jurisdiction and venue of any state or federal court having its situs in said county (or to any other jurisdiction or venue, if Holder so elects), and waives any objection based on forum non conveniens. Borrower hereby waives personal service of any and all process and consents that all such service of process may be made by certified mail, return receipt requested, directed to Borrower, as applicable, as set forth herein or in the manner provided by applicable statute, law, rule of court or otherwise. Except for the foregoing mandatory forum selection clause, all terms and provisions hereof and the rights and obligations of the Borrower and Holder hereunder shall be governed, construed and interpreted in accordance with the laws of the State of Nevada, without reference to conflict of laws principles.

8. Expenses. The Borrower agrees to pay and reimburse the Holder upon demand for all costs and expenses (including, without limitation, attorneys' fees and expenses) that the Holder may incur in connection with (i) the exercise or enforcement of any rights or remedies (including, but not limited to, collection) granted hereunder or otherwise available to it (whether at law, in equity or otherwise); or (ii) the failure by the Borrower to perform or observe any of the provisions hereof. The provisions of this Section 8 shall survive the execution and delivery of this Note, the repayment of any or all of the Obligations, and the termination of this Note.

9. Waiver of Jury Trial. THE BORROWER HEREBY KNOWINGLY, VOLUNTARILY, INTENTIONALLY AND IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY WITH RESPECT TO ANY LITIGATION BASED ON THIS NOTE, OR ARISING OUT OF, UNDER OR IN CONNECTION WITH, THIS NOTE OR ANY OTHER LOAN DOCUMENTS, OR ANY COURSE OF CONDUCT, COURSE OF DEALING, STATEMENTS (WHETHER VERBAL OR WRITTEN) OR ACTIONS OF OR BETWEEN ANY PARTY HERETO, AND THE BORROWER AGREES AND CONSENTS TO THE GRANTING TO HOLDER OF RELIEF FROM ANY STAY ORDER WHICH MIGHT BE ENTERED BY ANY COURT AGAINST HOLDER AND TO ASSIST HOLDER IN OBTAINING SUCH RELIEF. THIS PROVISION IS A MATERIAL INDUCEMENT FOR HOLDER ACCEPTING THIS NOTE FROM THE BORROWER. THE BORROWER'S REASONABLE RELIANCE UPON SUCH INDUCEMENT IS HEREBY ACKNOWLEDGED.

10. Specific Shall Not Limit General; Construction. No specific provision contained in this Note shall limit or modify any more general provision contained herein. This Note shall be deemed to be jointly drafted by the Borrower and the Holder and shall not be construed against any person as the drafter hereof.

11. Failure or Indulgence Not Waiver. Holder shall not be deemed, by any act of omission or commission, to have waived any of its rights or remedies hereunder or under any Loan Documents, unless such waiver is in writing and signed by Holder, and then only to the extent specifically set forth in the writing. A waiver on one event shall not be construed as continuing or as a bar to or waiver of any right or remedy to a subsequent event.

12. Notice. Notice shall be given to each party at the address for such party set forth in the Credit Agreement, and such notice shall be deemed properly given in accordance with the notice provisions set forth in the Credit Agreement.

13. Usury Savings Clause. Notwithstanding any provision in this Note or the other Loan Documents, the total liability for payments of interest and payments in the nature of interest, including, without limitation, all charges, fees, exactions, or other sums which may at any time be deemed to be interest, shall not exceed the limit imposed by the usury laws of the jurisdiction governing this Note or any other applicable law. In the event the total liability of payments of interest and payments in the nature of interest, including, without limitation, all charges, fees, exactions or other sums which may at any time be deemed to be interest, shall, for any reason whatsoever, result in an effective rate of interest, which for any month or other interest payment period exceeds the limit imposed by the usury laws of the jurisdiction governing this Note, all sums in excess of those lawfully collectible as interest for the period in question shall, without further agreement or notice by, between, or to any party hereto, be applied to the reduction of the outstanding principal balance of this Note immediately upon receipt of such sums by the Holder hereof, with the same force and effect as though the Borrower had specifically designated such excess sums to be so applied to the reduction of such outstanding principal balance and the Holder hereof had agreed to accept such sums as a penalty-free payment of principal; provided, however, that the Holder of this Note may, at any time and from time to time, elect, by notice in writing to the Borrower, to waive, reduce, or limit the collection of any sums in excess of those lawfully collectible as interest rather than accept such sums as a prepayment of the outstanding principal balance. It is the intention of the parties that the Borrower do not intend or expect to pay nor does the Holder intend or expect to charge or collect any interest under this Note greater than the highest non-usurious rate of interest which may be charged under applicable law.

14. Binding Effect. This Note shall be binding upon the Borrower and the successors and assigns of the Borrower and shall inure to the benefit of Holder and the successors and assigns of Holder.

15. Severability. In the event any one or more of the provisions of this Note shall for any reason be held to be invalid, illegal, or unenforceable, in whole or in part, in any respect, or in the event that any one or more of the provisions of this Note operates or would prospectively operate to invalidate this Note, then and in any of those events, only such provision or provisions shall be deemed null and void and shall not affect any other provision of this Note. The remaining provisions of this Note shall remain operative and in full force and effect and shall in no way be affected, prejudiced, or disturbed thereby.

16. Participations. Holder may from time to time sell or assign, in whole or in part, or grant participations in this Note and/or the obligations evidenced hereby, without any requirement to obtain the Borrower's written consent or approval. The holder of any such sale, assignment or participation, if the applicable agreement between Holder and such holder so provides, shall be: (a) entitled to all of the rights, obligations and benefits of Holder (to the extent of such holder's interest or participation); and (b) deemed to hold and may exercise the rights of setoff or banker's lien with respect to any and all obligations of such holder to the Borrower (to the extent of such holder's interest or participation), in each case as fully as though the Borrower was directly indebted to such holder. Holder may in its discretion give notice to the Borrower of such sale, assignment or participation; however, the failure to give such notice shall not affect any of Holder's or such holder's rights hereunder.

17. Amendments. The provisions of this Note may be changed only by a written agreement executed by the Borrower and Holder.

18. Conversion of Note. At any time and from time to time while this Note is outstanding, but only upon: (i) the occurrence of an Event of Default under any of the Loan Documents; or (ii) mutual agreement between the Borrower and the Holder, this Note may be, at the sole option of the Holder, convertible into shares of the common stock, par value \$0.0001 per share (the "Common Stock") of the Borrower, in accordance with the terms and conditions set forth below.

(a) Voluntary Conversion. At any time while this Note is outstanding, but only upon: (i) the occurrence of an Event of Default under any of the Loan Documents; or (ii) mutual agreement between the Borrower and the Holder, the Holder may convert all or any portion of the outstanding principal, accrued and unpaid interest, Premium, if applicable, and any other sums due and payable hereunder or under any other Loan Documents (such total amount, the "Conversion Amount") into shares of Common Stock of the Borrower (the "Conversion Shares") at a price equal to: (i) the Conversion Amount (the numerator); *divided by* (ii) eighty-five percent (85%) of the lowest of the daily volume weighted average price of the Borrower's Common Stock during the five (5) Business Days immediately prior to the Conversion Date, which price shall be indicated in the conversion notice (in the form attached hereto as Exhibit "B", the "Conversion Notice") (the denominator) (the "Conversion Price"). The Holder shall submit a Conversion Notice indicating the Conversion Amount, the number of Conversion Shares issuable upon such conversion, and where the Conversion Shares should be delivered.

(b) The Holder's Conversion Limitations. The Borrower shall not effect any conversion of this Note, and the Holder shall not have the right to convert any portion of this Note, to the extent that after giving effect to the conversion set forth on the Conversion Notice submitted by the Holder, the Holder (together with the Holder's Affiliates and any Persons acting as a group together with the Holder or any of the Holder's Affiliates) would beneficially own shares of Common Stock in excess of the Beneficial Ownership Limitation (as defined herein). To ensure compliance with this restriction, prior to delivery of any Conversion Notice, the Holder shall have the right to request that the Borrower provide to the Holder a written statement of the percentage ownership of the Borrower's Common Stock that would be beneficially owned by the Holder and its Affiliates in the Borrower if the Holder converted such portion of this Note then intended to be converted by Holder. The Borrower shall, within two (2) Business Days of such request, provide Holder with the requested information in a written statement, and the Holder shall be entitled to rely on such written statement from the Borrower in issuing its Conversion Notice and ensuring that its ownership of the Borrower's Common Stock is not in excess of the Beneficial Ownership Limitation. The restriction described in this Section may be waived by Holder, in whole or in part, upon notice not less than sixty-one (61) days prior written notice from the Holder to the Borrower to increase such percentage.

For purposes of this Note, the "Beneficial Ownership Limitation" shall be 4.99% of the number of shares of Common Stock outstanding immediately after giving effect to the issuance of shares of Common Stock issuable upon conversion of this Note. The limitations contained in this Section shall apply to a successor holder of this Note.

(c) Mechanics of Conversion. The conversion of this Note shall be conducted in the following manner:

(i) To convert this Note into shares of Common Stock on any date set forth in the Conversion Notice by the Holder (the "Conversion Date"), the Holder shall transmit by facsimile or electronic mail (or otherwise deliver) a copy of the fully executed Conversion Notice to the Borrower (or, under certain circumstances as set forth below, by delivery of the Conversion Notice to the Borrower's transfer agent).

(ii) Borrower's Response. Upon receipt by the Borrower of a copy of a Conversion Notice, the Borrower shall as soon as practicable, but in no event later than two (2) Business Days after receipt of such Conversion Notice, send, via facsimile or electronic mail (or otherwise deliver) a confirmation of receipt of such Conversion Notice (the "Conversion Confirmation") to the Holder indicating that the Borrower will process such Conversion Notice in accordance with the terms herein. In the event the Borrower fails to issue its Conversion Confirmation within said two (2) Business Day time period, the Holder shall have the absolute and irrevocable right and authority to deliver the fully executed Conversion Notice to the Borrower's transfer agent, and pursuant to the terms of the Loan Documents, the Borrower's transfer agent shall issue the applicable Conversion Shares to Holder as hereby provided. Within five (5) Business Days after the date of the Conversion Confirmation (or the date of the Conversion Notice, if the Borrower fails to issue the Conversion Confirmation), provided that the Borrower's transfer agent is participating in the Depository Trust Borrower ("DTC") Fast Automated Securities Transfer ("FAST") program, the Borrower shall cause the transfer agent to (or, if for any reason the Borrower fails to instruct or cause its transfer agent to so act, then pursuant to the Loan Documents, the Holder may request and require the Borrower's transfer agent to) electronically transmit the applicable Conversion Shares to which the Holder shall be entitled by crediting the account of the Holder's prime broker with DTC through its Deposit Withdrawal Agent Commission ("DWAC") system, and provide proof satisfactory to the Holder of such delivery. In the event that the Borrower's transfer agent is not participating in the DTC FAST program and is not otherwise DWAC eligible, within five (5) Business Days after the date of the Conversion Confirmation (or the date of the Conversion Notice, if the Borrower fails to issue the Conversion Confirmation), the Borrower shall instruct and cause its transfer agent to (or, if for any reason the Borrower fails to instruct or cause its transfer agent to so act, then pursuant to the Loan Documents, the Holder may request and require the Borrower's transfer agent to) issue and surrender to a nationally recognized overnight courier for delivery to the address specified in the Conversion Notice, a certificate, registered in the name of the Holder, or its designees, for the number of Conversion Shares to which the Holder shall be entitled. To effect conversions hereunder, the Holder shall not be required to physically surrender this Note to the Borrower unless the entire principal amount of this Note, plus all accrued and unpaid interest, Premium, if applicable, and other sums due hereunder, has been so converted. Subject to the make-whole rights below, conversions hereunder shall have the effect of lowering the outstanding principal amount of this Note in an amount equal to the applicable conversion. The Holder and the Borrower shall maintain records showing the principal amount(s) converted and the date of such conversion(s). **The Holder, and any assignee by acceptance of this Note, acknowledge and agree that, by reason of the provisions of this paragraph, following conversion of a portion of this Note, the unpaid and unconverted principal amount of this Note may be less than the amount stated on the face hereof.**

(iii) Record Holder. The Person(s) entitled to receive the shares of Common Stock issuable upon a conversion of this Note shall be treated for all purposes as the record holder(s) of such shares of Common Stock as of the Conversion Date.

(iv) Failure to Deliver Certificates. If in the case of any Conversion Notice, the certificate or certificates are not delivered to or as directed by the Holder by the date required hereby, the Holder shall be entitled to elect by written notice to the Borrower at any time on or before its receipt of such certificate or certificates, to rescind such Conversion Notice, in which event the Borrower shall promptly return to the Holder any original Note delivered to the Borrower and the Holder shall promptly return to the Borrower the Common Stock certificates representing the principal amount of this Note unsuccessfully tendered for conversion to the Borrower.

(v) Obligation Absolute; Partial Liquidated Damages. The Borrower's obligations to issue and deliver the Conversion Shares upon conversion of this Note in accordance with the terms hereof are absolute and unconditional, irrespective of any action or inaction by the Holder to enforce the same, any waiver or consent with respect to any provision hereof, the recovery of any judgment against any person or entity or any action to enforce the same, or any setoff, counterclaim, recoupment, limitation or termination, or any breach or alleged breach by the Holder or any other Person of any obligation to the Borrower or any violation or alleged violation of law by the Holder or any other Person, and irrespective of any other circumstance which might otherwise limit such obligation of the Borrower to the Holder in connection with the issuance of such Conversion Shares; provided, however, that such delivery shall not operate as a waiver by the Borrower of any such action the Borrower may have against the Holder. In the event the Holder of this Note shall elect to convert any or all of the outstanding principal amount hereof and accrued but unpaid interest and Premium, if applicable, thereon in accordance with the terms of this Note, the Borrower may not refuse conversion based on any claim that the Holder or anyone associated or affiliated with the Holder has been engaged in any violation of law, agreement or for any other reason, unless an injunction from a court, on notice to Holder, restraining and or enjoining conversion of all or part of this Note shall have been sought and obtained, and the Borrower posts a surety bond for the benefit of the Holder in the amount of 150% of the outstanding principal amount of this Note, which is subject to the injunction, which bond shall remain in effect until the completion of arbitration/litigation of the underlying dispute and the proceeds of which shall be payable to such Holder to the extent it obtains judgment. In the absence of such injunction, the Borrower shall issue Conversion Shares upon a properly noticed conversion. If the Borrower fails for any reason to deliver to the Holder such certificate or certificates representing Conversion Shares pursuant to timing and delivery requirements of this Note, the Borrower shall pay to such Holder, in cash, as liquidated damages and not as a penalty, for each \$1,000 of principal amount being converted, \$1.00 per day for each day after the date by which such certificates should have been delivered until such certificates are delivered. Nothing herein shall limit a Holder's right to pursue actual damages or declare an Event of Default pursuant to this Note, the other Loan Documents, or any agreement securing the indebtedness under this Note for the Borrower's failure to deliver Conversion Shares within the period specified herein and such Holder shall have the right to pursue all remedies available to it hereunder, at law or in equity, including, without limitation, a decree of specific performance and/or injunctive relief. The exercise of any such rights shall not prohibit the Holder from seeking to enforce damages pursuant to any other Section hereof or under applicable law. Nothing herein shall prevent the Holder from having the Conversion Shares issued directly by the Borrower's transfer agent in accordance with the Loan Documents, in the event for any reason the Borrower fails to issue or deliver, or cause its transfer agent to issue and deliver, the Conversion Shares to the Holder upon exercise of Holder's conversion rights hereunder.

(vi) Transfer Taxes. The issuance of certificates for shares of the Common Stock on conversion of this Note shall be made without charge to the Holder hereof for any documentary stamp or similar taxes, or any other issuance or transfer fees of any nature or kind that may be payable in respect of the issue or delivery of such certificates, any such taxes or fees, if payable, to be paid by the Borrower.

(d) Make-Whole Rights. Upon liquidation by the Holder of Conversion Shares issued pursuant to a Conversion Notice, provided that the Holder realizes a net amount from such liquidation equal to less than the Conversion Amount specified in the relevant Conversion Notice (such net realized amount, the “**Realized Amount**”), the Borrower shall issue to the Holder additional shares of the Borrower’s Common Stock equal to: (i) the Conversion Amount specified in the relevant Conversion Notice; *minus* (ii) the Realized Amount, as evidenced by a reconciliation statement from the Holder (a “**Sale Reconciliation**”) showing the Realized Amount from the sale of the Conversion Shares; *divided by* (iii) the average volume weighted average price of the Borrower’s Common Stock during the five (5) Business Days immediately prior to the date upon which the Holder delivers notice (the “**Make-Whole Notice**”) to the Borrower that such additional shares are requested by the Holder (the “**Make-Whole Stock Price**”) (such number of additional shares to be issued, the “**Make-Whole Shares**”). Upon receiving the Make-Whole Notice and Sale Reconciliation evidencing the number of Make-Whole Shares requested, the Borrower shall instruct its transfer agent to issue certificates representing the Make-Whole Shares, which Make Whole Shares shall be issued and delivered in the same manner and within the same time frames as set forth in Subsection (c)(ii) above. Subsections (c)(iii), (c)(iv), (c)(v) and (c)(vi) above shall be applicable to the issuance of the Make-Whole Shares. The Make-Whole Shares, when issued, shall be deemed to be validly issued, fully paid, and non-assessable shares of the Borrower’s Common Stock. Following the sale of the Make-Whole Shares by the Holder: (i) in the event that the Holder receives net proceeds from such sale which, when added to the Realized Amount from the prior relevant Conversion Notice, is less than the Conversion Amount specified in the relevant Conversion Notice, the Holder shall deliver an additional Make-Whole Notice to the Borrower following the procedures provided previously in this paragraph, and such procedures and the delivery of Make-Whole Notices shall continue until the Conversion Amount has been fully satisfied; (ii) in the event that the Holder received net proceeds from the sale of Make-Whole Shares in excess of the Conversion Amount specified in the relevant Conversion Notice, such excess amount shall be applied to satisfy any and all amounts owed hereunder in excess of the Conversion Amount specified in the relevant Conversion Notice.

(e) Adjustments to Conversion Price. The adjustments set forth in Sections (e)(i) and (e)(ii) below shall be applicable only to the extent the Conversion Price of the Common Stock does not already reflect an adjustment for any of such events.

(i) Stock Dividends and Stock Splits. If the Borrower, at any time while this Note is outstanding: (i) pays a stock dividend or otherwise makes a distribution or distributions payable in shares of Common Stock on outstanding shares of Common Stock, (ii) subdivides outstanding shares of Common Stock into a larger number of shares, (iii) combines (including by way of a reverse stock split) outstanding shares of Common Stock into a smaller number of shares, or (iv) issues, in the event of a reclassification of shares of Common Stock, any shares of capital stock of the Borrower, then the Conversion Price shall be multiplied by a fraction, the numerator of which shall be the number of shares of Common Stock (excluding any treasury shares of the Borrower) outstanding immediately before such event, and the denominator of which shall be the number of shares of Common Stock outstanding immediately after such event. Any adjustment made pursuant to this Section shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination, or re-classification.

(ii) Fundamental Transaction. If, at any time while this Note is outstanding: (i) the Borrower effects any merger or consolidation of the Borrower with or into another Person, (ii) the Borrower effects any sale of all or substantially all of its assets in one transaction or a series of related transactions, (iii) any tender offer or exchange offer (whether by the Borrower or another Person) is completed pursuant to which holders of Common Stock are permitted to tender or exchange their shares for other securities, cash or property, or (iv) the Borrower effects any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is effectively converted into or exchanged for other securities, cash or property (in any such case, a “Fundamental Transaction”), then upon any subsequent conversion of this Note, the Holder shall have the right to receive, for each Conversion Share that would have been issuable upon such conversion immediately prior to the occurrence of such Fundamental Transaction, the same kind and amount of securities, cash or property as it would have been entitled to receive upon the occurrence of such Fundamental Transaction if it had been, immediately prior to such Fundamental Transaction, the holder of one (1) share of Common Stock (the “Alternate Consideration”). For purposes of any such conversion, the determination of the Conversion Price shall be appropriately adjusted to apply to such Alternate Consideration based on the amount of Alternate Consideration issuable in respect of one (1) share of Common Stock in such Fundamental Transaction, and the Borrower shall apportion the Conversion Price among the Alternate Consideration in a reasonable manner reflecting the relative value of any different components of the Alternate Consideration. If holders of Common Stock are given any choice as to the securities, cash or property to be received in a Fundamental Transaction, then the Holder shall be given the same choice as to the Alternate Consideration it receives upon any conversion of this Note following such Fundamental Transaction. To the extent necessary to effectuate the foregoing provisions, any successor to the Borrower or surviving entity in such Fundamental Transaction shall issue to the Holder a new note consistent with the foregoing provisions and evidencing the Holder’s right to convert such note into Alternate Consideration. The terms of any agreement pursuant to which a Fundamental Transaction is effected shall include terms requiring any such successor or surviving entity to comply with the provisions of this Section and insuring that this Note (or any such replacement security) will be similarly adjusted upon any subsequent transaction analogous to a Fundamental Transaction.

(iii) Adjustment to Conversion Price. Whenever the Conversion Price is adjusted pursuant to any provision of this Note, the Borrower shall promptly deliver to Holder a notice setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment.

(iv) Notice to Allow Conversion by Holder. If: (A) the Borrower shall declare a dividend (or any other distribution in whatever form) on the Common Stock, (B) the Borrower shall declare a special nonrecurring cash dividend on or a redemption of the Common Stock, (C) the Borrower shall authorize the granting to all holders of the Common Stock of rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights, (D) the approval of any stockholders of the Borrower shall be required in connection with any reclassification of the Common Stock, any consolidation or merger to which the Borrower is a party, any sale or transfer of all or substantially all of the assets of the Borrower, of any compulsory share exchange whereby the Common Stock is converted into other securities, cash or property, or (E) the Borrower shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Borrower, then, in each case, the Borrower shall cause to be filed at each office or agency maintained for the purpose of conversion of this Note, and shall cause to be delivered to the Holder at its last address as it shall appear upon the Borrower's records, at least twenty (20) calendar days prior to the applicable record or effective date hereinafter specified, a notice stating: (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of the Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined, or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of the Common Stock of record shall be entitled to exchange their shares of the Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange, provided that the failure to deliver such notice or any defect therein or in the delivery thereof shall not affect the validity of the corporate action required to be specified in such notice. The Holder is entitled to convert this Note during the 10-day period commencing on the date of such notice through the effective date of the event triggering such notice.

19. Non-U.S. Status. THE HOLDER IS A NON-U.S. PERSON AS THAT TERM IS DEFINED IN THE UNITED STATES INTERNAL REVENUE CODE. IT IS HEREBY AGREED AND UNDERSTOOD THAT THE OBLIGATIONS HEREUNDER MAY BE SOLD OR RESOLD ONLY TO NON-U.S. PERSONS. THE INTEREST PAYABLE HEREUNDER IS PAYABLE ONLY OUTSIDE THE UNITED STATES. ANY U.S. PERSON WHO HOLDS THIS OBLIGATION WILL BE SUBJECT TO LIMITATIONS UNDER THE UNITED STATES INCOME TAX LAW. BY ACCEPTING THIS OBLIGATION, THE HOLDER REPRESENTS AND WARRANTS THAT IT IS NOT A UNITED STATES PERSON (OTHER THAN AN EXEMPT RECIPIENT DESCRIBED IN SEC 6049(B)(4) OF THE INTERNAL REVENUE CODE AND REGULATIONS THEREUNDER) AND THAT IT IS NOT ACTING FOR OR ON BEHALF OF A UNITED STATES PERSON (OTHER THAN AN EXEMPT RECIPIENT DESCRIBED IN SEC. 6049(B)(4) OF THE INTERNAL REVENUE CODE AND THE REGULATIONS THEREUNDER).

*[Signature page follows]*

IN WITNESS WHEREOF, the Borrower has caused this Note to be executed as of the Effective Date set forth above.

**BORROWER:**

**DRONE USA, INC.,** a Delaware  
corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

STATE OF \_\_\_\_\_ )  
SS.  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 2016 by \_\_\_\_\_, who is the \_\_\_\_\_ of Drone USA, Inc., a Delaware corporation, on behalf of said corporation. He/She is personally known to me or has produced \_\_\_\_\_ as identification.

My Commission Expires:

\_\_\_\_\_  
Notary Public

\_\_\_\_\_  
Name of Notary typed or printed

*[Signature page to Promissory Note]*

**Exhibit "A"**

**PAYMENT SCHEDULE**

<u>Payment Date</u>	<u>Payment No.</u>	<u>Interest Payment</u>	<u>Prin. Payment</u>	<u>Total Payable</u>	<u>Balance Outstanding</u>
10/13/16	1	\$ 52,500.00	-	\$ 52,500.00	
11/13/16	2	\$ 52,500.00	-	\$ 52,500.00	
12/13/16	3	\$ 52,500.00	-	\$ 52,500.00	
1/13/17	4	\$ 52,500.00	-	\$ 52,500.00	
2/13/17	5	\$ 52,500.00	-	\$ 52,500.00	\$ 3,500,000.00
3/13/17	6	\$ 52,500.00	\$ 245,841.25	\$ 298,341.25	\$ 3,254,158.75
4/13/17	7	\$ 48,812.38	\$ 249,528.87	\$ 298,341.25	\$ 3,004,629.88
5/13/17	8	\$ 45,069.45	\$ 253,271.80	\$ 298,341.25	\$ 2,751,358.08
6/13/17	9	\$ 41,270.37	\$ 257,070.88	\$ 298,341.25	\$ 2,494,287.20
7/13/17	10	\$ 37,414.31	\$ 260,926.94	\$ 298,341.25	\$ 2,233,360.25
8/13/17	11	\$ 33,500.40	\$ 264,840.85	\$ 298,341.25	\$ 1,968,519.41
9/13/17	12	\$ 29,527.79	\$ 268,813.46	\$ 298,341.25	\$ 1,699,705.95
10/13/17	13	\$ 25,495.59	\$ 272,845.66	\$ 298,341.25	\$ 1,426,860.28
11/13/17	14	\$ 21,402.90	\$ 276,938.35	\$ 298,341.25	\$ 1,149,921.94
12/13/17	15	\$ 17,248.83	\$ 281,092.42	\$ 298,341.25	\$ 868,829.52
1/13/18	16	\$ 13,032.44	\$ 285,308.81	\$ 298,341.25	\$ 583,520.71
2/13/18	17	\$ 8,752.81	\$ 289,588.44	\$ 298,341.25	\$ 293,932.27
3/13/18	18	\$ 4,408.98	\$ 293,932.27	\$ 298,341.25	\$ 0

BORROWER INITIALS \_\_\_\_\_

**Exhibit "B"**

**NOTICE OF CONVERSION**

The undersigned hereby elects to convert principal, interest, Premium, if applicable, and/or other sums due under the Convertible Promissory Note (the "**Note**") of **DRONE USA, INC.**, a Delaware corporation (the "**Company**"), into shares of common stock, par value \$0.0001 per share (the "**Common Shares**"), of the Company in accordance with the conditions of the Note, as of the date written below.

Based solely on information provided by the Company to Holder, the undersigned represents and warrants to the Company that its ownership of the Common Shares does not exceed the Beneficial Ownership Limitation determined in accordance with Section 13(d) of the Exchange Act of 1934, as amended, as specified under the Note.

Conversion calculations

Effective Date of Conversion:

Principal Amount, Interest, Premium, if applicable, and other Sums to be Converted:

Number of Common Shares to be Issued:

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**[HOLDER]**

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

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Address: \_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**Exhibit F-1**

**Form of Security Agreement (Borrower)**

## SECURITY AGREEMENT

This **SECURITY AGREEMENT** (the “**Security Agreement**”) dated as of May 31, 2016, but made effective as of September 13, 2016, is executed by **DRONE USA, INC.**, a Delaware corporation (the “**Debtor**”), with its chief executive offices located at One World Trade Center, 285 Fulton Street, Suite 8500, New York, NY 10007, and **TCA Global Credit Master Fund, LP** (the “**Secured Party**”).

### RECITALS:

WHEREAS, Debtor desires to borrow funds and obtain financial accommodations from Secured Party pursuant to that certain Credit Agreement of even date herewith among Debtor, additional Credit Parties, and Secured Party (as amended, renewed, supplemented or modified from time to time, the “**Credit Agreement**”).

NOW, THEREFORE, in consideration of the credit extended now and in the future by Secured Party to the Debtor and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Debtor and Secured Party hereby agree as follows:

### AGREEMENTS:

#### **1 DEFINITIONS.**

1.1 **Defined Terms.** Capitalized terms used but not otherwise defined in this Security Agreement (including the Recitals) shall have the meanings ascribed to them in the Credit Agreement. For the purposes of this Security Agreement, the following capitalized words and phrases shall have the meanings set forth below.

(a) “**Capital Securities**” shall mean, with respect to any Person, all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of such Person’s capital, whether now outstanding or issued or acquired after the date hereof, including common shares, preferred shares, membership interests in a limited liability company, limited or general partnership interests in a partnership or any other equivalent of such ownership interest.

(b) “**Collateral**” shall have the meaning set forth in Section 2.1 hereof.

(c) “**Obligor**” shall mean Debtor, or any other party liable with respect to the Obligations.

(d) “**Organizational Identification Number**” means, with respect to Debtor, the organizational identification number assigned to Debtor by the applicable governmental unit or agency of the jurisdiction of organization of Debtor, if any.

(e) “**Taxes**” shall mean any and all present and future taxes, duties, levies, imposts, deductions, assessments, charges or withholdings, and any and all liabilities (including interest and penalties and other additions to taxes) with respect to the foregoing.

(f) “**Unmatured Event of Default**” shall mean any event which, with the giving of notice, the passage of time or both, would constitute an Event of Default.

1.2 Other Terms Defined in UCC. All other capitalized words and phrases used herein and not otherwise specifically defined herein or in the Credit Agreement shall have the respective meanings assigned to such terms in the UCC, to the extent the same are used or defined therein.

1.3 Other Interpretive Provisions.

(a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms. Whenever the context so requires, the neutral gender includes the masculine and feminine, the single number includes the plural, and vice versa, and in particular the word “Debtor” shall be so construed.

(b) Section and Schedule references are to this Security Agreement unless otherwise specified. The words “hereof”, “herein” and “hereunder” and words of similar import when used in this Security Agreement shall refer to this Security Agreement as a whole and not to any particular provision of this Security Agreement

(c) The term “including” (or words of similar import) is not limiting, and means “including, without limitation”.

(d) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including”; the words “to” and “until” each mean “to but excluding”, and the word “through” means “to and including”.

(e) Unless otherwise expressly provided herein: (i) references to agreements (including this Security Agreement and the other Loan Documents) and other contractual instruments shall be deemed to include all subsequent amendments, restatements, supplements and other modifications thereto, but only to the extent such amendments, restatements, supplements and other modifications are not prohibited by the terms of any Loan Document; and (ii) references to any statute or regulation shall be construed as including all statutory and regulatory provisions amending, replacing, supplementing or interpreting such statute or regulation.

(f) To the extent any of the provisions of the other Loan Documents are inconsistent with the terms of this Security Agreement, the provisions of this Security Agreement shall govern.

(g) This Security Agreement and the other Loan Documents may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are cumulative and each shall be performed in accordance with its terms.

## 2 SECURITY FOR THE OBLIGATIONS.

2.1 Security for Obligations. As security for the payment and performance of the Obligations, Debtor does hereby pledge, assign, transfer, deliver and grant to Secured Party, for its own benefit and as agent for its Affiliates, a continuing and unconditional first priority security interest in and to any and all property of Debtor, of any kind or description, tangible or intangible, wheresoever located and whether now existing or hereafter arising or acquired, including the following (all of which property for Debtor, along with the products and proceeds therefrom, are individually and collectively referred to as the “**Collateral**”):

(a) all property of, or for the account of, Debtor now or hereafter coming into the possession, control or custody of, or in transit to, Secured Party or any agent or bailee for Secured Party or any parent, affiliate or subsidiary of Secured Party or any participant with Secured Party in the Obligations (whether for safekeeping, deposit, collection, custody, pledge, transmission or otherwise), including all cash, earnings, dividends, interest, or other rights in connection therewith and the products and proceeds therefrom, including the proceeds of insurance thereon; and

(b) the additional property of Debtor, whether now existing or hereafter arising or acquired, and wherever now or hereafter located, together with all additions and accessions thereto, substitutions, betterments and replacements therefor, products and Proceeds therefrom, and all of Debtor’s books and records and recorded data relating thereto (regardless of the medium of recording or storage), together with all of Debtor’s right, title and interest in and to all computer software required to utilize, create, maintain and process any such records or data on electronic media, identified and set forth as follows:

(i) All Accounts and all goods whose sale, lease or other disposition by Debtor has given rise to Accounts and have been returned to, or repossessed or stopped in transit by, Debtor, or rejected or refused by a Customer;

(ii) All Inventory, including raw materials, work-in-process and finished goods;

(iii) All goods (other than Inventory), including embedded software, Equipment, vehicles, furniture and Fixtures;

(iv) All Software and computer programs;

(v) All Securities, Investment Property, Financial Assets and Deposit Accounts, specifically including the Lock Box Account, and all funds at any time deposited therewith, and all funds and amounts reserved or held back by any Payment Processing Companies;

- (vi) All As-Extracted Collateral, Commodity Accounts, Commodity Contracts, and Farm Products;
- (vii) All Chattel Paper, Electronic Chattel Paper, Instruments, Documents, Letter of Credit Rights, all proceeds of letters of credit, Health-Care-Insurance Receivables, Supporting Obligations, notes secured by real estate, Commercial Tort Claims and General Intangibles, including Payment Intangibles; and
- (viii) All real estate property owned by Debtor and the interest of Debtor in fixtures related to such real property;
- (ix) All Proceeds (whether Cash Proceeds or Non-cash Proceeds) of the foregoing property, including all insurance policies and proceeds of insurance payable by reason of loss or damage to the foregoing property, including unearned premiums, and of eminent domain or condemnation awards.

2.2 Possession and Transfer of Collateral. Until an Event of Default has occurred, but subject to Secured Party's rights under the Credit Agreement (specifically with respect to Secured Party's rights to use and apply money in the Lock Box Account), Debtor shall be entitled to possession and use of the Collateral (other than Instruments or Documents (including Tangible Chattel Paper and Investment Property consisting of certificated securities) and other Collateral required to be delivered to Secured Party pursuant to this Section 2). The cancellation or surrender of any promissory note evidencing an Obligation, upon payment or otherwise, shall not affect the right of Secured Party to retain the Collateral for any other of the Obligations, except upon payment in full of the Obligations. Debtor shall not sell, assign (by operation of law or otherwise), license, lease or otherwise dispose of, or grant any option with respect to any of the Collateral, except as permitted pursuant to the Credit Agreement.

2.3 Financing Statements. Debtor authorizes Secured Party to prepare and file such financing statements, amendments and other documents and do such acts as Secured Party deems necessary in order to establish and maintain valid, attached and perfected, first priority security interests in the Collateral in favor of Secured Party, for its own benefit and as agent for its Affiliates, free and clear of all Liens and claims and rights of third parties whatsoever, except Permitted Liens. Debtor hereby irrevocably authorizes Secured Party at any time, and from time to time, to file in any jurisdiction any initial financing statements and amendments thereto that: (a) indicate the Collateral: (i) is comprised of all assets of Debtor (or words of similar effect), regardless of whether any particular asset comprising a part of the Collateral falls within the scope of Article 9 of the UCC of the jurisdiction wherein such financing statement or amendment is filed; or (ii) as being of an equal or lesser scope or within greater detail as the grant of the security interest set forth herein; and (b) contain any other information required by Section 5 of Article 9 of the UCC of the jurisdiction wherein such financing statement or amendment is filed regarding the sufficiency or filing office acceptance of any financing statement or amendment, including: (A) whether Debtor is an organization, the type of organization and any Organizational Identification Number issued to Debtor; and (B) in the case of a financing statement filed as a fixture filing or indicating Collateral as as-extracted collateral or timber to be cut, a sufficient description of the real property to which the Collateral relates. Debtor agrees to furnish any such information to Secured Party promptly upon request. In addition, Debtor shall make appropriate entries on its books and records disclosing the security interests of Secured Party, for its own benefit and as agent for its Affiliates, in the Collateral. Debtor hereby agrees that a photogenic or other reproduction of this Security Agreement is sufficient for filing as a financing statement and Debtor authorizes Secured Party to file this Security Agreement as a financing statement in any jurisdiction.

2.4 Preservation of the Collateral. Secured Party may, but is not required to, take such actions from time to time as Secured Party deems appropriate to maintain or protect the Collateral. Secured Party shall have exercised reasonable care in the custody and preservation of the Collateral if Secured Party takes such action as Debtor shall reasonably request in writing which is not inconsistent with Secured Party's status as a secured party, but the failure of Secured Party to comply with any such request shall not be deemed a failure to exercise reasonable care; provided, however, Secured Party's responsibility for the safekeeping of the Collateral shall: (i) be deemed reasonable if such Collateral is accorded treatment substantially equal to that which Secured Party accords its own property; and (ii) not extend to matters beyond the control of Secured Party, including acts of God, war, insurrection, riot or governmental actions. In addition, any failure of Secured Party to preserve or protect any rights with respect to the Collateral against prior or third parties, or to do any act with respect to preservation of the Collateral, not so requested by Debtor, shall not be deemed a failure to exercise reasonable care in the custody or preservation of the Collateral. Debtor shall have the sole responsibility for taking such action as may be necessary, from time to time, to preserve all rights of Debtor and Secured Party in the applicable Collateral against prior or third parties. Without limiting the generality of the foregoing, where Collateral consists, in whole or in part, of Capital Securities, Debtor represents to, and covenants with, Secured Party that Debtor has made arrangements for keeping informed of changes or potential changes affecting the Capital Securities (including rights to convert or subscribe, payment of dividends, reorganization or other exchanges, tender offers and voting rights), and Debtor agrees that Secured Party shall have no responsibility or liability for informing Debtor of any such or other changes or potential changes or for taking any action or omitting to take any action with respect thereto.

2.5 Other Actions as to any and all Collateral. Debtor further agrees to take any other action reasonably requested by Secured Party to ensure the attachment, perfection and first priority of, and the ability of Secured Party to enforce, the security interest of Secured Party, for its own benefit and as agent for its Affiliates, in any and all of the Collateral, including: (i) causing Secured Party's name to be noted as secured party on any certificate of title for a titled good if such notation is a condition to attachment, perfection or priority of, or ability of the bank to enforce, the security interest of Secured Party, for its own benefit and as agent for its Affiliates, in such Collateral; (ii) complying with any provision of any statute, regulation or treaty of the United States as to any material portion of the Collateral as soon as possible but not more than forty-five (45) days after such request if compliance with such provision is a condition to attachment, perfection or priority of, or ability of Secured Party to enforce, the security interest of Secured Party, for its own benefit and as agent for its Affiliates, in such Collateral; (iii) obtaining governmental and other third party consents and approvals, including, without limitation, any consent of any licensor, lessor or other Person with authority or control over or an interest in any material portion of the Collateral as soon as possible but not more than forty-five (45) days after such request; (iv) obtaining waivers from mortgagees and landlords in form and substance reasonably satisfactory to Secured Party which affect any material portion of the Collateral as soon as possible but not more than forty-five (45) days after such request; and (v) taking all actions required by the UCC in effect from time to time or by other law, as applicable in any relevant UCC jurisdiction, or by other law as applicable in any foreign jurisdiction. Debtor further agrees to indemnify and hold Secured Party harmless against claims of any Persons not a party to this Security Agreement concerning disputes arising over the Collateral, except to the extent resulting from the gross negligence or willful misconduct of Secured Party or its Affiliates.

2.6 Collateral in the Possession of a Warehouseman or Bailee. If any material portion of the Collateral at any time is in the possession of a warehouseman or bailee, Debtor shall promptly notify Secured Party thereof, and, as soon as possible, but not more than forty-five (45) days later, shall obtain a Collateral Access Agreement in form and substance reasonably satisfactory to Secured Party from such warehouseman or bailee.

2.7 Letter-of-Credit Rights. If Debtor at any time is a beneficiary under a letter of credit now or hereafter issued in favor of Debtor, Debtor shall promptly notify Secured Party thereof and, at the request and option of Secured Party, Debtor shall, pursuant to an agreement in form and substance reasonably satisfactory to Secured Party, either: (i) arrange for the issuer and any confirmer of such letter of credit to consent to an assignment to Secured Party, for its own benefit and as agent for its Affiliates, of the proceeds of any drawing under the letter of credit; or (ii) arrange for Secured Party, for its own benefit and as agent for its Affiliates, to become the transferee beneficiary of the letter of credit, with Secured Party agreeing, in each case, that the proceeds of any drawing under the letter to credit are to be applied as provided in the Credit Agreement.

2.8 Commercial Tort Claims. If Debtor shall at any time hold or acquire a Commercial Tort Claim, Debtor shall promptly notify Secured Party in writing signed by Debtor of the details thereof and grant to Secured Party, for its own benefit and as agent for its Affiliates, in such written notice or other written instrument, a security interest therein and in the proceeds thereof, all upon the terms of this Security Agreement, in each case in form and substance reasonably satisfactory to Secured Party, and shall execute any amendments hereto deemed reasonably necessary by Secured Party to perfect the security interest of Secured Party, for its own benefit and as agent for its Affiliates, in such Commercial Tort Claim.

2.9 Electronic Chattel Paper and Transferable Records. If Debtor at any time holds or acquires an interest in any electronic chattel paper or any “transferable record”, as that term is defined in Section 201 of the federal Electronic Signatures in Global and National Commerce Act, or in Section 16 of the Uniform Electronic Transactions Act as in effect in any relevant jurisdiction, Debtor shall promptly notify Secured Party thereof and, at the request of Secured Party, shall take such action as Secured Party may reasonably request to vest in Secured Party control under Section 9-105 of the UCC of such electronic chattel paper or control under Section 201 of the federal Electronic Signatures in Global and National Commerce Act or, as the case may be, Section 16 of the Uniform Electronic Transactions Act, as so in effect in such jurisdiction, of such transferable record. Secured Party agrees with Debtor that Secured Party will arrange, pursuant to procedures reasonably satisfactory to Secured Party and so long as such procedures will not result in Secured Party’s loss of control, for Debtor to make alterations to the electronic chattel paper or transferable record permitted under Section 9-105 of the UCC or, as the case may be, Section 201 of the federal Electronic Signatures in Global and National Commerce Act or Section 16 of the Uniform Electronic Transactions Act, for a party in control to make without loss of control.

2.10 Additional Requirements on Collateral. Debtor shall fully cooperate with Secured Party to obtain and keep in effect one or more control agreements in Deposit Accounts, Electronic Chattel Paper, Investment Property and Letter-of-Credit Rights Collateral. Such control agreements shall only be required if, in the reasonable discretion of the Secured Party, the nature of the Collateral requires any such control agreements in order for the Secured Party to perfect its security interests in any Collateral as granted hereunder, and in such event, Debtor shall promptly provide any such control agreements upon request from the Secured Party. In addition, Debtor, at the Debtor's expense, shall promptly: (A) execute all notices of security interest for each relevant type of Software and other General Intangibles in forms suitable for filing with any United States or foreign office handling the registration or filing of patents, trademarks, copyrights and other intellectual property and any successor office or agency thereto; and (B) take all commercially reasonable steps in any hearing, suit, action, or other proceeding before any such office or any similar office or agency in any other country or any political subdivision thereof, to diligently prosecute or maintain, as applicable, each application and registration of any Software, General Intangibles or any other intellectual property rights and assets that are part of the Collateral, including filing of renewals, affidavits of use, affidavits of incontestability and opposition, interference and cancellation proceedings.

### **3 REPRESENTATIONS AND WARRANTIES.**

Debtor makes the following representations and warranties to Secured Party:

3.1 Debtor Organization and Name. Debtor is a corporation, duly organized, existing and in good standing under the laws of its State of organization, with full and adequate power to carry on and conduct its business as presently conducted. Debtor is duly licensed or qualified in all foreign jurisdictions wherein the nature of its activities requires such qualification or licensing. Debtor's Organizational Identification Number, if applicable, is set forth in the Credit Agreement. The exact legal name of Debtor is as set forth in the first paragraph of this Security Agreement, and Debtor currently does not conduct, nor has it during the last five (5) years conducted, business under any other name or trade name.

3.2 Authorization. Debtor has full right, power and authority to enter into this Security Agreement and to perform all of its duties and obligations under this Security Agreement. The execution and delivery of this Security Agreement and the other Loan Documents will not, nor will the observance or performance of any of the matters and things herein or therein set forth, violate or contravene any provision of law or of the articles of incorporation, bylaws, operating agreement, or other governing documents of Debtor. All necessary and appropriate action has been taken on the part of Debtor to authorize the execution and delivery of this Security Agreement.

3.3 Validity and Binding Nature. This Security Agreement is the legal, valid and binding obligation of Debtor, enforceable against Debtor in accordance with its terms, subject to bankruptcy, insolvency and similar laws affecting the enforceability of creditors' rights generally and to general principles of equity.

3.4 Consent; Absence of Breach. The execution, delivery and performance of this Security Agreement and any other documents or instruments to be executed and delivered by Debtor in connection herewith, do not and will not: (a) require any consent, approval, authorization, or filings with, notice to or other act by or in respect of, any governmental authority or any other Person (other than filings or notices pursuant to federal or state securities laws or other than any consent or approval which has been obtained and is in full force and effect); (b) conflict with: (i) any provision of law or any applicable regulation, order, writ, injunction or decree of any court or governmental authority; (ii) the articles of incorporation, bylaws, or other organic or governance document of Debtor; or (iii) any agreement, indenture, instrument or other document, or any judgment, order or decree, which is binding upon Debtor or any of its properties or assets; or (c) require, or result in, the creation or imposition of any Lien on any asset of Debtor, other than Liens in favor of Secured Party created pursuant to this Security Agreement and Permitted Liens.

3.5 Ownership of Collateral; Liens. Debtor is the sole owner of all the Collateral, free and clear of all Liens, charges and claims (including infringement claims with respect to patents, trademarks, service marks, copyrights and other intellectual property rights), other than Permitted Liens.

3.6 Adverse Circumstances. No condition, circumstance, event, agreement, document, instrument, restriction, litigation or proceeding (or threatened litigation or proceeding or basis therefor) exists which: (i) would have a Material Adverse Effect upon Debtor; or (ii) would constitute an Event of Default or an Unmatured Event of Default.

3.7 Security Interest. This Security Agreement creates a valid security interest in favor of Secured Party in the Collateral and, when properly perfected by filing in the appropriate jurisdictions, or by possession or control of such Collateral by Secured Party or delivery of such Collateral to Secured Party, shall constitute a valid, perfected, first-priority security interest in such Collateral.

3.8 Place of Business. The principal place of business and books and records of Debtor is set forth in the preamble to this Security Agreement, and the location of all Collateral, if other than at such principal place of business, is as set forth on **Schedule 3.8** attached hereto and made a part hereof, and Debtor shall promptly notify Secured Party of any change in such locations. Debtor will not remove or permit the Collateral to be removed from such locations without the prior written consent of Secured Party, except as permitted pursuant to the Credit Agreement.

3.9 Complete Information. This Security Agreement and all financial statements, schedules, certificates, confirmations, agreements, contracts, and other materials and information heretofore or contemporaneously herewith furnished in writing by Debtor to Secured Party for purposes of, or in connection with, this Security Agreement and the transactions contemplated hereby is, and all written information hereafter furnished by or on behalf of Debtor to Secured Party pursuant hereto or in connection herewith will be, true and accurate in every material respect on the date as of which such information is dated or certified, and none of such information is or will be incomplete by omitting to state any material fact necessary to make such information not misleading in light of the circumstances under which made (it being recognized by Secured Party that any projections and forecasts provided by Debtor are based on good faith estimates and assumptions believed by Debtor to be reasonable as of the date of the applicable projections or assumptions and that actual results during the period or periods covered by any such projections and forecasts may differ from projected or forecasted results).

#### 4 REMEDIES.

Upon the occurrence of any default in the payment or performance of any of the covenants, conditions and agreements contained in this Security Agreement or any other Event of Default, Secured Party shall have all rights, powers and remedies set forth in this Security Agreement or the other Loan Documents or in any other written agreement or instrument relating to any of the Obligations or any security therefor, as a secured party under the UCC or as otherwise provided at law or in equity. Without limiting the generality of the foregoing, Secured Party may, at its option upon the occurrence of an Event of Default, declare its commitments to Debtor to be terminated and all Obligations to be immediately due and payable, or, if provided in the Loan Documents, all commitments of Secured Party to Debtor shall immediately terminate and all Obligations shall be automatically due and payable, all without demand, notice or further action of any kind required on the part of Secured Party. Debtor hereby waives any and all presentment, demand, notice of dishonor, protest, and all other notices and demands in connection with the enforcement of Secured Party's rights under the Loan Documents, and hereby consents to, and waives notice of release, with or without consideration, of any Collateral, notwithstanding anything contained herein or in the Loan Documents to the contrary. In addition to the foregoing:

4.1 Possession and Assembly of Collateral. Secured Party may, without notice, demand or the initiation of legal process of any kind, take possession of any or all of the Collateral (in addition to Collateral of which Secured Party already has possession), wherever it may be found, and for that purpose may pursue the same wherever it may be found, and may at any time enter into any of Debtor's premises where any of the Collateral may be or is supposed to be, and search for, take possession of, remove, keep and store any of the Collateral until the same shall be sold or otherwise disposed of and Secured Party shall have the right to store and conduct a sale of the same in any of Debtor's premises without cost to Secured Party. At Secured Party's request, Debtor will, at Debtor's sole expense, assemble the Collateral and make it available to Secured Party at a place or places to be designated by Secured Party which is reasonably convenient to Secured Party and Debtor.

4.2 Sale of Collateral. Secured Party may sell any or all of the Collateral at public or private sale, upon such terms and conditions as Secured Party may deem proper, and Secured Party may purchase any or all of the Collateral at any such sale. Debtor acknowledges that Secured Party may be unable to effect a public sale of all or any portion of the Collateral because of certain legal and/or practical restrictions and provisions which may be applicable to the Collateral and, therefore, may be compelled to resort to one or more private sales to a restricted group of offerees and purchasers. Debtor consents to any such private sale so made even though at places and upon terms less favorable than if the Collateral were sold at public sale. Secured Party shall have no obligation to clean-up or otherwise prepare the Collateral for sale. Secured Party may apply the net proceeds, after deducting all costs, expenses, attorneys' and paralegals' fees incurred or paid at any time in the collection, protection and sale of the Collateral and the Obligations, to the payment of the Obligations, returning the excess proceeds, if any, to Debtor. Debtor shall remain liable for any amount remaining unpaid after such application, with interest at the Default Rate. Any notification of intended disposition of the Collateral required by law shall be conclusively deemed reasonably and properly given if given by Secured Party at least ten (10) calendar days before the date of such disposition. Debtor hereby confirms, approves and ratifies all acts and deeds of Secured Party relating to the foregoing, and each part thereof, and expressly waives any and all claims of any nature, kind or description which it has or may hereafter have against Secured Party or its representatives, by reason of taking, selling or collecting any portion of the Collateral. Debtor consents to releases of the Collateral at any time (including prior to default) and to sales of the Collateral in groups, parcels or portions, or as an entirety, as Secured Party shall deem appropriate. Debtor expressly absolves Secured Party from any loss or decline in market value of any Collateral by reason of delay in the enforcement or assertion or non-enforcement of any rights or remedies under this Security Agreement.

4.3 Standards for Exercising Remedies. To the extent that applicable law imposes duties on Secured Party to exercise remedies in a commercially reasonable manner, Debtor acknowledges and agrees that it is not commercially unreasonable for Secured Party: (i) to incur expenses deemed necessary by Secured Party to prepare Collateral for disposition or otherwise to complete raw material or work-in-process into finished goods or other finished products for disposition; (ii) to fail to obtain third party consents for access to Collateral to be disposed of, or to obtain or, if not required by other law, to fail to obtain governmental or third party consents for the collection or disposition of Collateral to be collected or disposed of; (iii) to fail to exercise collection remedies against Customers or other Persons obligated on Collateral or to remove liens or encumbrances on or any adverse claims against Collateral; (iv) to exercise collection remedies against Customers and other Persons obligated on Collateral directly or through the use of collection agencies and other collection specialists; (v) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature; (vi) to contact other Persons, whether or not in the same business as Debtor, for expressions of interest in acquiring all or any portion of the Collateral; (vii) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the Collateral is of a specialized nature; (viii) to dispose of Collateral by utilizing internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capability of doing so, or that match buyers and sellers of assets; (ix) to dispose of assets in wholesale rather than retail markets; (x) to disclaim disposition warranties, including any warranties of title; (xi) to purchase insurance or credit enhancements to insure Secured Party against risks of loss, collection or disposition of Collateral or to provide to Secured Party a guaranteed return from the collection or disposition of Collateral; or (xii) to the extent deemed appropriate by Secured Party, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist Secured Party in the collection or disposition of any of the Collateral. Debtor acknowledges that the purpose of this section is to provide non-exhaustive indications of what actions or omissions by Secured Party would not be commercially unreasonable in Secured Party's exercise of remedies against the Collateral and that other actions or omissions by Secured Party shall not be deemed commercially unreasonable solely on account of not being indicated in this Section. Without limitation upon the foregoing, nothing contained in this Section shall be construed to grant any rights to Debtor or to impose any duties on Secured Party that would not have been granted or imposed by this Security Agreement or by applicable law in the absence of this Section.

4.4 UCC and Offset Rights. Secured Party may exercise, from time to time, any and all rights and remedies available to it under the UCC or under any other applicable law in addition to, and not in lieu of, any rights and remedies expressly granted in this Security Agreement or in any other agreements between any Obligor and Secured Party, and may, without demand or notice of any kind, appropriate and apply toward the payment of such of the Obligations, whether matured or unmatured, including costs of collection and attorneys' and paralegals' fees and costs, and in such order of application as Secured Party may, from time to time, elect, any indebtedness of Secured Party to any Obligor, however created or arising, including balances, credits, deposits, accounts or moneys of such Obligor in the possession, control or custody of, or in transit to Secured Party. Debtor, on behalf of itself and any Obligor, hereby waives the benefit of any law that would otherwise restrict or limit Secured Party in the exercise of its right, which is hereby acknowledged, to appropriate at any time hereafter any such indebtedness owing from Secured Party to any Obligor.

4.5 Additional Remedies. Upon the occurrence of an Event of Default, Secured Party shall have the right and power to:

(a) instruct Debtor, at its own expense, to notify any parties obligated on any of the Collateral, including any Customers and Payment Processing Companies, to make payment directly to Secured Party of any amounts due or to become due thereunder, or Secured Party may directly notify such obligors of the security interest of Secured Party, and/or of the assignment to Secured Party of the Collateral and direct such obligors to make payment to Secured Party of any amounts due or to become due with respect thereto, and thereafter, collect any such amounts due on the Collateral directly from such Persons obligated thereon;

(b) enforce collection of any of the Collateral, including any Accounts, by suit or otherwise, or make any compromise or settlement with respect to any of the Collateral, or surrender, release or exchange all or any part thereof, or compromise, extend or renew for any period (whether or not longer than the original period) any indebtedness thereunder;

(c) take possession or control of any proceeds and products of any of the Collateral, including the proceeds of insurance thereon;

(d) extend, renew or modify for one or more periods (whether or not longer than the original period) the Obligations or any obligation of any nature of any other obligor with respect to the Obligations;

(e) grant releases, compromises or indulgences with respect to the Obligations, any extension or renewal of any of the Obligations, any security therefor, or to any other obligor with respect to the Obligations;

(f) transfer the whole or any part of Capital Securities which may constitute Collateral into the name of Secured Party or Secured Party's nominee without disclosing, if Secured Party so desires, that such Capital Securities so transferred are subject to the security interest of Secured Party, and any corporation, association, or any of the managers or trustees of any trust issuing any of such Capital Securities, or any transfer agent, shall not be bound to inquire, in the event that Secured Party or such nominee makes any further transfer of such Capital Securities, or any portion thereof, as to whether Secured Party or such nominee has the right to make such further transfer, and shall not be liable for transferring the same;

(g) vote the Collateral;

(h) make an election with respect to the Collateral under Section 1111 of the Bankruptcy Code or take action under Section 364 or any other section of Bankruptcy Code; provided, however, that any such action of Secured Party as set forth herein shall not, in any manner whatsoever, impair or affect the liability of Debtor hereunder, nor prejudice, waive, nor be construed to impair, affect, prejudice or waive Secured Party's rights and remedies at law, in equity or by statute, nor release, discharge, nor be construed to release or discharge, Debtor, any guarantor or other Person liable to Secured Party for the Obligations; and

(i) at any time, and from time to time, accept additions to, releases, reductions, exchanges or substitution of the Collateral, without in any way altering, impairing, diminishing or affecting the provisions of this Security Agreement, the Loan Documents, or any of the other Obligations, or Secured Party's rights hereunder, under the Obligations.

Debtor hereby ratifies and confirms whatever Secured Party may do with respect to the Collateral and agrees that Secured Party shall not be liable for any error of judgment or mistakes of fact or law with respect to actions taken in connection with the Collateral.

4.6 Attorney-in-Fact. Debtor hereby irrevocably makes, constitutes and appoints Secured Party (and any officer of Secured Party or any Person designated by Secured Party for that purpose) as Debtor's true and lawful proxy and attorney-in-fact (and agent-in-fact) in Debtor's name, place and stead, with full power of substitution, to: (i) take such actions as are permitted in this Security Agreement; (ii) execute such financing statements and other documents and to do such other acts as Secured Party may require to perfect and preserve Secured Party's security interest in, and to enforce such interests in the Collateral; and (iii) upon the occurrence of an Event of Default, carry out any remedy provided for in this Security Agreement, the Credit Agreement, or otherwise at law or in equity, including endorsing Debtor's name to checks, drafts, instruments and other items of payment, and proceeds of the Collateral, executing change of address forms with the postmaster of the United States Post Office serving the address of Debtor, changing the address of Debtor to that of Secured Party, opening all envelopes addressed to Debtor and applying any payments contained therein to the Obligations, and changing any merchant accounts or instructions to Payment Processing Companies regarding any credit/debit card payments from Customers. Debtor hereby acknowledges that the constitution and appointment of such proxy and attorney-in-fact are coupled with an interest and are irrevocable. Debtor hereby ratifies and confirms all that such attorney-in-fact may do or cause to be done by virtue of any provision of this Security Agreement.

4.7 No Marshaling. Secured Party shall not be required to marshal any present or future collateral security (including this Security Agreement and the Collateral) for, or other assurances of payment of, the Obligations or any of them or to resort to such collateral security or other assurances of payment in any particular order. To the extent that it lawfully may, Debtor hereby agrees that it will not invoke any law relating to the marshaling of collateral which might cause delay in or impede the enforcement of Secured Party's rights under this Security Agreement or under any other instrument creating or evidencing any of the Obligations or under which any of the Obligations is outstanding or by which any of the Obligations is secured or payment thereof is otherwise assured, and, to the extent that it lawfully may, Debtor hereby irrevocably waives the benefits of all such laws.

4.8 No Waiver. No Event of Default shall be waived by Secured Party except in writing. No failure or delay on the part of Secured Party in exercising any right, power or remedy hereunder shall operate as a waiver of the exercise of the same or any other right at any other time; nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy hereunder. There shall be no obligation on the part of Secured Party to exercise any remedy available to Secured Party in any order. The remedies provided for herein are cumulative and not exclusive of any remedies provided at law or in equity. Debtor agrees that in the event that Debtor fails to perform, observe or discharge any of its Obligations or liabilities under this Security Agreement or any other agreements with Secured Party, no remedy of law will provide adequate relief to Secured Party, and further agrees that Secured Party shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving actual damages.

4.9 Application of Proceeds. Secured Party will, within three (3) Business Days after receipt of cash or solvent credits from collection of items of payment, proceeds of Collateral or any other source, apply the whole or any part thereof against the Obligations secured hereby. Secured Party shall further have the exclusive right to determine how, when and what application of such payments and such credits shall be made on the Obligations, and such determination shall be conclusive upon Debtor. Any proceeds of any disposition by Secured Party of all or any part of the Collateral may be first applied by Secured Party to the payment of expenses incurred by Secured Party in connection with the Collateral, including reasonable attorneys' fees and legal expenses and costs as provided for in Section 5.13 hereof.

## **5 MISCELLANEOUS.**

5.1 Entire Agreement. This Security Agreement and the other Loan Documents: (i) are valid, binding and enforceable against Debtor and Secured Party in accordance with their respective provisions and no conditions exist as to their legal effectiveness; (ii) constitute the entire agreement between the parties with respect to the subject matter hereof and thereof; and (iii) are the final expression of the intentions of Debtor and Secured Party. No promises, either expressed or implied, exist between Debtor and Secured Party, unless contained herein or therein. This Security Agreement, together with the other Loan Documents, supersedes all negotiations, representations, warranties, commitments, term sheets, discussions, negotiations, offers or contracts (of any kind or nature, whether oral or written) prior to or contemporaneous with the execution hereof with respect to any matter, directly or indirectly related to the terms of this Security Agreement and the other Loan Documents. This Security Agreement and the other Loan Documents are the result of negotiations between Secured Party and Debtor and have been reviewed (or have had the opportunity to be reviewed) by counsel to all such parties, and are the products of all parties. Accordingly, this Security Agreement and the other Loan Documents shall not be construed more strictly against Secured Party merely because of Secured Party's involvement in their preparation.

5.2 Amendments; Waivers. No delay on the part of Secured Party in the exercise of any right, power or remedy shall operate as a waiver thereof, nor shall any single or partial exercise by Secured Party of any right, power or remedy preclude other or further exercise thereof, or the exercise of any other right, power or remedy. No amendment, modification or waiver of, or consent with respect to, any provision of this Security Agreement or the other Loan Documents shall in any event be effective unless the same shall be in writing and acknowledged by Secured Party, and then any such amendment, modification, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

5.3 WAIVER OF DEFENSES. DEBTOR WAIVES EVERY PRESENT AND FUTURE DEFENSE, CAUSE OF ACTION, COUNTERCLAIM OR SETOFF WHICH DEBTOR MAY NOW HAVE OR HEREAFTER MAY HAVE TO ANY ACTION BY SECURED PARTY IN ENFORCING THIS SECURITY AGREEMENT. PROVIDED SECURED PARTY ACTS IN GOOD FAITH, DEBTOR RATIFIES AND CONFIRMS WHATEVER SECURED PARTY MAY DO PURSUANT TO THE TERMS OF THIS SECURITY AGREEMENT. THIS PROVISION IS A MATERIAL INDUCEMENT FOR SECURED PARTY GRANTING ANY FINANCIAL ACCOMMODATION TO DEBTOR.

5.4 MANDATORY FORUM SELECTION. TO INDUCE SECURED PARTY TO MAKE CERTAIN FINANCIAL ACCOMODATIONS TO DEBTOR, DEBTOR IRREVOCABLY AGREES THAT ANY DISPUTE ARISING UNDER, RELATING TO, OR IN CONNECTION WITH, DIRECTLY OR INDIRECTLY, THIS AGREEMENT OR RELATED TO ANY MATTER WHICH IS THE SUBJECT OF OR INCIDENTAL TO THIS AGREEMENT ANY OTHER LOAN DOCUMENT, OR THE COLLATERAL (WHETHER OR NOT SUCH CLAIM IS BASED UPON BREACH OF CONTRACT OR TORT) SHALL BE SUBJECT TO THE EXCLUSIVE JURISDICTION AND VENUE OF THE STATE AND/OR FEDERAL COURTS LOCATED IN BROWARD COUNTY, FLORIDA; PROVIDED, HOWEVER, SECURED PARTY MAY, AT SECURED PARTY'S SOLE OPTION, ELECT TO BRING ANY ACTION IN ANY OTHER JURISDICTION. THIS PROVISION IS INTENDED TO BE A "MANDATORY" FORUM SELECTION CLAUSE AND GOVERNED BY AND INTERPRETED CONSISTENT WITH FLORIDA LAW. DEBTOR HEREBY CONSENTS TO THE EXCLUSIVE JURISDICTION AND VENUE OF ANY STATE OR FEDERAL COURT HAVING ITS SITUS IN SAID COUNTY (OR TO ANY OTHER JURISDICTION OR VENUE, IF SECURED PARTY SO ELECTS), AND WAIVES ANY OBJECTION BASED ON FORUM NON CONVENIENS. DEBTOR HEREBY WAIVES PERSONAL SERVICE OF ANY AND ALL PROCESS AND CONSENTS THAT ALL SUCH SERVICE OF PROCESS MAY BE MADE BY CERTIFIED MAIL, RETURN RECEIPT REQUESTED, DIRECTED TO DEBTOR, AS APPLICABLE, AS SET FORTH HEREIN IN THE MANNER PROVIDED BY APPLICABLE STATUTE, LAW, RULE OF COURT OR OTHERWISE.

5.5 WAIVER OF JURY TRIAL. DEBTOR AND SECURED PARTY, AFTER CONSULTING OR HAVING HAD THE OPPORTUNITY TO CONSULT WITH COUNSEL, EACH KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE IRREVOCABLY, ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS SECURITY AGREEMENT, ANY NOTE, ANY OTHER LOAN DOCUMENT, ANY OF THE OTHER OBLIGATIONS, THE COLLATERAL, OR ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HEREWITH OR THEREWITH OR ARISING FROM ANY LENDING RELATIONSHIP EXISTING IN CONNECTION WITH ANY OF THE FOREGOING, OR ANY COURSE OF CONDUCT OR COURSE OF DEALING IN WHICH SECURED PARTY AND DEBTOR ARE ADVERSE PARTIES, AND EACH AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY. THIS PROVISION IS A MATERIAL INDUCEMENT FOR SECURED PARTY GRANTING ANY FINANCIAL ACCOMMODATION TO DEBTOR.

5.6 Assignability. Secured Party, without consent from or notice to anyone, may at any time assign Secured Party's rights in this Security Agreement, the other Loan Documents, the Obligations, or any part thereof and transfer Secured Party's rights in any or all of the Collateral, and Secured Party thereafter shall be relieved from all liability with respect to such Collateral. This Security Agreement shall be binding upon Secured Party and Debtor and its respective legal representatives and successors. All references herein to Debtor shall be deemed to include any successors, whether immediate or remote. In the case of a joint venture or partnership, the term "Debtor" shall be deemed to include all joint venturers or partners thereof, who shall be jointly and severally liable hereunder.

5.7 Binding Effect. This Security Agreement shall become effective upon execution by Debtor and Secured Party, and shall bind the Debtor and Secured Party, and their respective successors and permitted assigns.

5.8 Governing Law. Except in the case of the Mandatory Forum Selection Clause in Section 5.4 above, which clause shall be governed and interpreted in accordance with Florida law, this Agreement shall be delivered and accepted in and shall be deemed to be a contract made under and governed by the internal laws of the State of Nevada, and for all purposes shall be construed in accordance with the laws of such State, without giving effect to the choice of law provisions of such State.

5.9 Enforceability. Wherever possible, each provision of this Security Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Security Agreement shall be prohibited by, unenforceable or invalid under any jurisdiction, such provision shall as to such jurisdiction, be severable and be ineffective to the extent of such prohibition or invalidity, without invalidating the remaining provisions of this Security Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

5.10 Time of Essence. Time is of the essence in making payments of all amounts due Secured Party under the Loan Documents and in the performance and observance by Debtor of each covenant, agreement, provision and term of this Security Agreement and the other Loan Documents.

5.11 Counterparts; Facsimile Signatures. This Security Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts and each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Security Agreement. Receipt of an executed signature page to this Security Agreement by facsimile or other electronic transmission shall constitute effective delivery thereof. Electronic records of executed Loan Documents maintained by Secured Party shall be deemed to be originals thereof

5.12 Notices. Except as otherwise provided herein, Debtor waives all notices and demands in connection with the enforcement of Secured Party's rights hereunder. All notices, requests, demands and other communications provided for hereunder shall be made in accordance with the terms of the Credit Agreement.

5.13 Costs, Fees and Expenses. Debtor shall pay or reimburse Secured Party for all reasonable costs, fees and expenses incurred by Secured Party or for which Secured Party becomes obligated in connection with the enforcement of this Security Agreement, including search fees, costs and expenses and attorneys' fees, costs and time charges of counsel to Secured Party and all taxes payable in connection with this Security Agreement. In furtherance of the foregoing, Debtor shall pay any and all stamp and other taxes, UCC search fees, filing fees and other costs and expenses in connection with the execution and delivery of this Security Agreement and the other Loan Documents to be delivered hereunder, and agrees to save and hold Secured Party harmless from and against any and all liabilities with respect to or resulting from any delay in paying or omission to pay such costs and expenses. That portion of the Obligations consisting of costs, expenses or advances to be reimbursed by Debtor to Secured Party pursuant to this Security Agreement or the other Loan Documents which are not paid on or prior to the date hereof shall be payable by Debtor to Secured Party on demand. If at any time or times hereafter Secured Party: (a) employs counsel for advice or other representation: (i) with respect to this Security Agreement or the other Loan Documents; (ii) to represent Secured Party in any litigation, contest, dispute, suit or proceeding or to commence, defend, or intervene or to take any other action in or with respect to any litigation, contest, dispute, suit, or proceeding (whether instituted by Secured Party, Debtor, or any other Person) in any way or respect relating to this Security Agreement; or (iii) to enforce any rights of Secured Party against Debtor or any other Person under of this Security Agreement; (b) takes any action to protect, collect, sell, liquidate, or otherwise dispose of any of the Collateral; and/or (c) attempts to or enforces any of Secured Party's rights or remedies under this Security Agreement, the costs and expenses incurred by Secured Party in any manner or way with respect to the foregoing, shall be part of the Obligations, payable by Debtor to Secured Party on demand.

5.14 Termination. This Security Agreement and the Liens and security interests granted hereunder shall not terminate until the termination of the Credit Agreement and the commitments to make Loans thereunder and the full and complete performance and satisfaction and payment in full of all the Obligations (other than contingent indemnification obligations to the extent no claim giving rise thereto has been asserted). Upon termination of this Security Agreement, Secured Party shall also deliver to Debtor (at the sole expense of Debtor) such UCC termination statements, certificates for terminating the liens on the Motor Vehicles (if any) and such other documentation, without recourse, warranty or representation whatsoever, as shall be reasonably requested by Debtor to effect the termination and release of the Liens and security interests in favor of Secured Party affecting the Collateral; provided, however, to the extent any such terminations or releases require Secured Party to expend any sums in terminating or releasing any such Liens, Secured Party may refrain from terminating or releasing such Liens unless and until Debtor pays to Secured Party the estimated cost, as reasonably determined by Secured Party, of effectuating such terminations or releases.

5.15 Reinstatement. This Security Agreement shall remain in full force and effect and continue to be effective should any petition be filed by or against Debtor for liquidation or reorganization, should Debtor become insolvent or make an assignment for the benefit of any creditor or creditors or should a receiver or trustee be appointed for all or any significant part of Debtor's assets, and shall continue to be effective or be reinstated, as the case may be, if at any time payment and performance of the Obligations, or any part thereof, is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by any obligee of the Obligations, whether as a "voidable preference," "fraudulent conveyance," or otherwise, all as though such payment or performance had not been made. In the event that any payment, or any part thereof, is rescinded, reduced, restored or returned, the Obligations shall be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored or returned.

5.16 Increase in Obligations. It is the intent of the parties to secure payment of the Obligations, as the amount of such Obligations may increase from time to time in accordance with the terms and provisions of the Loan Documents, and all of the Obligations, as so increased from time to time, shall be and are secured hereby. Upon the execution hereof, Debtor shall pay any and all documentary stamp taxes and/or other charges required to be paid in connection with the execution and enforcement of the Loan Documents, and if, as and to the extent the Obligations are increased from time to time in accordance with the terms and provisions of the Loan Documents, then Debtor shall immediately pay any additional documentary stamp taxes or other charges in connection therewith.

**[SIGNATURE PAGE FOLLOWS]**

IN WITNESS WHEREOF, Debtor and Secured Party have executed this Security Agreement as of the date first above written.

**Debtor:**

**DRONE USA, INC.**, a Delaware corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

STATE OF \_\_\_\_\_ )  
SS.  
COUNTY OF \_\_\_\_\_ )

The foregoing instrument was acknowledged before me this \_\_\_\_ day of \_\_\_\_\_, 2016 by \_\_\_\_\_, who is the \_\_\_\_\_ of Drone USA, Inc., a Delaware corporation, on behalf of said corporation. He/She is personally known to me or has produced \_\_\_\_\_ as identification.

My Commission Expires:

Notary Public

\_\_\_\_\_  
Name of Notary typed or printed

IN WITNESS WHEREOF, Debtor and Secured Party have executed this Security Agreement as of the date first above written.

Agreed and accepted:

**Secured Party:**

**TCA GLOBAL CREDIT MASTER FUND, LP**

**By: TCA Global Credit Fund GP, Ltd.**

**Its: General Partner**

**By:**

\_\_\_\_\_  
**Robert Press, Director**

### **Schedule 3.8**

#### **Collateral Locations/Places of Business**

One World Trade Center, 285 Fulton Street, Suite 8500, New York, NY 10007

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**Exhibit F-2**

**Form of Security Agreement (Corporate Guarantor)**

## SECURITY AGREEMENT

This **SECURITY AGREEMENT** (the “**Security Agreement**”) dated as of May 31, 2016, but made effective as of September 13, 2016, is executed by and among **DRONE USA, LLC**, a Delaware limited liability company and **HOWCO DISTRIBUTING CO.**, a Washington corporation (each of the foregoing sometimes individually referred to as a “**Debtor**” and all such entities sometimes hereinafter collectively referred to as “**Debtors**”), with their chief executive offices located at One World Trade Center, 285 Fulton Street, Suite 8500, New York, NY 10007, and **TCA Global Credit Master Fund, LP** (the “**Secured Party**”).

### RECITALS:

WHEREAS, pursuant to a Credit Agreement dated of even date herewith (the “**Credit Agreement**”) by and between **DRONE USA, INC.**, a Delaware corporation (the “**Company**”), additional Credit Parties, and the Secured Party, the Company desires to borrow funds and obtain financial accommodations from Secured Party (such financial accommodations hereinafter referred to as the “**Loan**”); and

WHEREAS, in order to induce Secured Party to enter into the Loan with the Company, each of the Debtors, each being a wholly-owned Subsidiary of the Company or one of the Company’s subsidiaries, has entered into and executed a Guaranty Agreement dated of even date herewith in favor of Secured Party (the “**Guaranty Agreement**”); and

WHEREAS, in order to induce the Secured Party make the Loan, and to secure each Debtor’s liabilities and obligations under the Guaranty Agreement, each Debtor has agreed to execute and deliver to the Secured Party this Agreement for the benefit of the Secured Party;

NOW, THEREFORE, in consideration of the credit extended now and in the future by Secured Party to the Company and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Debtors and Secured Party hereby agree as follows:

### AGREEMENTS:

#### **1 DEFINITIONS.**

1.1 **Defined Terms.** Capitalized terms used but not otherwise defined in this Security Agreement (including the Recitals) shall have the meanings ascribed to them in the Credit Agreement. For the purposes of this Security Agreement, the following capitalized words and phrases shall have the meanings set forth below.

(a) “**Capital Securities**” shall mean, with respect to any Person, all shares, interests, participations or other equivalents (however designated, whether voting or non-voting) of such Person’s capital, whether now outstanding or issued or acquired after the date hereof, including common shares, preferred shares, membership interests in a limited liability company, limited or general partnership interests in a partnership or any other equivalent of such ownership interest.

- (b) “**Collateral**” shall have the meaning set forth in Section 2.1 hereof.
- (c) “**Obligor**” shall mean, collectively, each of the Debtors, or any other party liable with respect to the Obligations.
- (d) “**Organizational Identification Number**” means, with respect to each Debtor, the organizational identification number assigned to such Debtor by the applicable governmental unit or agency of the jurisdiction of organization of such Debtor, if any.
- (e) “**Taxes**” shall mean any and all present and future taxes, duties, levies, imposts, deductions, assessments, charges or withholdings, and any and all liabilities (including interest and penalties and other additions to taxes) with respect to the foregoing.
- (f) “**Unmatured Event of Default**” shall mean any event which, with the giving of notice, the passage of time or both, would constitute an Event of Default.

1.2 Other Terms Defined in UCC. All other capitalized words and phrases used herein and not otherwise specifically defined herein or in the Credit Agreement shall have the respective meanings assigned to such terms in the UCC, to the extent the same are used or defined therein.

1.3 Other Interpretive Provisions.

- (a) The meanings of defined terms are equally applicable to the singular and plural forms of the defined terms. Whenever the context so requires, the neuter gender includes the masculine and feminine, the single number includes the plural, and vice versa, and in particular the word “Debtor” or “Debtors” shall be so construed.
- (b) Section and Schedule references are to this Security Agreement unless otherwise specified. The words “hereof”, “herein” and “hereunder” and words of similar import when used in this Security Agreement shall refer to this Security Agreement as a whole and not to any particular provision of this Security Agreement
- (c) The term “including” (or words of similar import) is not limiting, and means “including, without limitation”.
- (d) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including”; the words “to” and “until” each mean “to but excluding”, and the word “through” means “to and including”.
- (e) Unless otherwise expressly provided herein: (i) references to agreements (including this Security Agreement and the other Loan Documents) and other contractual instruments shall be deemed to include all subsequent amendments, restatements, supplements and other modifications thereto, but only to the extent such amendments, restatements, supplements and other modifications are not prohibited by the terms of any Loan Document; and (ii) references to any statute or regulation shall be construed as including all statutory and regulatory provisions amending, replacing, supplementing or interpreting such statute or regulation.

(f) To the extent any of the provisions of the other Loan Documents are inconsistent with the terms of this Security Agreement, the provisions of this Security Agreement shall govern.

(g) This Security Agreement and the other Loan Documents may use several different limitations, tests or measurements to regulate the same or similar matters. All such limitations, tests and measurements are cumulative and each shall be performed in accordance with its terms.

(h) The term “Debtor” or “Debtors” shall refer to each Debtor individually, and to all Debtors, collectively, in each case as the context may so require, it being the intent of the parties under this Agreement that all of the terms, conditions, provisions and representations hereof shall, to the greatest extent possible, apply equally to each Debtor, as if each term, covenant, provision and representation was separately made herein by each Debtor.

## **2 SECURITY FOR THE OBLIGATIONS.**

2.1 Security for Obligations. As security for the payment and performance of the Obligations, each Debtor does hereby pledge, assign, transfer, deliver and grant to Secured Party, for its own benefit and as agent for its Affiliates, a continuing and unconditional first priority security interest in and to any and all property of each such Debtor, of any kind or description, tangible or intangible, wheresoever located and whether now existing or hereafter arising or acquired, including the following (all of which property for each Debtor, along with the products and proceeds therefrom, are individually and collectively referred to as the “**Collateral**”):

(a) all property of, or for the account of, each Debtor now or hereafter coming into the possession, control or custody of, or in transit to, Secured Party or any agent or bailee for Secured Party or any parent, affiliate or subsidiary of Secured Party or any participant with Secured Party in the Obligations (whether for safekeeping, deposit, collection, custody, pledge, transmission or otherwise), including all cash, earnings, dividends, interest, or other rights in connection therewith and the products and proceeds therefrom, including the proceeds of insurance thereon; and

(b) the additional property of each Debtor, whether now existing or hereafter arising or acquired, and wherever now or hereafter located, together with all additions and accessions thereto, substitutions, betterments and replacements therefor, products and Proceeds therefrom, and all of each Debtor’s books and records and recorded data relating thereto (regardless of the medium of recording or storage), together with all of each Debtor’s right, title and interest in and to all computer software required to utilize, create, maintain and process any such records or data on electronic media, identified and set forth as follows:

(i) All Accounts and all goods whose sale, lease or other disposition by each Debtor has given rise to Accounts and have been returned to, or repossessed or stopped in transit by, each Debtor, or rejected or refused by any Customer;

- Fixtures;
- (ii) All Inventory, including raw materials, work-in-process and finished goods;
  - (iii) All goods (other than Inventory), including embedded software, Equipment, vehicles, furniture and
  - (iv) All Software and computer programs;
  - (v) All Securities, Investment Property, Financial Assets and Deposit Accounts, specifically including the Lock Box Account, and all funds at any time deposited therewith, and all funds and amounts reserved or held back by any Payment Processing Companies;
  - (vi) All As-Extracted Collateral, Commodity Accounts, Commodity Contracts, and Farm Products;
  - (vii) All Chattel Paper, Electronic Chattel Paper, Instruments, Documents, Letter of Credit Rights, all proceeds of letters of credit, Health-Care-Insurance Receivables, Supporting Obligations, notes secured by real estate, Commercial Tort Claims and General Intangibles, including Payment Intangibles; and
  - (viii) All real estate property owned by each Debtor and the interest of each Debtor in fixtures related to such real property;
  - (ix) All Proceeds (whether Cash Proceeds or Non-cash Proceeds) of the foregoing property, including all insurance policies and proceeds of insurance payable by reason of loss or damage to the foregoing property, including unearned premiums, and of eminent domain or condemnation awards.

2.2 Possession and Transfer of Collateral. Until an Event of Default has occurred, but subject to Secured Party's rights under the Credit Agreement (specifically with respect to Secured Party's rights to use and apply money in the Lock Box Account) each Debtor shall be entitled to possession and use of the Collateral (other than Instruments or Documents (including Tangible Chattel Paper and Investment Property consisting of certificated securities) and other Collateral required to be delivered to Secured Party pursuant to this Section 2). The cancellation or surrender of any promissory note evidencing an Obligation, upon payment or otherwise, shall not affect the right of Secured Party to retain the Collateral for any other of the Obligations, except upon payment in full of the Obligations. No Debtor shall sell, assign (by operation of law or otherwise), license, lease or otherwise dispose of, or grant any option with respect to any of the Collateral, except as permitted pursuant to the Credit Agreement.

2.3 Financing Statements. Each Debtor authorizes Secured Party to prepare and file such financing statements, amendments and other documents and do such acts as Secured Party deems necessary in order to establish and maintain valid, attached and perfected, first priority security interests in the Collateral in favor of Secured Party, for its own benefit and as agent for its Affiliates, free and clear of all Liens and claims and rights of third parties whatsoever, except Permitted Liens. Each Debtor hereby irrevocably authorizes Secured Party at any time, and from time to time, to file in any jurisdiction any initial financing statements and amendments thereto that: (a) indicate the Collateral: (i) is comprised of all assets of such Debtor (or words of similar effect), regardless of whether any particular asset comprising a part of the Collateral falls within the scope of Article 9 of the UCC of the jurisdiction wherein such financing statement or amendment is filed; or (ii) as being of an equal or lesser scope or within greater detail as the grant of the security interest set forth herein; and (b) contain any other information required by Section 5 of Article 9 of the UCC of the jurisdiction wherein such financing statement or amendment is filed regarding the sufficiency or filing office acceptance of any financing statement or amendment, including: (A) whether each Debtor is an organization, the type of organization and any Organizational Identification Number issued to each Debtor; and (B) in the case of a financing statement filed as a fixture filing or indicating Collateral as as-extracted collateral or timber to be cut, a sufficient description of the real property to which the Collateral relates. Each Debtor agrees to furnish any such information to Secured Party promptly upon request. In addition, each Debtor shall make appropriate entries on its books and records disclosing the security interests of Secured Party, for its own benefit and as agent for its Affiliates, in the Collateral. Each Debtor hereby agrees that a photogenic or other reproduction of this Security Agreement is sufficient for filing as a financing statement and each Debtor authorizes Secured Party to file this Security Agreement as a financing statement in any jurisdiction.

2.4 Preservation of the Collateral. Secured Party may, but is not required to, take such actions from time to time as Secured Party deems appropriate to maintain or protect the Collateral. Secured Party shall have exercised reasonable care in the custody and preservation of the Collateral if Secured Party takes such action as any Debtor shall reasonably request in writing which is not inconsistent with Secured Party's status as a secured party, but the failure of Secured Party to comply with any such request shall not be deemed a failure to exercise reasonable care; provided, however, Secured Party's responsibility for the safekeeping of the Collateral shall: (i) be deemed reasonable if such Collateral is accorded treatment substantially equal to that which Secured Party accords its own property; and (ii) not extend to matters beyond the control of Secured Party, including acts of God, war, insurrection, riot or governmental actions. In addition, any failure of Secured Party to preserve or protect any rights with respect to the Collateral against prior or third parties, or to do any act with respect to preservation of the Collateral, not so requested by a Debtor, shall not be deemed a failure to exercise reasonable care in the custody or preservation of the Collateral. Each Debtor shall have the sole responsibility for taking such action as may be necessary, from time to time, to preserve all rights of each Debtor and Secured Party in the applicable Collateral against prior or third parties. Without limiting the generality of the foregoing, where Collateral consists, in whole or in part, of Capital Securities, each Debtor represents to, and covenants with, Secured Party that each Debtor has made arrangements for keeping informed of changes or potential changes affecting the Capital Securities (including rights to convert or subscribe, payment of dividends, reorganization or other exchanges, tender offers and voting rights), and each Debtor agrees that Secured Party shall have no responsibility or liability for informing any Debtor of any such or other changes or potential changes or for taking any action or omitting to take any action with respect thereto.

2.5 Other Actions as to any and all Collateral. Each Debtor further agrees to take any other action reasonably requested by Secured Party to ensure the attachment, perfection and first priority of, and the ability of Secured Party to enforce, the security interest of Secured Party, for its own benefit and as agent for its Affiliates, in any and all of the Collateral, including: (i) causing Secured Party's name to be noted as secured party on any certificate of title for a titled good if such notation is a condition to attachment, perfection or priority of, or ability of the bank to enforce, the security interest of Secured Party, for its own benefit and as agent for its Affiliates, in such Collateral; (ii) complying with any provision of any statute, regulation or treaty of the United States as to any material portion of the Collateral as soon as possible but not more than forty-five (45) days after such request if compliance with such provision is a condition to attachment, perfection or priority of, or ability of Secured Party to enforce, the security interest of Secured Party, for its own benefit and as agent for its Affiliates, in such Collateral; (iii) obtaining governmental and other third party consents and approvals, including, without limitation, any consent of any licensor, lessor or other Person with authority or control over or an interest in any material portion of the Collateral as soon as possible but not more than forty-five (45) days after such request; (iv) obtaining waivers from mortgagees and landlords in form and substance reasonably satisfactory to Secured Party which affect any material portion of the Collateral as soon as possible but not more than forty-five (45) days after such request; and (v) taking all actions required by the UCC in effect from time to time or by other law, as applicable in any relevant UCC jurisdiction, or by other law as applicable in any foreign jurisdiction. Each Debtor further agrees to indemnify and hold Secured Party harmless against claims of any Persons not a party to this Security Agreement concerning disputes arising over the Collateral, except to the extent resulting from the gross negligence or willful misconduct of Secured Party or its Affiliates.

2.6 Collateral in the Possession of a Warehouseman or Bailee. If any material portion of the Collateral at any time is in the possession of a warehouseman or bailee, each Debtor shall promptly notify Secured Party thereof, and, as soon as possible, but not more than forty-five (45) days later, shall obtain a Collateral Access Agreement in form and substance reasonably satisfactory to Secured Party from such warehouseman or bailee.

2.7 Letter-of-Credit Rights. If any Debtor at any time is a beneficiary under a letter of credit now or hereafter issued in favor of such Debtor, such Debtor shall promptly notify Secured Party thereof and, at the request and option of Secured Party, such Debtor shall, pursuant to an agreement in form and substance reasonably satisfactory to Secured Party, either: (i) arrange for the issuer and any confirmer of such letter of credit to consent to an assignment to Secured Party, for its own benefit and as agent for its Affiliates, of the proceeds of any drawing under the letter of credit; or (ii) arrange for Secured Party, for its own benefit and as agent for its Affiliates, to become the transferee beneficiary of the letter of credit, with Secured Party agreeing, in each case, that the proceeds of any drawing under the letter to credit are to be applied as provided in the Credit Agreement.

2.8 Commercial Tort Claims. If any Debtor shall at any time hold or acquire a Commercial Tort Claim, such Debtor shall promptly notify Secured Party in writing signed by such Debtor of the details thereof and grant to Secured Party, for its own benefit and as agent for its Affiliates, in such written notice or other written instrument, a security interest therein and in the proceeds thereof, all upon the terms of this Security Agreement, in each case in form and substance reasonably satisfactory to Secured Party, and shall execute any amendments hereto deemed reasonably necessary by Secured Party to perfect the security interest of Secured Party, for its own benefit and as agent for its Affiliates, in such Commercial Tort Claim.

2.9 Electronic Chattel Paper and Transferable Records. If any Debtor at any time holds or acquires an interest in any electronic chattel paper or any “transferable record”, as that term is defined in Section 201 of the federal Electronic Signatures in Global and National Commerce Act, or in Section 16 of the Uniform Electronic Transactions Act as in effect in any relevant jurisdiction, such Debtor shall promptly notify Secured Party thereof and, at the request of Secured Party, shall take such action as Secured Party may reasonably request to vest in Secured Party control under Section 9-105 of the UCC of such electronic chattel paper or control under Section 201 of the federal Electronic Signatures in Global and National Commerce Act or, as the case may be, Section 16 of the Uniform Electronic Transactions Act, as so in effect in such jurisdiction, of such transferable record. Secured Party agrees with each Debtor that Secured Party will arrange, pursuant to procedures reasonably satisfactory to Secured Party and so long as such procedures will not result in Secured Party’s loss of control, for such Debtor to make alterations to the electronic chattel paper or transferable record permitted under Section 9-105 of the UCC or, as the case may be, Section 201 of the federal Electronic Signatures in Global and National Commerce Act or Section 16 of the Uniform Electronic Transactions Act, for a party in control to make without loss of control.

2.10 Additional Requirements on Collateral. Each Debtor shall fully cooperate with Secured Party to obtain and keep in effect one or more control agreements in Deposit Accounts, Electronic Chattel Paper, Investment Property and Letter-of-Credit Rights Collateral. Such control agreements shall only be required if, in the reasonable discretion of the Secured Party, the nature of the Collateral requires any such control agreements in order for the Secured Party to perfect its security interests in any Collateral as granted hereunder, and in such event, each Debtor shall promptly provide any such control agreements upon request from the Secured Party. In addition, each Debtor, at the Debtor’s expense, shall promptly: (A) execute all notices of security interest for each relevant type of Software and other General Intangibles in forms suitable for filing with any United States or foreign office handling the registration or filing of patents, trademarks, copyrights and other intellectual property and any successor office or agency thereto; and (B) take all commercially reasonable steps in any hearing, suit, action, or other proceeding before any such office or any similar office or agency in any other country or any political subdivision thereof, to diligently prosecute or maintain, as applicable, each application and registration of any Software, General Intangibles or any other intellectual property rights and assets that are part of the Collateral, including filing of renewals, affidavits of use, affidavits of incontestability and opposition, interference and cancellation proceedings.

### **3 REPRESENTATIONS AND WARRANTIES.**

Each Debtor makes the following representations and warranties to Secured Party:

3.1 Debtor Organization and Name. Each Debtor is a corporation, limited liability company, or other legally recognized form of entity, as applicable, duly organized, existing and in good standing under the laws of its State of organization, with full and adequate power to carry on and conduct its business as presently conducted. Each Debtor is duly licensed or qualified in all foreign jurisdictions wherein the nature of its activities requires such qualification or licensing. Each Debtor’s Organizational Identification Number is set forth in the Credit Agreement. The exact legal name of each Debtor is as set forth in the first paragraph of this Security Agreement, and no Debtor currently conducts, nor has it during the last five (5) years conducted, business under any other name or trade name.

3.2 Authorization. Each Debtor has full right, power and authority to enter into this Security Agreement and to perform all of its duties and obligations under this Security Agreement. The execution and delivery of this Security Agreement and the other Loan Documents will not, nor will the observance or performance of any of the matters and things herein or therein set forth, violate or contravene any provision of law or of the articles of incorporation, by-laws, operating agreement or other governing documents, as applicable, of each Debtor. All necessary and appropriate action has been taken on the part of each Debtor to authorize the execution and delivery of this Security Agreement.

3.3 Validity and Binding Nature. This Security Agreement is the legal, valid and binding obligation of each Debtor, enforceable against each Debtor in accordance with its terms, subject to bankruptcy, insolvency and similar laws affecting the enforceability of creditors' rights generally and to general principles of equity.

3.4 Consent; Absence of Breach. The execution, delivery and performance of this Security Agreement and any other documents or instruments to be executed and delivered by each Debtor in connection herewith, do not and will not: (a) require any consent, approval, authorization, or filings with, notice to or other act by or in respect of, any governmental authority or any other Person (other than filings or notices pursuant to federal or state securities laws or other than any consent or approval which has been obtained and is in full force and effect); (b) conflict with: (i) any provision of law or any applicable regulation, order, writ, injunction or decree of any court or governmental authority; (ii) the articles of incorporation, bylaws, operating agreement, or other organic or governance document applicable to each Debtor; or (iii) any agreement, indenture, instrument or other document, or any judgment, order or decree, which is binding upon each applicable Debtor or any of its properties or assets; or (c) require, or result in, the creation or imposition of any Lien on any asset of any Debtor, other than Liens in favor of Secured Party created pursuant to this Security Agreement and Permitted Liens.

3.5 Ownership of Collateral; Liens. Each Debtor is the sole owner of all the Collateral applicable to such Debtor, free and clear of all Liens, charges and claims (including infringement claims with respect to patents, trademarks, service marks, copyrights and other intellectual property rights), other than Permitted Liens.

3.6 Adverse Circumstances. No condition, circumstance, event, agreement, document, instrument, restriction, litigation or proceeding (or threatened litigation or proceeding or basis therefor) exists which: (i) would have a Material Adverse Effect upon any Debtor; or (ii) would constitute an Event of Default or an Unmatured Event of Default.

3.7 Security Interest. This Security Agreement creates a valid security interest in favor of Secured Party in the Collateral and, when properly perfected by filing in the appropriate jurisdictions, or by possession or control of such Collateral by Secured Party or delivery of such Collateral to Secured Party, shall constitute a valid, perfected, first-priority security interest in such Collateral.

3.8 Place of Business. The principal place of business and books and records of each Debtor is set forth in the preamble to this Security Agreement, and the location of all Collateral, if other than at such principal place of business, is as set forth on **Schedule 3.8** attached hereto and made a part hereof, and each Debtor shall promptly notify Secured Party of any change in such locations. No Debtor will remove or permit the Collateral to be removed from such locations without the prior written consent of Secured Party, except as permitted pursuant to the Credit Agreement.

3.9 Complete Information. This Security Agreement and all financial statements, schedules, certificates, confirmations, agreements, contracts, and other materials and information heretofore or contemporaneously herewith furnished in writing by any Debtor to Secured Party for purposes of, or in connection with, this Security Agreement and the transactions contemplated hereby is, and all written information hereafter furnished by or on behalf of any Debtor to Secured Party pursuant hereto or in connection herewith will be, true and accurate in every material respect on the date as of which such information is dated or certified, and none of such information is or will be incomplete by omitting to state any material fact necessary to make such information not misleading in light of the circumstances under which made (it being recognized by Secured Party that any projections and forecasts provided by any Debtor are based on good faith estimates and assumptions believed by Debtors to be reasonable as of the date of the applicable projections or assumptions and that actual results during the period or periods covered by any such projections and forecasts may differ from projected or forecasted results).

#### **4 REMEDIES.**

Upon the occurrence of any default in the payment or performance of any of the covenants, conditions and agreements contained in this Security Agreement or any other Event of Default, including any Event of Default under the Guaranty Agreement, Secured Party shall have all rights, powers and remedies set forth in this Security Agreement or the other Loan Documents or in any other written agreement or instrument relating to any of the Obligations or any security therefor, as a secured party under the UCC or as otherwise provided at law or in equity. Without limiting the generality of the foregoing, Secured Party may, at its option upon the occurrence of an Event of Default, declare its commitments to the Company to be terminated and all Obligations to be immediately due and payable, or, if provided in the Loan Documents, all commitments of Secured Party to Debtors shall immediately terminate and all Obligations shall be automatically due and payable, all without demand, notice or further action of any kind required on the part of Secured Party. Each Debtor hereby waives any and all presentment, demand, notice of dishonor, protest, and all other notices and demands in connection with the enforcement of Secured Party's rights under the Loan Documents, and hereby consents to, and waives notice of release, with or without consideration, of any Collateral, notwithstanding anything contained herein or in the Loan Documents to the contrary. In addition to the foregoing:

4.1 Possession and Assembly of Collateral. Secured Party may, without notice, demand or the initiation of legal process of any kind, take possession of any or all of the Collateral (in addition to Collateral of which Secured Party already has possession), wherever it may be found, and for that purpose may pursue the same wherever it may be found, and may at any time enter into any of Debtors' premises where any of the Collateral may be or is supposed to be, and search for, take possession of, remove, keep and store any of the Collateral until the same shall be sold or otherwise disposed of and Secured Party shall have the right to store and conduct a sale of the same in any of Debtors' premises without cost to Secured Party. At Secured Party's request, each Debtor will, at such Debtor's sole expense, assemble the Collateral and make it available to Secured Party at a place or places to be designated by Secured Party which is reasonably convenient to Secured Party and Debtors.

4.2 Sale of Collateral. Secured Party may sell any or all of the Collateral at public or private sale, upon such terms and conditions as Secured Party may deem proper, and Secured Party may purchase any or all of the Collateral at any such sale. Each Debtor acknowledges that Secured Party may be unable to effect a public sale of all or any portion of the Collateral because of certain legal and/or practical restrictions and provisions which may be applicable to the Collateral and, therefore, may be compelled to resort to one or more private sales to a restricted group of offerees and purchasers. Each Debtor consents to any such private sale so made even though at places and upon terms less favorable than if the Collateral were sold at public sale. Secured Party shall have no obligation to clean-up or otherwise prepare the Collateral for sale. Secured Party may apply the net proceeds, after deducting all costs, expenses, attorneys' and paralegals' fees incurred or paid at any time in the collection, protection and sale of the Collateral and the Obligations, to the payment of the Obligations, returning the excess proceeds, if any, to Debtors. Debtors shall remain liable for any amount remaining unpaid after such application, with interest at the Default Rate. Any notification of intended disposition of the Collateral required by law shall be conclusively deemed reasonably and properly given if given by Secured Party at least ten (10) calendar days before the date of such disposition. Each Debtor hereby confirms, approves and ratifies all acts and deeds of Secured Party relating to the foregoing, and each part thereof, and expressly waives any and all claims of any nature, kind or description which it has or may hereafter have against Secured Party or its representatives, by reason of taking, selling or collecting any portion of the Collateral. Each Debtor consents to releases of the Collateral at any time (including prior to default) and to sales of the Collateral in groups, parcels or portions, or as an entirety, as Secured Party shall deem appropriate. Each Debtor expressly absolves Secured Party from any loss or decline in market value of any Collateral by reason of delay in the enforcement or assertion or non-enforcement of any rights or remedies under this Security Agreement.

4.3 Standards for Exercising Remedies. To the extent that applicable law imposes duties on Secured Party to exercise remedies in a commercially reasonable manner, each Debtor acknowledges and agrees that it is not commercially unreasonable for Secured Party: (i) to incur expenses deemed necessary by Secured Party to prepare Collateral for disposition or otherwise to complete raw material or work-in-process into finished goods or other finished products for disposition; (ii) to fail to obtain third party consents for access to Collateral to be disposed of, or to obtain or, if not required by other law, to fail to obtain governmental or third party consents for the collection or disposition of Collateral to be collected or disposed of; (iii) to fail to exercise collection remedies against Customers or other Persons obligated on Collateral or to remove liens or encumbrances on or any adverse claims against Collateral; (iv) to exercise collection remedies against Customers and other Persons obligated on Collateral directly or through the use of collection agencies and other collection specialists; (v) to advertise dispositions of Collateral through publications or media of general circulation, whether or not the Collateral is of a specialized nature; (vi) to contact other Persons, whether or not in the same business as Debtors, for expressions of interest in acquiring all or any portion of the Collateral; (vii) to hire one or more professional auctioneers to assist in the disposition of Collateral, whether or not the Collateral is of a specialized nature; (viii) to dispose of Collateral by utilizing internet sites that provide for the auction of assets of the types included in the Collateral or that have the reasonable capability of doing so, or that match buyers and sellers of assets; (ix) to dispose of assets in wholesale rather than retail markets; (x) to disclaim disposition warranties, including any warranties of title; (xi) to purchase insurance or credit enhancements to insure Secured Party against risks of loss, collection or disposition of Collateral or to provide to Secured Party a guaranteed return from the collection or disposition of Collateral; or (xii) to the extent deemed appropriate by Secured Party, to obtain the services of other brokers, investment bankers, consultants and other professionals to assist Secured Party in the collection or disposition of any of the Collateral. Each Debtor acknowledges that the purpose of this section is to provide non-exhaustive indications of what actions or omissions by Secured Party would not be commercially unreasonable in Secured Party's exercise of remedies against the Collateral and that other actions or omissions by Secured Party shall not be deemed commercially unreasonable solely on account of not being indicated in this Section. Without limitation upon the foregoing, nothing contained in this Section shall be construed to grant any rights to Debtors or to impose any duties on Secured Party that would not have been granted or imposed by this Security Agreement or by applicable law in the absence of this Section.

4.4 UCC and Offset Rights. Secured Party may exercise, from time to time, any and all rights and remedies available to it under the UCC or under any other applicable law in addition to, and not in lieu of, any rights and remedies expressly granted in this Security Agreement or in any other agreements between any Obligor and Secured Party, and may, without demand or notice of any kind, appropriate and apply toward the payment of such of the Obligations, whether matured or unmatured, including costs of collection and attorneys' and paralegals' fees and costs, and in such order of application as Secured Party may, from time to time, elect, any indebtedness of Secured Party to any Obligor, however created or arising, including balances, credits, deposits, accounts or moneys of such Obligor in the possession, control or custody of, or in transit to Secured Party. Each Debtor, on behalf of itself and any Obligor, hereby waives the benefit of any law that would otherwise restrict or limit Secured Party in the exercise of its right, which is hereby acknowledged, to appropriate at any time hereafter any such indebtedness owing from Secured Party to any Obligor.

4.5 Additional Remedies. Upon the occurrence of an Event of Default, Secured Party shall have the right and power to:

(a) instruct any Debtor, at its own expense, to notify any parties obligated on any of the Collateral, including any Customers and Payment Processing Companies, to make payment directly to Secured Party of any amounts due or to become due thereunder, or Secured Party may directly notify such obligors of the security interest of Secured Party, and/or of the assignment to Secured Party of the Collateral and direct such obligors to make payment to Secured Party of any amounts due or to become due with respect thereto, and thereafter, collect any such amounts due on the Collateral directly from such Persons obligated thereon;

(b) enforce collection of any of the Collateral, including any Accounts, by suit or otherwise, or make any compromise or settlement with respect to any of the Collateral, or surrender, release or exchange all or any part thereof, or compromise, extend or renew for any period (whether or not longer than the original period) any indebtedness thereunder;

(c) take possession or control of any proceeds and products of any of the Collateral, including the proceeds of insurance thereon;

(d) extend, renew or modify for one or more periods (whether or not longer than the original period) the Obligations or any obligation of any nature of any other obligor with respect to the Obligations;

(e) grant releases, compromises or indulgences with respect to the Obligations, any extension or renewal of any of the Obligations, any security therefor, or to any other obligor with respect to the Obligations;

(f) transfer the whole or any part of Capital Securities which may constitute Collateral into the name of Secured Party or Secured Party's nominee without disclosing, if Secured Party so desires, that such Capital Securities so transferred are subject to the security interest of Secured Party, and any corporation, association, or any of the managers or trustees of any trust issuing any of such Capital Securities, or any transfer agent, shall not be bound to inquire, in the event that Secured Party or such nominee makes any further transfer of such Capital Securities, or any portion thereof, as to whether Secured Party or such nominee has the right to make such further transfer, and shall not be liable for transferring the same;

(g) vote the Collateral;

(h) make an election with respect to the Collateral under Section 1111 of the Bankruptcy Code or take action under Section 364 or any other section of Bankruptcy Code; provided, however, that any such action of Secured Party as set forth herein shall not, in any manner whatsoever, impair or affect the liability of Debtors hereunder, nor prejudice, waive, nor be construed to impair, affect, prejudice or waive Secured Party's rights and remedies at law, in equity or by statute, nor release, discharge, nor be construed to release or discharge, Debtors, any Debtor or other Person liable to Secured Party for the Obligations; and

(i) at any time, and from time to time, accept additions to, releases, reductions, exchanges or substitution of the Collateral, without in any way altering, impairing, diminishing or affecting the provisions of this Security Agreement, the Loan Documents, or any of the other Obligations, or Secured Party's rights hereunder, under the Obligations.

Each Debtor hereby ratifies and confirms whatever Secured Party may do with respect to the Collateral and agrees that Secured Party shall not be liable for any error of judgment or mistakes of fact or law with respect to actions taken in connection with the Collateral.

4.6 Attorney-in-Fact. Each Debtor hereby irrevocably makes, constitutes and appoints Secured Party (and any officer of Secured Party or any Person designated by Secured Party for that purpose) as such Debtor's true and lawful proxy and attorney-in-fact (and agent-in-fact) in Debtor's name, place and stead, with full power of substitution, to: (i) take such actions as are permitted in this Security Agreement; (ii) execute such financing statements and other documents and to do such other acts as Secured Party may require to perfect and preserve Secured Party's security interest in, and to enforce such interests in the Collateral; and (iii) upon the occurrence of an Event of Default, carry out any remedy provided for in this Security Agreement, the Credit Agreement or through law or equity, including endorsing such Debtor's name to checks, drafts, instruments and other items of payment, and proceeds of the Collateral, executing change of address forms with the postmaster of the United States Post Office serving the address of such Debtor, changing the address of such Debtor to that of Secured Party, opening all envelopes addressed to such Debtor and applying any payments contained therein to the Obligations, and changing any merchant accounts or instructions to Payment Processing Companies regarding any credit/debit card payments from Customers. Each Debtor hereby acknowledges that the constitution and appointment of such proxy and attorney-in-fact are coupled with an interest and are irrevocable. Each Debtor hereby ratifies and confirms all that such attorney-in-fact may do or cause to be done by virtue of any provision of this Security Agreement.

4.7 No Marshaling. Secured Party shall not be required to marshal any present or future collateral security (including this Security Agreement and the Collateral) for, or other assurances of payment of, the Obligations or any of them or to resort to such collateral security or other assurances of payment in any particular order. To the extent that it lawfully may, each Debtor hereby agrees that it will not invoke any law relating to the marshaling of collateral which might cause delay in or impede the enforcement of Secured Party's rights under this Security Agreement or under any other instrument creating or evidencing any of the Obligations or under which any of the Obligations is outstanding or by which any of the Obligations is secured or payment thereof is otherwise assured, and, to the extent that it lawfully may, each Debtor hereby irrevocably waives the benefits of all such laws.

4.8 No Waiver. No Event of Default shall be waived by Secured Party except in writing. No failure or delay on the part of Secured Party in exercising any right, power or remedy hereunder shall operate as a waiver of the exercise of the same or any other right at any other time; nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy hereunder. There shall be no obligation on the part of Secured Party to exercise any remedy available to Secured Party in any order. The remedies provided for herein are cumulative and not exclusive of any remedies provided at law or in equity. Each Debtor agrees that in the event that such Debtor fails to perform, observe or discharge any of its Obligations or liabilities under this Security Agreement or any other agreements with Secured Party, no remedy of law will provide adequate relief to Secured Party, and further agrees that Secured Party shall be entitled to temporary and permanent injunctive relief in any such case without the necessity of proving actual damages.

4.9 Application of Proceeds. Secured Party will, within three (3) Business Days after receipt of cash or solvent credits from collection of items of payment, proceeds of Collateral or any other source, apply the whole or any part thereof against the Obligations secured hereby. Secured Party shall further have the exclusive right to determine how, when and what application of such payments and such credits shall be made on the Obligations, and such determination shall be conclusive upon Debtors. Any proceeds of any disposition by Secured Party of all or any part of the Collateral may be first applied by Secured Party to the payment of expenses incurred by Secured Party in connection with the Collateral, including reasonable attorneys' fees and legal expenses and costs as provided for in Section 5.13 hereof.

## 5 MISCELLANEOUS.

5.1 Entire Agreement. This Security Agreement and the other Loan Documents: (i) are valid, binding and enforceable against Debtors and Secured Party in accordance with their respective provisions and no conditions exist as to their legal effectiveness; (ii) constitute the entire agreement between the parties with respect to the subject matter hereof and thereof; and (iii) are the final expression of the intentions of Debtors, the Company and Secured Party. No promises, either expressed or implied, exist between any Debtor and Secured Party, unless contained herein or therein. This Security Agreement, together with the other Loan Documents, supersedes all negotiations, representations, warranties, commitments, term sheets, discussions, negotiations, offers or contracts (of any kind or nature, whether oral or written) prior to or contemporaneous with the execution hereof with respect to any matter, directly or indirectly related to the terms of this Security Agreement and the other Loan Documents. This Security Agreement and the other Loan Documents are the result of negotiations between Secured Party and Debtors and have been reviewed (or have had the opportunity to be reviewed) by counsel to all such parties, and are the products of all parties. Accordingly, this Security Agreement and the other Loan Documents shall not be construed more strictly against Secured Party merely because of Secured Party's involvement in their preparation.

5.2 Amendments; Waivers. No delay on the part of Secured Party in the exercise of any right, power or remedy shall operate as a waiver thereof, nor shall any single or partial exercise by Secured Party of any right, power or remedy preclude other or further exercise thereof, or the exercise of any other right, power or remedy. No amendment, modification or waiver of, or consent with respect to, any provision of this Security Agreement or the other Loan Documents shall in any event be effective unless the same shall be in writing and acknowledged by Secured Party, and then any such amendment, modification, waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

5.3 WAIVER OF DEFENSES. EACH DEBTOR WAIVES EVERY PRESENT AND FUTURE DEFENSE, CAUSE OF ACTION, COUNTERCLAIM OR SETOFF WHICH SUCH DEBTOR MAY NOW HAVE OR HEREAFTER MAY HAVE TO ANY ACTION BY SECURED PARTY IN ENFORCING THIS SECURITY AGREEMENT. PROVIDED SECURED PARTY ACTS IN GOOD FAITH, EACH DEBTOR RATIFIES AND CONFIRMS WHATEVER SECURED PARTY MAY DO PURSUANT TO THE TERMS OF THIS SECURITY AGREEMENT. THIS PROVISION IS A MATERIAL INDUCEMENT FOR SECURED PARTY GRANTING ANY FINANCIAL ACCOMMODATION TO DEBTORS.

5.4 MANDATORY FORUM SELECTION. TO INDUCE SECURED PARTY TO MAKE CERTAIN FINANCIAL ACCOMMODATIONS TO DEBTORS, EACH DEBTOR IRREVOCABLY AGREES THAT ANY DISPUTE ARISING UNDER, RELATING TO, OR IN CONNECTION WITH, DIRECTLY OR INDIRECTLY, THIS AGREEMENT OR RELATED TO ANY MATTER WHICH IS THE SUBJECT OF OR INCIDENTAL TO THIS AGREEMENT ANY OTHER LOAN DOCUMENT, OR THE COLLATERAL (WHETHER OR NOT SUCH CLAIM IS BASED UPON BREACH OF CONTRACT OR TORT) SHALL BE SUBJECT TO THE EXCLUSIVE JURISDICTION AND VENUE OF THE STATE AND/OR FEDERAL COURTS LOCATED IN BROWARD COUNTY, FLORIDA; PROVIDED, HOWEVER, SECURED PARTY MAY, AT SECURED PARTY'S SOLE OPTION, ELECT TO BRING ANY ACTION IN ANY OTHER JURISDICTION. THIS PROVISION IS INTENDED TO BE A "MANDATORY" FORUM SELECTION CLAUSE AND GOVERNED BY AND INTERPRETED CONSISTENT WITH FLORIDA LAW. EACH DEBTOR HEREBY CONSENTS TO THE EXCLUSIVE JURISDICTION AND VENUE OF ANY STATE OR FEDERAL COURT HAVING ITS SITUS IN SAID COUNTY (OR TO ANY OTHER JURISDICTION OR VENUE, IF SECURED PARTY SO ELECTS), AND EACH WAIVES ANY OBJECTION BASED ON FORUM NON CONVENIENS. EACH DEBTOR HEREBY WAIVES PERSONAL SERVICE OF ANY AND ALL PROCESS AND CONSENT THAT ALL SUCH SERVICE OF PROCESS MAY BE MADE BY CERTIFIED MAIL, RETURN RECEIPT REQUESTED, DIRECTED TO A DEBTOR, AS APPLICABLE, AS SET FORTH HEREIN IN THE MANNER PROVIDED BY APPLICABLE STATUTE, LAW, RULE OF COURT OR OTHERWISE.

5.5 WAIVER OF JURY TRIAL. EACH DEBTOR AND SECURED PARTY, AFTER CONSULTING OR HAVING HAD THE OPPORTUNITY TO CONSULT WITH COUNSEL, EACH KNOWINGLY, VOLUNTARILY AND INTENTIONALLY WAIVE IRREVOCABLY, ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS SECURITY AGREEMENT, ANY NOTE, ANY OTHER LOAN DOCUMENT, ANY OF THE OTHER OBLIGATIONS, THE COLLATERAL, OR ANY AMENDMENT, INSTRUMENT, DOCUMENT OR AGREEMENT DELIVERED OR WHICH MAY IN THE FUTURE BE DELIVERED IN CONNECTION HERewith OR THEREWITH OR ARISING FROM ANY LENDING RELATIONSHIP EXISTING IN CONNECTION WITH ANY OF THE FOREGOING, OR ANY COURSE OF CONDUCT OR COURSE OF DEALING IN WHICH SECURED PARTY AND ANY DEBTOR ARE ADVERSE PARTIES, AND EACH AGREES THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY. THIS PROVISION IS A MATERIAL INDUCEMENT FOR SECURED PARTY GRANTING ANY FINANCIAL ACCOMMODATION TO DEBTORS.

5.6 Assignability. Secured Party, without consent from or notice to anyone, may at any time assign Secured Party's rights in this Security Agreement, the other Loan Documents, the Obligations, or any part thereof and transfer Secured Party's rights in any or all of the Collateral, and Secured Party thereafter shall be relieved from all liability with respect to such Collateral. This Security Agreement shall be binding upon Secured Party and Debtors and their respective legal representatives and successors. All references herein to any Debtor shall be deemed to include any successors, whether immediate or remote. In the case of a joint venture or partnership, the term "Debtor" or "Debtors" shall be deemed to include all joint venturers or partners thereof, who shall be jointly and severally liable hereunder.

5.7 Binding Effect. This Security Agreement shall become effective upon execution by Debtors and Secured Party, and shall bind the Debtors and Secured Party, and their respective successors and permitted assigns.

5.8 Governing Law. Except in the case of the Mandatory Forum Selection Clause in Section 5.4 above, which clause shall be governed and interpreted in accordance with Florida law, this Agreement shall be delivered and accepted in and shall be deemed to be a contract made under and governed by the internal laws of the State of Nevada, and for all purposes shall be construed in accordance with the laws of such State, without giving effect to the choice of law provisions of such State.

5.9 Enforceability. Wherever possible, each provision of this Security Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Security Agreement shall be prohibited by, unenforceable or invalid under any jurisdiction, such provision shall as to such jurisdiction, be severable and be ineffective to the extent of such prohibition or invalidity, without invalidating the remaining provisions of this Security Agreement or affecting the validity or enforceability of such provision in any other jurisdiction.

5.10 Time of Essence. Time is of the essence in making payments of all amounts due Secured Party under the Loan Documents and in the performance and observance by Debtors of each covenant, agreement, provision and term of this Security Agreement and the other Loan Documents.

5.11 Counterparts; Facsimile Signatures. This Security Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts and each such counterpart shall be deemed to be an original, but all such counterparts shall together constitute but one and the same Security Agreement. Receipt of an executed signature page to this Security Agreement by facsimile or other electronic transmission shall constitute effective delivery thereof. Electronic records of executed Loan Documents maintained by Secured Party shall be deemed to be originals thereof.

5.12 Notices. Except as otherwise provided herein, each Debtor waives all notices and demands in connection with the enforcement of Secured Party's rights hereunder. All notices, requests, demands and other communications provided for hereunder shall be made in accordance with the terms of the Credit Agreement, and each of the Debtors agrees and acknowledges that notice to each of them may be sent and delivered to the Company, as required under the Credit Agreement, and such notice to the Company shall be deemed valid and effective notice to Debtors hereunder.

5.13 Costs, Fees and Expenses. Debtors shall pay or reimburse Secured Party for all reasonable costs, fees and expenses incurred by Secured Party or for which Secured Party becomes obligated in connection with the enforcement of this Security Agreement, including search fees, costs and expenses and attorneys' fees, costs and time charges of counsel to Secured Party and all taxes payable in connection with this Security Agreement. In furtherance of the foregoing, Debtors shall pay any and all stamp and other taxes, UCC search fees, filing fees and other costs and expenses in connection with the execution and delivery of this Security Agreement and the other Loan Documents to be delivered hereunder, and agrees to save and hold Secured Party harmless from and against any and all liabilities with respect to or resulting from any delay in paying or omission to pay such costs and expenses. That portion of the Obligations consisting of costs, expenses or advances to be reimbursed by Debtors to Secured Party pursuant to this Security Agreement or the other Loan Documents which are not paid on or prior to the date hereof shall be payable by Debtors to Secured Party on demand. If at any time or times hereafter Secured Party: (a) employs counsel for advice or other representation: (i) with respect to this Security Agreement or the other Loan Documents; (ii) to represent Secured Party in any litigation, contest, dispute, suit or proceeding or to commence, defend, or intervene or to take any other action in or with respect to any litigation, contest, dispute, suit, or proceeding (whether instituted by Secured Party, any Debtor, or any other Person) in any way or respect relating to this Security Agreement; or (iii) to enforce any rights of Secured Party against any Debtor or any other Person under of this Security Agreement; (b) takes any action to protect, collect, sell, liquidate, or otherwise dispose of any of the Collateral; and/or (c) attempts to or enforces any of Secured Party's rights or remedies under this Security Agreement, the costs and expenses incurred by Secured Party in any manner or way with respect to the foregoing, shall be part of the Obligations, payable by Debtors to Secured Party on demand.

5.14 Termination. This Security Agreement and the Liens and security interests granted hereunder shall not terminate until the termination of the Credit Agreement and the commitments to make Loans thereunder and the full and complete performance and satisfaction and payment in full of all the Obligations (other than contingent indemnification obligations to the extent no claim giving rise thereto has been asserted). Upon termination of this Security Agreement, Secured Party shall also deliver to Debtors (at the sole expense of Debtors) such UCC termination statements, certificates for terminating the liens on the Motor Vehicles (if any) and such other documentation, without recourse, warranty or representation whatsoever, as shall be reasonably requested by Debtors to effect the termination and release of the Liens and security interests in favor of Secured Party affecting the Collateral; provided, however, to the extent any such terminations or releases require Secured Party to expend any sums in terminating or releasing any such Liens, Secured Party may refrain from terminating or releasing such Liens unless and until Debtors pay to Secured Party the estimated cost, as reasonably determined by Secured Party, of effectuating such terminations or releases.

5.15 Reinstatement. This Security Agreement shall remain in full force and effect and continue to be effective should any petition be filed by or against any Debtor for liquidation or reorganization, should any Debtor become insolvent or make an assignment for the benefit of any creditor or creditors or should a receiver or trustee be appointed for all or any significant part of any Debtor's assets, and shall continue to be effective or be reinstated, as the case may be, if at any time payment and performance of the Obligations, or any part thereof, is, pursuant to applicable law, rescinded or reduced in amount, or must otherwise be restored or returned by any obligee of the Obligations, whether as a "voidable preference," "fraudulent conveyance," or otherwise, all as though such payment or performance had not been made. In the event that any payment, or any part thereof, is rescinded, reduced, restored or returned, the Obligations shall be reinstated and deemed reduced only by such amount paid and not so rescinded, reduced, restored or returned.

5.16 Increase in Obligations. It is the intent of the parties to secure payment of the Obligations, as the amount of such Obligations may increase from time to time in accordance with the terms and provisions of the Loan Documents, and all of the Obligations, as so increased from time to time, shall be and are secured hereby. Upon the execution hereof, Debtors shall pay any and all documentary stamp taxes and/or other charges required to be paid in connection with the execution and enforcement of the Loan Documents, and if, as and to the extent the Obligations are increased from time to time in accordance with the terms and provisions of the Loan Documents, then Debtors shall immediately pay any additional documentary stamp taxes or other charges in connection therewith.

5.17 Joint and Several Liability. The liability of all Debtors hereunder for the Obligations, or for the performance of any other term, condition, covenant or agreement of any Debtor hereunder, shall be joint and several as between all Debtors.

[Signatures on the following page]



IN WITNESS WHEREOF, Debtors and Secured Party have executed this Security Agreement as of the date first above written.

Agreed and accepted:

**Secured Party:**

**TCA GLOBAL CREDIT MASTER FUND, LP**

**By: TCA Global Credit Fund GP, Ltd.**

**Its: General Partner**

**By:**

\_\_\_\_\_  
**Robert Press, Director**

### **Schedule 3.8**

#### **Collateral Locations/Places of Business**

One World Trade Center, 285 Fulton Street, Suite 8500, New York, NY 10007

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**Exhibit G**  
**Form of Validity Certificate**

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## **VALIDITY CERTIFICATE**

This Validity Certificate, dated as of May 31, 2016, but made effective as of September 13, 2016 (the “**Validity Certificate**”), is made by **MICHAEL BANNON, an individual, and DENNIS ANTONELOS, an individual** (collectively, the “**Undersigned**”), for the benefit of **TCA Global Credit Master Fund, LP** (the “**Lender**”).

### **RECITALS**

A. Lender, **DRONE USA, INC.**, a Delaware corporation (the “**Borrower**”), and additional Credit Parties are parties to that certain Credit Agreement dated as of the date hereof (the “**Credit Agreement**”) pursuant to which Lender agreed to extend credit and make certain financial accommodations to Borrower.

B. Each of the Undersigned is an officer or director of the Borrower and/or other Credit Parties.

C. As a condition to entering into the Credit Agreement and extending such financial accommodations to Borrower, Lender has required the execution and delivery of this Validity Certificate by the Undersigned.

**NOW THEREFORE**, the Undersigned, in consideration of the premises and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, hereby agrees as follows:

1. **Definitions.** Capitalized terms used in this Validity Certificate shall have the meanings given to them in the Credit Agreement, unless otherwise defined herein.

2. **Guaranty.** The Undersigned, jointly and severally if more than one, do hereby absolutely and unconditionally, represent, warrant and guarantee to Lender that:

(a) All reports, schedules, certificates, and other information from time to time delivered or otherwise reported to Lender by Borrower, including, without limitation, all financial statements, tax returns, and all supporting information or documentation delivered in connection therewith, shall be bona fide, complete, correct, and accurate in all material respects and shall accurately and completely report all matters purported to be covered or reported thereby.

(b) All representations and warranties made by the Borrower in the Credit Agreement, and any other documents or instruments executed in connection with the Credit Agreement, are complete, correct, and accurate in all material respects and do not contain any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(c) The Undersigned may, from time to time, sign and deliver reports (including, without limitation, those specifically mentioned above) or otherwise deliver any such information to Lender as Lender may request, and the Undersigned confirm that each of them is duly authorized to deliver same to Lender on behalf of Borrower.

(d) All Collateral: (i) is valid and genuine; (ii) is owned by Borrower and will be possessed by Borrower or its agent; (iii) will not be subject to any Lien or security interest, except for Permitted Liens and as otherwise permitted by Lender; and (iv) will be maintained only at the locations designated in the Credit Agreement or Security Agreement, unless Borrower obtains Lender's prior written consent.

(e) All proceeds of the Loans will only be used in strict accordance with the terms of the Credit Agreement.

3. **Consideration for Guaranty.** The Undersigned acknowledge and agree with Lender that, but for the execution and delivery of this Validity Certificate by the Undersigned, Lender would not have entered into the Credit Agreement. The Undersigned acknowledge and agree that the loans and other extensions of credit made to Borrower by Lender under the Credit Agreement will result in significant benefits to the Undersigned.

4. **Indemnification.** The Undersigned, jointly and severally if more than one, hereby agree and undertake to indemnify, defend, and save Lender free and harmless of and from any damage, loss, and expense of any nature or kind (including, without limitation, reasonable attorneys' fees and costs) which Lender may sustain or incur, directly or indirectly, as a result of any breach, default or material inaccuracy of any of the representations, warranties, covenants, and agreements contained herein. Each of the Undersigned's liability hereunder is direct and unconditional. Upon the occurrence of a breach or default of any of the representations, warranties or covenants in Section 2 above, the Lender may enforce this Validity Certificate independently of any other remedy or security Lender at any time may have or hold under the Credit Agreement or other Loan Documents, and it shall not be necessary for Lender to proceed upon or against and/or exhaust any security or remedy before proceeding to enforce this Validity Certificate.

5. **Cumulative Remedies.** Lender's rights and remedies hereunder are cumulative of all other rights and remedies which Lender may now or hereafter have with respect to the Undersigned, Borrower, or any other Person.

6. **Borrower's Financial Condition.** Each of the Undersigned acknowledges that he has reviewed and is familiar with the Loan Documents and is familiar with the operations and financial condition of Borrower, and agrees that Lender shall not have any duty or obligation to communicate to the Undersigned any information regarding Borrower's financial condition or affairs.

7. **Assignability.** This Validity Certificate shall be binding upon the Undersigned and shall inure to the benefit of Lender and its successors or assigns. Lender may at any time assign Lender's rights in this Validity Certificate.

8. **Continuing Rights.** The obligations and covenants of the Undersigned hereunder are continuing and shall remain in full force and effect as to all of the Obligations until such date as all amounts owing by Borrower to Lender shall have been paid in full in cash and all commitments of Lender to lend under the Credit Agreement have terminated or expired and all obligations of Lender with respect to any of the Obligations shall have terminated or expired.

9. **Further Assurances.** So long as any Obligations remain outstanding, each of the Undersigned agrees that he will cooperate with Lender at all times in connection with any actions taken by Lender pursuant to the Credit Agreement to monitor, administer, enforce, or collect the Collateral. In the event the Borrower should cease or discontinue operating as a going concern in the ordinary course of business, then for so long as any Obligations remain outstanding, each of the Undersigned agrees that he shall assist Lender in connection with any such action, as Lender may reasonably request.

10. **Choice Of Law and Venue Selection.** Each of the Undersigned irrevocably agrees that any dispute arising under, relating to, or in connection with, directly or indirectly, this Validity Certificate or related to any matter which is the subject of or incidental to this Validity Certificate (whether or not such claim is based upon breach of contract or tort) shall be subject to the exclusive jurisdiction and venue of the state and/or federal courts located in Broward County, Florida; provided, however, Lender may, at Lender's sole option, elect to bring any action in any other jurisdiction. This provision is intended to be a "mandatory" forum selection clause and governed by and interpreted consistent with Florida law. Each of the Undersigned hereby consents to the exclusive jurisdiction and venue of any state or federal court having its situs in said county (or to any other jurisdiction or venue, if Lender so elects), and each waives any objection based on forum non conveniens. Each of the Undersigned hereby waives personal service of any and all process and consent that all such service of process may be made by certified mail, return receipt requested, directed to a borrower, as applicable, as set forth herein in the manner provided by applicable statute, law, rule of court or otherwise. Except for the foregoing mandatory forum selection clause, all terms and provisions hereof and the rights and obligations of the Undersigned and Lender hereunder shall be governed, construed and interpreted in accordance with the laws of the State of Nevada, without reference to conflict of laws principles.

11. **WAIVER OF JURY TRIAL.** THE UNDERSIGNED AND LENDER HEREBY VOLUNTARILY, KNOWINGLY, IRREVOCABLY AND UNCONDITIONALLY WAIVE ANY RIGHT TO HAVE A JURY PARTICIPATE IN RESOLVING ANY DISPUTE (WHETHER BASED UPON CONTRACT, TORT OR OTHERWISE) BETWEEN THE UNDERSIGNED AND LENDER OR AMONG BORROWER, THE UNDERSIGNED, AND LENDER AND/OR LENDER'S AFFILIATES ARISING OUT OF OR IN ANY WAY RELATED TO THIS VALIDITY CERTIFICATE, ANY OTHER LOAN DOCUMENT OR ANY RELATIONSHIP AMONG LENDER, THE UNDERSIGNED, BORROWER, AND/OR ANY AFFILIATE OF LENDER. THIS PROVISION IS A MATERIAL INDUCEMENT TO LENDER TO PROVIDE THE FINANCING DESCRIBED IN THE CREDIT AGREEMENT.

12. **ADVICE OF COUNSEL.** THE UNDERSIGNED ACKNOWLEDGE THAT EACH OF THEM HAS EITHER OBTAINED THE ADVICE OF COUNSEL OR HAS HAD THE OPPORTUNITY TO OBTAIN SUCH ADVICE IN CONNECTION WITH THE TERMS AND PROVISIONS OF THIS VALIDITY CERTIFICATE.

13. **Electronic Signatures**. Lender is hereby authorized to rely upon and accept as an original this Validity Certificate which is sent to Lender via facsimile, .pdf, or other electronic transmission.

**[Signatures on the following page]**

By: \_\_\_\_\_  
**MICHAEL BANNON**

By: \_\_\_\_\_  
**DENNIS ANTONELOS**

STATE OF \_\_\_\_\_ )  
SS.  
COUNTY OF \_\_\_\_\_ )

My Commission Expires:

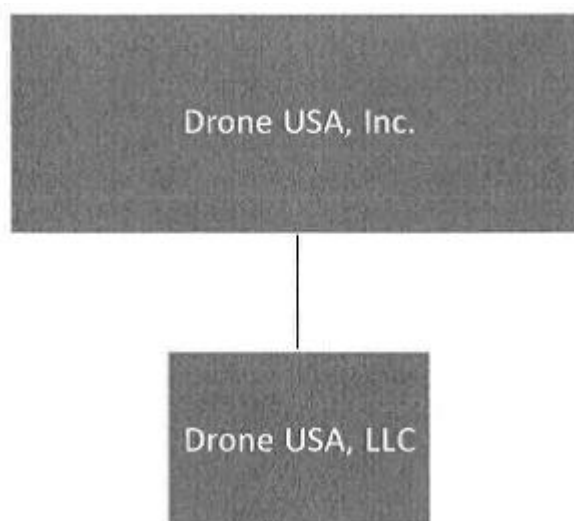
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Notary Public

Name of Notary typed or printed

Validity Certificate Signature Page

### Schedule 7.1 Subsidiaries



### **Schedule 7.2 Borrower Organization and Name**

Notwithstanding Section 7.2, Drone USA Inc. has done business as Drone USA, Inc since 2016. From 2008 to 2016, businesses was conducted as Texas Wyoming Drilling, Inc under different ownership and control.

Drone USA LLC was founded in 2015 and acquired by Texas Wyoming Drilling in 2016 as part of a reverse merger / equity exchange agreement. The officers and directors of Texas Wyoming Drilling immediately resigned and Drone USA LLC gained control of the entity. The name of Texas Wyoming Drilling, Inc was subsequently changed to Drone USA Inc in 2016.

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**Schedule 7.4(a) Capitalization of each company**

**Drone USA, LLC**

100% Wholly-owned by Drone USA, Inc.

**Drone USA, Inc.**

	<b>Authorized</b>	<b>Issued &amp; Outstanding</b>
<b>Common Stock</b>	200,000,000	41,150,288
<b>Preferred Stock</b>	5,000,000	0
<b>Series A Preferred Stock (Voting)</b>	250	250
<b>Options, Warrants &amp; Convertibles</b>		Up to 32,000,000
<b>Fully diluted issued &amp; outstanding</b>		73,150,538

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#### **Schedule 7.4(b) Obligations to issue stock**

- 1.) Under the Employee Stock Option Plan created on June 8, 2016 & Warrants, issued and planned to be issued for key employees and directors, and Convertibles notes there is an obligation to issue up to 28,000,000 shares of common stock.
-

### **Schedule 7.10 Financial Statements**

For Drone USA, Inc. the following was made available to the Lender:

Unaudited Balance Sheets as of 03/31/16

Unaudited State of Income as of 03/31/16

Material changes have occurred since the date of these statements and will be disclosed in the following Schedules.

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## Schedule 7.11 Public Documents

The Borrower, under current control, began its reporting obligation to the OTC markets in January 2016. The Borrower is not current with its reporting requirements with the OTC markets however intends to be soon after the signing of this agreement.

There are material disclosures that will be made in the Borrower's filings with the OTC markets, as well as amendments to the disclosures it made in its quarter 1 report. They are described below:

### Amendments to Quarter 1:

A conversion of \$389,255 into common stock at \$3 per share will be reversed and added back into the line of credit balance from a related entity to the CEO. The shares have not been issued.

### Summary Financial Position, Subsequent events and disclosures to be included in Q2 report with OTC Markets:

#### Drone USA, Inc.

- cash balance of approximately \$10,000
- security deposit balance of approximately \$12,000
- net PPE balance of approximately \$6,000
- Inventory balance is approximately \$25,000
  - o **total asset balance of approximately \$53,000**
- convertible line of credit with a related entity of approximately \$700,000
- convertible line of credit to principal shareholder of approximately \$100,000
- bank line of credit for \$50,000
- approximately \$35,000 in valid trade receivables
- approximately \$28,000 in credit card debt
- approximately \$105,000 in other convertible notes
  - o **total liabilities balance of approximately \$1,068,000**
  - o **total shareholder's equity of approximately (\$1,015,000)**

#### Additional Disclosures

The Company has agreed to lease additional space at one world trade center

- from 7/1/16 for a 1 year term at \$2,500 per month, with 4 months free.
- From 9/1/16 for a 1 year term at \$3,500 per month with 2 months free.

The Company has created an Employee Stock Option plan effective June 8, 2016

The Company has a \$800,000 convertible note payable (the "Note") with an entity controlled by the Company's CEO. The Note bears interest of 7% with a maturity date of January 1, 2019, at which time all unpaid principal and interest was due. The holder of the Note has the option to convert the outstanding principal and accrued interest, in whole or in part, into shares of common stock at the conversion price of \$1.00 per share. As of September 12, 2016 the balance is approximately \$700,000 and the holder has elected not to convert, however, the holder intends to convert the entire balance of the note and is in the process of doing so.

The Company has a \$117,000 convertible note payable with the Company's CEO. The Note bears interest of 7% with a maturity date of January 1, 2019, at which time all unpaid principal and interest was due. The holder of the Note has the option to convert the outstanding principal and accrued interest, in whole or in part, into shares of common stock at the conversion price of \$1.00 per share. As of September 12, 2016 the balance of the note is approximately \$100,000 and the holder has not elected to convert.

In August 2016, The Company has a convertible note payable with Rockwell Capital Partners for approximately \$105,000. Rockwell has agreed to pay select liabilities on behalf of the company in exchange for the option to convert at a 35% discount to the average price of the previous 10 trading days. Rockwell is limited to receiving 4.99% of the issued and outstanding shares listed on the OTC markets at the time of signing. The Company has the option to prepay the outstanding liability at any time for no charge. As of September 12, 2016, Rockwell has elected to convert a portion of this note into 40,000 shares of common stock.

Share issuances:

- The Company has issued approximately 11,200 common shares to various brokerage accounts for rounding
  - The Company has issued approximately 270,000 common shares linked to a private placement
  - The Company has issued approximately 40,000 common shares towards conversion of notes.
-

### **Schedule 7.17 Liabilities and Indebtedness of the Borrower**

Please see Schedule 7.11 Public Documents for liability and indebtedness disclosure

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## **Schedule 7.18 Real Property**

Nothing further to disclose

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### **Schedule 7.21 IP Rights**

There are no further IP Rights or IP Rights Licensing Agreements to disclose

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# Schedule 7.28 Bank Accounts

<u>Institution Name</u>	<u>Account Name</u>	<u>Account #</u>	<u>Power of Attorney</u>	<u>Authorized Signatories</u>
First Niagara Bank 34 Old Tavern Rd, Orange, CT 06477	Texas Wyoming Drilling- BIZ200 Checking	2223704404591000192490	N/A	Mike Bannon
First Niagara Bank 34 Old Tavern Rd, Orange, CT 06477	Texas Wyoming Drilling-Credit Line	4600210621	N/A	Mike Bannon
Merrill Lynch 157 CHURCH STREET, NEW HAVEN, CT 06510	Drone USA, Inc. WCMA	812-02433 / 041127210996	N/A	Mike Bannon; Dennis Antonehos

**Schedule 7.29 Principle Place of Business-Address(es)**

**Drone USA, Inc.**

One World Trade Center  
285 Fulton Street  
Suite 8500  
New York, NY 10007 USA

**Drone USA, LLC**

One World Trade Center  
285 Fulton Street  
Suite 8500  
New York, NY 10007 USA

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### **Schedule 7.31 Related Party Transactions**

None other than those disclosed in Schedule 7.11

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**STOCK PURCHASE AGREEMENT**

**AMONG**

**PAUL CHARLES JOY II, TRUSTEE OF THE PAUL C. JOY AND KATHRYN B. JOY  
TRUST – FUND B**

**AND**

**KATHRYN BLAKE JOY, TRUSTEE OF THE PAUL C. JOY AND KATHRYN B. JOY  
TRUST - FUND C**

**AND**

**HOWCO DISTRIBUTING CO., A WASHINGTON CORPORATION**

**AND**

**DRONE USA, LLC**

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STOCK PURCHASE AGREEMENT

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## STOCK PURCHASE AGREEMENT

THIS STOCK PURCHASE AGREEMENT (the “**Agreement**”) is entered into by and among Paul Charles Joy II, Trustee of the Paul C. Joy and Kathryn B. Joy Trust - Fund B, dated December 9, 2003, as amended, and Kathryn Blake Joy, Trustee of the Paul C. Joy and Kathryn B. Joy Trust - Fund C, dated December 9, 2003, as amended (collectively, the “**Seller**”) as the sole shareholders of Howco Distributing Co., a Washington corporation (the “**Company**”), and Drone USA, LLC (“**Buyer**”).

### RECITALS:

WHEREAS, Seller owns one hundred percent (100%) of the issued and outstanding common stock of the Company (the “**Stock**”) and there are no other issued or outstanding securities of the Company, phantom stock rights or obligations of the Company to issue common stock, options, warrants, notes, phantom stock, shareholder appreciation rights or other securities or their equivalents;

WHEREAS, Buyer desires to purchase all of the Stock (100% of the issued and outstanding common stock) from Seller for the purchase price and pursuant the terms and conditions hereinafter set forth; and

WHEREAS, Seller desires to sell and convey their Stock to Buyer.

NOW, THEREFORE, in consideration of the premises, mutual covenants and agreements herein contained, and other good and valuable consideration, the parties hereto agree as follows:

### ARTICLE I **TRANSFER AND ACOUISITION: CLOSING**

1.1. Agreement to Sell and Purchase Stock. Buyer agrees to buy from Seller and Seller agrees to sell and deliver to the Buyer, in accordance with Buyer’s delivery instructions at the Closing (defined in Section 1.5), all of the Stock, free and clear of all Liabilities, security interests, claims, Liens, and encumbrances.

1.2. Purchase Price; Payment Terms. The consideration payable for Seller’s Stock (the “**Purchase Price**”) shall be (a) Three Million Five Hundred Dollars (\$3,500,000) which shall be paid at Closing to Seller as follows (i) \$2,600,000 in cash payable by wire transfer in immediately available good funds to an account designated by Seller; (ii) the delivery of a promissory note attached hereto in the form substantially as set forth in Exhibit A, in the principal amount of \$900,000 together with simple interest thereon at a rate of 5.5% (the “**Note**”) which Note shall be secured by a UCC Security Interest granted by Buyer and the Company in all Company assets in the form attached hereto as Exhibit A (the “**Security Interest**”), and which UCC Security Interest shall be perfected by the filing of a UCC Financing Statement or as otherwise required; plus (b) delivery of the Drone USA Stock Warrants; plus (c) the Earnout Payments. Seller’s Security Interest shall be subordinated to the security interest of Buyer’s lender, namely TCA Global Master Fund, LP, for a loan to Buyer not exceeding the principal amount of \$6,500,000, or the security interest of any substitute lender (provided the principal amount of the loan to Buyer does not exceed \$6,500,000), it being expressly acknowledged and understood that the payment to the Seller is being funded by the Buyer’s lender and that this lender requires, and any substituted lender will likely require, a first priority security interest in all of the assets of Drone USA, Inc. including the assets being purchased by way of stock acquisition as set forth herein.

1.3. Drone USA, Inc. Stock Warrants.

(a) At Closing, Buyer shall cause Drone USA, Inc. ("**Drone USA**") to deliver to Seller warrants for 500,000 shares of common stock of Drone USA (the "**Drone USA Stock Warrants**"). Upon exercise of the Drone USA Stock Warrants, the Drone USA stock issuable thereunder shall be deemed fully-paid and non-assessable and the certificates will bear the standard Rule 144 restrictive legend as well notice of the executed Bleed-Out Agreement between the Sellers and Drone USA, the form of which is attached hereto as Exhibit B.

(b) Securities Matters. Seller agrees to sign any lock-up letters, bleed out agreements, standstill agreements, or other similar documentation required of all management shareholders in Drone USA by an underwriter or investor in connection with a financing, or take other actions reasonably related thereto as requested of all management shareholders by the Board of Directors of Drone USA. In the event Seller's default under this Section 1.3(b) Seller agrees that Drone USA may seek and obtain specific performance of such covenant, including any injunction requiring execution of such documents and the taking of such actions, and Seller hereby appoints the then current president of Drone USA to sign any such documents on Seller's behalf so long as such documents are prepared on the same basis as all other management shareholders of Drone USA

1.4. Earnout.

(a) Earnout Payments. As additional consideration for the purchase of Stock, at such times as provided in Section 1.4, Buyer shall pay to Seller with respect to each Calculation Period an amount, if any (each, an "**Earnout Payment**"), equal to (i) \$100,000 if Company Gross Profit for such Calculation Period exceeds \$1,964,678 but is less than \$2,500,000, or (ii) \$200,000 if Company Gross Profit for such Calculation Period is equal to or exceeds \$2,500,000 but is less than \$3,000,000, or (iii) \$300,000 if Company Gross Profit for such Calculation Period is equal to or exceeds \$3,000,000; provided that in no event shall Buyer be obligated to pay Seller more than the \$300,000 in the aggregate for all Calculation Periods. If the Company Gross Profit for a particular Calculation Period does not exceed \$1,964,678, no Earnout Payment shall be due for such Calculation Period.

(b) Procedures Applicable to Determination of the Earnout Payments.

i. On or before the date which is ninety (90) days after the last day of each Calculation Period (each such date, an "**Earnout Calculation Delivery Date**"), Buyer shall prepare and deliver to Seller a written statement (in each case, an "**Earnout Calculation Statement**") setting forth in reasonable detail its determination of Company Gross Profit for the applicable Calculation Period and its calculation of the resulting Earnout Payment (in each case, an "**Earnout Calculation**").

ii. Seller shall have thirty (30) days after receipt of the Earnout Calculation Statement for each Calculation Period (in each case, the “**Review Period**”) to review the Earnout Calculation Statement and the Earnout Calculation set forth therein. During the Review Period and, as part of such review, (i) Seller and its accountants/representatives shall have the right to receive complete and prompt copies of any working papers, trial balances and similar materials prepared by Buyer or its accountants or other professional advisors in connection with its Earnout Calculation and (ii) inspect Buyer’s books and records during normal business hours at Buyer’s offices, upon reasonable prior notices and solely for purpose reasonably related to the determinations of Company Gross Profit and the resulting Earnout Payment. Prior to the expiration of the Review Period, Seller may object to the Earnout Calculation set forth in the Earnout Calculation Statement for the applicable Calculation Period by delivering a written notice of objection (an “**Earnout Calculation Objection Notices**”) to Buyer. Any Earnout Calculation Objection Notice shall specify the items in the applicable Earnout Calculation disputed by Seller and shall describe in reasonable detail the basis for such objection, as well as the amount in dispute. If Seller fails to deliver an Earnout Calculation Objection Notices to Buyer prior to the expiration of the Review Period, then the Earnout Calculation set forth in the Earnout Calculation Statement shall be final and binding on the parties hereto. If Seller timely delivers an Earnout Calculation Objection Notice, Buyer and Seller shall negotiate in good faith to resolve the disputed items and agree upon the resulting amount of Company Gross Profit and the Earnout Payment for the applicable Calculation Period. If Buyer and Seller are unable to reach agreement within thirty (30) days after such an Earnout Calculation Objection Notice has been given, all unresolved disputed items shall be promptly referred to the Independent Accountant. The Independent Accountant shall be directed to render a written report on the unresolved disputed items with respect to the applicable Earnout Calculation as practicable, but in no event greater than sixty (60) days after such submission to the Independent Accountant, and to resolve only those unresolved disputed items set forth in the Earnout Calculation Objection Notice. If unresolved disputed items are submitted to the Independent Accountant, Buyer and Seller shall each furnish to the Independent Accountant such work papers, schedules and other documents and information relating to the unresolved disputed items as the Independent Accountant may reasonably request. The Independent Accountant shall resolve the disputed items based solely on the applicable definitions and other terms in this Agreement and the presentations by Buyer and Seller, and not by independent review. The resolution of the dispute and the calculation of Company Gross Profit that is the subject of the applicable Earnout Calculation Objection Notice by the Independent Accountant shall be final and binding on the parties hereto. The fees and expenses of the Independent Accountant shall be shared equally between Seller and Buyer.

(c) Independence of Earnout Payments. Buyer’s obligation to pay each of the Earnout Payments to Seller in accordance with Section 1.4 is an independent obligation of Buyer and is not otherwise conditioned to contingent upon the satisfaction of any conditions precedent to any preceding or subsequent Earnout Payment and the Obligation to pay an Earnout Payment to Seller shall not obligate Buyer to pay any preceding or subsequent Earnout Payment. For the avoidance of doubt and by way of example, if the conditions precedent to the payment of the Earnout Payment for the first Calculation Period are not satisfied, but the conditions precedent to the payment of the Earnout Payment for the second Calculation Period are satisfied, then Buyer would be obligated to pay such Earnout Payment for the second Calculation Period for which the corresponding conditions precedent have been satisfied, and not the Earnout Payment for the first Calculation Period.

(d) Timing of Payment of Earnout Payments. Any Earnout Payment that Buyer is required to pay pursuant to Section 1.4 hereof shall be paid in full no later than five (5) Business Days following the date upon which the determination of Company Goss Income for the applicable Calculation Period becomes final and binding upon the parties as provided in Section 4.1(b)ii (including any final resolution of any dispute raised by Seller in an Earnout Calculation Object Notice). Except as provided in Section 1.4(e), Buyer shall pay to Seller the applicable Earnout Payment in cash by wire transfer of immediately available funds to the bank account designated by Seller.

(e) Seller Option to Receive Drone USA, Shares. Seller may, at its sole option, upon written notice to Buyer prior to the date of payment of any Earnout Payment, as an alternative to receipt of a cash Earnout Payment, elect to receive shares of common stock of Drone USA of then equal value to the Earnout Payment. In the event of such election by Seller, Buyer shall cause Drone USA, to deliver such shares of common stock of Drone USA to seller within the time period provided in Section 1.4(d).

1.5. Closing. Except as provided by Section 7.1 of this Agreement, the closing of the sale and purchase of the Stock (the “**Closing**”) shall be consummated on or before August 12, 2016 (the “**Closing Date**”) (to be effective as of the close of business on the Closing Date) by Buyer and Seller executing and exchanging all the Closing documents by facsimile or pdf signatures, with originals of all such Closing documents to be sent to Seller’s counsel, William Dudley, Landerholm P.S., 805 Broadway Suite 1000, Vancouver, WA 98660 and Buyer’s counsel, Peder K. Davisson, Davisson & Associates, PA, 4124 Quebec Avenue North, Suite 306, Minneapolis, Minnesota 55427. Two originals of all such Closing documents shall be executed (with the exception of stock certificates and negotiable instruments).

1.6. Conditions to Closing.

(a) Buyer’s Obligations. The obligations of Buyer to consummate the Closing are subject to the fulfillment of the following conditions (unless waived in writing by Buyer):

i. The representations and warranties of the Seller contained in this Agreement will be true and correct in all material respects (except those representations and warranties that are, by their terms, limited by materiality or other qualifiers, which shall be true and correct in all respects) at and as of the Closing with the same force and effect as if made on the Closing Date.

ii. Seller has delivered to the Buyer at Closing, stock certificates of Howco duly endorsed in blank or accompanied by duly executed stock powers transferring the Stock to the Buyer and/or its designee(s) free and clear of all Liabilities, security interests, claims, Liens and encumbrances.

iii. Seller and the Company will have performed and complied with all agreements, obligations and covenants contained in this Agreement that are required to be performed or complied with by Seller and/or the Company at or prior to the Closing.

iv. Buyer has received the written resignations of Seller, covering all officer and director positions they hold with the Company, to be effective as of the Closing Date.

v. Seller shall have secured executed employment agreements between Paul C and Kathy Joy, on the one hand, and Drone USA, on the other, each for a two year term with base salaries of \$125,000 each, together with benefits consistent with past practices and containing non-compete provisions, non-solicitation provisions and confidentiality provisions acceptable to Seller and consistent with the standard requirements across industries in connection with the sale of a business.

vi. Buyer shall have received a good standing certificate for the Company from Washington and each other jurisdiction in which the Company is qualified to do business where such qualification is required.

vii. Prior to the Closing, the status of the Company as validly electing S corporations within the meaning of Section 1361 and 1362 of the Internal Revenue Code (the “Code”) shall not have been terminated or revoked.

viii. Any and all necessary advance notices and consents required to consummate the Stock purchase transaction on the Closing Date have been timely made, received, or waived by Buyer, including any consents or approvals required under any contracts to which the Company is a party such as supply agreements, leases, purchase agreements, employment agreements.

ix. The Company shall retain such employees as are necessary for its continued operations, (other than Paul C. and Kathy Joy, who have agreed to continue as employees under separate agreements) following Closing.

x. Buyer shall have obtained financing from TCA Global Master Fund, LP for payment of the cash portion of the Purchase Price as set forth in Section 1.2.

(b) Seller’s Obligations. The obligations of Seller to consummate the Closing are subject to the fulfillment of the following conditions (unless waived in writing by Seller):

i. The representations and warranties of the Buyer contained in this Agreement will be true and correct in all material respects (except those representations and warranties that are, by their terms, limited by materiality or other qualifiers, which shall be true and correct in all respects) at and as of the Closing with the same force and effect as if made on the Closing Date.

ii. Buyer shall have paid the Purchase Price as provided in Section 1.2 at Closing.

iii. Buyer shall have caused Drone USA, to enter into new 2 year employment agreements with Paul C. Joy and Kathy Joy, with 5 year non-competes, confidentiality and non-solicitation agreements in the form attached hereto as Exhibit C and D.

iv. Seller shall have received certificates of good standing for Buyer and Drone USA from Delaware and each other jurisdiction in which Buyer or Drone USA, is qualified to do business and which such qualification is required.

v. Buyer shall have caused Drone USA to issue the Drone USA Stock Warrants to Seller, on and including such terms as are acceptable to Seller in Seller's sole discretion (including, but not limited to, an exercise price of one cent per share of Drone USA common stock).

vi. Buyer shall have caused Drone USA to execute the Unconditional Guaranty of Payment in the form attached hereto as Exhibit E.

vii. Lessor, under the real property lease referred to in Section 2.17(a) of Seller Disclosure Schedule, shall have provided any consent required to consummate the stock purchase transaction in a form acceptable to Seller.

viii. Buyer will have performed and complied in all material respects with all agreements, obligations and covenants contained in this Agreement that are required to be performed or complied with by Buyer at or prior to Closing.

ix. Buyer shall deliver to Seller at Closing consents or resolutions of Buyer authorizing the purchase of the Stock.

x. Seller's review and approval, in Seller's sole discretion, of Buyer's Certificate of Incorporation, Bylaws, any amendments thereto, any and all documents of Buyer filed with the office of the Delaware Secretary of State, any related resolutions or consents of Buyer, and any agreements of Buyer related to preferred shares and any rights or preferences associated therewith.

1.7. Post Closing Covenants.

(a) Seller's Post Closing Obligations. Immediately following the Closing Date the Seller shall:

i. Add Buyer's officers to all bank accounts and have its employees removed as signatories from such accounts;

ii. Provide Michael Bannon with any keys to properties occupied by the Company, user id's and passwords for any accounts or sites used by the Company or any other security codes used by the Company in its operations;

iii. Provide all minute books, transfer ledgers, accounting records, federal and state tax returns, sales tax, any licenses used by the Company and all of the Company's books and records; and

iv. Take such other actions as are reasonably necessary to allow the Company to continue operations under new ownership.

## **ARTICLE II**

### **REPRESENTATIONS AND WARRANTIES OF SELLER**

Except as set forth in the Disclosure Schedule attached to this Agreement (the “**Seller Disclosure Schedule**”), which shall identify exceptions by specific section references, Seller hereby represents and warrants to Buyer that the statements contained in this Article II are correct and complete as of the date of this Agreement and, subject to any necessary updated Seller Disclosure Schedule as of the Closing Date, will be correct and complete as of the Closing Date (as though made then and as though the Closing Date were substituted for the date of this Agreement throughout this Article II). Seller represents and warrants to Buyer that:

2.1 Organization and Qualification. The Company is a corporation duly organized, validly existing and in good standing under the Laws of the jurisdiction of its incorporation and has the requisite corporate power and authority to own, lease and operate its properties and to carry on its business as it is now being conducted. The Company is duly qualified or licensed as a foreign corporation to do business, and is in good standing, in each jurisdiction where the character of the properties owned, leased or operated by it or the nature of its business makes such qualification or licensing necessary, except for such failures to be so qualified or licensed and in good standing that would not, individually or in the aggregate, have a Material Adverse Effect on the Company or its operations. Except as disclosed in Section 2.1 of the Seller Disclosure Schedule, the Company does not directly or indirectly own any equity or similar interest in, or any interest convertible into or exchangeable or exercisable for any equity or similar interest in, any corporation, partnership, joint venture or other business association or entity.

2.2 Articles of Incorporation and Bylaws. The Company has previously furnished or made available to the Buyer a complete and correct copy of the articles of incorporation and bylaws or equivalent organizational documents, each as amended to date. The Company is not in material violation of any provision of its articles of incorporation or bylaws.

2.3 Books and Records.

(a) The books of account, minute books, stock record books, and other records of the Company are materially complete and correct and have been maintained in accordance with the Company’s historical business and accounting practices.

(b) None of the records, systems, data or information of the Company is recorded, stored, maintained, operated or otherwise wholly or partly dependent on or held or accessible by any means (including, but not limited to, an electronic, mechanical or photographic process computerized or not) which are not under the direct control of the Company.

2.4 Capitalization.

(a) The authorized capital stock of Howco Distributing Co. consists of ten thousand (10,000) shares of the Company’s common stock, no par value per share. As of the date of this Agreement, Nine Hundred Seventy Eight and One Half (978.5) shares are held by Paul Charles Joy II, Trustee of the Paul C. Joy and Kathryn B. Joy Trust - Fund B, dated December 9, 2003, as amended, and One Thousand Twenty One and One Half (1,021.5) shares are held by Kathryn Blake Joy, Trustee of the Paul C. Joy and Kathryn B. Joy Trust - Fund C, dated December 9, 2003, as amended. All Two Thousand (2,000) shares of the Company’s common stock that are issued and outstanding, were validly issued, fully paid and non-assessable and not subject to preemptive rights, and there were no other shares of capital stock issued and outstanding and no shares of the Company’s common stock were reserved for future issuance pursuant to outstanding stock options or stock incentive rights granted pursuant to any stock option plan, note or agreement.

(b) Except as set forth in Section 2.4(a) or as may be specified in Section 2.4(a) of the Seller Disclosure Schedule, as of the date of this Agreement, (i) there are no options, warrants or other rights, agreements, arrangements or commitments of any character relating to the issued or unissued capital stock of, or other equity interests in, the Company obligating the Company to issue or sell any shares of capital stock of, or other equity interests in, the Company, (ii) there are no outstanding contractual obligations of the Company to repurchase, redeem or otherwise acquire any shares of the Company's common stock or any other capital stock of the Company, (iii) there are no declared or accrued unpaid dividends with respect to any of the Company's outstanding securities, and (iv) the Company does not have outstanding or authorized any stock appreciation, phantom stock, profit participation, or similar rights.

(c) Except as may be specified in Section 2.4(c) of the Seller Disclosure Schedule, as of the date of this Agreement, only the Company's common stock provides any voting rights of any kind.

## 2.5 Authority Relative To This Agreement.

(a) The Company has all necessary corporate power and authority to execute and deliver this Agreement and the other Operative Agreements and, with respect to this Agreement, upon the approval of this Agreement by the Seller in accordance with this Agreement and applicable Law, to perform its obligations hereunder and to consummate the transactions. The execution and delivery of this Agreement and the other Operative Agreements by the Company and the consummation by the Company of the transactions have been duly and validly authorized by all necessary corporate action and no other corporate proceedings on the part of the Company is necessary to authorize this Agreement or to consummate the transactions, other than, with respect to the sale of the shares of the Company, the approval of this Agreement by the Company's two shareholders in accordance with applicable Law. This Agreement has been duly and validly executed and delivered by the Seller, and constitutes a legal, valid and binding obligation of the Seller, enforceable against the Seller in accordance with its terms, except as the enforceability thereof may be limited by (i) applicable bankruptcy, insolvency, reorganization, moratorium or other similar Laws affecting or relating to creditors' rights generally, and (ii) the availability of injunctive relief and other equitable remedies.

(b) At a meeting duly called and held in compliance with the Washington Business Corporation Act (“WBCA”) and the bylaws of the Company, or otherwise through written consent if permitted pursuant thereto, the board of directors of the Company has duly taken action (i) approving the Agreement, based on a determination that the Agreement is fair to the holders of the Company’s common stock and is in the best interests of such stockholders, and (ii) approving this Agreement and the transactions and recommending approval of this Agreement and the transactions by the shareholders of the Company. As of the date hereof, such action has not been rescinded and is in full force and effect.

(c) In accordance with the Company’s articles of incorporation, bylaws, and WBCA, the affirmative vote of a majority of the then-outstanding shares of Company’s common stock is the only vote of the holders of any class or series of capital stock of the Company necessary to approve the Agreement, and such vote, in accordance with the Company’s articles of incorporation, bylaws, and the WBCA, may be duly obtained by the written consents in lieu of a meeting.

2.6 No Conflict; Required Filings and Consents. The execution and delivery of this Agreement and the other Operative Agreements by the Company and the Seller does not, and the performance of this Agreement and the other Operative Agreements by the Company and the Seller will not (in each case, with or without the giving of notice or lapse of time, or both), subject to (x) with respect to the Agreement, obtaining the requisite approval of this Agreement by the Company’s shareholders in accordance with this Agreement and applicable Law, and (y) obtaining the consent, approval, authorization and permit and making the necessary filings described in Section 2.6 of the Seller Disclosure Schedule (the “**Required Company Consent**”), (i) conflict with or violate the articles of incorporation, bylaws or equivalent organizational documents of the Company, (ii) to Seller’s Knowledge, conflict with or materially violate any Law applicable to the Company or by which any property or asset of the Company is bound or affected, or (iii) to Seller’s Knowledge, except as to Government Contracts, and except as may be specified in Section 2.6(iii) of the Seller Disclosure Schedule, result in any breach of or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any right of termination, unilateral amendment, acceleration or cancellation of, or result in the creation of a Lien or other encumbrance on any property or asset of the Seller or the Company or require the consent of any third party pursuant to, any note, bond, mortgage, indenture, Contract, agreement, lease, license, permit, franchise or other instrument or obligation to which the Seller or the Company is a party or by which the Seller or the Company or any property or asset of the Seller or the Company is bound or affected, except for such conflicts, violations, breaches, defaults or other occurrences, which individually or in the aggregate would not reasonably be expected to have a Material Adverse Effect on the Company.

2.7 Permits; Compliance.

(a) Except as provided in Section 2.7(b), and except as may be specified in Section 2.7(a) of the Seller Disclosure Schedule, to Seller’s Knowledge each of the Seller and the Company is in possession of all franchises, grants, authorizations, licenses, permits, easements, variances, exceptions, consents, certificates, approvals and orders of any governmental authority necessary for the Seller and the Company to own, lease and operate its properties or to carry on its business as it is now being conducted, except for those which the failure to possess would not individually or in the aggregate reasonably be expected to have a Material Adverse Effect on the Seller or the Company (the “**Company Permits**”) and, as of the date hereof, no suspension or cancellation of any of the Company Permits is pending or, to Seller’s Knowledge, threatened, except such suspension or termination as would not reasonably be expected to have a Material Adverse Effect on the Seller or the Company. Except as disclosed in Section 2.7(a) of the Seller Disclosure Schedule or as would not reasonably be expected to have a Material Adverse Effect on the Seller or the Company, to Seller’s Knowledge the Company is not in material conflict with, or in default or material violation of, or, with the giving of notice or the passage of time, would be in material conflict with, or in default or material violation of, (i) any Law applicable to the Seller or the Company or by which any property or asset of the Seller or the Company is bound or affected, or (ii) any of the Company Permits.

(b) Company is certified by a Governmental Authority as a Woman Owned Small Business as defined in Title 13, Chapter 1 of the Code of Federal Regulations, as may be amended from time to time (“**WOSB**”). However, to the best of Seller’s Knowledge, none of the Government Contracts includes a set-aside designation for WOSBs. Buyer acknowledges that, following the Closing, Company will no longer be qualified as a certified WOSB. Company has, through registration with the federal System for Award Management, self-certified that it qualifies as a Small Business Concern (“**SBC**”), as defined in Title 13, Chapter 1 of the Code of Federal Regulations, as may be amended from time to time. A substantial portion of Company’s business and sales revenue (i.e., in excess of fifty percent (50%)) results from Company’s SBC status. SBC status is based upon either revenue or number of employees, and varies by classification of products sold by the Company in accordance with the North American Industry Classification System (“**NAICS**”), which may be updated from time to time, and is located at: [https://www.sba.gov/sites/default/files/files/Size\\_Standards\\_Table.pdf](https://www.sba.gov/sites/default/files/files/Size_Standards_Table.pdf). To the best of Seller’s Knowledge, currently, the largest number of employees Company may have in order to retain SBC status for purposes of selling Company’s products under a Government Contract varies between 100 and 1,500 employees, depending on the specific product to be sold by Company. To the best of Seller’s Knowledge, Company is in compliance with the SBC size or revenue limitations required for products sold prior to Closing under the Government Contracts. Seller makes no representation or warranty regarding Company’s continuing qualification or certification as an SBC after Closing for purposes of federal government contracting or otherwise, or the impact of any such continuing qualification or certification on revenues of Company or Buyer after Closing.

2.8 Financial Statements. Section 2.8 of the Seller Disclosure Schedule contains true and complete copies of the following internally prepared financial statements: (i) unaudited income statement for the fiscal year ended December 31, 2015, for fiscal year ended December 31, 2014 and unaudited income statement for the period ended January 31, 2016 (the “**Most Recent Company Income Statements**”), (ii) unaudited balance sheet at December 31, 2015, December 31, 2014 and unaudited balance sheet for the period ended January 31, 2016 (the “**Most Recent Company Balance Sheets**”), (iii) unaudited statement of stockholders’ equity for the fiscal year ended December 31, 2015, December 31, 2014 and unaudited statement of stockholders’ equity for the period ended January 31, 2016 (the “**Most Recent Company Statements of Stockholders’ Equity**”), and (iv) unaudited cash flow statement for the fiscal year ended December 31, 2015 and unaudited cash flow statement for the period ended January 31, 2016 (the “**Most Recent Company Cash Flow Statements**”), (the Most Recent Company Income Statements, the Most Recent Company Balance Sheets, the Most Recent Company Statements of Stockholders’ Equity, and the Most Recent Company Cash Flow Statements shall be referred to collectively for the Company as the “**Most Recent Company Financial Statements**”). To Seller’s Knowledge, each of the Most Recent Company Financial Statements (including, in each case, all notes thereto) (a) are true, complete and correct, and fairly presented in all material respects the financial position, results of operations and changes in shareholders’ equity and cash flows of the Company as at the respective dates thereof and for the respective periods indicated therein (subject to normal and recurring year-end adjustments which were not and are not expected, individually or in the aggregate, to have a Material Adverse Effect on the Company), and (b) were prepared internally consistent with past practices of the Company.

2.9 Notes and Accounts Receivable. All notes and accounts receivables of the Company appearing on the Most Recent Company Balance Sheet and all of the receivables which have arisen or been acquired by the Company since the date thereof (collectively, the “**Company Receivables**”), are, to Seller’s Knowledge, bona fide trade receivables and have arisen or were acquired in the Ordinary Course of Business of the Company and in a manner consistent with normal past credit practices. Since the date of the Most Recent Company Balance Sheet, the Seller has not cancelled or agreed to cancel, in whole or in part, any Company Receivables except in the Ordinary Course of Business consistent with demonstrated past practices. All of the Company Receivables are reflected properly on the books and records of the Company, and to Seller’s Knowledge and except as set forth on the Seller Disclosure Schedule Section 2.9, are current and collectible in accordance with their terms at their recorded amounts, subject only to reserve for bad debts or doubtful accounts set forth on the Most Recent Company Balance Sheet (including the notes thereto) in accordance with the past custom and practice of the Company. For purposes of the foregoing, Company Receivables shall be deemed to be “collected in accordance with their terms at their recorded amounts” if they are collected in full within 360 days of the date such receivables are billed.

2.10 Undisclosed Liabilities. To Seller’s Knowledge the Company does not have any material Liability, except for (i) Liabilities set forth on the face of the Most Recent Company Balance Sheet (including any notes thereto), (ii) Liabilities which have arisen since the date of the Most Recent Company Balance Sheet in the Ordinary Course of Business, and (iii) Liabilities set forth on Seller Disclosure Schedule Section 2.10.

2.11 Taxes.

(a) Except as may be specified in Section 2.11(a) of the Seller Disclosure Schedule, (i) the Company has duly and timely filed all Tax Returns required to have been filed by or with respect to the Company, (ii) each such Tax Return correctly and completely reflects all liability for Taxes and all other information required to be reported thereon, (iii) all Taxes owed by the Company (whether or not shown on any Tax Return) have been timely paid, and (iv) the Company has adequately provided for, in its books of account and related records, all Liability for unpaid Taxes, being current Taxes not yet due and payable.

(b) Except as may be specified in Section 2.11(b) of the Seller Disclosure Schedule, the Company has withheld and timely paid all Taxes required to have been withheld and paid by it and has complied with all information reporting and backup withholding requirements, including maintenance of required records with respect thereto.

(c) Except as may be specified in Section 2.11(c) of the Seller Disclosure Schedule, the Company (i) is not the beneficiary of any extension of time within which to file any Tax Return, nor has the Company made (or had made on its behalf) any requests for such extensions, or (ii) has waived (or is subject to a waiver of) any statute of limitations in respect of Taxes or has agreed to (or is subject to) any extension of time with respect to a Tax assessment or deficiency.

(d) Section 2.11(d) of the Seller Disclosure Schedule indicates those Tax Returns that have been audited and those Tax Returns that currently are the subject of audit. Except as set forth in Section 2.11(d) of the Seller Disclosure Schedule (i) there is no Proceeding now pending or to Seller's Knowledge threatened against or with respect to the Company in respect of any Tax or any assessment or deficiency, and (ii) there are no liens for Taxes (other than current Taxes not yet due and payable) upon the assets of the Company.

(e) Section 2.11(e) of the Seller Disclosure Schedule lists, as of the date of this Agreement, all jurisdictions in which the Company currently files Tax Returns. No claim has been made by any Taxing Authority in a jurisdiction where the Company does not file Tax Returns that it is or may be subject to taxation by that jurisdiction or that it must file Tax Returns.

(f) None of the assets or properties of the Company constitutes tax-exempt bond financed property or tax-exempt use property within the meaning of Section 168 of the Code. The Company is not a party to any "safe harbor lease" within the meaning of Section 168(f)(8) of the Code, as in effect prior to amendment by the Tax Equity and Fiscal Responsibility Act of 1982, or to any "long-term contract" within the meaning of Section 460 of the Code. The Company has not ever been a United States real property holding corporation within the meaning of Section 897(c)(2) of the Code. The Company is not a "foreign person" within the meaning of Section 1445 of the Code.

(g) The Company has not agreed to and is not required to make by reason of a change in accounting method or otherwise, and could not be required to make by reason of a proposed or threatened change in accounting method or otherwise, any adjustment under Section 481(a) of the Code. The Company has not been the "distributing corporation" (within the meaning of Section 355(c)(2) of the Code) with respect to a transaction described in Section 355 of the Code within the 5 year period ending as of the date of this Agreement.

(h) The Company (i) has not ever been a party to any Tax allocation or sharing agreement or Tax indemnification agreement, (ii) has not ever been a member of an affiliated, consolidated, condensed or unitary group, or (iii) has not incurred any Liability for or obligation to pay Taxes of any other Person under Treas. Reg. 1.1502-6 (or any similar provision of Tax Law), or as transferee or successor, by Contract or otherwise. The Company is not a party to any joint venture, partnership, or other arrangement that is treated as a partnership for federal income tax purposes.

(i) The Company will not be required to include any item of income in, or exclude any item of deduction from, taxable income for any taxable period (or portion thereof) ending after the Closing Date as a result of any: (i) intercompany transactions or excess loss accounts described in Treasury regulations under Section 1502 of the Code (or any similar provision of state, local, or foreign Tax Law), (ii) installment sale or open transaction disposition made on or prior to the Closing Date, or (iii) prepaid amount received on or prior to the Closing Date.

(j) The Company has not entered into any transaction that constitutes a “reportable transaction” within the meaning of Treasury Regulation Section 1.6011-4(b).

(k) Section 2.11(k) of the Seller Disclosure Schedule lists each person who the Seller or the Company reasonably believes is, with respect to the Company or any Affiliate of the Company, a “disqualified individual” within the meaning of Section 280G of the Code and the Regulations thereunder.

(l) Except as may be specified in Section 2.11(l) of the Seller Disclosure Schedule, the unpaid Taxes of the Company (i) did not, as of the date of the Most Recent Company Balance Sheet, exceed the reserve for Tax liability (rather than any reserve for deferred Taxes established to reflect timing differences between book and Tax income) set forth on the face of the Most Recent Company Balance Sheet (rather than in any notes thereto), and (ii) will not exceed that reserve as adjusted for the passage of time through the Closing Date in accordance with the past custom and practice of the Company in filing its Tax Returns. Since the date of the Most Recent Company Balance Sheet, the Company has not incurred any liability for Taxes arising from extraordinary gains or losses, as that term is used in GAAP, outside the Ordinary Course of Business consistent with past custom and practice.

#### 2.12 Title to Personal Property.

(a) With respect to personal properties and assets that are purported to be owned by the Company, including all properties and assets reflected as owned on the Most Recent Company Balance Sheet (other than inventory sold and items of obsolete equipment disposed of in the Ordinary Course of Business since the date thereof), to Seller’s Knowledge the Company has good and valid title to all of such properties and assets, free and clear of all Liens other than Permitted Liens and Liabilities.

(b) With respect to personal properties and assets that are leased, to Seller’s Knowledge the Company has a valid leasehold interest in such properties and assets and all such leases are in full force and effect and constitute valid and binding obligations of the other party(ies) thereto. To Seller’s Knowledge, the Company is not in violation of any of the terms of any such lease.

2.13 Condition of Tangible Fixed Assets. All buildings, plants, leasehold improvements, structures, facilities, equipment and other items of tangible property and assets which are owned, leased or used by the Company are to Seller’s Knowledge free from material defects (patent and latent), have been maintained in accordance with normal industry practice, are in good operating condition and repair (subject to normal wear and tear given the use and age of such assets), are usable in the regular and Ordinary Course of Business and conform in all material respects to all Laws and authorizations relating to their construction, use and operation.

2.14 Inventory. Except as may be specified in Section 2.14 of the Seller Disclosure Schedule, to Seller's Knowledge the inventory of the Company consists of raw materials and supplies, manufactured and processed parts, work-in-process, and finished goods, all of which is merchantable and fit for the purpose for which it was procured or manufactured, and none of which is out of date, contaminated, obsolete, damaged, or defective, subject only to the reserve for inventory write-down set forth on the face of the Most Recent Company Balance Sheet (rather than in any notes thereto) as adjusted for operations and transactions through the Closing Date in accordance with the past custom and practice of the Company.

2.15 Product Warranty. Except as may be specified in Section 2.15 of the Seller Disclosure Schedule, to Seller's Knowledge substantially all of the products produced, distributed, sold, leased, and delivered by the Company have conformed in all material respects with all applicable contractual commitments and all express and implied warranties, and the Company does not have any material liability (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due) for replacement thereof or other damages in connection therewith, subject only to the reserve for product warranty claims set forth on the face of the Most Recent Company Balance Sheet (rather than in any notes thereto) as adjusted for operations and transactions through the Closing Date in accordance with the past custom and practice of the Company. Seller does not have standard terms and conditions which apply to products sold by Company.

2.16 Product Liability. To Seller's Knowledge, the Company does not have any material liability (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due) arising out of any injury to individuals or property as a result of the ownership, possession, or use of any product produced, distributed, sold, leased, or delivered by the Company.

2.17 Real Property.

(a) Section 2.17(a) of the Seller Disclosure Schedule contains (i) a list of all real property and interests in real property owned in fee by the Company (the "**Company-Owned Real Property**"), and (ii) a list of all real property and interests in real property leased or used by the Company with respect to each of which the annual rental payments exceed \$5,000 (the "**Company-Leased Real Property**").

(b) With respect to each parcel of Company-Owned Real Property, to Seller's Knowledge the Company have good and marketable title to each such parcel of Company-Owned Real Property free and clear of all Liens, except (i) Permitted Liens and Liabilities and (ii) zoning and building restrictions, easements, covenants, rights-of-way and other similar restrictions of record, none of which materially impairs the current or proposed use of such Company-Owned Real Property. There are no outstanding options or rights of first refusal to purchase such parcel of Company-Owned Real Property, or any portion thereof or interest therein.

(c) To Seller's Knowledge, each lease with respect to Company-Leased Real Property (each, a "**Company Lease**") is in full force and effect. To Seller's Knowledge, neither the Company nor any other party thereto is in default under any such Company Lease.

2.18 Intellectual Property. Except to the extent as would not have a Material Adverse Effect, individually or in the aggregate, on the Company:

(a) To Seller's Knowledge, Section 2.18(a) of the Seller Disclosure Schedule lists (by name, owner and, where applicable, registration number and jurisdiction of registration, application, certification or filing) all Intellectual Property that is owned by the Seller or the Company (whether exclusively, jointly with another Person or otherwise) ("**Company-Owned Intellectual Property**"); provided, however, that Seller Disclosure Schedule does not include items of Seller-Owned Intellectual Property which are both (i) immaterial to the Company and (ii) not registered or the subject of an application for registration. Except as described in Seller Disclosure Schedule, to Seller's Knowledge the Company owns the entire right, title and interest to all Company-Owned Intellectual Property free and clear of all Liens.

(b) To Seller's Knowledge, Section 2.18(b) of the Seller Disclosure Schedule lists all licenses, sublicenses and other Contracts ("**Company In-Bound Licenses**") pursuant to which a third party authorizes Seller or the Company to use, practice any rights under, or grant sublicenses with respect to, any Intellectual Property owned by such third party, including the incorporation of any such Intellectual Property into the Company's products and, with respect to each Company In-Bound License, whether Company In-Bound License is exclusive or nonexclusive; provided, however, that Seller Disclosure Schedule is not required to list Company In-Bound Licenses that consist solely of "shrink-wrap" and similar commercially available end-user licenses.

(c) To Seller's Knowledge, Section 2.18(c) of the Seller Disclosure Schedule lists all licenses, sublicenses and other Contracts ("**Company Out-Bound Licenses**") pursuant to which the Company authorizes a third party to use, practice any rights under, or grant sublicenses with respect to, any Company Owned Intellectual Property or pursuant to which the Company or any of its Subsidiaries grants rights to use or practice any rights under any intellectual Property owned by a third party and, with respect to each Company Out-Bound License, whether Company Out-Bound License is exclusive or non-exclusive.

(d) Except as may be specified in Section 2.18(d) of the Seller Disclosure Schedule, to Seller's Knowledge each Company In-Bound License and each Company Out-Bound License is in full force and effect and valid and enforceable in accordance with its terms, and neither Seller nor the Company has violated any provision of, or committed or failed to perform any act which, with or without the giving of notice or lapse of time, or both, would constitute a default in the performance, observance or fulfillment of any obligation, covenant, condition or other term contained in any Company In-Bound License or Company Out-Bound License, and the Company has not given or received notice to or from any Person relating to any such alleged or potential default that has not been cured.

(e) Except as may be specified in Section 2.18(e) of the Seller Disclosure Schedule, to Seller's Knowledge the Company (i) exclusively owns the entire right, interest and title to all Intellectual Property that is used in or necessary for the businesses of the Company as they are currently conducted free and clear of Liens (including the design, manufacture, license and sale of all products currently under development or in production), or (ii) otherwise rightfully use or otherwise enjoy such Intellectual Property pursuant to the terms of a valid and enforceable Company In-Bound License that is listed in Seller Disclosure Schedule or that is a "shrink-wrap" or similar commercially available end-user license. To Seller's Knowledge, Company-Owned Intellectual Property, together with the Company's rights under Company In-Bound Licenses listed in Section 2.18(b) of the Seller Disclosure Schedule or that are "shrink-wrap" and similar commercially available end-user licenses (collectively, the "**Company Intellectual Property**"), constitutes all the Intellectual Property used in or necessary for the operation of the Company's businesses as they are currently conducted.

(f) Except as may be specified in Section 2.18(f) of the Seller Disclosure Schedule, to Seller's Knowledge (i) all registration, maintenance and renewal fees related to Patents, Marks, Copyrights and any other certifications, filings or registrations that are owned by the Company (collectively, "**Company Registered Intellectual Property**") that are currently due have been paid and all documents and certificates related to such Company Registered Intellectual Property have been filed with the relevant Governmental Authority or other authorities in the United States or foreign jurisdictions, as the case may be, for the purposes of maintaining such Company Registered Intellectual Property, (ii) all Company Registered Intellectual Property is in good standing, held in compliance with all applicable legal requirements and enforceable by the Company, and (iii) all Patents that have been issued to the Company are valid.

(g) Except as may be specified in Section 2.18(g) of the Seller Disclosure Schedule, neither the Seller nor the Company are aware of any challenges (or any basis therefor) with respect to the validity or enforceability of any Company Intellectual Property. Neither the Seller nor the Company have taken any action or, to Seller's Knowledge, failed to take any action that would reasonably be expected to result in the abandonment, cancellation, forfeiture, relinquishment, invalidation, waiver or unenforceability of any Company Intellectual Property. Section 2.18(g) of the Seller Disclosure Schedule lists all previously held Company Registered Intellectual Property that the Company has abandoned, cancelled, forfeited or relinquished during the 12 months preceding the date of this Agreement.

(h) Except as may be specified in Section 2.18(h) of the Seller Disclosure Schedule, to Seller's Knowledge (i) none of the products or services currently or formerly developed manufactured, sold, distributed, provided, shipped or licensed, by the Company, or which are currently under development, has infringed or infringes upon, or otherwise unlawfully used or uses, the Intellectual Property Rights of any third party, (ii) the Company, by conducting its business as currently conducted, has not infringed or infringes upon, or otherwise unlawfully used or uses, any Intellectual Property Rights of a third party, (iii) the Company has not received any communication alleging that the Seller or the Company or any of their respective products, services, activities or operations infringe upon or otherwise unlawfully use any Intellectual Property Rights of a third party nor is there any basis therefor, (iv) no Proceeding has been instituted or threatened, relating to any Intellectual Property formerly or currently used by the Company and none of the Company Intellectual Property is subject to any outstanding Order, and (v) no Person has infringed or is infringing any Intellectual Property Rights of the Company or has otherwise misappropriated or is otherwise misappropriating any Company Intellectual Property.

(i) With respect to the Company's Proprietary Information, to Seller's Knowledge the documentation relating thereto is current, accurate and sufficient in detail and content to identify and explain it and to allow its full and proper use without reliance on the special knowledge or memory of persons other than Seller. Without limiting the generality of the foregoing, any material Proprietary Information of the Company (other than Proprietary Information that is covered by an issued Patent) is to the Seller's Knowledge, not part of the public knowledge and has not been used or divulged for the benefit of any Person other than the Company.

(j) To Seller's Knowledge, except as set forth in Seller Disclosure Schedule 2.18(j), all current and former employees, consultants or contractors, who have (i) performed services for or (ii) provided products to the Company, who have received confidential or proprietary information from the Company, have executed appropriate confidentiality, noncompete, non-solicitation agreements in favor of the Company and/or its Subsidiaries. To Seller's Knowledge, no employee, consultant or contractor of the Company or any of its Subsidiaries has been or is performing services for the Company or Subsidiary, in violation of any term of any employment, invention disclosure or assignment, confidentiality, noncompetition agreement or other restrictive covenant or any Order as a result of such employee's, consultant's or independent contractor's employment by the Company or any services rendered by such employee, consultant or independent contractor.

(k) To Seller's Knowledge, the execution and delivery of this Agreement and the other Operative Agreements by the Company does not, and the consummation of the transactions contemplated by this Agreement (in each case, with or without the giving of notice or lapse of time, or both) will not, directly or indirectly, result in the loss or impairment of, or give rise to any right of any third party to terminate or reprice or otherwise renegotiate any of the Company's rights to own any of its Intellectual Property or its respective rights under any Company Out-Bound License or Company In-Bound License, nor require the consent of any Governmental Authority or other third party in respect of any such Intellectual Property.

(l) Software.

i. To Seller's Knowledge, the Software owned, or purported to be owned by the Company (collectively, the "**Company-Owned Software**"), has been either (A) developed by employees of the Company within the scope of their employment by the Company, (B) developed by independent contractors who have assigned all of their right, title and interest therein to the Company pursuant to written Contracts, or (C) otherwise acquired by the Company from a third party pursuant to a written Contract in which such third party assigns all of its right, title and interest therein. To Seller's Knowledge, no Company-Owned Software contains any programming code, documentation or other materials or development environments that embody Intellectual Property Rights of any Person other than the Company, other than such materials obtained by the Company from other Persons who make such materials generally available to all interested Persons or end-users on standard commercial terms.

ii. To Seller's Knowledge, each of the Company's existing and currently supported and marketed Software (including Software-embedded) products performs, in all material respects, the functions described in any agreed specifications or end-user documentation or other information provided to customers of the Company on which such customers relied when licensing or otherwise acquiring such products, subject only to routine bugs and errors that can be corrected promptly by the Company in the course of providing customer support without further liability to the Company, and all of the code of such products has been developed in a manner that meets common industry practice, including the use of regression test and release procedures. To the Seller's Knowledge, each of the Company's existing and currently supported and marketed Software (including Software-embedded) products is free of all viruses, worms, Trojan horses and material known Contaminants and does not contain any bugs, errors, or problems in each case that would substantially disrupt its operation or have a substantial adverse impact on the operation of the Software.

iii. To Seller's Knowledge, the Company has taken all actions customary in the Software industry to document the Company-Owned Software and its operation, such that the materials comprising the Company-Owned Software, including the source code and documentation, have been written in a clear and professional manner so that they may be understood, modified and maintained in an efficient manner by reasonably competent programmers.

iv. To Seller's Knowledge, the Company has not exported or transmitted Software or other material in connection with the Company's or such Subsidiaries' business to any country to which such export or transmission is restricted by any applicable Law, without first having obtained all necessary and appropriate authorizations.

v. To Seller's Knowledge, all Company-Owned Software is free of any Disabling Code or Contaminants that may, or may be used to, access, modify, delete, damage or disable any systems or that may result in damage thereto. To Seller's Knowledge, the Company has taken reasonable steps and implemented reasonable procedures to ensure that its and their internal computer systems used in connection with the Companies' business are free from Disabling Codes and Contaminants. To Seller's Knowledge, the Software licensed by the Company is free of any Disabling Codes or Contaminants that may, or may be used to, access, modify, delete, damage or disable the systems of the Company or that might result in damage thereto. To Seller's Knowledge, the Company has taken all reasonable steps to safeguard its systems and restrict unauthorized access thereto.

vi. To Seller's Knowledge, no Public Software: (A) forms part of any Company Intellectual Property; (B) was, or is, used in connection with the development of any Company-Owned Intellectual Property or any products or services developed or provided by the Company; or (C) was, or is, incorporated or distributed, in whole or in part, in conjunction with Company Intellectual Property.

2.19 Material Contracts.

(a) Seller has provided Buyer with the opportunity to review all of Seller's Contracts, including Contracts not listed under Section 2.19(b); which Contracts may exceed 1500 in total number.

(b) To the best of Seller's knowledge, Section 2.19 of the Seller Disclosure Schedule contains a list of the following Contracts to which the Company is a party or is subject, or by which any of its assets are bound:

i. for the purchase of products supplied by Company to Company customers, where (A) delivery to the customers will occur after a one (1) year period from the date of the Contract or (B) the Contract extends over a period of five (5) or more years.

ii. for the purchase of materials, supplies, goods, services, equipment or other assets not for resale by the Company and that involve or would reasonably be expected to involve (A) annual payments by the Company of \$5,000 or more, or (B) aggregate payments in any one calendar year by the Company of \$5,000 or more;

iii. that is an employment, consulting, termination or severance Contract that involves or would reasonably be expected to involve the payment of \$5,000 or more by the Company following the date hereof, except for any such Contract that is terminable at-will by the Company without liability to the Companies;

iv. that is a distribution, dealer, representative or sales agency Contract, other than Contracts entered into in the Ordinary Course of Business with distributors, representatives and sales agents that are cancelable without penalty on not more than 5 days' notice and does not deviate in any material respect from the Company's standard forms;

v. that is a (A) Company Lease, or (B) Contract for the lease of personal property, in each case which provides for payments to or by the Company in any one case of \$6,000 or more annually or \$12,000 or more over the term of such Company Lease or lease;

vi. that include a provision in the body of the Contract which provides for the indemnification by the Company of any Person, the undertaking by the Company to be responsible for consequential damages, or the assumption by the Company of any Tax, environmental or other Liability;

vii. that is a note, debenture, bond, equipment trust, letter of credit, loan or other Contract for Indebtedness or lending of money (other than to employees for travel expenses in the Ordinary Course of Business) or Contract for a line of credit or guarantee, pledge or undertaking of the Indebtedness of any other Person;

viii. for any capital expenditure or leasehold improvement in any one case in excess of \$6,000 or any such Contracts in the aggregate greater than \$12,000;

ix. that restricts or purports to restrict the right of the Company or any of its Subsidiaries to engage in any line of business, acquire any property, develop or distribute any product or provide any service (including geographic restrictions) or to compete with any Person or granting any exclusive distribution rights, in any market, field or territory;

- x. that is a partnership, joint venture, joint development or similar Contract;
- xi. that relates to the acquisition or disposition of any business (whether by merger, sale of stock, sale of assets or otherwise); and
- xii. that is a collective bargaining Contract or other Contract with any labor organization, union or association.

(c) To Seller's Knowledge, each Contract required to be listed in Schedule 2.19 of the Seller Disclosure Schedule is in full force and effect and valid and enforceable in accordance with its terms, except to the extent a failure to be in full force and effect and valid or enforceable in accordance with its terms would not have a Material Adverse Effect on the Company (collectively, the **"Company Material Contracts"**).

(d) To Seller's Knowledge, the Company is not, and no other party thereto is, in default in the performance, observance or fulfillment of any obligation, covenant, condition or other term contained in any Company Material Contract, and the Company has not given or received notice to or from any Person relating to any such alleged or potential default that has not been cured. To Seller's Knowledge, prior to the signing of this Agreement by the Parties no event has occurred which with or without the giving of notice or lapse of time, or both, may conflict with or result in a violation or breach of, or give any Person the right to exercise any remedy under or accelerate the maturity or performance of, or cancel, terminate or modify, any Company Material Contract.

(e) The Company has provided accurate and complete copies of each Company Material Contract to the Buyer.

(f) Notwithstanding any other term of this Agreement, including but not limited to the foregoing provisions of this Section 2.19, Seller makes no express or implied representation or warranty as to whether or not any Government Contract of Company may require advance notice, subsequent notice, or consent regarding the execution or performance of this Agreement be given to any Person(s) (including but not limited to a counterparty to a Government Contract or to a public or private agency having supervisory authority over administration of a Government Contract) or the impact associated with failure to give such notice or obtain such consent.

2.20 Litigation. Except as may be specified in Section 2.20 of the Seller Disclosure Schedule, (i) there is no Proceeding pending or, to the Knowledge of Seller or the Company, threatened against the Company, which (a) individually or in the aggregate, could reasonably be expected to have a Material Adverse Effect on the Company, or (b) seeks to and is reasonably likely to significantly delay or prevent the consummation of this Agreement and the transactions contemplated hereunder, (ii) there is no Proceeding pending against any current or, to Seller's Knowledge, former director or employee of the Company with respect to which the Company has or is reasonably likely to have an indemnification obligation, and (iii) To the knowledge of Seller, neither the Company nor any property or asset of the Company is in violation of any Order having, individually or in the aggregate, a Material Adverse Effect on the Company.

## 2.21 Employee Benefit Plans.

(a) To Seller's Knowledge; Section 2.21(a) of the Seller Disclosure Schedule sets forth a complete and accurate list of all Benefit Plans sponsored, maintained or contributed to by the Company or any Company ERISA Affiliate, or with respect to which the Company, or any Company ERISA Affiliate otherwise has any present or future Liability (each, a "**Company Benefit Plan**"). A current, accurate and complete copy of each Company Benefit Plan has been provided to the Buyer. The Company does not have any intent or commitment to create any additional Company Benefit Plan or amend any Company Benefit Plan.

(b) To Seller's Knowledge, each Company Benefit Plan has been and is currently administered in compliance in all material respects with its constituent documents and with all reporting, disclosure and other requirements of ERISA and the Code applicable to such Company Benefit Plan. Each Company Benefit Plan that is an Employee Pension Benefit Plan (as defined in Section 3(2) of ERISA) and which is intended to be qualified under Section 401(a) of the Code (a "**Company Pension Plan**"), has been determined by the Internal Revenue Service to be so qualified and to Seller's Knowledge no condition exists that would adversely affect any such determination. No Company Benefit Plan is a "defined benefit plan" as defined in Section 3(35) of ERISA.

(c) To Seller's Knowledge, neither the Company, nor any Company ERISA Affiliate nor any trustee or agent of any Company Benefit Plan has been or is currently engaged in any prohibited transactions as defined by Section 406 of ERISA or Section 4975 of the Code for which an exemption is not applicable which could subject the Company, nor any Company ERISA Affiliate nor any trustee nor agent of any Company Benefit Plan to the tax or penalty imposed by Section 4975 of the Code or Section 502 of ERISA.

(d) To Seller's Knowledge, there is no event or condition existing which could be deemed a "reportable event" (within the meaning of Section 4043 of ERISA) with respect to which the 30 day notice requirement has not been waived. To Seller's Knowledge, no condition exists which could subject the Company to a penalty under Section 4071 of ERISA.

(e) Neither of the Company, nor any Company ERISA Affiliate is, or has been, party to any "multi-employer plan," as that term is defined in Section 3(37) of ERISA.

(f) To Seller's Knowledge, true and correct copies of the most recent annual report on Form 5500 and any attached schedules for each Company Benefit Plan (if any such report was required by applicable Law) and a true and correct copy of the most recent determination letter issued by the Internal Revenue Service for each Company Pension Plan have been provided to the Buyer.

(g) With respect to each Company Benefit Plan, there are no Proceedings (other than routine claims for benefits in the ordinary course) pending or, to Seller's Knowledge, threatened against any Company Benefit Plan, the Company, any Company ERISA Affiliate or any trustee or agent of any Company Benefit Plan.

(h) To Seller's Knowledge, with respect to each Company Benefit Plan to which the Company, or any Company ERISA Affiliate is a party which constitutes a group health plan subject to Section 4980B of the Code, each such Company Benefit Plan complies, and in each case has complied, in all material respects with all applicable requirements of Section 4980B of the Code.

(i) To Seller's Knowledge, full payment has been made of all amounts which the Company or any Company ERISA Affiliate was required to have paid as a contribution to any Company Benefit Plan as of the last day of the most recent fiscal year of each of the Benefit Plans ended prior to the date of this Agreement, and no Company Benefit Plan has incurred any "accumulated funding deficiency" (as defined in Section 302 of ERISA and Section 412 of the Code), whether or not waived, as of the last day of the most recent fiscal year of each such Company Benefit Plan ended prior to the date of this Agreement.

(j) To Seller's Knowledge, each Company Benefit Plan is, and its administration is and has been during the 6 year period preceding the date of this Agreement, in all material respects in compliance with, and no Company, or any Company ERISA Affiliate has received any claim or notice that any such Company Benefit Plan is not in material compliance with, all applicable Laws and Orders and prohibited transaction exemptions, including to the extent applicable, the requirements of ERISA.

(k) To Seller's Knowledge, neither the Company nor any Company ERISA Affiliate is in default in any material respect in performing any of its contractual obligations under any Company Benefit Plans or any related trust agreement or insurance contract.

(l) To Seller's Knowledge, there are no material outstanding Liabilities of any Company Benefit Plan other than Liabilities for benefits to be paid to participants in any Company Benefit Plan and their beneficiaries in accordance with the terms of such Company Benefit Plan.

(m) Subject to ERISA and the Code, to Seller's Knowledge, each Company Benefit Plan may be amended, modified, terminated or otherwise discontinued by the Company, or a Company ERISA Affiliate at any time without liability.

(n) No Company Benefit Plan other than a Company Pension Plan, retiree medical plan or severance plan provides benefits to any individual after termination of employment.

(o) The consummation of this Agreement and the transactions contemplated hereunder will not (either alone or in conjunction with any other event) to Seller's Knowledge (i) entitle any current or former director, employee, contractor or consultant of the Company or any of its Subsidiaries to severance pay, unemployment compensation or any other payment, (ii) accelerate the time of payment or vesting, or increase the amount of compensation due to any such director, employee, contractor or consultant, or result in the payment of any other benefits to any Person or the forgiveness of any Indebtedness of any Person, (iii) result in any prohibited transaction described in Section 406 of ERISA or Section 4975 of the Code for which an exemption is not available, or (iv) result in the payment or series of payments by the Company or any of its Affiliates to any person of an "excess parachute payment" within the meaning of Section 280G of the Code.

(p) To Seller's Knowledge, with respect to each Company Benefit Plan that is funded wholly or partially through an insurance policy, all premiums required to have been paid to date under the insurance policy have been paid, all premiums required to be paid under the insurance policy through the Closing will have been paid on or before the Closing and, as of the Closing, there will be no liability of the Company or any Company ERISA Affiliate under any insurance policy or ancillary agreement with respect to such insurance policy in the nature of a retroactive rate adjustment, loss sharing arrangement or other actual or contingent liability arising wholly or partially out of events occurring prior to the Closing.

(q) To Seller's Knowledge, each Company Benefit Plan that constitutes a "welfare benefit plan," within the meaning of Section 3(1) of ERISA, and for which contributions are claimed by the Company or any Company ERISA Affiliate as deductions under any provision of the Code, is in compliance in all material respects with all applicable requirements pertaining to such deduction. With respect to any welfare benefit fund (within the meaning of Section 419 of the Code) related to a welfare benefit plan, there is no disqualified benefit (within the meaning of Section 4976(b) of the Code) that would to Seller's Knowledge result in the imposition of a tax under Section 4976(a) of the Code. To Seller's Knowledge, all welfare benefit funds intended to be exempt from tax under Section 501(a) of the Code have been determined by the Internal Revenue Service to be so exempt and no event or condition exists which would adversely affect any such determination.

(r) The Company does not have in place any Company Benefit Plans covering employees of the Company outside of the United States.

## 2.22 Labor and Employment Matters.

(a) The Company is not a party or subject to any labor union or collective bargaining Contract. There have not been since the Company began operations and there are not pending or to Seller's Knowledge threatened any labor disputes, work stoppages, requests for representation, pickets, work slow-downs due to labor disagreements or any actions or arbitrations which involve the labor or employment relations of the Company. There is no unfair labor practice, charge or complaint pending, unresolved or, to the Seller's Knowledge, threatened before the National Labor Relations Board. No event has occurred or to Seller's Knowledge circumstance exist that may provide the basis of any work stoppage or other labor dispute.

(b) To Seller's Knowledge, the Company has complied in all material respects with each, and is not in violation in any material respect of any, Law relating to anti-discrimination and equal employment opportunities and there are, and have been, no material violations of any other Law respecting the hiring, hours, wages, occupational safety and health, employment, promotion, termination or benefits of any employee or other Person. To Seller's Knowledge, the Company has filed all reports, information and notices required under any Law respecting the hiring, hours, wages, occupational safety and health, employment, promotion, termination or benefits of any employee or other Person, and will timely file prior to Closing all such reports, information and notices required by any Law to be given prior to Closing.

(c) To Seller's Knowledge, the Company has paid or properly accrued in the Ordinary Course of Business all wages and compensation due to employees, including all vacations or vacation pay, holidays or holiday pay, sick days or sick pay, and bonuses.

(d) The Company is not a party to any Contract which restricts the Company from relocating, closing or terminating any of its operations or facilities or any portion thereof. The Company has not effectuated a "plant closing" (as defined in the Worker Adjustment and Retraining Notification Act of 1988 (the "**WARN Act**")) or (ii) a "mass lay-off" (as defined in the WARN Act), in either case affecting any site of employment or facility of the Company, except in accordance with the WARN Act. The consummation of this Agreement and the transactions contemplated hereunder will not create Liability for any act by the Company on or prior to the Closing Date under the WARN Act or any other Law respecting reductions in force or the impact on employees on plant closings or sales of businesses.

## 2.23 Environmental.

(a) To Seller's Knowledge, the Company has secured, and is in compliance in all material respects with, all Environmental Permits required in connection with its operations and the Real Property. Each Environmental Permit, together with the name of the Governmental Authority issuing such Environmental Permit, is set forth in Section 2.23(a) of Seller Disclosure Schedule. To Seller's Knowledge, all such Environmental Permits are valid and in full force and effect and none of such Environmental Permits will be terminated or impaired or become terminable as a result of this Agreement or the transactions contemplated hereunder. To Seller's Knowledge, the Company has been, and is currently, in compliance in all material respects with all Environmental Laws. The Company has not received any notice alleging that the Company is not in such compliance with Environmental Laws.

(b) There are no past, pending or, to Seller's Knowledge, threatened Environmental Actions against or affecting the Company, and the Company is not aware of any facts or circumstances which could be expected to form the basis for any Environmental Action against the Company.

(c) The Company has not entered into or agreed to any Order, and the Company is not subject to any Order, relating to compliance with any Environmental Law or to investigation or cleanup of a Hazardous Substance under any Environmental Law.

(d) No Lien has been attached to, or asserted against, the assets, property or rights of the Company pursuant to any Environmental Law, and, to the Seller's Knowledge, no such Lien has been threatened. To Seller's Knowledge, there are no facts, circumstances or other conditions that could be expected to give rise to any Liens on or affecting any Real Property.

(e) To Seller's Knowledge, there has been no treatment, storage, disposal or Release of any Hazardous Substance at, from, into, on or under any Real Property or any other property currently or formerly owned, operated or leased by the Company or any of its Subsidiaries. To Seller's Knowledge, no Hazardous Substances are present in, on, about or migrating to or from any Real Property that could be expected to give rise to an Environmental Action against the Company.

(f) The Company has not received a CERCLA 104(e) information request nor has the Company been named a potentially responsible party for any National Priorities List site under CERCLA or any site under analogous state Law. The Company has not received an analogous notice or request from any non-U.S. Governmental Authority.

(g) To Seller's Knowledge, there are no above-ground tanks or underground storage tanks on, under or about the Real Property. To Seller's Knowledge, any aboveground or underground tanks previously situated on the Real Property or any other property currently or formerly owned, operated or leased by the Company have been removed in accordance with all Environmental Laws and no residual contamination, if any, remains at such sites in excess of applicable standards.

(h) To Seller's Knowledge, there are no PCBs leaking from any article, container or equipment on, under or about the Real Property and there are no such articles, containers or equipment containing PCBs. To Seller's Knowledge, there is no asbestos containing material or lead-based paint containing materials in at, on, under or within the Real Property.

(i) The Company has not transported or arranged for the treatment, storage, handling, disposal, or transportation of any Hazardous Material to any off-site location which is an Environmental Clean-up Site.

(j) None of the Real Property is an Environmental Clean-up Site.

(k) The Company has provided to the Buyer true and complete copies of, or access to, all written environmental assessment materials and reports that have been prepared by or on behalf of the Company.

2.24 Related Party Transactions. Except for those transactions specifically set forth on Section 2.24 of Seller Disclosure Schedule, there are no Contracts of any kind, written or oral, entered into by the Company with, or for the benefit of, any officer, director or stockholder of the Company, except for (a) employment agreements, indemnification agreements, fringe benefits and other compensation paid to directors, officers and employees consistent with previously established policies (including normal merit increases in such compensation in the Ordinary Course of Business) and copies of which have been provided to the Buyer and are listed in Section 2.24 of Seller Disclosure Schedule, (b) reimbursements of ordinary and necessary expenses incurred in connection with their employment or service, (c) amounts paid pursuant to Company Benefit Plans of which copies have been provided to the Buyer. To Seller's Knowledge, none of such Persons has any material direct or indirect ownership interest in any firm or corporation with which the Company has a business relationship, or with any firm or corporation that competes with the Company (other than ownership of securities in a publicly-traded company representing less than one percent of the outstanding stock of such company). No officer or director of the Company or member of his or her immediate family or greater than 5% stockholder of the Company or, to Seller's Knowledge, any employee of the Company is directly or indirectly interested in any Company Material Contract.

2.25 Insurance. Section 2.25 of Seller Disclosure Schedule sets forth the following information with respect to each material insurance policy (including policies providing property, casualty, liability, and workers' compensation coverage and bond and surety arrangements) with respect to which the Company is a party, a named insured, or otherwise the beneficiary of coverage:

- (a) the name, address, and telephone number of the agent;
- (b) the name of the insurer, the name of the policyholder, and the name of each covered insured;
- (c) the policy number and the period of coverage;
- (d) the scope (including an indication of whether the coverage is on a claims made, occurrence, or other basis) and amount (including a description of how deductibles and ceilings are calculated and operate) of coverage; and
- (e) a description of any retroactive premium adjustments or other material loss-sharing arrangements.

With respect to each such insurance policy, and to Seller's Knowledge: (A) the policy is legal, valid, binding, enforceable, and in full force and effect in all material respects; (B) neither the Company, or any other party to the policy is in material breach or default (including with respect to the payment of premiums or the giving of notices), and no event has occurred which, with notice or the lapse of time, would constitute such a material breach or default, or permit termination, modification, or acceleration, under the policy; and (C) no party to the policy has repudiated any material provision thereof. Section 2.25 of the Seller Disclosure Schedule describes any material self-insurance arrangements affecting the Company or any of its Subsidiaries.

2.26 Absence of Certain Changes or Events. Since December 31, 2015, except as may be contemplated by, or disclosed pursuant to, this Agreement, including Section 2.26 of the Seller Disclosure Schedule:

- (a) to Seller's Knowledge there has not been any event or events (whether or not covered by insurance), individually or in the aggregate, which have had a Material Adverse Effect on the Company, including without limitation the imposition of any security interests on any of the assets of the Company;
- (b) there have not been any amendments or other modifications to the articles of incorporation or bylaws of the Company;
- (c) there has not been any entry by the Company into any commitment or transaction material to the Company, except in the Ordinary Course of Business and consistent with past practice, including without limitation any (i) borrowings or the issuance of any guaranties, (ii) any capital expenditures in excess of \$6,000, or (iii) any grant of any increase in the base compensation payable, or any loans, to any directors, officers or employees;

(d) there has not been, other than pursuant to the Plans, any increase in or establishment of any bonus, insurance, severance, deferred compensation, pension, retirement, profit sharing, stock option, stock purchase or other employee benefit plan, except in the Ordinary Course of Business consistent with past practice.

(e) there have not been any material changes by the Company or Seller in the Company's accounting methods, principles or practices;

(f) except as provided in Section 4.5, the Company has not declared, set aside or paid any dividend or other distribution (whether in cash, stock or property) with respect to any of its securities;

(g) the Company has not split, combined or reclassified any of its securities, or issued, or authorized for issuance, any securities;

(h) there has not been any material damage, destruction or loss with respect to the property and assets of the Company, whether or not covered by insurance;

(i) there has not been any revaluation of the Company or any of its assets, including writing down the value of inventory or writing off notes or accounts receivable, other than in the Ordinary Course of Business consistent with past practice; and

(j) the Company has not agreed, whether in writing or otherwise, to do any of the foregoing.

2.27 Solvency. No Order has been made, petition presented, or resolution passed for the winding up (or other process whereby the business is terminated and the assets of the subject company are distributed among its creditors and/or shareholders) of the Company. There are no cases or Proceedings of any kind pending under any applicable insolvency, reorganization or similar Law in any jurisdiction where the Company is a debtors, and to Seller's Knowledge no circumstances exist which, under applicable Law, would justify any such cases or Proceedings. No receiver or trustee has been appointed with respect to all or any portion of the Company business or assets.

2.28 Brokers or Finders. Except as set forth in Section 2.28 of Seller Disclosure Schedule, the Company has no liability of any kind to, and is not subject to any claim of, any broker, finder or agent in connection with the purchase and sale of the Stock contemplated by this Agreement.

2.29 No Illegal Payments. To Seller's Knowledge, neither the Company nor any Affiliate, officer, agent or employee thereof, directly or indirectly, has, on behalf of or with respect to the Company, (a) made any unlawful domestic or foreign political contributions, (b) made any payment or provided services which were not legal to make or provide or which the Company, or any such officer or employee thereof should reasonably have known, were not legal for the payee or the recipient of such services to receive, (c) received any payment or any services which were not legal for the payer or the provider of such services to make or provide, (d) had any material transactions or payments which are not recorded in its accounting books and records, or (e) had any off-book bank or cash accounts or "slush funds."

2.30 Information Supplied. To Seller's Knowledge, none of the information furnished or to be furnished by or on behalf of the Company for inclusion or incorporation by reference in the disclosure that will be made to OTC Markets in providing "current information" in connection with this Agreement will, as of the time furnished, contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein not misleading.

2.31 Compliance with Securities Laws. To the Seller's Knowledge, except to the extent as would not have a Material Adverse Effect, individually or in the aggregate, on the Company or any of its Subsidiaries, the sale and issuance by the Company and any of its Subsidiaries of all securities to date were made and completed in substantial compliance with all applicable state, federal and, if applicable, foreign securities Laws.

2.32 Powers of Attorney. To the Knowledge of the Seller and the Company, there are no material outstanding powers of attorney executed on behalf of or affecting the Company.

2.33 Material Disclosures. To Seller's Knowledge, no statement, representation or warranty made by the Seller or the Company in this Agreement, or in any certificate, statement, list, schedule or other document furnished or to be furnished to the Buyer hereunder, contains, or when so furnished will contain, any untrue statement of a material fact, or fails to state, or when so furnished will fail to state, a material fact necessary in order to make the statements contained herein or therein, in light of the circumstances in which they are or will be made, not misleading.

2.34 Change in Control. Except for Government Contracts, and except as may be set forth in Section 2.34 of the Seller Disclosure Schedule, neither the Seller nor the Company is a party to any Contract that contains a "change in control" or similar provision.

### **ARTICLE III**

#### **REPRESENTATIONS AND WARRANTIES OF BUYER**

Buyer represents and warrants to Seller that as of the date hereof and as of the Closing Date:

3.1 Authority for Agreement. Buyer has full power and authority to execute, deliver, and perform this Agreement. The signing, delivery, and performance of this Agreement by Buyer is not prohibited or limited by, and will not result in the breach of or a default under, any provision of any agreement or instrument binding on Buyer, or of any applicable Order, writ, injunction, or decree of any court or governmental instrumentality. This Agreement has been duly executed and delivered by Buyer and constitutes the legal, valid, and binding obligation of Buyer, enforceable in accordance with its respective terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting the rights of creditors generally and by general equitable principles.

3.2 Brokers or Finders. Buyer has no liability of any kind to, or is not subject to any claim of, any broker, finder or agent in connection with the purchase and sale of the Stock contemplated by this Agreement, with the exception of Leventis, LLC.

3.3 Litigation. There is no action, suit, inquiry, proceeding or investigation by or before any court or governmental body pending or threatened against or involving Buyer which is likely to prevent or interfere with Buyer's performance of this Agreement. Buyer is not subject to any judgment, order or decree that is likely to prevent or interfere with Buyer's performance of this Agreement.

#### **ARTICLE IV**

#### **OTHER AGREEMENTS AND COVENANTS**

4.1 Seller's Noncompete - Nonsolicitation. The parties hereto agree that Buyer is incurring substantial expenses and risks in purchasing the shares of Stock and that Buyer would not execute this Agreement without Seller's agreement to accept and agree to the non-competition provisions contained in the Employment, Confidentiality, Non-Compete, and Intellectual Property Agreements ("**Employment Agreements**"), which are attached hereto as Exhibits C and D.

4.2 Access. Prior to Closing, Seller shall cause the Company to provide to the officers, employees and authorized representatives of Buyer (including, without limitation, independent public accountants and attorneys) during normal business hours of the Company, access to the offices, properties and business and financial records (including computer files, retrieval programs and similar documentation) of the Company to the extent Buyer shall deem necessary or desirable and shall furnish to Buyer or its authorized representatives such additional information concerning the Company or the Company's operations as shall be reasonably requested. Buyer agrees that such investigation shall be conducted in such a manner as not to interfere unreasonably with the operations of the Company. Following the Closing, the Buyer shall, in addition to Section 6.1, provide Seller reasonable access to Company's books and records upon request and demonstration of need by Seller.

4.3 Ordinary Course. From the date of this Agreement to the earlier of Closing or termination of the Agreement (as defined in Section 7.1), the Company shall carry on its business in the ordinary course of business in all respects as is consistent with past practices and (a) shall use its commercially reasonable efforts to preserve intact its present business organizations and preserve its existing relationships with suppliers, employees and others having business dealings with it; (b) shall maintain in effect all material, federal, state and local licenses, permits and authorizations required for the Company to carry on its business; and (c) will not increase employees' salaries, bonuses or benefits, or unnecessarily incur other expenses or liabilities.

4.4 Material Developments. Prior to Closing, Seller shall promptly notify Buyer in writing upon becoming aware of any material development affecting the Company, its assets and business, or any event or circumstance that could reasonably be expected to result in a material breach of, or inaccuracy in, any Seller representation or warranty in this Agreement.

#### 4.5 Company Distributions Prior to Closing.

(a) At Closing, Company shall maintain total cash in the amount of \$75,000. Seller is authorized to cause the Company to distribute to Seller all cash or cash equivalents in excess of this amount immediately prior to Closing.

(b) In the event that on or before Closing one or more customers of Company have prepaid for the purchase of products ordered from Company, but the products have not been shipped by Company to the customer as of Closing, (i.e. customer has ordered product from Company, Company has received payment from the customer, but Company has not shipped the product to customer) the amount Company received as prepayment for the products shall be credited to Buyer. In the event that on or before Closing, Company has ordered products from Company vendors for sale to Company customers, where the vendor has charged Company's credit card for the payment and Company has paid its credit card bill, but the product has not been invoiced or shipped by Company to the customer on or before the date of Closing, the amount Company prepaid for the product shall be credited to Seller.

(c) Within thirty (30) days following the Closing Date, Seller will prepare a summary of the prepaid amount to be credited to Buyer under Section 4.5(b) and the prepaid amount to be credited to Seller under Section 4.5(b). Unless Buyer reasonably objects to the summary of prepaid amounts within forty-five (45) days following the Closing Date, the following shall take place immediately: if the amount to be credited to Buyer is greater than the amount to be credited to Seller, the difference shall be paid by Seller to Buyer. If the amount to be credited to Seller is greater than the amount to be credited to Buyer, the difference shall be paid from Buyer to Seller.

(d) Notwithstanding the rights of Seller and Buyer under this Section 4.5, the Company will continue to pay its obligations in a timely manner and in the ordinary course of business; and as to the following regularly occurring continuing obligations that are due following closing: rent, payroll, and utilities, allowance shall be made for the payment of such obligations and either (i) additional cash shall be retained by the Company or (ii) the cash due to the Seller at Closing shall be reduced, in either case to allow such obligations to be pro-rated up to and including the Closing Date.

4.6 Additional Documents. Upon Buyer's reasonable request after Closing, Seller will execute and deliver such further instruments of conveyance and transfer and take such further action as Buyer may reasonably request in order to convey and effectively transfer the Stock to Buyer.

4.7 Publicity. No public announcement of the Stock transaction shall be made prior to Closing, and no initial public announcement shall be made after Closing without the advance written consent of the Buyer.

4.8 Expenses. Buyer and Seller shall each pay their own expenses and fees, including attorneys' fees, in connection with the Stock purchase and sale contemplated by this Agreement, whether or not the transaction is consummated.

## ARTICLE V INDEMNIFICATION

### 5.1 Survival of Representations, Warranties and Covenants; Remedies.

(a) Except as set forth below or as otherwise provided in this Agreement, the representations, warranties and covenants provided for in this Agreement shall survive the Closing for the benefit of the parties hereto and their successors and assigns until the earlier of (i) 60 days following expiration of the applicable statute of limitations or (ii) 18 months from the Closing Date; provided, however, that the representations and warranties contained in Sections 2.1, 2.5 and 3.1 shall survive the Closing Date indefinitely. The survival period of each representation, warranty and covenant as provided in this Section 5.1 is hereinafter referred to as the “**Survival Period**.”

(b) Except where a court of competent jurisdiction determines that specific performance or injunctive relief is in order, indemnification as provided in Section 5.2 is the sole and exclusive remedy for any party arising out of or relating to this Agreement.

### 5.2 Indemnification.

(a) Subject to the provisions of Sections 5.2(a)(i) and (ii), Seller shall indemnify and hold harmless the Buyer, and, after Closing, the Company, and each of their Affiliates, stockholders, officers, directors, employees, representatives, agents, attorneys and any person claiming by or through any of them (the “**Buyer Indemnified Persons**”) against and in respect of any and all claims, costs, expenses, damages, liabilities, losses or deficiencies including, reasonable attorney’s fees and other costs and expenses (but excluding any special exemplary, speculative, consequential or incidental damages, damages for lost profits or damages computed on a multiple of earnings, and excluding punitive damages but only to the extent that Buyer itself is not subject to such punitive damages claims) that are incurred in connection with any suit, action, claim or proceeding (the “**Losses**”) brought during the Survival Period and arising out of, resulting from or incurred in connection with (a) the breach by Seller of any representation, warranty or covenant or agreement to be performed by Seller under this Agreement, or (b) fraud on the part of Seller.

i. With respect to Seller’s indemnification obligations pursuant to Section 5.2(a), Seller shall not have any indemnification obligation until the aggregate Losses by reason of all such breaches exceed \$5,000 (the “**Threshold**”), after which point Seller will be obligated to indemnify the Buyer from and against the aggregate amount of all Losses in excess of the Threshold; provided, however, that the Threshold shall not apply to Losses arising out of, or related to, breaches of Sections 2.1, 2.5 or 3.1, claims or cause of action based upon fraud or any Tax liability.

ii. With respect to Seller’s indemnification obligations pursuant to Section 5.2(a), the aggregate amount of all payments to which the Buyer Indemnified Persons shall be entitled in satisfaction of claims for indemnification shall in no event exceed \$750,000 (the “**Cap**”); provided, however, that the cap for Losses arising out of, or related to, any of the following shall be \$3,500,000: (i) breaches of representations and warranties contained in Sections 2.1, 2.5 or 3.1, (ii) claims of, or causes of action based upon, fraud, or (iii) any Tax liability.

iii. From and after the Closing, any indemnification to which Buyer is entitled under this Agreement shall be satisfied first from the obligations due under the Promissory Note. In the event the Promissory Note is insufficient to satisfy the amount of indemnifiable Losses, Seller shall be responsible for satisfying such remaining amount.

(b) The Buyer shall indemnify and hold harmless Seller and its Affiliates, officers, directors, employees, agents, attorneys and representatives, and any person claiming by or through any of them, against and in respect of any and all Losses brought during the Survival Period and arising out of, resulting from or incurred in connection with (A) any breach of any representation, warranty or covenant made by the Buyer in this Agreement or to be performed by it under this Agreement, or (B) any fraud by the Buyer; and (C) any and all Losses arising out of, resulting from, or incurred in connection with the operation of the Company after Closing (excluding reduction in value of Drone USA stock or related, directly or indirectly to the Company's status as a small business concern or certified woman owned small business).

(c) Any person providing indemnification pursuant to the provisions of this Section 5.2 is hereinafter referred to as an "Indemnifying Party" and any Person entitled to be indemnified pursuant to the provisions of this Section 5.2 is hereinafter referred to as an "Indemnified Party."

**5.3 Procedures for Third Party Claims.** In the case of any claim for indemnification arising from a claim of a third party (a "**Third Party Claim**"), an Indemnified Party shall give prompt written notice to the Indemnifying Party of any claim or demand which such Indemnified Party has knowledge and as to which it may request indemnification hereunder. The Indemnifying Party shall have the right to defend and to direct the defense against any such Third Party Claim, in its name or in the name of the Indemnified Party, as the case may be, at the expense of the Indemnifying Party, and with counsel selected by the Indemnifying Party unless (i) such Third Party Claim seeks an order, injunction or other equitable relief against the Indemnified Party, or (ii) the Indemnified Party shall have reasonably concluded that (iii) there is a conflict of interest between the Indemnified Party and the Indemnifying Party in the conduct of the defense of such Third Party Claim or (iv) the Indemnified Party has one or more defenses not available to the Indemnifying Party. Notwithstanding anything in this Agreement to the contrary, the Indemnified Party shall, at the expense of the Indemnifying Party, cooperate with the Indemnifying Party, and keep the Indemnifying Party fully informed, in the defense of such Third Party Claim. The Indemnified Party shall have the right to participate in the defense of any Third Party Claim with counsel employed at its own expense; provided, however, that, in the case of any Third Party Claim described in clause (i) or (ii) or as to which the Indemnifying Party shall not in fact have employed counsel to assume the defense of such Third Party Claim, the reasonable fees and disbursements of such counsel shall be at the expense of the Indemnifying Party. The Indemnifying Party shall have no indemnification obligations with respect to any Third Party Claim which shall be settled by the Indemnified Party without the prior written consent of the Indemnifying Party, which consent shall not be unreasonably withheld or delayed. Promptly following the final determination of any Third Party Claim, after exhausting all appeals if the matter was appealed, the Indemnifying Party shall pay any Losses to the Indemnified Party by wire transfer or check made payable to the order of the Indemnified Party.

5.4 Procedures for Inter-Party Claims. All claims for Losses or indemnification between the parties shall be made as set forth herein within the Survival Period. In the event that an Indemnified Party determines that it has a claim for Losses against an Indemnifying Party hereunder (other than as a result of a Third Party Claim), the Indemnified Party shall give prompt written notice thereof to the Indemnifying Party, specifying the amount of such claim and any relevant facts and circumstances relating thereto. The Indemnified Party shall provide the Indemnifying Party with reasonable access to its books and records for the purpose of allowing the Indemnifying Party a reasonable opportunity to verify any such claim for Losses. The Indemnified Party and the Indemnifying Party shall negotiate in good faith regarding the resolution of any disputed claims for Losses. Any disputed claims that cannot be resolved shall be resolved under the provisions of Section 7.8 of this Agreement. Promptly following the final determination, after exhausting all appeals if the matter could be and was appealed, of the amount of any Losses claimed by the Indemnified Party, the Indemnifying Party shall pay such Losses to the Indemnified Party by wire transfer or check made payable to the order of the Indemnified Party, without interest.

5.5 Insurance Proceeds. The amount of Losses for which any Indemnified Party is entitled to indemnification under this Agreement shall be reduced by the amount of insurance proceeds actually received by any such Indemnified Party in respect of any such Losses (net of any applicable deductibles or similar costs of recovery and expenses incurred by and such Indemnified Party in connection with recovering such insurance proceeds (such insurance proceeds, after such reductions, hereinafter referred to as the “**Net Insurance Proceeds**”)). In the event that any such insurance Proceeds are not received or realized, as applicable, by an Indemnified Party until after an indemnification claim has been paid hereunder, then the amount of the Net Insurance Proceeds, as the case may be, will be applied first, to refund any payments made by an Indemnifying Party which would not have been paid had such recovery been made or such benefit been realized, as applicable, prior to payment and, second, any excess to the Indemnified Party.

## **ARTICLE VI**

### **TAX MATTERS**

6.1 Responsibility for Filing Tax Returns. The Company shall prepare and file all Company tax returns that are due on or prior to the Closing Date. The Seller, on or prior to the Closing, shall pay all taxes payable with respect to such tax returns. Seller, at Seller's cost and expense, shall cause to be prepared on behalf of the Company the IRS Form 1120S (and any comparable state and local S corporation income tax returns) for all taxable years ending prior to and on the Closing Date (collectively “**S Corporation Returns**”). Buyer shall make the Company's books and records available to Seller or their representatives for this purpose at all reasonable times. Buyer shall cause the Company to prepare and file all other tax returns of the Company that are due after the Closing Date at Buyer's expense, and Buyer shall insure that the Company pays all taxes payable with respect to such tax returns.

6.2 Interim Closing of Books. Buyer and Seller agree that an election under Section 1377(a)(2) of the Code shall be filed with the Company's relevant short-year S corporation return, if any, so that Seller will include in his individual income tax return, his share of the Company's income, gain, loss, deduction or credit items for the taxable period commencing January 1, 2016 and ending at the close of business on the Closing Date. Buyer shall be responsible for any and all Taxes after the Closing Date and shall be responsible for any and all Taxes related to the termination of Company's S Election as of the Closing Date.

6.3 Cooperation. Buyer and Seller shall fully cooperate, as and to the extent reasonably requested by the other party, in connection with any tax audit, litigation or other proceeding with respect to Company's taxes. The party requesting such cooperation shall pay the reasonable out-of-pocket expenses of the other party.

## **ARTICLE VII MISCELLANEOUS**

7.1 Termination of Agreement. This Agreement shall terminate on August 12, 2016, unless the Closing occurs pursuant to Section 1.5 on or before that date, or the Closing is extended beyond August 12, 2016, upon the mutual written consent of all the parties.

7.2 Amendment. The parties hereto may, by mutual agreement, in writing, amend this Agreement in any respect.

7.3 Notices. All notices, requests, consents and other communications hereunder shall be in writing, shall be addressed to the receiving party's address set forth below and shall be either (i) delivered by hand, (ii) sent by recognized overnight courier, or (iii) sent by registered or certified mail, return receipt requested, postage paid. All notices, requests, consents and other communications hereunder shall be deemed to have been received (i) if by hand, at the time of delivery thereof to the receiving party at the address of such party set forth below, (ii) if sent by overnight courier, on the day such notice is delivered by the courier service, or (iii) if sent by registered or certified mail, on the 3rd Business Day following the day such mailing is made.

Notices shall be addressed as follows:

If to the Buyer, to:	Michael Bannon, CEO Drone USA, LLC 140 Broadway, Suite 4614 New York, NY 10005
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With Copies To: Peder K. Davisson, Esq.  
Davisson & Associates, PA  
4124 Quebec Avenue North, Suite 306  
Minneapolis, MN 55427  
(763) 355-5678  
pederd@davissonpa.com

If to Seller, to: Paul C. Joy and Kathryn B. Joy  
2747 NW 32<sup>nd</sup> Avenue  
Camas, WA 98607

With Copies To: William C. Dudley, Esq.  
Landerholm P.S.  
805 Broadway Suite 1000  
Vancouver, WA 98660  
(360) 696-3312  
William.dudley@landerholm.com

7.4 Entirety of Agreement. This Agreement embodies the entire agreement between the parties and supersedes all prior agreements and understandings between the parties, which shall hereafter be without force and effect.

7.5 Persons Bound by Agreement. The conditions, terms, provisions, and covenants contained in this Agreement shall apply to, inure to the benefit of, and be binding upon the parties hereto and their respective heirs, legal representatives, successors, and assigns.

7.6 Multiple Counterparts. This Agreement may be executed in multiple counterparts, each of which shall be deemed an original for all purposes and all of which shall be deemed, collectively, one agreement, but, in making proof hereof, it shall never be necessary to exhibit more than one such counterpart. Facsimile signatures or signatures by PDF or comparable format shall be acceptable.

7.7 Governing Law. This Agreement shall be construed and interpreted in accordance with the laws of the State of Washington without reference to principles of conflicts of laws.

7.8 Jurisdiction. The parties agree that all actions or proceedings arising in connection with this Agreement shall be tried and litigated only in the State or Federal Courts located in the state of Washington. Each of the parties hereto waives to the extent permitted under applicable law, any right each may have to assert the doctrine of forum non-conveniens or to object to venue to the extent any proceeding is brought in accordance with this section relating to this Agreement. In any action brought by a party under this Section 7.8, the successful party shall be entitled to reimbursement from the other party for all costs involved in such action, including reasonable attorneys' fees.

7.9 Certain Definitions. For purposes of this Agreement, the following terms, in their capitalized forms, shall have the correspondingly ascribed meanings:

**“Affiliate”** means, with respect to any specified Person, any other Person who, directly or indirectly, through one or more intermediaries, Controls, is Controlled By, or is Under Common Control With, such specified Person.

**“Authorization”** means any authorization, approval, consent, certificate, license, permit or franchise of or from any Governmental Authority or pursuant to any Law.

**“Beneficial Owner”** with respect to any shares means a Person who shall be deemed to be the beneficial owner of such shares (i) which such Person or any of its Affiliates or associates (as such term is defined in Rule 12b-2 promulgated under the Exchange Act) beneficially owns, directly or indirectly, (ii) which such Person or any of its Affiliates or associates has, directly or indirectly, (A) the right to acquire (whether such right is exercisable immediately or subject only to the passage of time), pursuant to any agreement, arrangement or understanding or upon the exercise of consideration rights, exchange rights, warrants or options, or otherwise, or (B) the right to vote pursuant to any agreement, arrangement or understanding, (iii) which are beneficially owned, directly or indirectly, by any other Persons with whom such Person or any of its Affiliates or associates or any Person with whom such Person or any of its Affiliates or associates has any agreement, arrangement or understanding for the purpose of acquiring, holding, voting or disposing of any such shares, or (iv) pursuant to Section 13(d) of the Exchange Act and any rules or regulations promulgated thereunder.

**“Benefit Plan”** means any “employee benefit plan” as defined in 3(3) of ERISA, including any (a) nonqualified deferred compensation or retirement plan or arrangement which is an Employee Pension Benefit Plan (as defined in ERISA Section 3(2)), (b) qualified defined contribution retirement plan or arrangement which is an Employee Pension Benefit Plan, (c) qualified defined benefit retirement plan or arrangement which is an Employee Pension Benefit Plan (including any Multiemployer Plan (as defined in ERISA Section 3(37))), (d) Employee Welfare Benefit Plan (as defined in ERISA Section 3(1)) or material fringe benefit plan or program, or (e) stock purchase, stock option, severance pay, employment, change-in-control, vacation pay, company awards, salary continuation, sick leave, excess benefit, bonus or other incentive compensation, life insurance, or other employee benefit plan, contract, program, policy or other arrangement, whether or not subject to ERISA.

**“Business Day”** means any day on which the principal offices of the SEC in Washington, D.C. are open to accept filings, or, in the case of determining a date when any payment is due, any day other than Saturday, Sunday or other day on which banks located in New York City are required or authorized by Law to close.

**“Calculation Period”** means each of the calendar years ending December 31, 2016 and December 31, 2017 respectively.

**“CERCLA”** means the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. Section 9601 *et seq.*

**“Company ERISA Affiliate”** means any entity which is a member of a “controlled group of corporations” with, under “common control” with or a member of an “affiliated services group” with, the Company or any of its Subsidiaries, as defined in Section 414(b), (c), (m) or (o) of the Code.

**“Company Gross Profit”** means the gross profit (total income less cost of goods sold) of the Company determined consistent with historical practices of the Company and the most recent Company Income Statements.

**“Contaminant”** means, in relation to any Software, any virus or other intentionally created, undocumented contaminant.

**“Contract”** means any currently existing agreement, contract, license, lease, commitment, arrangement or understanding, written or oral, including any sales order and purchase order.

**“Control”** (including the terms **“Controlled By”** and **“Under Common Control With”**) means the possession, directly or indirectly or as trustee or executor, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, as trustee or executor, by Contract or credit arrangement or otherwise.

**“Copyrights”** means registered and unregistered copyrights in both published and unpublished works.

**“Disabling Codes”** means, with respect to any Software, any disabling codes or related instructions.

**“Environment”** means all air, surface water, groundwater, land, including land surface or subsurface, including all fish, wildlife, biota and all other natural resources.

**“Environmental Action”** means any Proceeding brought or threatened under any Environmental Law or otherwise asserting the incurrence of Environmental Liabilities.

**“Environmental Clean-Up Site”** means any location which is listed on the National Priorities List, the Comprehensive Environmental Response, Compensation and Liability Information System, or on any similar state or foreign list of sites requiring investigation or cleanup, or which is the subject of any pending or threatened Proceeding related to or arising from any alleged violation of any Environmental Law, or at which there has been a threatened or actual Release of a Hazardous Substance.

**“Environmental Laws”** means any and all applicable Laws and Authorizations issued, promulgated or entered into by any Governmental Authority relating to the Environment, worker health and safety, preservation or reclamation of natural resources, or to the management, handling, use, generation, treatment, storage, transportation, disposal, manufacture, distribution, formulation, packaging, labeling, Release or threatened Release of or exposure to Hazardous Substances, whether now existing or subsequently amended or enacted, including but not limited to: CERCLA; the Federal Water Pollution Control Act, 33 U.S.C. Section 1251 *et seq.*; the Clean Air Act, 42 U.S.C. Section 7401 *et seq.*; the Toxic Substances Control Act, 15 U.S.C. Section 2601 *et seq.*; the Occupational Safety and Health Act, 29 U.S.C. Section 651 *et seq.*; the Emergency Planning and Community Right-to-Know Act of 1986, 42 U.S.C. Section 11001 *et seq.*; the Safe Drinking Water Act, 42 U.S.C. Section 300(f) *et seq.*; the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801 *et seq.*; the Federal Insecticide, Fungicide and Rodenticide Act 7 U.S.C. Section 136 *et seq.*; RCRA; the Toxic Substances Control Act, 15 U.S.C. Section 2601 *et seq.*; the Oil Pollution Act of 1990, 33 U.S.C. Section 2701 *et seq.*; and any similar or implementing state or local Law, and any non-U.S. Laws and regulations of similar import, and all amendments or regulations promulgated thereunder; and any common law doctrine, including but not limited to, negligence, nuisance, trespass, personal injury, or property damage related to or arising out of the presence, Release, or exposure to Hazardous Substances.

**“Environmental Liabilities”** means, with respect to any party, Liabilities arising out of (A) the ownership or operation of the business of such party or any of its Subsidiaries, or (B) the ownership, operation or condition of the Real Property or any other real property currently or formerly owned, operated or leased by such party or any of its Subsidiaries, in each case to the extent based upon or arising out of (i) Environmental Law, (ii) a failure to obtain, maintain or comply with any Environmental Permit, (iii) a Release of any Hazardous Substance, or (iv) the use, generation, storage, transportation, treatment, sale or other off-site disposal of Hazardous Substances.

**“Environmental Permit”** means any Authorization under Environmental Law, and includes any and all Orders issued or entered into by a Governmental Authority under Environmental Law.

**“ERISA”** means the U.S. Employee Retirement Income Security Act of 1974, as amended.

**“Exchange Act”** means the U.S. Securities Exchange Act of 1934, as amended.

**“GAAP”** means U.S. Generally Accepted Accounting Principles.

**“Governmental Authority”** means any entity or body exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to United States federal, state, local, or municipal government, foreign, international, multinational or other government, including any department, commission, board, agency, bureau, subdivision, instrumentality, official or other regulatory, administrative or judicial authority thereof, and any non-governmental regulatory body to the extent that the rules and regulations or orders of such body have the force of Law.

**“Government Contracts”** means any Contract or transaction (a) between the Company and a Government Authority or (b) entered into by the Company as a subcontractor in connection with a contract between another Person and a Government Authority.

**“Hazardous Substances”** means all explosive or regulated radioactive materials or substances, hazardous or toxic materials, wastes or chemicals, petroleum and petroleum products (including crude oil or any fraction thereof), asbestos or asbestos containing materials, and all other materials, chemicals or substances which are regulated by, form the basis of liability or are defined as hazardous, extremely hazardous, toxic or words of similar import, under any Environmental Law, including materials listed in 49 C.F.R. Section 172.101 and materials defined as hazardous pursuant to Section 101(14) of CERCLA.

**“Indebtedness”** means any of the following: (a) any indebtedness for borrowed money, (b) any obligations evidenced by bonds, debentures, notes or other similar instruments, (c) any obligations to pay the deferred purchase price of property or services, except trade accounts payable and other current Liabilities arising in the Ordinary Course of Business, (d) any obligations as lessee under capitalized leases, (e) any indebtedness created or arising under any conditional sale or other title retention agreement with respect to acquired property, (f) any obligations, contingent or otherwise, under acceptance credit, letters of credit or similar facilities, and (g) any guaranty of any of the foregoing.

**“Intellectual Property”** means: (i) Proprietary Information; (ii) trademarks and service marks (whether or not registered), trade names, logos, trade dress and other proprietary indicia and all goodwill associated therewith; (iii) documentation, advertising copy, marketing materials, web-sites, specifications, mask works, drawings, graphics, databases, recordings and other works of authorship, whether or not protected by Copyright; (iv) Software; and (v) Intellectual Property Rights, including all Patents, Copyrights, Marks, trade secret rights, mask works, moral rights or other literary property or authors rights, and all applications, registrations, issuances, divisions, continuations, renewals, reissuances and extensions of the foregoing.

**“Intellectual Property Rights”** means all forms of legal rights and protections that may be obtained for, or may pertain to, any Intellectual Property in any country of the world.

**“Knowledge”** of a given party (or any similar phrase) means, with respect to any fact or matter, the actual knowledge of such Person or in the event such Person is other than an individual, the actual knowledge of the directors and management of such party and each of its Subsidiaries.

**“Law”** means any statute, law (including common law), constitution, treaty, ordinance, code, order, decree, judgment, rule, regulation and any other binding requirement or determination of any Governmental Authority.

**“Liability”** or **“Liabilities”** means any liability, Indebtedness or obligation of any kind, whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, whether secured or unsecured, whether joint or several, whether due or to become due, whether vested or unvested, including any liability for Taxes.

**“Liens”** means any liens, claims, charges, security interests, mortgages, pledges, easements, conditional sale or other title retention agreements, defects in title, covenants or other restrictions of any kind, including, any restrictions on the use, voting, transfer or other attributes of ownership.

**“Marks”** means trademarks, service marks and other proprietary indicia (whether or not registered).

**“Material Adverse Effect”** means, with respect to any Person, any state of facts, development, event, circumstance, condition, occurrence or effect that, individually or taken collectively with all other preceding facts, developments, events, circumstances, conditions, occurrences or effects (a) is materially adverse to the condition (financial or otherwise), business, operations or results of operations of such Person, (b) impairs the ability of such Person to perform its obligations under this Agreement.

**“Operative Agreements”** means, collectively, this Agreement, the Promissory Note, the Security Agreements, the Bleed-Out Agreement, and the Employment Agreements.

**“Order”** means any award, injunction, judgment, decree, stay, order, ruling, subpoena or verdict, or other decision entered, issued or rendered by any Governmental Authority.

**“Ordinary Course of Business”** means the ordinary course of business consistent with past custom and practice (including with respect to quantity and frequency).

**“Patents”** means letters patent, patent applications, provisional patents, design patents, PCT filings, invention disclosures and other rights to inventions or designs.

**“PCAOB”** means the Public Company Accounting Oversight Board.

**“PCBs”** means polychlorinated biphenyls.

**“Permitted Liens and Liabilities”** means, with respect to any party, (i) Liens for current real or personal property taxes not yet due and payable and with respect to which such party maintains adequate reserves, (ii) workers’, carriers’ and mechanics’ or other like Liens incurred in the Ordinary Course of Business with respect to which payment is not due and that do not impair the conduct of such party’s or any of its Subsidiaries’ business in any material respect or the present or proposed use of the affected property, (iii) Liens that are immaterial in character, amount, and extent and which do not detract from the value or interfere with the present or proposed use of the properties they affect, and (iv) the accepted liabilities of the Company.

**“Person”** means an individual, a corporation, a partnership, a limited liability company, a trust, an unincorporated association, Governmental Authority, a person (including, without limitation, a “person” as defined in Section 13(d)(3) of the Exchange Act), or any political subdivision, agency or instrumentality of a Governmental Authority, or any other entity or body.

**“Proceeding”** or **“Proceedings”** means any actions, suits, claims, hearings, arbitrations, mediations, Proceedings (public or private) or governmental investigations that have been brought by any governmental authority or any other Person.

**“Proprietary Information”** means, collectively, inventions (whether or not patentable), trade secrets, technical data, databases, customer lists, designs, tools, methods, processes, technology, ideas, know-how, source code, product road maps and other proprietary information and materials.

**“Public Software”** means any Software that contains, or is derived in any manner (in whole or in part) from, any Software that is distributed as free Software, open source Software or similar licensing or distribution models, including Software licensed or distributed under any of the following licenses or distribution models, or licenses or distribution models similar to any of the following: (i) GNU’s General Public License or Lesser/Library GPL; (ii) Mozilla Public License; (iii) Netscape Public License; (iv) Sun Community Source/ Industry Standard License; (v) BSD License; and (vi) Apache License.

**“RCRA”** means the Resource Conservation and Recovery Act of 1976, 42 U.S.C. Section 6901 *et seq.*

**“Release”** means any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, or disposing of Hazardous Substances into the Environment.

**“Securities Act”** means the U.S. Securities Act of 1933, as amended.

**“SEC”** means the U.S. Securities and Exchange Commission.

**“Software”** means, collectively, computer programs, including any and all software implementations of algorithms, models and methodologies, whether in source code or object code, design documents, flow-charts, user manuals and training materials relating thereto and any translations thereof.

**“Subsidiary”** or **“Subsidiaries”** means, with respect to any party, any Person, of which (a) such party or any subsidiary of such party is a general partner (excluding partnerships, the general partnership interests of which held by such party or any Subsidiary of such party do not have a majority of the voting interest in such partnership) or (b) at least a majority of the securities or other interests having by their terms ordinary voting power to elect a majority of the board of directors or others performing similar functions with respect to such Person is directly or indirectly owned or controlled by such party and/or by any one or more of its subsidiaries.

**“Systems”** means, in relation to any Person, any of the hardware, software, databases or embedded control systems thereof.

**“Tax”** or **“Taxes”** means any and all federal, state, local, or foreign net or gross income, gross receipts, net proceeds, sales, use, *ad valorem*, value added, franchise, bank shares, withholding, payroll, employment, excise, property, deed, stamp, alternative or add-on minimum, environmental (including taxes under Code §59A), profits, windfall profits, transaction, license, lease, service, service use, occupation, severance, energy, unemployment, social security, workers’ compensation, capital, premium, and other taxes, assessments, customs, duties, fees, levies, or other governmental charges of any nature whatever, whether disputed or not, together with any interest, penalties, additions to tax, or additional amounts with respect thereto.

“**Tax Returns**” means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

“**Taxing Authority**” means any Governmental Authority having jurisdiction with respect to any Tax.

“**\$**” means United States dollars.

*[signatures on following page]*

IN WITNESS WHEREOF, the parties have executed this Agreement to be effective August 4, 2016.

**BUYER:**

**DRONE USA, LLC**

/s/ Michael Bannon

Michael Bannon, President

**SELLER:**

Paul C. Joy and Kathryn B. Joy Trust – Fund B, dated December 9, 2003

/s/ Paul Charles Joy, II

Paul Charles Joy, II, Trustee

Paul C. Joy and Kathryn B. Joy Trust – Fund C, dated December 9, 2003

/s/ Kathryn Blake Joy

Kathryn Blake Joy, Trustee

**HOWCO DISTRIBUTING CO.**

/s/ Paul Charles Joy, II

Paul Charles Joy, II, Vice President

/s/ Kathryn Blake Joy

Kathryn Blake Joy, President

## **SELLER DISCLOSURE SCHEDULE**

See attached.

**SELLER DISCLOSURE SCHEDULE – 1**

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## **SELLER DISCLOSURE SCHEDULE**

### **Section 2.1**

#### **Equity or Similar Interests owned by Company**

None.

### **Section 2.4(a)**

#### **Options, Warrants, or Other Equity Interests**

None.

### **Section 2.4(c)**

#### **Other Voting Rights**

None.

### **Section 2.6**

#### **Required Company Consent**

1. Government Contracts - to be determined by Buyer.
  2. Real Property Lease - consent of Landlord.
-

**Section 2.6(iii)**  
**Resulting Breaches, Defaults, Liens, or Other Encumbrances**

1. Government Contracts - to be determined by Buyer.
2. Real Property Lease - consent of Landlord.

**Section 2.7(a)**  
**Law, Permits, and Other Authorizations**

None.

**Section 2.8**  
**Financial Statements**

See attached.

**Section 2.9**  
**Uncollectible Accounts Receivable**

None.

SELLER DISCLOSURE SCHEDULE - 2

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**Section 2.10**  
**Other Material Liabilities**

None.

**Section 2.11(a)**  
**Tax Matters**

None.

**Section 2.11(b)**  
**Tax Withholding and Reporting**

None.

**Section 2.11(c)**  
**Tax Filing Extensions or Waivers of Statute of Limitations**

None.

**SELLER DISCLOSURE SCHEDULE - 3**

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**Section 2.11(d)**  
**Tax Returns Under Audit**

None.

**Section 2.11 (e)**  
**Tax Filing Jurisdictions**

1. Washington and Federal.

**Section 2.11(k)**  
**Disqualified Individuals**

None.

**Section 2.11(1)**  
**Amounts in Excess of Reserve for Tax Liability**

None.

**SELLER DISCLOSURE SCHEDULE - 4**

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**Section 2.14**  
**Non-Merchantable or Unfit Inventory**

None.

**Section 2.15**  
**Non-Conforming Products**

None.

**Section 2.17(a)**  
**Company-Owned Real Property and Company-Leased Real Property**

- Real Property Lease between Steve Strong dba Creekside Business Park as Lessor, and Howco Distributing Company as Lessee,
1. dated April 28, 2009 for space commonly known as 6025 East 18<sup>th</sup> Street, Vancouver, Washington, 98661 (a copy of which has been provided to Buyer).

**Section 2.18(a)**  
**Company-Owned Intellectual Property**

None.

SELLER DISCLOSURE SCHEDULE - 5

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**Section 2.18(b)**  
**Company in-Bound Licenses**

None.

**Section 2.18(c)**  
**Company Out-Bound Licenses**

None.

**Section 2.18(d)**  
**Invalidity, Unenforceability or Violations of**  
**Company In-Bound Licenses or Company Out-Bound Licenses**

None.

**Section 2.18(e)**  
**Exceptions to Intellectual Property Ownership or Rightful Use**

None.

**SELLER DISCLOSURE SCHEDULE - 6**

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**Section 2.18(f)**  
**Exceptions to Company Registered Intellectual Property**  
**Registration, Maintenance, Renewal, Good Standing, Compliance, and Validity**

None.

**Section 2.18(g)**  
**Challenges to Validity or Enforceability of Company Intellectual Property;**  
**Actions Impacting Enforceability of Company Intellectual Property**

None.

**Section 2.18(h)**  
**Actual, Potential, or Alleged Infringement**

None.

**Section 2.18(j)**  
**Exceptions to Employee/Contractor**  
**Confidentiality, Non-Compete, and Non-Solicitation Agreements**

None.

SELLER DISCLOSURE SCHEDULE - 7

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**Section 2.19(b)**  
**Company Material Contracts**

1. Real Property Lease
2. Plan Advice and Consulting Program Services Agreement – Cetera Advisors, LLC
3. Contract No. HSCG40-13-D-51006 (USCG Surface Forces Logistics Center)
4. Contract No. SPE7MC-14-D-5013 (DLA Land and Maritime)
5. Contract No. SPM7LX-11-D-9032 (Solicitation No. SPM7LX-09-R-0062)
6. Contract No. SPE7L3-15-D-5019
7. Contract No. SPE4A6-14-D-7025
8. Contract No. SPE4A6-14-D-5751
9. Contract No. SPE4A6-14-D-0100
10. Contract No. SPM7MX-11-D-0088
11. Contract No. SPE4A6-15-D-5260
12. Contract No. SPE7LX-15-D-0148
13. Contract No. SPE7MX-15-D-0113
14. Contract No. SPE7MX-51-D-0090
15. Contract No. SPE4A6-15-D-5943
16. Contract No. SPE4A6-15-D-5466
17. Contract No. SPE4A6-15-D-5524
18. Contract No. SPE4A6-16-D-5018
19. Contract No. SPE4A6-16-D-5112
20. Contract No. SPE4A6-16-D-5134
21. Contract No. SPE4A6-16-D-5827
22. Contract No. SPE4A6-16-D-5824
23. Contract No. SPM7LX-14-D-0025
24. Contract No. SPM7MX-12-D-9001
25. Associated Business Systems Maintenance Agreement
26. Contract No. SPE4A6-15-X-0228
27. Contract No. SPE4A6-16-D-5231
28. Copier Lease
29. Government Contracts

**Section 2.20**  
**Litigation**

None.

**SELLER DISCLOSURE SCHEDULE - 8**

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**Section 2.21(a)**  
**Benefit Plans**

1. Kaiser Medical/Dental plans.
2. 401(k) plan.
3. Long Term Disability plan.

**Section 2.23(a)**  
**Environmental Permits**

None.

**Section 2.24**  
**Related Party Transactions**

None.

**Section 2.25**  
**Material Insurance Policies and Material Self-Insurance Arrangements**

1. Copies of current Insurance Policies attached.

SELLER DISCLOSURE SCHEDULE - 9

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**Section 2.26**  
**Absence of Certain Changes or Events**

1. See Financial Statements for dividends/distributions.
2. See Section 4.5 of the Agreement for pre-Closing distribution to Seller.

**Section 2.28**  
**Brokers or Finders**

1. Fees due by Company under Broker Agreement with Piper Group International, LLC, as amended. Will be paid by Seller, or paid by Company prior to Closing such that Company meets the requirements of Section 4.5 of the Agreement.

**Section 2.34**  
**Change in Control or Similar Provisions**

1. See Section 2.17(a) for Real Property Lease document. Must obtain approval for assignment/subletting of Lease Agreement from Lessor (Section 12 of Lease).

**SELLER DISCLOSURE SCHEDULE - 10**

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**EXHIBIT A**  
**Promissory Note**

See attached.

EXHIBIT A – 1

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## PROMISSORY NOTE

\$900,000

Vancouver, Washington

THIS PROMISSORY NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THIS PROMISSORY NOTE MAY NOT BE SOLD, TRANSFERRED OR PLEDGED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT UNDER APPLICABLE FEDERAL AND STATE SECURITIES LAWS OR AN OPINION OF COUNSEL SATISFACTORY TO THE MAKER THAT SUCH REGISTRATION IS NOT REQUIRED.

FOR VALUABLE CONSIDERATION RECEIVED, the undersigned, on behalf of Drone USA, LLC., a Delaware limited liability company, its affiliates, successors and assigns, ("**Maker**"), hereby promises to pay to Paul Charles Joy II, Trustee of the Paul C. Joy and Kathryn B. Joy Trust – Fund B, dated December 9, 2003, as amended and Kathryn Blake Joy, Trustee of the Paul C. Joy and Kathryn B. Joy Trust – Fund C, dated December 9, 2003, as amended (collectively, the "**Lender**" or "**Holder**") at Lender's address at: 2747 NW 32<sup>nd</sup> Avenue, Camas, Washington 98607, or at any other place designed by the Lender hereof the principal sum of Nine Hundred Thousand Dollars (\$900,000), (the "**Principal Sum**") together with interest thereon as set forth below.

This Promissory Note ("**Note**") is issued pursuant to the terms of that certain Stock Purchase agreement between Drone USA, LLC., a Delaware limited liability company and Lender of even date herewith (the "**Stock Purchase Agreement**") pursuant to which Maker is purchasing one hundred percent of the issued and outstanding securities of Howco Distributing Co., a Washington corporation (the "**Company**"). All capitalized terms not otherwise defined herein shall have the definitions given to them in the Stock Purchase Agreement. The terms of the Stock Purchase Agreement shall govern in the event of any inconsistencies between this Note and the Stock Purchase Agreement.

1. Maturity. This Note shall be payable on or before September 9<sup>th</sup>, 2017.
2. Payment of Principal. The principal balance of Nine Hundred Thousand Dollars (\$900,000) shall be paid on or before Maturity.
3. Interest. Simple interest shall be paid on or before Maturity at a rate of Five and One Half Percent (5 1/2%) per annum based upon a three hundred sixty day (360) year. In the event of Maker's default in any payment due hereunder for a period exceeding five (5) business days from the date such payment is due, interest shall accrue on the unpaid principal and interest at a rate of eight percent (8%) per annum.
4. Prepayment. This Note may be prepaid in whole or in part at any time without penalty, provided that any such prepayment shall be applied first to accrued and unpaid interest with the remainder applied to reduction of principal.
5. Security. This Note is secured by the collateral described in and referred to in the Security Agreements between the Maker and Holder and Company and Holder of even date herewith (the "**Security Agreements**"). The Holder is entitled to the benefits of the Security Agreements and reference is made thereto for a description of the rights and remedies of the Holder thereunder. Neither the reference to the Security Agreements nor any provisions thereof shall affect or impair the absolute and unconditional obligation of the Maker to pay the principal amount hereof, together with interest accrued thereon, when due.

6. Subordination. By accepting this Note, the Lender agrees that all payments on account of the indebtedness, liabilities and other obligations of the Maker to the Lender, including, without limitation, all amounts of principal, interest accrued hereon, and all other amounts payable by the Maker to the Lender under this Note or in connection herewith, and any liens or security interests securing this Note, shall be subordinated and subject in right of payment, to the extent and manner set forth herein, to the prior payment in full in cash or cash equivalents of indebtedness and other obligations of the Maker and its parent, under pre-existing and future financings not exceeding the total combined principal amount of \$6,500,000 (inclusive of the debt financing made by the third party lender in connection with the initial cash payment under the Stock Purchase Agreement and any bank credit agreements or lines of credit) (collectively, the “**Senior Debt**”). Upon the incurrence by the Maker of new Senior Debt (the total of all Senior Debt not exceeding a combined principal amount of \$6,500,000), the Maker shall provide written notice to the Lender within 30 days of the incurrence of such debt. The notice shall state the amount of such indebtedness and other obligations and that, subject to this Section 6, such indebtedness and other obligations will be senior to the debt evidenced by this Note. Lender agrees to timely execute and deliver any subordination agreement consistent with this Section 6 of this Note that may be required in connection with such Senior Debt. Notwithstanding the foregoing or any other provision of this Note, Lender shall be entitled to receive and retain all payments of principal and/or interest and/or costs or fees paid by Maker to Lender, which payments were received by Lender prior to Lender’s receipt of written notice of default from the holder(s) of any Senior Debt.

7. Waiver. Maker waives demand, presentment, notice of nonpayment of dishonor, protest and notice of protest, and agrees that it shall continue to remain liable to pay the unpaid balance of the indebtedness evidenced by this Note as extended, renewed, or modified. Maker further agrees to pay all costs of collection, including attorney’s fees, in case any payment due hereunder shall not be made when due or other default occurs.

8. Definitions. The following terms shall have the following meanings:

a. an “Act of Bankruptcy” shall mean if (i) the Maker shall (1) be or become insolvent, or (2) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, liquidator or the like of all or a substantial part of Maker’s property, or (3) commence a voluntary case under any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, dissolution, liquidation or similar proceeding under the laws of any jurisdiction, or (4) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, winding up or composition or adjustment of debts, or (5) admit in writing any inability to pay such debts as they mature, or (6) make an assignment for the benefit of creditors; or (ii) a proceeding or case shall be commenced, without the application or consent of Maker, in any court of competent jurisdiction, seeking (1) the liquidation, reorganization, dissolution, winding up or the composition or adjustment of debts of Maker, (2) the appointment of a trustee, receiver, custodian or liquidator or the like of Maker or of all or any substantial part of such Maker’s property, or (3) similar relief in respect of Maker under any law relating to bankruptcy, insolvency, reorganization, winding up or composition or adjustment of debts.

b. "Affiliate" shall mean any Person (i) which directly or indirectly through one or more intermediaries Controls, or is Controlled by, or is under common Control with, the Maker of this Note, or (ii) five percent (5%) or more of the equity interest of which is held beneficially or of record by Maker of this Note.

c. "Control" shall mean the possession, directly or indirectly, of the power to cause the direction of management and policies of a Person, whether through the ownership of voting securities or otherwise.

d. "Person" shall mean any natural person, corporation, partnership, joint venture, firm, association, trust, unincorporated organization, government or governmental agency or political subdivision or any other entity, whether acting in an individual, fiduciary or other capacity.

9. Events of Default. The occurrence of any one or more of the following events shall constitute an Event of Default:

a. The Maker shall fail to make when due, whether by acceleration or otherwise, any payment of principal of, or interest on, this Note when due; or

b. The Maker shall fail to comply with any other material agreement, covenant, condition, provision or term contained in this Note, or the Security Agreement (and such failure shall not constitute an Event of Default under any of the provisions hereof); or

c. An Act of Bankruptcy shall occur; or

d. A judgment or judgments for the payment of money in excess of the sum of \$250,000 in the aggregate shall be rendered against Maker and Maker shall not pay or discharge the same or provide for its discharge in accordance with its terms, or procure a stay of execution thereof, prior to any execution on such judgments by such judgment creditor, within 30 days from the date of entry thereof, and within such period of 30 days, or such longer period during which execution of such judgment shall be stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal; or

e. Any property of Maker shall be garnished or attached in any proceeding and such garnishment or attachment; or

f. The maturity of any indebtedness of Maker (other than indebtedness under this Note) shall be accelerated, or Maker shall fail to pay any such indebtedness when due or, in the case of such indebtedness payable on demand, when demanded, or any event shall occur or condition shall exist and shall continue for more than the period of grace, if any, applicable thereto and shall have the effect of causing or permitting (any required notice having been given and grace period having expired) the lender of any such indebtedness or any trustee or other person acting on behalf of such lender to cause, such indebtedness to become due prior to its stated maturity or to realize upon any collateral given as security therefore.

10. Remedies. If (a) any Event of Default described in paragraph 8(c) above shall occur, the outstanding unpaid principal balance of this Note, the accrued interest thereon and all other obligations of the Maker to the Lender shall automatically become immediately due and payable; or (b) any other Event of Default shall occur and be continuing, then the Lender may declare that the outstanding unpaid principal balance of this Note, the accrued and unpaid interest thereon and all other obligations of the Maker to the Lender to be forthwith due and payable, whereupon this Note, all accrued and unpaid interest thereon and all such obligations shall immediately become due and payable, in each case without further demand or notice of any kind, all of which are hereby expressly waived, anything in this Note to the contrary notwithstanding. In addition, upon any Event of Default, the Lender may exercise all rights and remedies under any other instrument, document or agreement in favor of the Lender, and enforce all rights and remedies under any applicable law.

11. Representations, Warranties and Covenants. To induce the Lender to carry the balance due under the Stock Purchase Agreement as a Lender represented by this Note, the Maker hereby represents, warrants and covenants to the Lender:

a. Organization, Standing, Etc. The Maker is a limited liability company duly organized and validly existing and in good standing under the laws of the State of Delaware, and has all requisite corporate power and authority to carry on its businesses as now conducted, to enter into this Note and to perform its obligations under this Note.

b. Authorization and Validity. The execution, delivery and performance by the Maker of the Note has been duly authorized by all necessary action by the Maker, and constitutes the legal, valid and binding obligation of the Maker, enforceable against the Maker in accordance with its terms, subject to limitations as to enforceability which might result from bankruptcy, insolvency, moratorium and other similar laws affecting creditors' rights generally and subject to limitations on the availability of equitable remedies.

c. No Conflict; No Default. The execution, delivery and performance by the Maker of the Note will not (i) violate any provision of any law, statute, rule or regulation or any order, writ, judgment, injunction, decree, determination or award of any court, governmental agency or arbitrator presently in effect having applicability to the Maker, (ii) violate or contravene any provisions of the Articles of Organization or Operating Agreement of the Maker, or (iii) result in a breach of or constitute a default under any indenture, loan or credit agreement or any other agreement, lease or instrument to which the Maker is a party or by which it or any of its properties may be bound or result in the creation of any lien on any asset of the Maker, other than liens in favor of the Lender. The Maker is not in default under or in violation of any such law, statute, rule or regulation, order, writ, judgment, injunction, decree, determination or award or any such indenture, loan or credit agreement or other agreement, lease or instrument in any case in which the consequences of such default or violation could constitute a material adverse event.

d. Notice Obligations. From the date of this Note and thereafter until the Maker's obligations under this Note shall have been paid in full, unless the Lender shall otherwise expressly consent in writing, the Maker agrees that the Maker will furnish to the Lender, in writing, immediately upon becoming aware of the occurrence of an Event of Default, describing the nature thereof and what action the Maker proposes to take with respect thereto.

12. No Waiver. No delay or failure on the part of the Lender in exercising any right or remedy hereunder, or at law or at equity, shall operate as a waiver of or preclude the exercise of any such right or remedy, and no single or partial exercise by the Lender of any such right or remedy shall preclude or estop another or further exercise thereof or exercise of any other right or remedy. No waiver by the Lender hereof shall be effective unless in writing signed by the Lender. A waiver on any one occasion shall not be construed as a waiver of any such right or remedy on any prior or subsequent occasion.

13. Miscellaneous.

a. Notices. All notices required pursuant to the terms of this Note shall be in writing and either delivered personally or sent by United States Mail. If sent by mail, notice shall be deemed given when deposited in the U.S. Mail, properly addressed and with postage prepaid. Unless changed by written notice, the following addresses shall be used:

To: MAKER  
  
Drone USA, LLC  
Attn: Michael Bannon, CEO  
One World Trade Center, 85th Floor  
285 Fulton Street  
New York, NY 10007

With Copies to: Davisson & Associates, PA  
Attn: Peder K. Davisson  
4124 Quebec Avenue North, Suite 306  
Minneapolis, MN 55427

To: LENDER

Paul Charles Joy II, Trustee of the Paul C. Joy and Kathryn B. Joy Trust – Fund B, dated December 9, 2003, as amended and Kathryn Blake Joy, Trustee of the Paul C. Joy and Kathryn B. Joy Trust – Fund C, dated December 9, 2003, as amended

With Copies to: Landerholm P. S.  
Attn: William C. Dudley  
805 Broadway, Suite 1000  
Vancouver, WA 98660

b. Integration. This Note, the Stock Purchase Agreement, and the Security Agreements embody the entire agreement and understanding between the parties relating to the subject matter thereof and supersede all prior agreements and understandings relating to such subject matter.

c. Governing Law and Venue. This Note shall be construed and interpreted in accordance with the laws of the State of Washington without reference to principles of conflicts of laws. The parties agree that all actions or proceedings arising in connection with this Note shall be tried and litigated only in the State or Federal Courts located in the State of Washington. Each of the Maker and Lender waives to the extent permitted under applicable law, any right each may have to assert the doctrine of forum non-conveniens or to object to venue to the extent any proceeding is brought in accordance with this section.

d. Binding Effect. Except as herein otherwise provided to the contrary, this Note shall be binding upon, and inure to the benefit of, the parties and their respective heirs, executors, administrators, successors and assigns.

**IN WITNESS WHEREOF**, this Promissory Note has been executed as of the date set forth below.

**MAKER: DRONE USA, LLC**

DATE: September 9<sup>th</sup>, 2016

By: /s/ Michael Bannon

Michael Bannon, CEO

**EXHIBIT A2**  
**Security Agreement**

See attached.

EXHIBIT A2 – 1

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## SECURITY AGREEMENT - HOWCO ASSETS

DATE: September 9<sup>th</sup>, 2016

DEBTOR: HOWCO DISTRIBUTING CO.,  
a Washington Corporation  
Tax I.D. #93-1033165  
Organization I.D. #                      
Attn: Mr. Michael Bannon, CEO  
Drone USA, LLC  
140 Broadway, Suite 4614  
New York, NY 10005

SECURED PARTY: Paul Charles Joy II, Trustee of the Paul C. Joy and Kathryn B. Joy Trust – Fund B, dated December 9, 2003, as amended, and Kathryn Blake Joy, Trustee of the Paul C. Joy and Kathryn B. Joy Trust – Fund C, dated December 9, 2003, as amended

WHEREAS Secured Party, Debtor, and Drone USA, LLC, a Delaware limited liability company (“**Drone USA**”) have entered into a Stock Purchase Agreement of even date herewith (the “**Stock Purchase Agreement**”) whereby Secured Party sold 100 percent of the issued and outstanding shares of stock in the Debtor to Drone USA; and

WHEREAS Drone USA issued a promissory note to the Secured Party in the amount of Nine Hundred Thousand Dollars (\$900,000) of even date herewith (the “**Note**”); and

WHEREAS the parties have agreed that the Note should be secured by the assets of the Debtor as described herein, and the parties have agreed that due to the relationship between the Debtor and Drone USA, that good and valuable consideration exists for the granting of the security interest stated herein.

NOW, THEREFORE, the parties hereby agree that these recitals shall be deemed incorporated into the following Security Agreement (“**Agreement**”), and hereby further agree as follows:

1. Security Interest and Collateral. To secure the payment of outstanding principal and interest on that certain Nine Hundred Thousand Dollar (\$900,000) Promissory Note of even date herewith made by Drone USA to Secured Party (“**Note**”) in connection with the Stock Purchase Agreement and to secure payments of principal and interest due thereunder (the “**Obligations**”), Debtor hereby grants Secured Party a security interest subordinated to the security interest granted to TCA Global Master Fund, LP, its successors, assigns and/or any substituted lender(s) as provided in the Note (the “**Subordinated Security Interest**”) in all items of Debtor’s property described in each of the three UCC-1’s and Exhibit A attached hereto and made a part hereof (collectively, the “**Collateral**”).

2. Representations, Warranties and Agreements. Debtor represents, warrants and agrees that:

2.1. Debtor is an entity duly organized, validly existing and in good standing under the laws of the state of Washington. Debtor has full power and authority to execute this Agreement, to perform the obligations hereunder and to subject the Collateral to the Subordinated Security Interest. Debtor's taxpayer identification number is the number shown at the beginning of this Agreement. Debtor's organizational identification number is the number shown at the beginning of this Agreement.

2.2. Debtor's chief place of business is located at the addresses shown at the beginning of this Agreement. Debtor's records concerning its accounts and contract rights are kept at such address. The Collateral is located at 6025-B East 18<sup>th</sup> Street, Vancouver, Washington, 98661, and there are no other locations where any of the Collateral may be kept except as set forth on Schedule 2.2 hereto. All Collateral has been located at the address shown at the beginning of this Agreement or at the locations set forth on Schedule 2.2. Debtor will give at least 30 days advance written notice to Secured Party of any change in their jurisdiction of organization or chief place of business and any change in or addition of any Collateral location. Debtor will take all such actions as Secured Party may reasonably request to permit Secured Party to establish and perfect the Subordinated Security Interest in all jurisdictions Secured Party deems necessary, including but not limited to the execution, delivery or endorsement of any and all instruments, documents, assignments, security agreements and other agreements and writings that Secured Party may at any time reasonably request in order to secure, protect, perfect or enforce the Subordinated Security Interest and Secured Party's rights under this Agreement.

2.3. Debtor has (or will have at the time Debtor acquires rights in Collateral) absolute title to each item of Collateral free and clear of all security interests, liens and encumbrances other than the security interest of TCA Global Master Fund, LP, its successors, assigns and/or any substituted lender(s) (the "TCA Security Interest"). Debtor will keep all Collateral free and clear of all security interests, liens and encumbrances except the Subordinated Security Interest, and will defend the Collateral against all claims or demands of all persons other than Secured Party. Debtor will promptly pay or properly and timely contest all taxes and other governmental charges levied or assessed upon or against any Collateral.

2.4. Until the Obligations are satisfied in full, the Debtor will not, without Secured Party's prior written consent, sell any of the Collateral or enter into any agreement that is inconsistent with Debtor's obligations or Secured Party's rights under this Agreement, except that Debtor may sell the Collateral in the ordinary course of business so long as such agreements are not inconsistent with Secured Party's rights or Debtor's obligations under this Agreement. Debtor further agrees that it will not take any action, or permit any action to be taken by others under its control, or fail to take any action that would affect the validity of the Collateral or enforcement of Secured Party's rights in the Collateral.

2.5. This Agreement has been duly and validly authorized by all necessary action by Debtor.

2.6. Debtor will keep all tangible Collateral in good repair, working order and condition, normal depreciation excepted, and will, from time to time, replace any worn, broken or defective parts thereof.

2.7. Debtor will at all reasonable times permit Secured Party or its representatives to examine or inspect any Collateral, wherever located, and to examine, inspect and copy Debtor's books and records solely pertaining to the Collateral.

2.8. Debtor will at all times keep all tangible Collateral insured against risks of fire (including so-called extended coverage), theft, and such other risks and in such amounts as Secured Party may reasonably request, with any loss payable to Secured Party to the extent of its interest and subject to the TCA Security Interest.

2.9. Debtor will be responsible for out of pocket expenses (including all reasonable attorneys' fees and costs) incurred by Secured Party in connection with the perfection, satisfaction, protection, defense or enforcement of the Security Interest or the creation, continuance, protection, defense or enforcement of this Agreement or any or all of the Obligations, including expenses incurred in any litigation or bankruptcy or insolvency proceedings.

2.10. The Obligations have been incurred and the Collateral will be used primarily for business purposes.

2.11. Debtor will promptly notify Secured Party of any material loss of or damage to any Collateral or of any adverse change in the prospect of payment of any material sums due on or under any instrument, chattel paper, account or contract right constituting Collateral.

2.12. Debtor will from time to time execute such financing statements or control agreements as Secured Party may reasonably deem necessary in order to perfect the Subordinated Security Interest and, if any Collateral is covered by a certificate of title, execute such documents as may be required to have the Subordinated Security Interest properly noted on a certificate of title. In addition, Debtor authorizes Secured Party to file such financing statement(s) as the Secured Party deems necessary, describing any liens held by Secured Party and describing the relative position with respect to the TCA Security Interest.

2.13. Debtor will not use or keep any Collateral, or permit it to be used or kept, for any unlawful purpose or in violation of any federal, state or local law, statute or ordinance.

3. Events of Default. The occurrence of any of the following shall, at the option of the Secured Party, be an Event of Default ("**Event of Default**"):

3.1. any "Event of Default" (as defined in such agreement) by Drone USA or Debtor under the Note, the Stock Purchase Agreement, or any other document evidencing the Obligations;

3.2. transfer or disposition of any of the Collateral, except as permitted by this Agreement;

3.3. Debtor's failure to comply with any other representation, warranty or covenant hereunder if not cured within ten (10) business days after written notice; or

3.4. attachment, execution or levy on any of the Collateral.

4. Remedies upon Event of Default. Upon the occurrence of an Event of Default and at any time thereafter (except in the case of an Event of Default identified in Section 3.1 of this Agreement, in which case Debtor shall have a 10 day opportunity to cure following notice to Drone USA), Secured Party may exercise any one or more of the following rights and remedies:

4.1. declare all Obligations to be immediately due and payable, which shall then be immediately due and payable, without presentment or other notice or demand; or

4.2. exercise and enforce any or all rights and remedies available upon default to a secured party under the Uniform Commercial Code, including but not limited to the right to take possession of any Collateral, proceeding without judicial process if permitted by law or by judicial process, and the right to use, sell, lease or otherwise dispose of any or all of the Collateral, and in connection therewith, Secured Party may require Debtor to make the Collateral available to Secured Party at a place to be designated by Secured Party that is reasonably convenient to the parties, and if notice to Debtor of any intended disposition of Collateral or any other intended action is required by law in a particular instance, such notice shall be deemed commercially reasonable if given (in the manner specified herein) at least fifteen (15) business days prior to the date of intended disposition or other action.

All rights and remedies of Secured Party shall be cumulative and may be exercised singularly or concurrently, at Secured Party's option, and the exercise or enforcement of any one such right or remedy shall neither be a condition to nor bar the exercise or enforcement of any other.

5. Subordination. Pursuant to Section 6 of the Note, Secured Party has agreed to subordinate its rights under the Note to the rights of the holders of Senior Debt (as defined and limited by Section 6 of the Note). Therefore, consistent with the subordination provision set forth in Section 6 of the Note, Secured Party agrees and covenants that the rights of Secured Party under this Security Agreement shall be subordinated to the rights of the holders of the Senior Debt, but only to the maximum amount stated in the Note.

6. Miscellaneous.

6.1. This Agreement can be waived, modified, amended, terminated or discharged, and the Subordinated Security Interest can be released, only explicitly in a writing signed by Secured Party. A waiver signed by Secured Party shall be effective only in the specific instance and for the specific purpose given. Mere delay or failure to act shall not preclude the exercise or enforcement of any of Secured Party's rights or remedies.

6.2. All notices to be given to Debtor shall be deemed sufficiently given if delivered or mailed by registered or certified mail, postage prepaid, to Debtor at its address set forth above or at such other address as Debtor may subsequently provide to Secured Party.

6.3. Secured Party's duty of care with respect to Collateral in its possession (as imposed by law) shall be deemed fulfilled if Secured Party exercises reasonable care in physically safekeeping such Collateral or, in the case of Collateral in the custody or possession of a bailee or other third person, exercises reasonable care in the selection of the bailee or other third person, and Secured Party need not otherwise preserve, protect, insure or care for any Collateral. Secured Party shall not be obligated to preserve any rights Debtor may have against prior parties, to realize on the Collateral at all or in any particular manner or order, or to apply any cash proceeds of Collateral in any particular order of application.

6.4. This Agreement shall be binding upon and inure to the benefit of Debtor, Secured Party and the beneficiary of the TCA Security Interest, their respective successors and assigns and shall take effect when signed by Debtor and delivered to Secured Party, and Debtor waives notice of Secured Party's acceptance hereof.

6.5. A carbon, photographic or other reproduction of this Agreement or of any financing statement signed by Debtor shall have the same force and effects as the original for all purposes of a financing statement.

6.6. This Agreement shall be governed by the internal laws of the State of Washington. If any provision or application of this Agreement is held unlawful or unenforceable in any respect, such illegality or unenforceability shall not affect other provisions or applications which can be given effect and this Agreement shall be construed as if the unlawful or unenforceable provision or application had never been contained herein or prescribed hereby.

6.7. All representations and warranties contained in this Agreement shall survive the execution, delivery and performance of this Agreement and the creation and payment of the Obligations.

ACCORDINGLY, this Agreement has been duly executed by the parties as of the date first set forth above.

DEBTOR:  
HOWCO DISTRIBUTING CO., INC.

By: [ILLEGIBLE]

SECURED PARTY:

/s/ Paul Charles Joy II  
Paul Charles Joy II, Trustee of the Paul C. Joy and Kathryn B. Joy Trust – Fund B, dated December 9, 2003, as amended

/s/ Kathryn Blake Joy  
Kathryn Blake Joy, Trustee of the Paul C. Joy and Kathryn B. Joy Trust – Fund C, dated December 9, 2003, as amended

**EXHIBIT A  
TO SECURITY AGREEMENT  
COLLATERAL**

**“Collateral”** means all now existing and hereafter arising right, title, and interest of Debtor in, under, and to all of its assets, including, without limitation:

- (a) All now owned or hereafter acquired accounts, accounts receivable, goods, inventory, supplies, equipment, leasehold improvements, furniture, fixtures, general intangibles, phone numbers, website addresses, customer lists, goodwill, money, instruments, chattel paper, deposit accounts, documents, agreements, contracts, contract rights, investment property, letter-of-credit rights, supporting obligations, and work in process;
- (b) The name, “Howco Distributing Co.,”
- (c) All utility deposits, telephone deposits, and other security deposits;
- (d) All assets, whether now owned or existing, whether subsequently acquired or arising, or in which Debtor now has or subsequently acquires any rights;
- (e) All now owned or hereafter acquired intangible property of any nature whatsoever;
- (f) All of Debtor’s books and records relating to the assets; and
- (g) All products, proceeds, rents and profits of the foregoing.

**EXHIBIT B**  
**Buyer Stock Agreements**

See attached.

EXHIBIT B – 1

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**EXHIBIT C**  
**Paul C. Joy Employment Agreement**

See attached.

EXHIBIT C – 1

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**EMPLOYMENT, CONFIDENTIALITY, NON-COMPETE  
AND INTELLECTUAL PROPERTY AGREEMENT  
FOR  
PAUL CHARLES JOY**

THIS EMPLOYMENT, CONFIDENTIALITY, NON-COMPETE AND INTELLECTUAL PROPERTY AGREEMENT (this “Agreement”) is entered into effective as of the 9<sup>th</sup> day of September, 2016 by and between Drone USA, Inc., a Delaware corporation, its subsidiaries, affiliates, successors or assigns (hereinafter “**Drone USA**”), and Paul Charles Joy (hereinafter “**Employee**”). In consideration of Employee’s employment with Drone USA and Employee’s receipt of the compensation now and hereafter paid to Employee by Drone USA, the parties hereby agree as follows:

**1. Employment.** Drone USA hereby agrees to employ Employee and Employee hereby agrees to work for Drone USA and to advance the interests of the Drone USA and its affiliate Howco Distributing Co., a Washington corporation (“**Howco**”) upon the terms and conditions set forth herein.

**2. Initial Term – Subsequent At-Will Employment.** The parties acknowledge and agree that Employee’s employment with Drone USA is for an initial period of two (2) years (the “**Initial Term**”); provided, however, Drone USA and Employee may Terminate Employee’s employment with Drone USA during the Initial Term as forth in Section 6. Upon expiration of the Initial Term, Employee’s employment with Drone USA, shall be for an unspecified duration and shall constitute “at-will” employment.

**3. Scope of Duties; Representations and Warranties.**

a. This Agreement is entered into in connection with that certain Stock Purchase Agreement of even date involving the sale of 100% of the common stock of Howco Distributing, Co. to Drone USA, LLC (the “**Stock Purchase Agreement**”). Employee will have such duties as are assigned or delegated to Employee by Drone USA’s Board of Directors, and will initially serve as the Howco CEO of Drone USA and use Employee’s best efforts to assist with the transition of the ownership and the operations of Howco. Employee shall devote his/her entire business time, attention, skills, and energy exclusively to the business of Howco and Drone USA and will use his/her best efforts to promote the continued success, profitability and growth of Howco as well as Drone USA and will cooperate fully with their respective Boards of Directors and management in the advancement of their best interests.

b. Employee represents and warrants that by execution and delivery of this Agreement, Employee does not, and the performance of obligations hereunder will not, with or without the giving of notice or the passage of time, or both: (i) violate any judgment, writ, injunction, or order of any court, arbitrator, or governmental agency applicable to Employee, (ii) conflict with, result in the breach of any provisions of or the termination of, or constitute a default under, any agreement to which Employee is a party or by which Employee is or may be bound.

c. Employee agrees that from time to time Drone USA may engage and use professional employment organizations (“**PEO**’(s)”) to address its human resources, payroll, insurance and other employment related needs. Many PEO’s use the term “co-employment,” to describe the relationship between an employee on the one hand and the PEO and the PEO’s client on the other hand; in that event Employee may be deemed to be an employee of the Drone USA and the PEO. In the event that Drone USA elects to use a PEO or change from one PEO to another, Employee’s employment with Drone USA will remain unchanged with respect to Employee’s obligations to Drone USA and Howco under this Agreement; and, in the event of any inconsistency or contradictory provision contained in any PEO agreement to which Drone USA or Employee is a party, the terms of this Agreement shall control and supersede the terms of any such other agreement.

#### **4. Compensation.**

a. Drone USA shall initially pay Employee base compensation of One Hundred Twenty Five Thousand Dollars (\$125,000) per year, subject to adjustment as provided below, which will be payable in equal periodic installments according to Drone USA’s customary payroll practices, but no less frequently than twice per month, subject to adjustment as provided below. Following the Initial Term, Employee base compensation will be reviewed by the management of Drone USA no less frequently than annually, and may be adjusted upward or downward in the sole discretion of the management of Drone USA.

b. All payments of salary and other compensation paid to Employee shall be made after deduction of any taxes and other amounts which are required to be withheld with respect thereto under applicable federal and state laws.

#### **5. Fringe Benefits; Expenses.**

a. So long as Employee is employed by Drone USA, Employee shall be eligible to participate in all employee benefit plans sponsored by Drone USA for its employees in accordance with Drone USA’s policies, including but not limited to sick leave and disability leave, life insurance, health insurance, dental insurance, and stock ownership and/or profit sharing plans; provided, however, that the nature, amount and limitations of such plans shall be determined from time to time by the Board of Directors of Drone USA. Employee agrees that by being eligible to participate in benefits such as health insurance, dental insurance and life insurance, participation will be subject to employee contributions which may change from time to time. Notwithstanding the forgoing, during the Initial Term of Employee’s employment, the benefits to which Employee is entitled shall be substantially the same as those that Employee received while employed by Howco during the two (2) year period immediately prior to the effective date of this Agreement, and in the event that the benefit program in effect for Drone USA employees is less favorable than the benefits provided by Howco to Employee, an adjustment shall be made to Employee’s base compensation to compensate for any deficiency in such benefits.

b. Drone USA shall reimburse Employee for all approved reasonable business expenses incurred by Employee in the scope of employment; provided, however, that such expenses must be pre-approved and Employee must file expense reports with respect to such expenses in accordance with Drone USA’s policies as are in effect from time to time.

c. Employee shall be entitled to paid vacation consistent with the paid vacation received by Employee while employed by Howco during the two (2) year period immediately prior to the effective date of this Agreement. Employee shall also be entitled to the paid holidays and other paid leave set forth in Drone USA's policies.

## **6. Termination.**

a. Termination During the Initial Term. Drone USA and Employee agree that during the Initial Term Employee's employment may only be terminated as hereinafter set forth;

i. Termination by Drone USA for Cause. During the Initial Term, Drone USA may terminate Employee's employment for Cause, which termination shall be effective upon delivery of written notice by Drone USA to Employee.

1. Definition of "Cause". When used in connection with the termination of Employee's employment with Drone USA, "**Cause**" shall mean: (a) the willful and material breach of Employee's obligations under this Agreement, which willful and material breach continues to occur after reasonable notice and opportunity to cure; (b) Employee's willful failure to adhere to any written Drone USA policy after Employee has been given a reasonable opportunity to comply with such policy or cure any failure to comply; (c) the conviction of or the entering of a guilty plea or plea of no contest with respect to, a felony, the equivalent thereof, or any other crime which results in Employee's imprisonment; (d) the commission by Employee of an act of fraud upon Drone USA or Howco or any of their affiliates; (e) the misappropriation (or attempted misappropriation) of any funds or property of Drone USA, Howco or any of their affiliates by Employee; (f) Employee's willful failure to perform duties assigned to Employee after reasonable notice and opportunity to cure such performance; (g) Employee's continued engagement, after reasonable notice and opportunity to cure, in any direct, material conflict of interest with Drone USA or Howco without compliance with the Drone USA's conflict of interest policies, if any, then in effect; or (h) Employee's continued engagement, after reasonable notice and opportunity to cure, and without the written approval of the Board of Directors of the Drone USA, in any activity which competes with the business of Drone USA, Howco or any of their affiliates or which would result in a material injury to Drone USA, Howco or any of their affiliates.

2. Compensation and Benefits. If Drone USA terminates Employee's employment for Cause during the Initial Term, Drone USA shall pay any salary or wages earned through the date of termination, but all rights to any other compensation or benefits arising hereunder shall be canceled and terminated in all respects concurrently with such termination of employment; provided that Employee may elect to continue to participate, at Employee's own expense, in such health insurance and other benefits as to which the opportunity for continuing participation is mandated by applicable law.

ii. Disability; Death. If at any time during the Initial Term, Employee is unable due to physical or mental disability to perform effectively Employee's duties hereunder, Drone USA shall continue payment of compensation as provided in Section 6 during the three (3) months of such disability to the extent not covered by any disability insurance policies. Upon the expiration of such three (3) month period, Drone USA, at its sole option, may continue payment of salary or wages for such additional periods as it elects, or may terminate this Agreement without further obligations hereunder. If Employee should die during the term of Employee's employment, Drone USA's obligations hereunder shall terminate as of the day that death occurs and there will be no salary, wages and benefit continuation period.

iii. Termination by Employee.

1. During the first six months of the Initial Term, Employee may not voluntarily terminate Employee's employment with Drone USA.

2. During the period beginning on the first day of the seventh month of the Initial Term and ending on the last day of the twelve month of the Initial Term, Employee may Terminate Employee's employment with Drone USA effective upon thirty (30) days written notice to Employer, provided Drone USA or Howco has in place the personnel to perform the financial, operations, and customer and supplier relations management, human resources duties, and pricing functions provided by Employee to Howco immediately prior to the effective date of this Agreement.

3. After the first twelve months of the Initial Term, Employee may terminate employment with Drone USA for any reason on the thirty (30) days' notice to Drone USA.

b. Termination After Initial Term. Following expiration of the Initial Term, either Drone USA or Employee may terminate Employee's employment at any time, and such termination shall be effective upon delivery of written notice by either party to the other party.

i. Termination by Drone USA. In the event that Employee's employment is terminated by Drone USA without Cause at any time following the expiration of the Initial Term,, Drone USA shall pay to Employee an amount equal to two (2) weeks compensation at Employee's then current salary or wages payable in a lump sum, and shall continue to provide benefits in the kind and amounts provided up to the date of termination for such two (2) week period, including continuation of any Drone USA-paid benefits as described in Section 5 for Employee and family.

ii. Waiver and Release. In the event that Employee's employment is terminated by Drone USA without Cause following the expiration of the Initial Term, Employee agrees to accept, in full settlement of any and all claims, losses, damages and other demands which Employee may have arising out of such termination, as liquidated damages and not as a penalty, the applicable amounts payable to Employee as set forth in Section 6.b.i. Employee hereby waives any and all rights Employee may have to bring any cause of action or proceeding contesting any termination without Cause which occurs after the expiration of the Initial Term. In the event Employee's termination is for Cause – either during the Initial Term or at any time thereafter – Employee agrees that under no circumstances shall Employee be entitled to any compensation or confirmation of any benefits under this Agreement for any period of time following the date of such termination for Cause.

## 7. Confidential Information.

a. Drone USA and Howco Confidential Information. Employee agrees at all times during the term of employment and thereafter, to hold in strictest confidence, and not to use, except for the benefit of Drone USA and Howco, or to disclose to any person, firm or corporation without written authorization of the Board of Directors of the Drone USA, any Confidential Information of the Drone USA or Howco. Employee understands that “**Confidential Information**” means any Drone USA or Howco proprietary information, technical data, or trade secrets, including, but not limited to, research and development, product plans, products, services, information regarding the skills and compensation of employees of Drone USA or Howco; the identity of the Drone USA’s and Howco’s clients, potential clients, customers and potential customers, but excluding the United States Government or any agency thereof, or any branch of the United States military (hereinafter referred to collectively as “**Customers**”), the particular preferences, likes, dislikes and needs of those Customers; Customer information regarding contact persons, pricing, sales calls, timing, sales terms, and service plans; methods, practices, strategies, forecasts, and other marketing techniques; the identities of key accounts and potential key accounts (but excluding the United States Government or any agency thereof, or any branch of the United States military); the identities of Drone USA’s and Howco’s suppliers, independent contractors and consultants, and information regarding contact persons, pricing, sales calls, timing, sales terms, and service plans; methods, practices, strategies, forecasts, and other techniques of the forgoing; markets, software, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, finances or other business information, strategy and cost data; disclosed to Employee by Drone USA either directly or indirectly in writing, orally or by drawings or observation of parts or equipment or known by Employee with respect to Howco. Employee further understands that Confidential Information does not include any of the foregoing items which have become publicly known and made generally available through no direct or indirect wrongful act of Employee or others who were under confidentiality obligations as to the item or items involved. Further Confidential Information does not include information that is required to be disclosed by order of a governmental agency or by a court of competent jurisdiction. Further, Employee acknowledges that any and all of the forgoing information with respect to Howco is expressly covered by the terms of this Section 7 and that no such information has been generally available or made publicly known and with the sale of Howco to Drone USA, such Confidential Information remains confidential. For avoidance of doubt, the parties acknowledge that general know-how concerning how to do business with the United States Government or any agency thereof or any branch of the United States Military is not Confidential Information.

b. Material Non-Public Information. Employee acknowledges that Drone USA is publicly traded and that U.S. Securities laws prohibit any person who is in possession of material non-public information about a public company from purchasing or selling that company’s securities or from providing such information to third parties. Some of the information that Employee will have as an employee will be material non-public information and is subject to trading restrictions. Employee will not disclose any such information to third parties or others without the express approval of Drone USA’s Board of Directors and will not engage in any purchase or sales of Drone USA’s securities except in compliance with its approved trading policies in effect, from time to time.

c. Third Party Information. Employee recognizes that Drone USA and Howco have received and in the future will receive, from third parties, their confidential or proprietary information subject to a duty on Drone USA's and Howco's parts to maintain the confidentiality of such information and to use it only for certain limited purposes. Employee agrees to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or corporation or to use it except as necessary in carrying out Employee's work for Drone USA consistent with the their agreement(s) with such third parties.

d. Continuing Obligations. The obligations of this Section 7 shall survive the expiration or termination of this Agreement.

## **8. Inventions.**

a. Inventions Retained and Licensed. Employee has attached hereto, as Exhibit A, a list describing all inventions, original works of authorship, developments, and improvements which were made by Employee prior to employment with Drone USA (collectively referred to as "**Prior Inventions**"), which belong to Employee, relate to Howco products or research and development, and which are not assigned to Drone USA hereunder; or, if no such list is attached, Employee represents that there are no such Prior Inventions. If in the course of employment with Drone USA, Employee incorporates into a Drone USA product, process or technology a Prior Invention owned by Employee or in which Employee has an interest, Drone USA is hereby granted and shall have an exclusive, royalty-free, irrevocable, perpetual, worldwide license to make, have made, modify, use and sell such Prior Invention as part of or in connection with such product, process or machine.

b. Assignment of Inventions and other Intellectual Property. Employee agrees that Employee will promptly make full written disclosure to Drone USA, will hold in trust for the sole right and benefit of Drone USA, and hereby assign to Drone USA, or its designee, all of Employee's right, title, and interest in and to any and all inventions, original works of authorship, developments, concepts, improvements or trade secrets, whether or not patentable or registrable under copyright, patent or similar laws, which Employee may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice which relate in any way to any Drone USA Products, as defined herein, together with the zone of foreseeable expansion, during the period of time Employee is in the employ of Drone USA (collectively referred to as "**Inventions**"). Employee further acknowledges that all original works of authorship which are made by Employee (solely or jointly with others) within the scope of and during the period of employment with Drone USA and which are protectable by copyright are "works made for hire," as that term is defined in the United States Copyright Act.

c. Maintenance of Records. Employee agrees to keep and maintain adequate and current written records of all Inventions made by Employee (solely or jointly with others) during the term of employment with Drone USA. The records will be in the form of notes, sketches, drawings, and any other format that may be specified by Drone USA. The records will be available to and remain the sole property of Drone USA at all times.

d. Patent and Copyright Registrations. Employee agrees to assist Drone USA, or its designee, at the Drone USA's expense, in every proper way to secure Drone USA's rights in the Inventions and any copyrights, patents, mask work rights or other intellectual property rights relating thereto in any and all countries, including the disclosure of Drone USA of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments and all other instruments which Drone USA shall deem necessary in order to apply for and obtain such rights and in order to assign and convey to Drone USA, its successors, assigns, and nominees the sole and exclusive rights, title and interest in and to such Inventions, and any copyrights, patents, mask work rights or other intellectual property rights relating thereto. Employee further agrees that Employee's obligation to execute or cause to be executed, when it is in Employee's power to do so, any such instrument or papers shall continue after the termination of this Agreement. If Drone USA is unable because of Employee's mental or physical incapacity or for any other reason to secure Employee's signature to apply for or to pursue any application of any United States or foreign patents or copyright registrations covering Inventions or original works of authorship assigned to Drone USA as above, then Employee hereby irrevocably designates and appoints Drone USA and its duly authorized officers and agents as Employee's agent and attorney in fact, to act for and in Employee's behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of letters patent or copyright registrations thereon with the same legal force and effect as if executed by Employee.

## 9. **Covenant Not to Compete, Non-Solicitation.**

a. Non Competition and Non Solicitation. Employee agrees that beginning with the effective date of this Agreement and continuing for a period of five (5) years after the longer of (x) the termination of Employee's employment or (y) the first anniversary of the date hereof, Employee will not alone, or in any capacity with another entity or individual, within any geographic location in which Howco or Drone USA, at the date of the termination of Employee's employment, has engaged or has plans to engage in any business:

i. directly or indirectly participate or support in any capacity (e.g. as an advisor, principal agent, partner, member, governor, officer, director, manager, shareholder, owner, employee or otherwise) the sale, solicitation of sale, or marketing, of a Drone USA Product. "**Drone USA Product**" means any actual or projected product or product line that has been developed (or is under active development), marketed or sold by Drone USA or Howco continuing through the termination of Employee's employment. Such Drone USA Products shall specifically include, but not be limited to, those products sold to customers of Howco or any products that were being considered for sale or distribution prior to the effective date of the aforementioned Stock Purchase Agreement.

ii. call upon, solicit, contact or serve any of the then-existing vendors or suppliers that have had a relationship with Drone USA or Howco during the preceding twenty four (24) months, or any potential, vendors or suppliers that were solicited by Drone USA or Howco during the preceding twenty four (24) months in connection a Drone USA Product;

iii. disrupt, damage or impair (or attempt to do the same) with the business of Drone USA or Howco whether by way of interfering with or disrupting Drone USA's or Howco's relationship with their employees, customers, agents, representatives or vendors, or

iv. employ or attempt to employ (by assisting anyone else in the solicitation of) any of Drone USA's or Howco's current employees on behalf of any other entity or person, whether or not such entity or person competes with Drone USA, Howco or any Drone USA Product.

b. Employee agrees that the limitations set forth herein on Employee's rights to compete with Drone USA, Howco and their affiliates are reasonable and necessary for the protection of Drone USA, Howco and their affiliates. In this regard, Employee specifically agrees that the limitations as to period of time and geographic area, as well as all other restrictions on activities specified herein, are reasonable and necessary for the protection of Drone USA, Howco and their affiliates. The substantial sums invested by Drone USA in Howco's business also make these restrictions necessary in order to protect Drone USA's investment. Employee agrees that, in the event that the provisions of this Agreement should ever be deemed to exceed the scope of business, time or geographic limitations permitted by applicable law, such provisions shall be and are hereby reformed to the maximum scope of business, time or geographic limitations permitted by applicable law.

c. Employee agrees that the remedy at law for any breach of this Section 9 will be inadequate and that Drone USA and/or Howco shall also be entitled to injunctive relief without the necessity of posting any bond or other security, due to irreparable harm that such breach would cause.

d. Notwithstanding any other provision in this Agreement to the contrary, Employer agrees (i) nothing contained in this Agreement shall limit Employee from doing business with the United States Federal Government so long as it does not involve the direct or indirect participation or support of the sale, solicitation of sale, or marketing of a Drone USA Product; and (ii) in the event of a default by Employer under this Agreement or a default by Drone USA, LLC or Howco under the Stock Purchase Agreement or any related agreement, the restrictions set forth in Section 9 shall automatically terminate, and thereafter, Employee may disregard such non-competition and non-solicitation provisions and do business in any manner whatsoever.

**10. Returning Documents.** Employee agrees that, at the time of leaving the employ of Drone USA, Employee will deliver to Drone USA (and will not keep in possession, recreate or deliver to anyone else) any and all devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, materials, equipment, other documents or property, or reproductions of any aforementioned items developed by me pursuant to my employment with Drone USA or Howco or otherwise belonging to Drone USA or Howco, their parent, successors or assigns.

**11. Notification of New Employer.** In the event that Employee leaves the employ of Drone USA, Employee hereby grants consent to notification by Drone USA to any new employer about Employee's rights and obligations under this Agreement.

**12. Representations.** Employee agrees to execute any proper oath or verify any proper document required to carry out the terms of this Agreement. Employee represents that performance of all the terms of this Agreement will not breach any agreement to keep in confidence proprietary information acquired by Employee in confidence or in trust prior to employment by Drone USA. Employee has not entered into, and agrees not to enter into, any oral or written agreement in conflict herewith.

### 13. General Provisions.

a. Governing Law; and Venue. This Agreement shall be construed and interpreted in accordance with the laws of the State of Washington without reference to principles of conflicts of laws. The parties agree that all actions or proceedings arising in connection with this Agreement shall be tried and litigated only in the State or Federal Courts located in the State of Washington. Each of the parties hereto waives to the extent permitted under applicable law, any right each may have to assert the doctrine of forum non-conveniens or to object to venue to the extent any proceeding is brought in accordance with this section relating to this Agreement.

b. Entire Agreement. This Agreement sets forth the entire agreement and understanding between Drone USA and Employee relating to the subject matter herein and merges all prior discussions between Drone USA and Employee. No modification of or amendment to this Agreement, nor any waiver of any rights under this agreement, will be effective unless in writing signed by the party to be charged. Any subsequent change or changes in duties, salary or compensation will not affect the validity or scope of this Agreement.

c. Severability. If one more of the provisions in this Agreement are deemed void by law, then the remaining provisions will continue in full force and effect. This Agreement is made and executed pursuant to the provisions of the Stock Purchase Agreement. However, no default by Employee hereunder shall be deemed to constitute a default under the Stock Purchase Agreement, it being agreed by the parties that each Agreement shall be separately applied, construed and enforced and that a default under one shall not constitute a default under the other.

d. Successors and Assigns. This Agreement will be binding upon Employee's heirs, executors, administrators and other legal representatives and will be for the benefit of Drone USA, Howco, their successors, and assigns.

e. Waiver and Amendments; Cumulative Rights and Remedies.

i. This Agreement may be amended, modified or supplemented, and any obligation hereunder may be waived, only by a written instrument executed by the parties hereto. The waiver by either party of a breach of any provision of this Agreement shall not operate as a waiver of any subsequent breach.

ii. No failure on the part of any party to exercise, and no delay in exercising, any right or remedy hereunder shall operate as a waiver hereof, nor shall any single or partial exercise of any such right or remedy by such party preclude any other or further exercise thereof or the exercise of any other right or remedy. All rights and remedies hereunder are cumulative and are in addition to all other rights and remedies provided by law, agreement or otherwise.

iii. Employee's obligations to Drone USA and Drone USA's rights and remedies hereunder are in addition to all other obligations of Employee and rights and remedies of Drone USA created pursuant to any other agreement.

f. Construction. Each party to this Agreement has had the opportunity to review this Agreement with legal counsel. This Agreement shall not be construed or interpreted against any party on the basis that such party drafted or authored a particular provision, parts of or the entirety of this Agreement.

EMPLOYEE

/s/ Paul Charles Joy

Paul Charles Joy

DRONE USA, INC.

/s/ Michael Bannon

Michael Bannon, CEO

**EXHIBIT A**

**LIST OF PRIOR INVENTIONS  
AND ORIGINAL WORKS OF AUTHORSHIP**

Title	Number	Date	Identifying or Brief Description
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  X   No inventions or improvements

       Additional Sheets Attached

/s/ Paul C Joy II  
Signature of Employee

Paul C Joy II  
Print Name of Employee

**EXHIBIT D**  
**Kathy Joy Employment Agreement**

See attached.

EXHIBIT D-1

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**EMPLOYMENT, CONFIDENTIALITY, NON-COMPETE  
AND INTELLECTUAL PROPERTY AGREEMENT  
FOR  
KATHRYN BLAKE JOY**

THIS EMPLOYMENT, CONFIDENTIALITY, NON-COMPETE AND INTELLECTUAL PROPERTY AGREEMENT (this “Agreement”) is entered into effective as of the 9<sup>th</sup> day of September, 2016 by and between Drone USA, Inc., a Delaware corporation, its subsidiaries, affiliates, successors or assigns (hereinafter “**Drone USA**”), and Kathryn Blake Joy (hereinafter “**Employee**”). In consideration of Employee’s employment with Drone USA and Employee’s receipt of the compensation now and hereafter paid to Employee by Drone USA, the parties hereby agree as follows:

**1. Employment.** Drone USA hereby agrees to employ Employee and Employee hereby agrees to work for Drone USA and to advance the interests of the Drone USA and its affiliate Howco Distributing Co., a Washington corporation (“**Howco**”) upon the terms and conditions set forth herein.

**2. Initial Term – Subsequent At-Will Employment.** The parties acknowledge and agree that Employee’s employment with Drone USA is for an initial period of two (2) years (the “**Initial Term**”); provided, however, Drone USA and Employee may Terminate Employee’s employment with Drone USA during the Initial Term as forth in Section 6. Upon expiration of the Initial Term, Employee’s employment with Drone USA, shall be for an unspecified duration and shall constitute “at-will” employment.

**3. Scope of Duties; Representations and Warranties.**

a. This Agreement is entered into in connection with that certain Stock Purchase Agreement of even date involving the sale of 100% of the common stock of Howco Distributing, Co. to Drone USA, LLC (the “**Stock Purchase Agreement**”). Employee will have such duties as are assigned or delegated to Employee by Drone USA’s Board of Directors, and will initially serve as the Howco COO of Drone USA and use Employee’s best efforts to assist with the transition of the ownership and the operations of Howco. Employee shall devote his/her entire business time, attention, skills, and energy exclusively to the business of Howco and Drone USA and will use his/her best efforts to promote the continued success, profitability and growth of Howco as well as Drone USA and will cooperate fully with their respective Boards of Directors and management in the advancement of their best interests.

b. Employee represents and warrants that by execution and delivery of this Agreement, Employee does not, and the performance of obligations hereunder will not, with or without the giving of notice or the passage of time, or both: (i) violate any judgment, writ, injunction, or order of any court, arbitrator, or governmental agency applicable to Employee, (ii) conflict with, result in the breach of any provisions of or the termination of, or constitute a default under, any agreement to which Employee is a party or by which Employee is or may be bound.

c. Employee agrees that from time to time Drone USA may engage and use professional employment organizations (“**PEO’(s)’**”) to address its human resources, payroll, insurance and other employment related needs. Many PEO’s use the term “co-employment,” to describe the relationship between an employee on the one hand and the PEO and the PEO’s client on the other hand; in that event Employee may be deemed to be an employee of the Drone USA and the PEO. In the event that Drone USA elects to use a PEO or change from one PEO to another, Employee’s employment with Drone USA will remain unchanged with respect to Employee’s obligations to Drone USA and Howco under this Agreement; and, in the event of any inconsistency or contradictory provision contained in any PEO agreement to which Drone USA or Employee is a party, the terms of this Agreement shall control and supersede the terms of any such other agreement.

#### **4. Compensation.**

a. Drone USA shall initially pay Employee base compensation of One Hundred Twenty Five Thousand Dollars (\$125,000) per year, subject to adjustment as provided below, which will be payable in equal periodic installments according to Drone USA’s customary payroll practices, but no less frequently than twice per month, subject to adjustment as provided below. Following the Initial Term, Employee base compensation will be reviewed by the management of Drone USA no less frequently than annually, and may be adjusted upward or downward in the sole discretion of the management of Drone USA.

b. All payments of salary and other compensation paid to Employee shall be made after deduction of any taxes and other amounts which are required to be withheld with respect thereto under applicable federal and state laws.

#### **5. Fringe Benefits; Expenses.**

a. So long as Employee is employed by Drone USA, Employee shall be eligible to participate in all employee benefit plans sponsored by Drone USA for its employees in accordance with Drone USA’s policies, including but not limited to sick leave and disability leave, life insurance, health insurance, dental insurance, and stock ownership and/or profit sharing plans; provided, however, that the nature, amount and limitations of such plans shall be determined from time to time by the Board of Directors of Drone USA. Employee agrees that by being eligible to participate in benefits such as health insurance, dental insurance and life insurance, participation will be subject to employee contributions which may change from time to time. Notwithstanding the forgoing, during the Initial Term of Employee’s employment, the benefits to which Employee is entitled shall be substantially the same as those that Employee received while employed by Howco during the two (2) year period immediately prior to the effective date of this Agreement, and in the event that the benefit program in effect for Drone USA employees is less favorable than the benefits provided by Howco to Employee, an adjustment shall be made to Employee’s base compensation to compensate for any deficiency in such benefits.

b. Drone USA shall reimburse Employee for all approved reasonable business expenses incurred by Employee in the scope of employment; provided, however, that such expenses must be pre-approved and Employee must file expense reports with respect to such expenses in accordance with Drone USA's policies as are in effect from time to time.

c. Employee shall be entitled to paid vacation consistent with the paid vacation received by Employee while employed by Howco during the two (2) year period immediately prior to the effective date of this Agreement. Employee shall also be entitled to the paid holidays and other paid leave set forth in Drone USA's policies.

## **6. Termination.**

a. Termination During the Initial Term. Drone USA and Employee agree that during the Initial Term Employee's employment may only be terminated as hereinafter set forth;

i. Termination by Drone USA for Cause. During the Initial Term, Drone USA may terminate Employee's employment for Cause, which termination shall be effective upon delivery of written notice by Drone USA to Employee.

1. Definition of "Cause". When used in connection with the termination of Employee's employment with Drone USA, "**Cause**" shall mean: (a) the willful and material breach of Employee's obligations under this Agreement, which willful and material breach continues to occur after reasonable notice and opportunity to cure; (b) Employee's willful failure to adhere to any written Drone USA policy after Employee has been given a reasonable opportunity to comply with such policy or cure any failure to comply; (c) the conviction of or the entering of a guilty plea or plea of no contest with respect to, a felony, the equivalent thereof, or any other crime which results in Employee's imprisonment; (d) the commission by Employee of an act of fraud upon Drone USA or Howco or any of their affiliates; (e) the misappropriation (or attempted misappropriation) of any funds or property of Drone USA, Howco or any of their affiliates by Employee; (f) Employee's willful failure to perform duties assigned to Employee after reasonable notice and opportunity to cure such performance; (g) Employee's continued engagement, after reasonable notice and opportunity to cure, in any direct, material conflict of interest with Drone USA or Howco without compliance with the Drone USA's conflict of interest policies, if any, then in effect; or (h) Employee's continued engagement, after reasonable notice and opportunity to cure, and without the written approval of the Board of Directors of the Drone USA, in any activity which competes with the business of Drone USA, Howco or any of their affiliates or which would result in a material injury to Drone USA, Howco or any of their affiliates.

2. Compensation and Benefits. If Drone USA terminates Employee's employment for Cause during the Initial Term, Drone USA shall pay any salary or wages earned through the date of termination, but all rights to any other compensation or benefits arising hereunder shall be canceled and terminated in all respects concurrently with such termination of employment; provided that Employee may elect to continue to participate, at Employee's own expense, in such health insurance and other benefits as to which the opportunity for continuing participation is mandated by applicable law.

ii. Disability; Death. If at any time during the Initial Term, Employee is unable due to physical or mental disability to perform effectively Employee's duties hereunder, Drone USA shall continue payment of compensation as provided in Section 6 during the three (3) months of such disability to the extent not covered by any disability insurance policies. Upon the expiration of such three (3) month period, Drone USA, at its sole option, may continue payment of salary or wages for such additional periods as it elects, or may terminate this Agreement without further obligations hereunder. If Employee should die during the term of Employee's employment, Drone USA's obligations hereunder shall terminate as of the day that death occurs and there will be no salary, wages and benefit continuation period.

iii. Termination by Employee.

1. During the first six months of the Initial Term, Employee may not voluntarily terminate Employee's employment with Drone USA.

2. During the period beginning on the first day of the seventh month of the Initial Term and ending on the last day of the twelve month of the Initial Term, Employee may Terminate Employee's employment with Drone USA effective upon thirty (30) days written notice to Employer, provided Drone USA or Howco has in place the personnel to perform the financial, operations, and customer and supplier relations management, human resources duties, and pricing functions provided by Employee to Howco immediately prior to the effective date of this Agreement.

3. After the first twelve months of the Initial Term, Employee may terminate employment with Drone USA for any reason on the thirty (30) days' notice to Drone USA.

b. Termination After Initial Term. Following expiration of the Initial Term, either Drone USA or Employee may terminate Employee's employment at any time, and such termination shall be effective upon delivery of written notice by either party to the other party.

i. Termination by Drone USA. In the event that Employee's employment is terminated by Drone USA without Cause at any time following the expiration of the Initial Term,, Drone USA shall pay to Employee an amount equal to two (2) weeks compensation at Employee's then current salary or wages payable in a lump sum, and shall continue to provide benefits in the kind and amounts provided up to the date of termination for such two (2) week period, including continuation of any Drone USA-paid benefits as described in Section 5 for Employee and family.

ii. Waiver and Release. In the event that Employee's employment is terminated by Drone USA without Cause following the expiration of the Initial Term, Employee agrees to accept, in full settlement of any and all claims, losses, damages and other demands which Employee may have arising out of such termination, as liquidated damages and not as a penalty, the applicable amounts payable to Employee as set forth in Section 6.b.i. Employee hereby waives any and all rights Employee may have to bring any cause of action or proceeding contesting any termination without Cause which occurs after the expiration of the Initial Term. In the event Employee's termination is for Cause – either during the Initial Term or at any time thereafter – Employee agrees that under no circumstances shall Employee be entitled to any compensation or confirmation of any benefits under this Agreement for any period of time following the date of such termination for Cause.

## 7. Confidential Information.

a. Drone USA and Howco Confidential Information. Employee agrees at all times during the term of employment and thereafter, to hold in strictest confidence, and not to use, except for the benefit of Drone USA and Howco, or to disclose to any person, firm or corporation without written authorization of the Board of Directors of the Drone USA, any Confidential Information of the Drone USA or Howco. Employee understands that “**Confidential Information**” means any Drone USA or Howco proprietary information, technical data, or trade secrets, including, but not limited to, research and development, product plans, products, services, information regarding the skills and compensation of employees of Drone USA or Howco; the identity of the Drone USA’s and Howco’s clients, potential clients, customers and potential customers, but excluding the United States Government or any agency thereof, or any branch of the United States military (hereinafter referred to collectively as “**Customers**”), the particular preferences, likes, dislikes and needs of those Customers; Customer information regarding contact persons, pricing, sales calls, timing, sales terms, and service plans; methods, practices, strategies, forecasts, and other marketing techniques; the identities of key accounts and potential key accounts (but excluding the United States Government or any agency thereof, or any branch of the United States military); the identities of Drone USA’s and Howco’s suppliers, independent contractors and consultants, and information regarding contact persons, pricing, sales calls, timing, sales terms, and service plans; methods, practices, strategies, forecasts, and other techniques of the forgoing; markets, software, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, finances or other business information, strategy and cost data; disclosed to Employee by Drone USA either directly or indirectly in writing, orally or by drawings or observation of parts or equipment or known by Employee with respect to Howco. Employee further understands that Confidential Information does not include any of the foregoing items which have become publicly known and made generally available through no direct or indirect wrongful act of Employee or others who were under confidentiality obligations as to the item or items involved. Further Confidential Information does not include information that is required to be disclosed by order of a governmental agency or by a court of competent jurisdiction. Further, Employee acknowledges that any and all of the forgoing information with respect to Howco is expressly covered by the terms of this Section 7 and that no such information has been generally available or made publicly known and with the sale of Howco to Drone USA, such Confidential Information remains confidential. For avoidance of doubt, the parties acknowledge that general know-how concerning how to do business with the United States Government or any agency thereof or any branch of the United States Military is not Confidential Information.

b. Material Non-Public Information. Employee acknowledges that Drone USA is publicly traded and that U.S. Securities laws prohibit any person who is in possession of material non-public information about a public company from purchasing or selling that company’s securities or from providing such information to third parties. Some of the information that Employee will have as an employee will be material non-public information and is subject to trading restrictions. Employee will not disclose any such information to third parties or others without the express approval of Drone USA’s Board of Directors and will not engage in any purchase or sales of Drone USA’s securities except in compliance with its approved trading policies in effect, from time to time.

c. Third Party Information. Employee recognizes that Drone USA and Howco have received and in the future will receive, from third parties, their confidential or proprietary information subject to a duty on Drone USA's and Howco's parts to maintain the confidentiality of such information and to use it only for certain limited purposes. Employee agrees to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or corporation or to use it except as necessary in carrying out Employee's work for Drone USA consistent with the their agreement(s) with such third parties.

d. Continuing Obligations. The obligations of this Section 7 shall survive the expiration or termination of this Agreement.

## **8. Inventions.**

a. Inventions Retained and Licensed. Employee has attached hereto, as Exhibit A, a list describing all inventions, original works of authorship, developments, and improvements which were made by Employee prior to employment with Drone USA (collectively referred to as "**Prior Inventions**"), which belong to Employee, relate to Howco products or research and development, and which are not assigned to Drone USA hereunder; or, if no such list is attached, Employee represents that there are no such Prior Inventions. If in the course of employment with Drone USA, Employee incorporates into a Drone USA product, process or technology a Prior Invention owned by Employee or in which Employee has an interest, Drone USA is hereby granted and shall have an exclusive, royalty-free, irrevocable, perpetual, worldwide license to make, have made, modify, use and sell such Prior Invention as part of or in connection with such product, process or machine.

b. Assignment of Inventions and other Intellectual Property. Employee agrees that Employee will promptly make full written disclosure to Drone USA, will hold in trust for the sole right and benefit of Drone USA, and hereby assign to Drone USA, or its designee, all of Employee's right, title, and interest in and to any and all inventions, original works of authorship, developments, concepts, improvements or trade secrets, whether or not patentable or registrable under copyright, patent or similar laws, which Employee may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice which relate in any way to any Drone USA Products, as defined herein, together with the zone of foreseeable expansion, during the period of time Employee is in the employ of Drone USA (collectively referred to as "**Inventions**"). Employee further acknowledges that all original works of authorship which are made by Employee (solely or jointly with others) within the scope of and during the period of employment with Drone USA and which are protectable by copyright are "works made for hire," as that term is defined in the United States Copyright Act.

c. Maintenance of Records. Employee agrees to keep and maintain adequate and current written records of all Inventions made by Employee (solely or jointly with others) during the term of employment with Drone USA. The records will be in the form of notes, sketches, drawings, and any other format that may be specified by Drone USA. The records will be available to and remain the sole property of Drone USA at all times.

d. Patent and Copyright Registrations. Employee agrees to assist Drone USA, or its designee, at the Drone USA's expense, in every proper way to secure Drone USA's rights in the Inventions and any copyrights, patents, mask work rights or other intellectual property rights relating thereto in any and all countries, including the disclosure of Drone USA of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments and all other instruments which Drone USA shall deem necessary in order to apply for and obtain such rights and in order to assign and convey to Drone USA, its successors, assigns, and nominees the sole and exclusive rights, title and interest in and to such Inventions, and any copyrights, patents, mask work rights or other intellectual property rights relating thereto. Employee further agrees that Employee's obligation to execute or cause to be executed, when it is in Employee's power to do so, any such instrument or papers shall continue after the termination of this Agreement. If Drone USA is unable because of Employee's mental or physical incapacity or for any other reason to secure Employee's signature to apply for or to pursue any application of any United States or foreign patents or copyright registrations covering Inventions or original works of authorship assigned to Drone USA as above, then Employee hereby irrevocably designates and appoints Drone USA and its duly authorized officers and agents as Employee's agent and attorney in fact, to act for and in Employee's behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of letters patent or copyright registrations thereon with the same legal force and effect as if executed by Employee.

## 9. **Covenant Not to Compete, Non-Solicitation.**

a. Non Competition and Non Solicitation. Employee agrees that beginning with the effective date of this Agreement and continuing for a period of five (5) years after the longer of (x) the termination of Employee's employment or (y) the first anniversary of the date hereof, Employee will not alone, or in any capacity with another entity or individual, within any geographic location in which Howco or Drone USA, at the date of the termination of Employee's employment, has engaged or has plans to engage in any business:

i. directly or indirectly participate or support in any capacity (e.g. as an advisor, principal agent, partner, member, governor, officer, director, manager, shareholder, owner, employee or otherwise) the sale, solicitation of sale, or marketing, of a Drone USA Product: "**Drone USA Product**" means any actual or projected product or product line that has been developed (or is under active development), marketed or sold by Drone USA or Howco continuing through the termination of Employee's employment. Such Drone USA Products shall specifically include, but not be limited to, those products sold to customers of Howco or any products that were being considered for sale or distribution prior to the effective date of the aforementioned Stock Purchase Agreement.

ii. call upon, solicit, contact or serve any of the then-existing vendors or suppliers that have had a relationship with Drone USA or Howco during the preceding twenty four (24) months, or any potential, vendors or suppliers that were solicited by Drone USA or Howco during the preceding twenty four (24) months in connection a Drone USA Product;

iii. disrupt, damage or impair (or attempt to do the same) with the business of Drone USA or Howco whether by way of interfering with or disrupting Drone USA's or Howco's relationship with their employees, customers, agents, representatives or vendors, or

iv. employ or attempt to employ (by assisting anyone else in the solicitation of) any of Drone USA's or Howco's current employees on behalf of any other entity or person, whether or not such entity or person competes with Drone USA, Howco or any Drone USA Product.

b. Employee agrees that the limitations set forth herein on Employee's rights to compete with Drone USA, Howco and their affiliates are reasonable and necessary for the protection of Drone USA, Howco and their affiliates. In this regard, Employee specifically agrees that the limitations as to period of time and geographic area, as well as all other restrictions on activities specified herein, are reasonable and necessary for the protection of Drone USA, Howco and their affiliates. The substantial sums invested by Drone USA in Howco's business also make these restrictions necessary in order to protect Drone USA's investment. Employee agrees that, in the event that the provisions of this Agreement should ever be deemed to exceed the scope of business, time or geographic limitations permitted by applicable law, such provisions shall be and are hereby reformed to the maximum scope of business, time or geographic limitations permitted by applicable law.

c. Employee agrees that the remedy at law for any breach of this Section 9 will be inadequate and that Drone USA and/or Howco shall also be entitled to injunctive relief without the necessity of posting any bond or other security, due to irreparable harm that such breach would cause.

d. Notwithstanding any other provision in this Agreement to the contrary, Employer agrees (i) nothing contained in this Agreement shall limit Employee from doing business with the United States Federal Government so long as it does not involve the direct or indirect participation or support of the sale, solicitation of sale, or marketing of a Drone USA Product; and (ii) in the event of a default by Employer under this Agreement or a default by Drone USA, LLC or Howco under the Stock Purchase Agreement or any related agreement, the restrictions set forth in Section 9 shall automatically terminate, and thereafter, Employee may disregard such non-competition and non-solicitation provisions and do business in any manner whatsoever.

**10. Returning Documents.** Employee agrees that, at the time of leaving the employ of Drone USA, Employee will deliver to Drone USA (and will not keep in possession, recreate or deliver to anyone else) any and all devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, materials, equipment, other documents or property, or reproductions of any aforementioned items developed by me pursuant to my employment with Drone USA or Howco or otherwise belonging to Drone USA or Howco, their parent, successors or assigns.

**11. Notification of New Employer.** In the event that Employee leaves the employ of Drone USA, Employee hereby grants consent to notification by Drone USA to any new employer about Employee's rights and obligations under this Agreement.

**12. Representations.** Employee agrees to execute any proper oath or verify any proper document required to carry out the terms of this Agreement. Employee represents that performance of all the terms of this Agreement will not breach any agreement to keep in confidence proprietary information acquired by Employee in confidence or in trust prior to employment by Drone USA. Employee has not entered into, and agrees not to enter into, any oral or written agreement in conflict herewith.

**13. General Provisions.**

a. Governing Law; and Venue. This Agreement shall be construed and interpreted in accordance with the laws of the State of Washington without reference to principles of conflicts of laws. The parties agree that all actions or proceedings arising in connection with this Agreement shall be tried and litigated only in the State or Federal Courts located in the State of Washington. Each of the parties hereto waives to the extent permitted under applicable law, any right each may have to assert the doctrine of forum non-conveniens or to object to venue to the extent any proceeding is brought in accordance with this section relating to this Agreement.

b. Entire Agreement. This Agreement sets forth the entire agreement and understanding between Drone USA and Employee relating to the subject matter herein and merges all prior discussions between Drone USA and Employee. No modification of or amendment to this Agreement, nor any waiver of any rights under this agreement, will be effective unless in writing signed by the party to be charged. Any subsequent change or changes in duties, salary or compensation will not affect the validity or scope of this Agreement.

c. Severability. If one more of the provisions in this Agreement are deemed void by law, then the remaining provisions will continue in full force and effect. This Agreement is made and executed pursuant to the provisions of the Stock Purchase Agreement. However, no default by Employee hereunder shall be deemed to constitute a default under the Stock Purchase Agreement, it being agreed by the parties that each Agreement shall be separately applied, construed and enforced and that a default under one shall not constitute a default under the other.

d. Successors and Assigns. This Agreement will be binding upon Employee's heirs, executors, administrators and other legal representatives and will be for the benefit of Drone USA, Howco, their successors, and assigns.

e. Waiver and Amendments: Cumulative Rights and Remedies.

i. This Agreement may be amended, modified or supplemented, and any obligation hereunder may be waived, only by a written instrument executed by the parties hereto. The waiver by either party of a breach of any provision of this Agreement shall not operate as a waiver of any subsequent breach.

ii. No failure on the part of any party to exercise, and no delay in exercising, any right or remedy hereunder shall operate as a waiver hereof, nor shall any single or partial exercise of any such right or remedy by such party preclude any other or further exercise thereof or the exercise of any other right or remedy. All rights and remedies hereunder are cumulative and are in addition to all other rights and remedies provided by law, agreement or otherwise.

iii. Employee's obligations to Drone USA and Drone USA's rights and remedies hereunder are in addition to all other obligations of Employee and rights and remedies of Drone USA created pursuant to any other agreement.

f. Construction. Each party to this Agreement has had the opportunity to review this Agreement with legal counsel. This Agreement shall not be construed or interpreted against any party on the basis that such party drafted or authored a particular provision, parts of or the entirety of this Agreement.

EMPLOYEE

/s/ Kathryn Blake Joy

Kathryn Blake Joy

DRONE USA, INC.

/s/ Michael Bannon

Michael Bannon, CEO

**EXHIBIT A**

**LIST OF PRIOR INVENTIONS  
AND ORIGINAL WORKS OF AUTHORSHIP**

Title	Number	Date	Identifying or Brief Description
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\_\_\_\_\_ No inventions or improvements

\_\_\_\_\_ Additional Sheets Attached

/s/ Kathryn B Joy  
Signature of Employee

Kathryn B Joy  
Print Name of Employee

**EXHIBIT E**  
**Unconditional Guaranty of Payment**

See attached.

EXHIBIT E – 1

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## UNCONDITIONAL GUARANTY OF PAYMENT

THIS UNCONDITIONAL GUARANTY OF PAYMENT (this “**Guaranty**”), is made and entered effective as of September 9<sup>th</sup>, 2016 by Drone USA, Inc., a Delaware corporation (“**Guarantor**”), whose address is 140 Broadway, Suite 4614, New York, NY, 10005, in favor of Paul Charles Joy II, Trustee of the Paul C. Joy and Kathryn B. Joy Trust – Fund B, dated December 9, 2003, as amended, and Kathryn Blake Joy, Trustee of the Paul C. Joy and Kathryn B. Joy Trust – Fund C, dated December 9, 2003, as amended (collectively, the “**Lender**”), whose address is \_\_\_\_\_.

### DEFINITIONS

The following capitalized words and terms shall have the meaning stated in this section when used in this Guaranty. Words and terms used in the singular shall include the plural, and the plural shall include the singular, as the context may require.

**Lender:** Paul Charles Joy II, Trustee of the Paul C. Joy and Kathryn B. Joy Trust – Fund B, dated December 9, 2003, as amended, and Kathryn Blake Joy, Trustee of the Paul C. Joy and Kathryn B. Joy Trust – Fund C, dated December 9, 2003, as amended

**Borrower:** Drone USA, LLC, a Delaware limited liability company

**Guarantor:** Drone USA, Inc., a Delaware corporation

**Indebtedness:** The “Indebtedness” shall mean every liability or obligation now or hereafter owing from Borrower to Lender as set forth under that Promissory Note in the beginning principal balance of \$900,000.00 of even date being executed by Borrower in favor of Lender (“**Note**”); together with any and all Security Agreements or Pledge Agreements executed for the purpose of securing the Borrower’s obligations under the Note without regard to whether the same may be unenforceable against Borrower due to incapacity, ultra vires, discharge in bankruptcy, discharge through non-judicial foreclosure, waiver, equitable defense or otherwise.

**Documents of Indebtedness:** The Note and any Security Agreement(s) or Pledge Agreement(s) executed by Borrower in favor of Lender, and all modifications or amendments to any of the foregoing.

**Collateral:** Any property (whether real or personal), rights, estates and interests now or hereafter securing the payment of the Indebtedness and/or the performance of or performing other obligations of Borrower under any Documents of Indebtedness whether held by Lender or by any person or entity on Lender’s behalf or for Lender’s account.

### COVENANTS AND AGREEMENTS

For good and valuable consideration, the receipt and adequacy of which is acknowledged by Guarantor, Guarantor covenants, warrants, and agrees:

UNCONDITIONAL GUARANTY OF PAYMENT - 1

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## 1. Guarantees.

a. Guaranty of Payment. Guarantor does unconditionally guarantee to Lender the full and prompt payment of the Indebtedness when due, whether by acceleration or otherwise, with such interest as may accrue thereon and such fees and other charges as may be due in connection therewith, either before or after maturity thereof.

b. Guaranty of Obligations. Guarantor does agree that if the Indebtedness is not paid by Borrower under its terms, Guarantor will immediately make such payments. Guarantor further agrees to pay Lender all expenses (including, without limitation, reasonable attorney fees) paid or incurred by Lender in endeavoring to collect all or any portion of the Indebtedness, to enforce any other obligations guaranteed, or to enforce this Guaranty.

c. Amount Unlimited. This Guaranty shall be unlimited in amount as to all Indebtedness.

d. Duration. This Guaranty shall take effect upon execution by the Guarantor, with no formal acceptance by Lender required. This Guaranty shall be deemed to be continuing in nature with regard to Guarantor, shall not be revocable, and shall remain in full force and effect with respect to Guarantor until all payment obligations undertaken or arising in conjunction with the Indebtedness are fully satisfied.

e. Liability of Guarantors. This is a guaranty of payment and not of collection. The liability of Guarantor under this Guaranty shall be direct and immediate and not conditional or contingent upon the pursuit of any remedies against Borrower, any other Guarantor or any other person, nor against any portion of the Collateral. Guarantor waives any right to require that an action be brought against Borrower or any other Guarantor or any other person or to require that resort be had to any Collateral. In the event, on account of the Bankruptcy Code, as amended, or any other debtor relief law (whether statutory, common law, case law or otherwise) of any jurisdiction, now or hereafter in effect, which may be or become applicable, Borrower and/or any other Guarantor shall be relieved of any obligation or liability for the Indebtedness or under any Documents of Indebtedness or this Guaranty, each other Guarantor shall nevertheless be fully liable under this Guaranty. Lender may enforce its rights, powers and remedies (including, without limitation, foreclosure of any Collateral) under any Documents of Indebtedness or hereunder, in any order, and all rights, powers and remedies available to Lender shall be nonexclusive and cumulative of all other rights, powers and remedies provided thereunder or hereunder or by law or in equity. If the Indebtedness or other obligations guaranteed are partially paid or discharged by exercising any of the remedies available to Lender, this Guaranty shall nevertheless remain in full force and effect, and each Guarantor shall jointly and severally remain liable for all remaining Indebtedness and obligations guaranteed hereby, even though any rights which any Guarantor may have against Borrower or any other Guarantor may be destroyed or diminished by exercising any such remedy, and if the Indebtedness or other obligations guaranteed are otherwise partially paid or discharged including voluntary payment or prepayment, application of insurance proceeds or condemnation awards, additional financing or refinancing, or sale of the Collateral or a portion thereof; with or without the consent or cooperation of Lender, this Guaranty shall remain in full force and effect, and each Guarantor shall remain jointly and severally liable for all remaining Indebtedness and obligations guaranteed. No exculpatory or similar provision of the Documents of Indebtedness or any other document regarding the Indebtedness which limits, or relieves Borrower or any Guarantor or other person or entity from, any personal or direct liability of Borrower shall limit or relieve any other Guarantor from any such liability, it being the intention of the parties hereto that each Guarantor be and remain liable for the Indebtedness and all obligations of Borrower under any Documents of Indebtedness notwithstanding any such exculpatory or similar provision. The obligations of each Guarantor and the rights of Lender are in addition to the obligations of each Guarantor and the rights of Lender under any other guaranty or indemnity agreement now or hereafter given by any Guarantor to Lender for the Indebtedness or other obligations guaranteed and payments made under one guaranty or indemnity agreement shall not reduce the liabilities and obligations of any Guarantor under any other guaranty or indemnity agreement.

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UNCONDITIONAL GUARANTY OF PAYMENT - 2

**2. Reinstatement of Obligations.** If all or any part of any payment made by a Guarantor or received by Lender from a Guarantor under or regarding this Guaranty is or must be rescinded or returned for any reason whatsoever (including, but not limited to, the insolvency, bankruptcy or reorganization of any Guarantor or Borrower), then the obligations of all Guarantors shall, to the extent of the payment rescinded or returned, be deemed to have continued in existence, notwithstanding such previous payment made by any Guarantor, or receipt of payment by Lender, and the obligations of each Guarantor shall continue to be effective or be reinstated, as the case may be, as to such payment, all as though such previous payment by a Guarantor had never been made. If any payment made by Borrower is reclaimed in a bankruptcy or receivership proceeding, each Guarantor shall be liable for assuring that Lender is paid the amount so reclaimed. Each Guarantor assigns to Lender all rights such Guarantor may have in any proceeding involving Borrower under the United States Bankruptcy Code or any receivership or insolvency proceedings involving Borrower, whether or not such rights related to this Guaranty. Such assignment shall not diminish, alter or otherwise affect any Guarantor's liability under this Guaranty.

**3. Waivers by Guarantors.** To the extent permitted by law, Guarantor waives and agrees not to assert or take advantage of (as a defense or otherwise):

a. Any right to require Lender to proceed against Borrower or any other person or to proceed against or exhaust the Collateral or any security held by Lender or to pursue any other remedy in Lender's power or under any other agreement before proceeding against any or all of the Guarantors;

b. Demand, presentment for payment, notice of nonpayment, protest, notice of protest and all other notices of any kind, or the lack of any thereof including without limitation, notice of the existence, creation or incurring of any new or additional indebtedness or obligation or of any action or non-action by Borrower, Lender, any endorser or creditor of Borrower or of any Guarantor or by any other person whomsoever for the Indebtedness or any Documents of Indebtedness;

c. The defense of the statute of limitations in any action; any defense that may arise by the incapacity, lack of authority, death or disability of any other person or persons or the failure of Lender to file or enforce a claim against the estate (in administration, bankruptcy or any other proceeding) of any other person or persons; any failure of Lender to provide any notice to Lender or any Guarantor; all defenses given to sureties or guarantors at law or in equity other than the actual payment of the Indebtedness and performance of all obligations under any Documents of Indebtedness and all defenses based upon questions on the validity, legality or enforceability of the Indebtedness and/or any Documents of Indebtedness; any defense based upon an election of remedies by Lender; any principle or provision of law, statutory or otherwise, which is or might conflict with the terms and provisions of this Guaranty;

**UNCONDITIONAL GUARANTY OF PAYMENT - 3**

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d. Any failure by Lender to ascertain the extent or nature of any Collateral or any insurance or other rights with respect thereto, or the liability of any party liable for the Indebtedness or any obligations secured by the Collateral; any lack of notice of disposition or of manner of disposition of any Collateral; failure to properly record any document or any other lack of due diligence by Lender in creating or perfecting a security interest in or collection, protection or realization upon any Collateral; any sale or assignment by Borrower of any Collateral, or any portion thereof or interest therein, whether or not consented to by Lender; any lack of commercial reasonableness in dealing with any Collateral; any deficiencies in the Collateral or any deficiency in the ability of Lender to collect or to obtain performance from any persons or entities now or hereafter liable for the payment and performance of any obligation guaranteed;

e. Any invalidity, irregularity or unenforceability, in whole or in part, of the Indebtedness or Documents of Indebtedness; the inaccuracy of any representation or other provision in any Documents of Indebtedness; any modifications of the Indebtedness or any Documents of Indebtedness by operation of law or by action of any court, whether under the Bankruptcy Code, or any other debtor relief law (whether statutory, common law, case law or otherwise) of any jurisdiction, now or hereafter in effect, or otherwise; any sale or assignment of the Indebtedness or Documents of Indebtedness, in whole or in part;

f. The release of Borrower or of any other Guarantor or of any other person or entity from payment of the Indebtedness or performance under any Documents of Indebtedness by operation of law, Lender's voluntary act or otherwise; any change in the composition of Borrower, including, without limitation, the withdrawal or termination of Guarantor from its relationship or association with Borrower;

g. Any duty by Lender to disclose to Guarantor any facts Lender may now or hereafter know about Borrower or any Collateral, regardless of whether Lender has reason to believe that any such facts materially increase the risk beyond that which Guarantor intends to assume or has reason to believe that such facts are unknown to Guarantor or has a reasonable opportunity to communicate such facts to Guarantor, it being understood and agreed that Guarantor is fully responsible for being and keeping informed of the financial condition of Borrower, of the condition of any Collateral and of all circumstances bearing on the risk that liability may be incurred by Guarantor;

#### UNCONDITIONAL GUARANTY OF PAYMENT - 4

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h. An assertion or claim that the automatic stay provided by 11 U.S.C. §362 (arising upon the voluntary or involuntary bankruptcy proceeding of Borrower) or any other stay provided under any other debtor relief law (whether statutory, common law, case law or otherwise) of any jurisdiction, now or hereafter in effect, which may be or become applicable, shall operate or be interpreted to stay, interdict, condition, reduce or inhibit the ability of Lender to enforce any of its rights, whether now or hereafter acquired, which Lender may have against Guarantor or any Collateral; each Guarantor covenants and agrees that, upon the commencement of a voluntary or involuntary bankruptcy proceeding by or against Borrower, such Guarantor shall not seek or cause or any other person or entity to seek a supplemental stay or other relief, whether injunctive or otherwise, under the Bankruptcy Code or the laws of any jurisdiction, to stay, interdict, condition, reduce or inhibit the ability of Lender to enforce any rights of Lender against any Guarantor or any Collateral by virtue of this Guaranty or otherwise;

i. Any right or claim or right to cause a marshalling of the assets of any Guarantor; any action, occurrence, event or matter consented to by any Guarantor under any provision of this Guaranty or otherwise.

**4. Independent Obligations.** Guarantor acknowledges that, under applicable law, Borrower may be relieved of further liability after the completion of a sale, including a non-judicial foreclosure sale of Collateral. Notwithstanding Borrower's discharge, each Guarantor unconditionally covenants and agrees, to the fullest extent permitted by law, to pay: a) any deficiency balance as defined by applicable law; b) all costs of restoring, managing, and selling Collateral acquired by sale or non-judicial foreclosure including management fees, transfer costs and sales commissions; c) unpaid obligations for utility service obligations affecting any of the Collateral whether or not said unpaid obligations are or become liens against the Collateral; d) Lender's appraisal costs, inspection fees, attorney fees, and all other costs and expenses of any kind or nature incurred because of acquiring and disposing of Collateral; and e) any cost or expense for which Borrower would be liable but for the anti-deficiency provisions of any law.

## **5. General Provisions.**

a. Full Recourse. All of the terms and provisions of this Guaranty are recourse obligations of Guarantor and not restricted by any limitation on personal ability of any Guarantor.

b. Condition of Borrower and other Guarantors. Guarantor warrants and represents that such Guarantor fully knows of the financial condition of Borrower and any other Guarantors and is executing and delivering this Guaranty based solely upon such Guarantor's own independent investigation of all matters pertinent hereto, and that such Guarantor is not relying in any manner upon any representation or statement of Lender. Guarantor warrants, represents and agrees that such Guarantor can obtain, and such Guarantor assumes full responsibility for obtaining, any additional information concerning the financial condition of Borrower and any other Guarantor and any other matter pertinent hereto, and that no Guarantor is relying upon Lender to furnish, and that no Guarantor shall have any right to require Lender to obtain or disclose, any information regarding the Indebtedness or obligations guaranteed, the financial condition or character of Borrower or any other Guarantor, or the ability of Borrower or any other Guarantor to pay the Indebtedness or perform the obligations guaranteed, the existence of any Collateral or security for any or all of the Indebtedness or obligations guaranteed hereby, the existence or nonexistence of any other guaranties of all or any part of the Indebtedness or obligations guaranteed hereby, any actions or non-action by Lender, Borrower, any other Guarantor or any other person or entity, or any other matter, fact or occurrence. By executing this Guaranty, each Guarantor acknowledges and knowingly accepts the full range of risks encompassed within a contract of guaranty.

c. No Subrogation: No Recourse Against Lender: Subordination. Notwithstanding the satisfaction by any or all Guarantors of any liability hereunder, no Guarantor shall have any right of subrogation, contribution, reimbursement or indemnity or any right of recourse to or regarding the assets or property of Borrower or to any Collateral. For the foregoing, each Guarantor expressly waives all rights of subrogation to Lender against Borrower, and each Guarantor waives any rights to enforce any remedy, which Lender may have against Borrower and any right to participate in any Collateral. Besides and without limiting the foregoing, each Guarantor subordinates all indebtedness of Borrower now or hereafter owed to such Guarantor to all indebtedness of Borrower to Lender. Further, no Guarantor shall have any right of recourse against Lender by any action Lender may take or omit to take under this Guaranty or under the provisions of the Indebtedness or Documents of Indebtedness.

d. Rights Cumulative. Lender's rights under this Guaranty shall be in addition to all rights of Lender under any Documents of Indebtedness.

e. Consents. Guarantor consents and agrees that Lender may, from time to time, without notice to or further consent from such Guarantor, either with or without consideration: release and surrender any Collateral or any portion thereof; substitute for any Collateral held by or on behalf of Lender other collateral of like kind, or of any kind; make additional advances or increase the Indebtedness; agree to modify the terms of any one or more of the Documents of Indebtedness; extend or renew the terms of the Indebtedness for any period; grant releases, compromises and indulgences regarding the Indebtedness or any one or more of the Documents of Indebtedness and to any persons or entities now or hereafter liable thereunder or hereunder; release Borrower, any other Guarantor or endorser of or other person or entity liable for the Indebtedness or upon any of the Documents of Indebtedness; or take or fail to take any action of any type. No such action which Lender shall take or fail to take in connection with the Indebtedness, Documents of Indebtedness, or any Collateral, nor any course of dealing with Borrower or any other Guarantor or any other person, shall limit, impair or release any Guarantor's obligation, affect this Guaranty or afford any Guarantor any recourse against Lender. Nothing in this section shall be construed to require Lender to take or refrain from taking any action referred to herein.

f. Entire Agreement: Amendment; Severability. This Guaranty contains the entire agreement between and among the parties respecting the matters set forth and supersedes all prior agreements, whether written or oral, between the parties respecting such matters; and all Guarantors and Lender acknowledge there are no contemporaneous oral agreements with respect to the subject matter hereof. This Guaranty may not be changed, modified or amended, except by a writing executed by the parties hereto; and no obligation of Guarantor can be released or waived by Lender or any agent of Lender, except by a writing duly executed by Lender. A determination that any provision of this Guaranty is unenforceable or invalid shall not affect the enforceability or validity of any other provision, and any determination that applying any provision of this Guaranty to any person or circumstance is illegal or unenforceable shall not affect the enforceability or validity of such provision as it may apply to any other persons or circumstances.

UNCONDITIONAL GUARANTY OF PAYMENT - 6

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g. Governing Law: Binding Effect; Assignment: Waiver of Acceptance. This Guaranty shall be governed by and construed under the laws of the State of Washington, except to the extent that foreclosure of other state laws of Washington may apply to Collateral now or hereafter located in the State of Washington, and except to the extent the applicability of any of such laws may now or hereafter be preempted by Federal law, in which case Washington or Federal law, as applicable, shall so govern and be controlling. This Guaranty shall be binding upon each Guarantor and the heirs, executors, legal representatives, successors and assigns of such Guarantor and shall inure to the benefit of Lender and its legal representatives, successors and assigns. This Guaranty shall in no event be impaired by any change which may arise by the termination or dissolution of Borrower or any Guarantor. Each Guarantor has executed this Guaranty individually and not as a partner of Borrower or any other Guarantor. This Guaranty is assignable by Lender, and any full or partial assignment by Lender shall operate to vest in the assignee all rights and powers herein conferred upon and granted to Lender and so assigned by Lender, each Guarantor expressly waives notice of transfer or assignment of this Guaranty and acknowledges that the failure by Lender to give any such notice shall not affect the liabilities of each Guarantor hereunder. Notwithstanding the foregoing, no Guarantor shall assign any of its rights or obligations under this Guaranty. Each Guarantor waives any acceptance of this Guaranty by Lender, and this Guaranty shall immediately be binding upon each Guarantor.

h. Notice. All notices, demands, requests or other communications (“**Notices**”) required or permitted to be sent by one any party to another or required by law shall be in writing and shall be deemed to have been validly given or served by delivery of the same in person to the intended addressee, or by depositing the same with Federal Express or another reputable private courier service for next business day delivery to the intended addressee at its address on the first page of this Guaranty or at such other address as designated by such party as herein provided, or by depositing the same in the United States mail, postage prepaid, registered or certified mail, return receipt requested, addressed to the intended addressee at its address on the first page of this Guaranty or at such other address as designated by such party as herein provided. All notices, demands and requests shall be effective upon such personal delivery, or one (1) business day after being deposited with the private courier service, or two (2) business days after being deposited in the United States mail as required above. Rejection or other refusal to accept or the inability to deliver because of changed address of which no notice was given as herein required shall be deemed to be receipt of the notice, demand or request sent. By giving to the other party hereto at least fifteen (15) days’ prior written notice thereof in accordance with the provisions hereof, the parties hereto shall have the right from time to time to change their respective addresses and each may specify as its address any other address within the United States of America. Each Guarantor irrevocably appoints Borrower as such Guarantor’s representative for purposes of receiving any and all Notices; and irrevocably covenants that Notice provided to Borrower shall constitute Notice to all Guarantors.

#### UNCONDITIONAL GUARANTY OF PAYMENT - 7

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i. No Waiver: Time of Essence; Business Day. The failure of any party hereto to enforce any right or remedy, or to promptly enforce any such right or remedy, shall not constitute a waiver thereof nor give rise to any estoppel against such party nor excuse any of the parties hereto from their respective obligations. Any waiver of such right or remedy must be in writing and signed by the party to be bound. This Guaranty is subject to enforcement at law or in equity, including actions for damages or specific performance. Time is of the essence hereof. The term “business day” as used herein shall mean a weekday, Monday through Friday, except a legal holiday or a day on which banking institutions in New York, New York are authorized by law to be closed.

j. Attorney Fees. If it is necessary for Lender to retain the services of an attorney or any other consultants to enforce this Guaranty, or any portion thereof, each Guarantor agrees to pay to Lender all costs and expenses, including, without limitation, attorneys’ fees, incurred by Lender as a result thereof and such costs, fees and expenses shall be payable to Lender upon demand.

k. Joint and Several. Where two or more persons or entities have executed or hereafter execute this Guaranty, all references to “Guarantor” shall mean all of the signatories hereon as Guarantors or either or any of them, notwithstanding that they may be collectively defined as Guarantor in singular. All of the obligations and liability of each signatory constituting collectively “Guarantor” or “Guarantors” shall be joint and several as to the signatories hereon and as to any other guarantors of the Indebtedness under other guaranty agreements. Suit may be brought against said all of the guarantors, jointly and severally, or against any one or more of them, less than all, without impairing the rights of Lender against the other or others of the guarantors; and Lender may compromise with any one or more of the guarantors for such sums or sum as it may see fit and/or release such of the guarantors from all further liability to Lender for such indebtedness without impairing the right of Lender to demand and collect the balance of such indebtedness from the other or others of the guarantors not so compromised with or released; but it is agreed among the guarantors themselves, however, that such compromise and release shall in nowise impair the rights of the guarantors as among themselves.

l. Successive Actions. A separate right of action shall arise each time Lender acquires knowledge of any failure of payment or performance of any matter guaranteed by any Guarantor under this Guaranty. Separate and successive actions may be brought to enforce any of the provisions hereof at any time and from time to time. No action shall preclude any subsequent action, and each Guarantor waives and covenants not to assert any defense in the nature of splitting of causes of action or merger of judgments.

m. Reliance. Lender would not extend credit to Borrower without this Guaranty. Each Guarantor intentionally and unconditionally enters into the covenants and agreements and understands that, in reliance upon and in consideration of such covenants and agreements, credit may be extended and, as part and parcel thereof, specific monetary and other obligations have been, are being and shall be entered into which would not be made or entered into but for such reliance.

UNCONDITIONAL GUARANTY OF PAYMENT - 8

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n. Submission to Jurisdiction. Each Guarantor, to the full extent permitted by law, knowingly, intentionally and voluntarily, with and upon the advice of competent counsel, (a) submits to personal jurisdiction in the State of Washington or in the state in which the property is located over any suit, action or proceeding by any person arising from or relating to this guaranty, (b) agrees that any such action, suit or proceeding may be brought in any state or federal court of competent jurisdiction sitting in the State of Washington, (c) submits to the jurisdiction of such courts, and, (d) to the fullest extent permitted by law, agrees not to bring any action suit or proceeding in any forum other than in the state or federal courts located within the State of Washington (but nothing herein shall affect the right of Lender to bring any action, suit or proceeding in any other appropriate forum).

o. Relationship to Borrower; Consideration. Each Guarantor hereunder warrants to Lender that such Guarantor is affiliated with Borrower and the obtaining of credit by Borrower is of substantial benefit to such Guarantor. Each Guarantor voluntarily and intentionally enters into this Guaranty and acknowledges the receipt and adequacy of consideration for each and every undertaking herein.

IN WITNESS WHEREOF, each Guarantor has executed this Guaranty as of the day and year first above written.

**ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.**

**GUARANTOR:**

DRONE USA, INC.,  
a Delaware corporation

/s/ Michael Bannon

By: Michael Bannon

Its: CEO

UNCONDITIONAL GUARANTY OF PAYMENT - 9

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1 World Trade Center, 85<sup>th</sup> Floor  
New York, NY 10007 USA  
+1.212.220.8780  
mikes@drone1usa.com  
www.drone1usa.com

**Joint Venture Agreement between Drone USA and Brvant**

For two million shares of Drone USA (that represents XX%) and One million dollars cash paid over a period to be defined at a later date, Drone USA will acquire the following:

- 1 – Drone USA acquires commercial rights and privileges to BRVANT and all its employees' technology and Intellectual Property.
- 2 – Drone USA gets exclusive export and representation rights.
- 3 – Drone USA has the option for no extra cost to acquire as much BRVANT as it can without jeopardizing Brazilian government contracts, if Rodrigo Kuntz and Michael Bannon feel that would be in the best interest of Drone USA and BRVANT.
- 4 – Drone USA has the preference to acquire full ownership of BRVANT if Rodrigo Kuntz and Michael Bannon feel that would be in the best interest of Drone USA and BRVANT.

All terms and conditions will be defined in a separate document.

/s/ Rodrigo Kuntz

**Rodrigo Kuntz (CEO Brvant)**

/s/ Michael Bannon

**Michael Bannon (CEO Drone USA)**

***THIS CONVERTIBLE NOTE AND THE SECURITIES ISSUABLE UPON CONVERSION OF THIS CONVERTIBLE NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR UNDER THE SECURITIES LAWS OF APPLICABLE STATES. THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER TO THE EFFECT THAT ANY PROPOSED TRANSFER OR RESALE IS IN COMPLIANCE WITH THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS.***

**CONVERTIBLE NOTE  
OF  
DRONE USA INC.**

\$117,000

Made as of July 1, 2016

WHEREAS, Michael Bannon., an individual residing in Connecticut at 138 4<sup>th</sup> Avenue Milford, CT 06460 (the "***Holder***") has agreed to lend \$117,000 (the "***Principal Amount***") to Drone USA Inc. a Delaware corporation (the "***Company***").

NOW, THEREFORE, in consideration of the promises, agreements, covenants, conditions and releases contained herein, as well as for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows

The Company hereby promises to pay to the Holder or his registered assigns, no later than eighteen (18) months after the date of this Convertible Note (the "***Maturity Date***"), the Principal Amount together with interest on the unpaid principal balance equal to 7%, computed on the basis of the actual number of days elapsed and a year of 365 days from the date of this Convertible Note unless the Principal Amount and all interest accrued thereon and all other amounts owed hereunder are converted, as provided in Section 6 hereof. The Company shall pay the accrued and unpaid interest to Holder on a monthly basis. All payments received by the Holder hereunder will be applied first to costs of collection, if any, then to interest and the balance to principal. Principal and interest shall be payable in lawful money of the United States of America.

This Convertible Note may be prepaid in whole or in part at any time by the Company.

The following is a statement of the rights of the Holder and the conditions to which this Convertible Note is subject, and to which the Holder hereof, by the acceptance of this Convertible Note, agrees:

1. **DEFINITIONS.** The following definitions shall apply for all purposes of this Convertible Note:

1.1. “**Closing**” means the date on which the purchase and sale of the Convertible Note occurred, or July 1, 2016.

1.2. “**Company**” means the “Company” as defined above and includes any corporation which shall succeed to or assume the obligations of the Company under this Convertible Note.

1.3. “**Common Stock**” means the shares of common stock of the Company, par value \$0.001 per share.

1.4. “**Conversion Price**” means the average volume weighted average price (VWAP) per share of Common Stock for the 30 days prior to the date of conversion.

1.5. “**Conversion Stock**” means the Common Stock into which the unpaid Principal Amount and the accrued and unpaid interest due under this Convertible Note convert. The number of shares of Conversion Stock are subject to adjustment as provided herein.

1.6. “**Convertible Note**” means this Convertible Note.

1.7. “**Holder**” means any person who shall at the time be the registered holder of this Convertible Note.

2. **REPRESENTATIONS AND WARRANTIES OF THE COMPANY.** The Company hereby represents and warrants to Holder that the statements in the following paragraphs of this Section 2 are all true and complete as of immediately prior to the Closing:

2.1. **Organization, Good Standing and Qualification.** The Company has been duly organized, and is validly existing and in good standing, under the laws of State of Connecticut. The Company has the power and authority to own and operate its properties and assets and to carry on its business as currently conducted and as presently proposed to be conducted.

2.2. **Due Authorization.** All corporate action on the part of the Company’s directors and stockholders necessary for the authorization, execution, delivery of, and the performance of all obligations of the Company under the Convertible Note has been taken or will be taken prior to the Closing, and the Convertible Note when executed and delivered, will constitute, valid and legally binding obligations of the Company, enforceable in accordance with their respective terms, except as may be limited by (i) applicable bankruptcy, insolvency, reorganization or other laws of general application relating to or affecting the enforcement of creditor’s rights generally and (ii) the effect of rules of law governing the availability of equitable remedies.

2.3. **Corporate Power.** The Company has the power and authority to execute and deliver this Convertible Note to be purchased by the Holder hereunder, to issue the Convertible Note and to carry out and perform all its obligations under the Convertible Note.

**2.4. Valid Issuance.** The Convertible Note and the Conversion Stock issued upon conversion of the Convertible Note, when issued, sold and delivered in accordance with the terms of this Convertible Note for the consideration provided for herein, will be duly and validly issued, fully paid and nonassessable.

**2.5. Securities Law Compliance.** Based in part on the representations made by the Holder in Section 3 hereof, the offer and sale of the Convertible Note solely to the Holder in accordance with the terms herein are exempt from the registration and prospectus delivery requirements of the U.S. Securities Act of 1933, as amended (the “**1933 Act**”) and the securities registration and qualification requirements of the currently effective provisions of the securities laws of the states in which the Holder is a resident based upon the address set forth herein.

**3. REPRESENTATIONS, WARRANTIES AND CERTAIN AGREEMENTS OF HOLDER.** Holder hereby represents and warrants to, and agrees with, the Company, that:

**3.1. Authorization.** This Convertible Note constitutes such Holder’s valid and legally binding obligation, enforceable in accordance with its terms except as may be limited by (i) applicable bankruptcy, insolvency, reorganization or other laws of general application relating to or affecting the enforcement of creditors’ rights generally and (ii) the effect of rules of law governing the availability of equitable remedies. Holder represents that such Holder has full power and authority to enter into this Convertible Note.

**3.2. Purchase for Own Account.** The Convertible Note and the shares of the Company’s Common Stock issuable upon conversion of this Convertible Note (collectively, the “**Securities**”) are being acquired for investment for Holder’s own account, not as a nominee or agent, and not with a view to the public resale or distribution thereof within the meaning of the 1933 Act, and such Holder has no present intention of selling, granting any participation in, or otherwise distributing the same.

**3.3. Disclosure of Information.** Such Holder has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the Convertible Note. Such Holder further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Convertible Note and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to such Holder or to which such Holder had access. The foregoing, however, does not in any way limit or modify the representations and warranties made by the Company in Section 2.

**3.4. Investment Experience.** Such Holder understands that the purchase of the Convertible Note is highly speculative and involves substantial risk. Such Holder has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of its investment in the Company and has the capacity to protect its own interests and the ability to bear the economic risk of its investment.

**3.5. Restricted Securities.** Such Holder understands that the Conversion Stock are characterized as “restricted securities” under the 1933 Act and Rule 144 promulgated thereunder inasmuch as they are being acquired from the Company in a transaction not involving a public offering, and that under the 1933 Act and applicable regulations thereunder such securities may be resold without registration under the 1933 Act only in certain limited circumstances. In this connection, such Holder is familiar with Rule 144, as presently in effect, and understands the resale limitations imposed thereby and by the 1933 Act. Such Holder understands that the Company is under no obligation to register any of the Conversion Stock sold hereunder. Such Holder understands that no public market now exists for any of the Conversion Stock and that it is uncertain whether a public market will ever exist for the Conversion Stock.

**4. FURTHER LIMITATIONS ON DISPOSITION.** Without in any way limiting the representations set forth above, such Holder further agrees not to make any disposition of all or any portion of the Securities unless and until:

**4.1.** there is then in effect a registration statement under the 1933 Act covering such proposed disposition and such disposition is made in accordance with such registration statement; or

**4.2.** such Holder shall have notified the Company of the proposed disposition, and shall have furnished the Company with a statement of the circumstances surrounding the proposed disposition, and, at the expense of such Holder or its transferee, with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of such securities under the 1933 Act.

Notwithstanding the provisions of paragraphs 4.1 and 4.2 above, no such registration statement or opinion of counsel shall be required: (i) for any transfer of any Convertible Note or Conversion Shares in compliance with Rule 144 or Rule 144A; (ii) for any transfer of any Convertible Note or Conversion Shares by an Holder that is a partnership or a corporation to (A) a partner of such partnership or shareholder of such corporation, (B) a controlled affiliate of such partnership or corporation, (C) a retired partner of such partnership who retires after the date hereof, (D) the estate of any such partner or shareholder; or (iii) for the transfer by gift, will or in testate succession by any Holder to his or her spouse or lineal descendants or ancestors or any trust for any of the foregoing; provided that in each of the foregoing cases the transferee agrees in writing to be subject to the terms of this Section 4 to the same extent as if the transferee were an original Holder hereunder.

5. **LEGENDS.** Such Holder understands and agrees that the certificates evidencing the Conversion Stock will bear legends substantially similar to those set forth below:

***THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES LAWS OF APPLICABLE STATES. THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE ACT AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER TO THE EFFECT THAT ANY PROPOSED TRANSFER OR RESALE IS IN COMPLIANCE WITH THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS.***

The legend set forth above shall be removed by the Company from any certificate evidencing the Conversion Stock upon delivery to the Company of an opinion of counsel, reasonably satisfactory to the Company, that a registration statement under the 1933 Act is at that time in effect with respect to the legended security or that such security can be freely transferred in a public sale (other than pursuant to Rule 144 or Rule 145 under the 1933 Act) without such a registration statement being in effect and that such transfer will not jeopardize the exemption or exemptions from registration pursuant to which the Company issued the Conversion Stock.

6. **CONVERSION.**

6.1. **Optional Conversion.** Upon the request of the Holder, this Convertible Note may be converted, in whole or in part, into shares of Common Stock equal to (a) the outstanding principal and accrued interest under this Convertible Note divided by (b) the Conversion Price.

6.2. **Termination of Rights.** All rights with respect to this Convertible Note shall terminate upon the issuance of shares of the Conversion Stock upon conversion of this Convertible Note, whether or not this Convertible Note has been surrendered. Notwithstanding the foregoing, Holder agrees to surrender this Convertible Note to the Company for cancellation as soon as is possible following conversion of this Convertible Note. The Holder shall not be entitled to receive the stock certificate representing the Conversion Stock to be issued upon conversion of this Convertible Note until the original of this Convertible Note is surrendered to the Company and the agreements referenced in this Section 6 have been executed and delivered to the Company.

6.3. **Issuance of Conversion Stock.** As soon as practicable after conversion of this Convertible Note, the Company at its expense will cause to be issued in the name of and delivered to the Holder, a certificate or certificates for the Common Stock to which the Holder shall be entitled upon such conversion (bearing such legends as may be required by applicable state and federal securities laws in the opinion of legal counsel of the Company, by the Company's Certificate of Incorporation, or by any agreement between the Company and the Holder), together with any other securities and property to which the Holder is entitled upon such conversion under the terms of this Convertible Note. Such conversion shall be deemed to have been made, if made under Sections 6.1 above, immediately prior to the close of business on the date that this Convertible Note shall have been surrendered for conversion, accompanied by written notice of election to convert. No fractional shares will be issued upon conversion of this Convertible Note. If upon any conversion of this Convertible Note (and all other Convertible Notes held by the same Holder, after aggregating all such conversions), a fraction of a share of Common Stock would otherwise result, then in lieu of such fractional share of Common Stock the Company will pay the cash value of that fractional share, calculated on the basis of the applicable Conversion Price.

7. **DEFAULT; ACCELERATION OF OBLIGATION.** The Company will be deemed to be in default under this Convertible Note and the outstanding unpaid principal balance of this Convertible Note, together with all interest accrued thereon, will immediately become due and payable in full, without the need for any further action on the part of Holder, upon the occurrence of any of the following events (each an “*Event of Default*”): (a) failure to make payment of principal and interest when due under this Convertible Note; (b) upon the filing by or against the Company of any voluntary or involuntary petition in bankruptcy or any petition for relief under the federal bankruptcy code or any other state or federal law for the relief of debtors; provided, however, with respect to an involuntary petition in bankruptcy, such petition has not been dismissed within ninety (90) days after the filing of such petition; (c) upon the execution by the Company of an assignment for the benefit of creditors or the appointment of a receiver, custodian, trustee or similar party to take possession of the Company’s assets or property; (d) any breach of a material representation or warranty under section 2 of this Convertible Note that cannot be cured in ten (10) business days from the date the Company receives notice of such breach; (e) a material default in performance or compliance with respect to any other debt instrument in excess of \$100,000 individually or in the aggregate (excluding this Convertible Note) that results in acceleration of the maturity date of such debt obligation or that causes such indebtedness not to be paid when due; or (f) a material adverse change in the financial condition of the Company.

8. **REMEDIES ON DEFAULT; ACCELERATION.** Upon any Event of Default, the Holder will have, in addition to its rights and remedies under this Convertible Note, full recourse against any real, personal, tangible or intangible assets of the Company, and may pursue any legal or equitable remedies that are available to Holder, and may declare the entire unpaid principal amount of this Convertible Note and all unpaid accrued interest under this Convertible Note to be immediately due and payable in full.

9. **ADJUSTMENT PROVISIONS.** The number and character of shares of Conversion Stock issuable upon conversion of this Convertible Note (or any shares of stock or other securities or property at the time receivable or issuable upon conversion of this Convertible Note) and the Conversion Price therefor are subject to adjustment upon occurrence of the following events between the date this Convertible Note is issued and the date it is converted:

9.1 **Adjustment for Stock Splits, Stock Dividends, Recapitalizations, etc.** If the conversion is made under Section 6.1 above, the Conversion Price of this Convertible Note and the number of shares of Conversion Stock issuable upon conversion of this Convertible Note (or any shares of stock or other securities at the time issuable upon conversion of this Convertible Note) shall each be proportionally adjusted to reflect any stock dividend, stock split, reverse stock split, reclassification, recapitalization or other similar event affecting the number of outstanding shares of Conversion Stock (or such other stock or securities).

**9.2      Adjustment for Other Dividends and Distributions.** In case the Company shall make or issue, or shall fix a record date for the determination of eligible holders entitled to receive, a dividend or other distribution payable with respect to the Common Stock that is payable in (a) securities of the Company (other than issuances with respect to which adjustment is made under Section 9), or (b) assets (other than cash dividends paid or payable solely out of retained earnings), then, and in each such case, the Holder, upon conversion of this Convertible Note at any time after the consummation, effective date or record date of such event, shall receive, in addition to the shares of Conversion Stock issuable upon such exercise prior to such date, the securities or such other assets of the Company to which the Holder would have been entitled upon such date if the Holder had converted this Convertible Note immediately prior thereto (all subject to further adjustment as provided in this Convertible Note).

**9.3      Adjustment for Reorganization, Consolidation, Merger.** In case of any reorganization of the Company (or of any other entity the securities of which are at the time receivable on the conversion of this Convertible Note), after the date this Convertible Note, or in case, after such date, the Company (or any such corporation) shall consolidate with or merge into another corporation or convey all or substantially all of its assets to another corporation and then distribute the proceeds to its interest holders, then, and in each such case, the Holder, upon the conversion of this Convertible Note (as provided in Section 6) at any time after the consummation of such reorganization, consolidation, merger or conveyance, shall be entitled to receive, in lieu of the Conversion Stock or other securities and property receivable upon the conversion of this Convertible Note prior to such consummation, the stock or other securities or property to which the Holder would have been entitled upon the consummation of such reorganization, consolidation, merger or conveyance if the Holder had converted this Convertible Note immediately prior thereto, all subject to further adjustment as provided in this Convertible Note, and the successor or purchasing corporation in such reorganization, consolidation, merger or conveyance (if other than the Company) shall duly execute and deliver to the Holder a supplement hereto acknowledging such corporation's obligations under this Convertible Note; and in each such case, the terms of the Convertible Note shall be applicable to the Common Stock or other securities or property receivable upon the conversion of this Convertible Note after the consummation of such reorganization, consolidation, merger or conveyance.

**10.      NOTICE OF ADJUSTMENTS.** The Company shall promptly give written notice of each adjustment or readjustment of the Conversion Price or the number of shares of Common Stock or other securities issuable upon conversion of this Convertible Note. The notice shall describe the adjustment or readjustment and show in reasonable detail the facts on which the adjustment or readjustment is based.

**11.      NO CHANGE NECESSARY.** The form of this Convertible Note need not be changed because of any adjustment in the Conversion Price or in the number of shares of Common Stock issuable upon its conversion.

**12.      NO RIGHTS OR LIABILITIES AS STOCKHOLDER.** This Convertible Note does not by itself entitle the Holder to any voting rights or other rights as a stockholder of the Company. In the absence of conversion of this Convertible Note, no provisions of this Convertible Note, and no enumeration herein of the rights or privileges of the Holder, shall cause the Holder to be a stockholder of the Company for any purpose.

13. **NO IMPAIRMENT.** The Company will not, by amendment of its Certificate of Incorporation, or through reorganization, consolidation, merger, dissolution, issue or sale of securities, sale of assets or any other voluntary action, willfully avoid or seek to avoid the observance or performance of any of the terms of this Convertible Note, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holder under this Convertible Note against wrongful impairment. Without limiting the generality of the foregoing, the Company will take all such action as may be necessary or appropriate in order that the Company may duly and validly issue fully paid and nonassessable shares of Common Stock upon the conversion of this Convertible Note.

14. **PREPAYMENT.** The Company may at any time, without penalty, upon at least twenty (20) days' advance written notice to the Holder, prepay in whole or in part the unpaid balance of this Convertible Note. All payments will first be applied to the repayment of accrued fees and expenses, then to accrued interest until all then outstanding accrued interest has been paid, and then shall be applied to the repayment of principal. The Holder shall have the right to convert this Note prior to such prepayment.

15. **WAIVERS.** The Company and all endorsers of this Convertible Note hereby waive notice, presentment, protest and notice of dishonor.

16. **ATTORNEYS' FEES.** In the event any party is required to engage the services of any attorneys for the purpose of enforcing this Convertible Note, or any provision thereof, the prevailing party shall be entitled to recover its reasonable expenses and costs in enforcing this Convertible Note, including attorneys' fees from the Company upon the Company receiving its next round of funding.

17. **TRANSFER.** Neither this Convertible Note nor any rights hereunder may be assigned, conveyed or transferred, in whole or in part, without the Company's prior written consent, which the Company may withhold in its sole discretion, provided, however, that the Holder may transfer this Convertible Note to affiliates without the Company's prior written consent. The rights and obligations of the Company and the Holder under this Convertible Note shall be binding upon and benefit their respective permitted successors, assigns, heirs, administrators and transferees.

18. **GOVERNING LAW; JURISDICTION; VENUE.** This Convertible Note shall be governed by and construed under the internal laws of the State of New York, without reference to principles of conflict of laws or choice of laws. Each of the parties irrevocably consents that any legal action or proceeding for equitable relief which may be brought against any of them pursuant to the terms of this Convertible Note which arise out of or are in any manner related to this Convertible Note may be brought in the federal and state courts in New York, New York. Each party by the execution and delivery of this Convertible Note, expressly and irrevocably consents and submits to the personal jurisdiction of any of such courts in any such action or proceeding. Each party hereby expressly and irrevocably waives any claim or defense in any such action or proceeding based on any alleged lack of personal jurisdiction, improper venue or forum non conveniens or any similar basis.

19. **HEADINGS.** The headings and captions used in this Convertible Note are used only for convenience and are not to be considered in construing or interpreting this Convertible Note. All references in this Convertible Note to sections and exhibits shall, unless otherwise provided, refer to sections hereof and exhibits attached hereto, all of which exhibits are incorporated herein by this reference.

20. **NOTICES.** Unless otherwise provided, any notice required or permitted under this Convertible Note shall be given in writing and shall be deemed effectively given (i) at the time of personal delivery, if delivery is in person; (ii) one (1) business day after deposit with an express overnight courier for United States deliveries, or two (2) business days after such deposit for deliveries outside of the United States, with proof of delivery from the courier requested; or (iii) three (3) business days after deposit in the United States mail by certified mail (return receipt requested) for United States deliveries when addressed to the party to be notified at the address indicated for such party or, in the case of the Company, at 16 Hamilton Street, West Haven, CT 06516, Attn: Michael Bannon, President, or at such other address as any party or the Company may designate by giving ten (10) days' advance written notice to all other parties, and if to the Holder 140 Broadway, Suite 4614, New York, NY 10005, Attn: Dennis Antoneles, President.

21. **AMENDMENTS AND WAIVERS.** Any term of this Convertible Note may be amended, and the observance of any term of this Convertible Note may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Company and the Holder(s) of at least two-thirds (66.66%) of the Principal Amount. Any amendment or waiver effected in accordance with this Section shall be binding upon the Holder, each future holder of such securities, and the Company.

22. **SEVERABILITY.** If one or more provisions of this Convertible Note are held to be unenforceable under applicable law, such provision(s) shall be excluded from this Convertible Note and the balance of the Convertible Note shall be interpreted as if such provision(s) were so excluded and shall be enforceable in accordance with its terms.

*[Signature Page Next]*

IN WITNESS WHEREOF, the Company has caused this Convertible Note to be signed in its name as of the date first above written.

**Michael Bannon**

By: /s/ Michael Bannon

Name: Michael Bannon

**AGREED AND ACKNOWLEDGED:**

DRONE USA INC.

By: /s/ Dennis Antoneles

Name: Dennis Antoneles

Title: CFO

***THIS CONVERTIBLE NOTE AND THE SECURITIES ISSUABLE UPON CONVERSION OF THIS CONVERTIBLE NOTE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), OR UNDER THE SECURITIES LAWS OF APPLICABLE STATES. THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER TO THE EFFECT THAT ANY PROPOSED TRANSFER OR RESALE IS IN COMPLIANCE WITH THE SECURITIES ACT AND ANY APPLICABLE STATE SECURITIES LAWS.***

**CONVERTIBLE NOTE  
OF  
DRONE USA LLC**

\$840,000

Made as of December 11, 2015

WHEREAS, AIG Inc., a Connecticut corporation (the ***"Holder"***) has agreed to lend \$840,000 (the ***"Principal Amount"***) to Drone USA LLC, a Delaware corporation (the ***"Company"***).

NOW, THEREFORE, in consideration of the promises, agreements, covenants, conditions and releases contained herein, as well as for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows

The Company hereby promises to pay to the Holder or his registered assigns, no later than eighteen (18) months after the date of this Convertible Note (the ***"Maturity Date"***), the Principal Amount together with interest on the unpaid principal balance equal to 7%, computed on the basis of the actual number of days elapsed and a year of 365 days from the date of this Convertible Note unless the Principal Amount and all interest accrued thereon and all other amounts owed hereunder are converted, as provided in Section 6 hereof. The Company shall pay the accrued and unpaid interest to Holder on a monthly basis. All payments received by the Holder hereunder will be applied first to costs of collection, if any, then to interest and the balance to principal. Principal and interest shall be payable in lawful money of the United States of America.

This Convertible Note may be prepaid in whole or in part at any time by the Company.

The following is a statement of the rights of the Holder and the conditions to which this Convertible Note is subject, and to which the Holder hereof, by the acceptance of this Convertible Note, agrees:

1. **DEFINITIONS.** The following definitions shall apply for all purposes of this Convertible Note:

1.1. ***“Closing”*** means the date on which the purchase and sale of the Convertible Note occurred, or December 11, 2015.

1.2. ***“Company”*** means the “Company” as defined above and includes any corporation which shall succeed to or assume the obligations of the Company under this Convertible Note.

1.3. ***“Common Stock”*** means the shares of common stock of the Company, par value \$0.001 per share.

1.4. ***“Conversion Price”*** means the average volume weighted average price (VWAP) per share of Common Stock for the 30 days prior to the date of conversion.

1.5. ***“Conversion Stock”*** means the Common Stock into which the unpaid Principal Amount and the accrued and unpaid interest due under this Convertible Note convert. The number of shares of Conversion Stock are subject to adjustment as provided herein.

1.6. ***“Convertible Note”*** means this Convertible Note.

1.7. ***“Holder”*** means any person who shall at the time be the registered holder of this Convertible Note.

2. **REPRESENTATIONS AND WARRANTIES OF THE COMPANY.** The Company hereby represents and warrants to Holder that the statements in the following paragraphs of this Section 2 are all true and complete as of immediately prior to the Closing:

2.1. **Organization, Good Standing and Qualification.** The Company has been duly organized, and is validly existing and in good standing, under the laws of State of Connecticut. The Company has the power and authority to own and operate its properties and assets and to carry on its business as currently conducted and as presently proposed to be conducted.

2.2. **Due Authorization.** All corporate action on the part of the Company’s directors and stockholders necessary for the authorization, execution, delivery of, and the performance of all obligations of the Company under the Convertible Note has been taken or will be taken prior to the Closing, and the Convertible Note when executed and delivered, will constitute, valid and legally binding obligations of the Company, enforceable in accordance with their respective terms, except as may be limited by (i) applicable bankruptcy, insolvency, reorganization or other laws of general application relating to or affecting the enforcement of creditor’s rights generally and (ii) the effect of rules of law governing the availability of equitable remedies.

2.3. **Corporate Power.** The Company has the power and authority to execute and deliver this Convertible Note to be purchased by the Holder hereunder, to issue the Convertible Note and to carry out and perform all its obligations under the Convertible Note.

**2.4. Valid Issuance.** The Convertible Note and the Conversion Stock issued upon conversion of the Convertible Note, when issued, sold and delivered in accordance with the terms of this Convertible Note for the consideration provided for herein, will be duly and validly issued, fully paid and nonassessable.

**2.5. Securities Law Compliance.** Based in part on the representations made by the Holder in Section 3 hereof, the offer and sale of the Convertible Note solely to the Holder in accordance with the terms herein are exempt from the registration and prospectus delivery requirements of the U.S. Securities Act of 1933, as amended (the “**1933 Act**”) and the securities registration and qualification requirements of the currently effective provisions of the securities laws of the states in which the Holder is a resident based upon the address set forth herein.

**3. REPRESENTATIONS, WARRANTIES AND CERTAIN AGREEMENTS OF HOLDER.** Holder hereby represents and warrants to, and agrees with, the Company, that:

**3.1. Authorization.** This Convertible Note constitutes such Holder’s valid and legally binding obligation, enforceable in accordance with its terms except as may be limited by (i) applicable bankruptcy, insolvency, reorganization or other laws of general application relating to or affecting the enforcement of creditors’ rights generally and (ii) the effect of rules of law governing the availability of equitable remedies. Holder represents that such Holder has full power and authority to enter into this Convertible Note.

**3.2. Purchase for Own Account.** The Convertible Note and the shares of the Company’s Common Stock issuable upon conversion of this Convertible Note (collectively, the “**Securities**”) are being acquired for investment for Holder’s own account, not as a nominee or agent, and not with a view to the public resale or distribution thereof within the meaning of the 1933 Act, and such Holder has no present intention of selling, granting any participation in, or otherwise distributing the same.

**3.3. Disclosure of Information.** Such Holder has received or has had full access to all the information it considers necessary or appropriate to make an informed investment decision with respect to the Convertible Note. Such Holder further has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Convertible Note and to obtain additional information (to the extent the Company possessed such information or could acquire it without unreasonable effort or expense) necessary to verify any information furnished to such Holder or to which such Holder had access. The foregoing, however, does not in any way limit or modify the representations and warranties made by the Company in Section 2.

**3.4. Investment Experience.** Such Holder understands that the purchase of the Convertible Note is highly speculative and involves substantial risk. Such Holder has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of its investment in the Company and has the capacity to protect its own interests and the ability to bear the economic risk of its investment.

**3.5. Restricted Securities.** Such Holder understands that the Conversion Stock are characterized as “restricted securities” under the 1933 Act and Rule 144 promulgated thereunder inasmuch as they are being acquired from the Company in a transaction not involving a public offering, and that under the 1933 Act and applicable regulations thereunder such securities may be resold without registration under the 1933 Act only in certain limited circumstances. In this connection, such Holder is familiar with Rule 144, as presently in effect, and understands the resale limitations imposed thereby and by the 1933 Act. Such Holder understands that the Company is under no obligation to register any of the Conversion Stock sold hereunder. Such Holder understands that no public market now exists for any of the Conversion Stock and that it is uncertain whether a public market will ever exist for the Conversion Stock.

**4. FURTHER LIMITATIONS ON DISPOSITION.** Without in any way limiting the representations set forth above, such Holder further agrees not to make any disposition of all or any portion of the Securities unless and until:

**4.1.** there is then in effect a registration statement under the 1933 Act covering such proposed disposition and such disposition is made in accordance with such registration statement; or

**4.2.** such Holder shall have notified the Company of the proposed disposition, and shall have furnished the Company with a statement of the circumstances surrounding the proposed disposition, and, at the expense of such Holder or its transferee, with an opinion of counsel, reasonably satisfactory to the Company, that such disposition will not require registration of such securities under the 1933 Act.

Notwithstanding the provisions of paragraphs 4.1 and 4.2 above, no such registration statement or opinion of counsel shall be required: (i) for any transfer of any Convertible Note or Conversion Shares in compliance with Rule 144 or Rule 144A; (ii) for any transfer of any Convertible Note or Conversion Shares by an Holder that is a partnership or a corporation to (A) a partner of such partnership or shareholder of such corporation, (B) a controlled affiliate of such partnership or corporation, (C) a retired partner of such partnership who retires after the date hereof, (D) the estate of any such partner or shareholder; or (iii) for the transfer by gift, will or in testate succession by any Holder to his or her spouse or lineal descendants or ancestors or any trust for any of the foregoing; provided that in each of the foregoing cases the transferee agrees in writing to be subject to the terms of this Section 4 to the same extent as if the transferee were an original Holder hereunder.

5. **LEGENDS.** Such Holder understands and agrees that the certificates evidencing the Conversion Stock will bear legends substantially similar to those set forth below:

***THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES LAWS OF APPLICABLE STATES. THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE ACT AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. INVESTORS SHOULD BE AWARE THAT THEY MAY BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER TO THE EFFECT THAT ANY PROPOSED TRANSFER OR RESALE IS IN COMPLIANCE WITH THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS.***

The legend set forth above shall be removed by the Company from any certificate evidencing the Conversion Stock upon delivery to the Company of an opinion of counsel, reasonably satisfactory to the Company, that a registration statement under the 1933 Act is at that time in effect with respect to the legended security or that such security can be freely transferred in a public sale (other than pursuant to Rule 144 or Rule 145 under the 1933 Act) without such a registration statement being in effect and that such transfer will not jeopardize the exemption or exemptions from registration pursuant to which the Company issued the Conversion Stock.

6. **CONVERSION.**

6.1. **Optional Conversion.** Upon the request of the Holder, this Convertible Note may be converted, in whole or in part, into shares of Common Stock equal to (a) the outstanding principal and accrued interest under this Convertible Note divided by (b) the Conversion Price.

6.2. **Termination of Rights.** All rights with respect to this Convertible Note shall terminate upon the issuance of shares of the Conversion Stock upon conversion of this Convertible Note, whether or not this Convertible Note has been surrendered. Notwithstanding the foregoing, Holder agrees to surrender this Convertible Note to the Company for cancellation as soon as is possible following conversion of this Convertible Note. The Holder shall not be entitled to receive the stock certificate representing the Conversion Stock to be issued upon conversion of this Convertible Note until the original of this Convertible Note is surrendered to the Company and the agreements referenced in this Section 6 have been executed and delivered to the Company.

6.3. **Issuance of Conversion Stock.** As soon as practicable after conversion of this Convertible Note, the Company at its expense will cause to be issued in the name of and delivered to the Holder, a certificate or certificates for the Common Stock to which the Holder shall be entitled upon such conversion (bearing such legends as may be required by applicable state and federal securities laws in the opinion of legal counsel of the Company, by the Company's Certificate of Incorporation, or by any agreement between the Company and the Holder), together with any other securities and property to which the Holder is entitled upon such conversion under the terms of this Convertible Note. Such conversion shall be deemed to have been made, if made under Sections 6.1 above, immediately prior to the close of business on the date that this Convertible Note shall have been surrendered for conversion, accompanied by written notice of election to convert. No fractional shares will be issued upon conversion of this Convertible Note. If upon any conversion of this Convertible Note (and all other Convertible Notes held by the same Holder, after aggregating all such conversions), a fraction of a share of Common Stock would otherwise result, then in lieu of such fractional share of Common Stock the Company will pay the cash value of that fractional share, calculated on the basis of the applicable Conversion Price.

7. **DEFAULT; ACCELERATION OF OBLIGATION.** The Company will be deemed to be in default under this Convertible Note and the outstanding unpaid principal balance of this Convertible Note, together with all interest accrued thereon, will immediately become due and payable in full, without the need for any further action on the part of Holder, upon the occurrence of any of the following events (each an ***“Event of Default”***): (a) failure to make payment of principal and interest when due under this Convertible Note; (b) upon the filing by or against the Company of any voluntary or involuntary petition in bankruptcy or any petition for relief under the federal bankruptcy code or any other state or federal law for the relief of debtors; provided, however, with respect to an involuntary petition in bankruptcy, such petition has not been dismissed within ninety (90) days after the filing of such petition; (c) upon the execution by the Company of an assignment for the benefit of creditors or the appointment of a receiver, custodian, trustee or similar party to take possession of the Company’s assets or property; (d) any breach of a material representation or warranty under section 2 of this Convertible Note that cannot be cured in ten (10) business days from the date the Company receives notice of such breach; (e) a material default in performance or compliance with respect to any other debt instrument in excess of \$100,000 individually or in the aggregate (excluding this Convertible Note) that results in acceleration of the maturity date of such debt obligation or that causes such indebtedness not to be paid when due; or (f) a material adverse change in the financial condition of the Company.

8. **REMEDIES ON DEFAULT; ACCELERATION.** Upon any Event of Default, the Holder will have, in addition to its rights and remedies under this Convertible Note, full recourse against any real, personal, tangible or intangible assets of the Company, and may pursue any legal or equitable remedies that are available to Holder, and may declare the entire unpaid principal amount of this Convertible Note and all unpaid accrued interest under this Convertible Note to be immediately due and payable in full.

9. **ADJUSTMENT PROVISIONS.** The number and character of shares of Conversion Stock issuable upon conversion of this Convertible Note (or any shares of stock or other securities or property at the time receivable or issuable upon conversion of this Convertible Note) and the Conversion Price therefor are subject to adjustment upon occurrence of the following events between the date this Convertible Note is issued and the date it is converted:

9.1 **Adjustment for Stock Splits, Stock Dividends, Recapitalizations, etc.** If the conversion is made under Section 6.1 above, the Conversion Price of this Convertible Note and the number of shares of Conversion Stock issuable upon conversion of this Convertible Note (or any shares of stock or other securities at the time issuable upon conversion of this Convertible Note) shall each be proportionally adjusted to reflect any stock dividend, stock split, reverse stock split, reclassification, recapitalization or other similar event affecting the number of outstanding shares of Conversion Stock (or such other stock or securities).

**9.2      Adjustment for Other Dividends and Distributions.** In case the Company shall make or issue, or shall fix a record date for the determination of eligible holders entitled to receive, a dividend or other distribution payable with respect to the Common Stock that is payable in (a) securities of the Company (other than issuances with respect to which adjustment is made under Section 9), or (b) assets (other than cash dividends paid or payable solely out of retained earnings), then, and in each such case, the Holder, upon conversion of this Convertible Note at any time after the consummation, effective date or record date of such event, shall receive, in addition to the shares of Conversion Stock issuable upon such exercise prior to such date, the securities or such other assets of the Company to which the Holder would have been entitled upon such date if the Holder had converted this Convertible Note immediately prior thereto (all subject to further adjustment as provided in this Convertible Note).

**9.3      Adjustment for Reorganization, Consolidation, Merger.** In case of any reorganization of the Company (or of any other entity the securities of which are at the time receivable on the conversion of this Convertible Note), after the date this Convertible Note, or in case, after such date, the Company (or any such corporation) shall consolidate with or merge into another corporation or convey all or substantially all of its assets to another corporation and then distribute the proceeds to its interest holders, then, and in each such case, the Holder, upon the conversion of this Convertible Note (as provided in Section 6) at any time after the consummation of such reorganization, consolidation, merger or conveyance, shall be entitled to receive, in lieu of the Conversion Stock or other securities and property receivable upon the conversion of this Convertible Note prior to such consummation, the stock or other securities or property to which the Holder would have been entitled upon the consummation of such reorganization, consolidation, merger or conveyance if the Holder had converted this Convertible Note immediately prior thereto, all subject to further adjustment as provided in this Convertible Note, and the successor or purchasing corporation in such reorganization, consolidation, merger or conveyance (if other than the Company) shall duly execute and deliver to the Holder a supplement hereto acknowledging such corporation's obligations under this Convertible Note; and in each such case, the terms of the Convertible Note shall be applicable to the Common Stock or other securities or property receivable upon the conversion of this Convertible Note after the consummation of such reorganization, consolidation, merger or conveyance.

**10.      NOTICE OF ADJUSTMENTS.** The Company shall promptly give written notice of each adjustment or readjustment of the Conversion Price or the number of shares of Common Stock or other securities issuable upon conversion of this Convertible Note. The notice shall describe the adjustment or readjustment and show in reasonable detail the facts on which the adjustment or readjustment is based.

**11.      NO CHANGE NECESSARY.** The form of this Convertible Note need not be changed because of any adjustment in the Conversion Price or in the number of shares of Common Stock issuable upon its conversion.

**12.      NO RIGHTS OR LIABILITIES AS STOCKHOLDER.** This Convertible Note does not by itself entitle the Holder to any voting rights or other rights as a stockholder of the Company. In the absence of conversion of this Convertible Note, no provisions of this Convertible Note, and no enumeration herein of the rights or privileges of the Holder, shall cause the Holder to be a stockholder of the Company for any purpose.

13. **NO IMPAIRMENT.** The Company will not, by amendment of its Certificate of Incorporation, or through reorganization, consolidation, merger, dissolution, issue or sale of securities, sale of assets or any other voluntary action, willfully avoid or seek to avoid the observance or performance of any of the terms of this Convertible Note, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Holder under this Convertible Note against wrongful impairment. Without limiting the generality of the foregoing, the Company will take all such action as may be necessary or appropriate in order that the Company may duly and validly issue fully paid and nonassessable shares of Common Stock upon the conversion of this Convertible Note.

14. **PREPAYMENT.** The Company may at any time, without penalty, upon at least twenty (20) days' advance written notice to the Holder, prepay in whole or in part the unpaid balance of this Convertible Note. All payments will first be applied to the repayment of accrued fees and expenses, then to accrued interest until all then outstanding accrued interest has been paid, and then shall be applied to the repayment of principal. The Holder shall have the right to convert this Note prior to such prepayment.

15. **WAIVERS.** The Company and all endorser of this Convertible Note hereby waive notice, presentment, protest and notice of dishonor.

16. **ATTORNEYS' FEES.** In the event any party is required to engage the services of any attorneys for the purpose of enforcing this Convertible Note, or any provision thereof, the prevailing party shall be entitled to recover its reasonable expenses and costs in enforcing this Convertible Note, including attorneys' fees from the Company upon the Company receiving its next round of funding.

17. **TRANSFER.** Neither this Convertible Note nor any rights hereunder may be assigned, conveyed or transferred, in whole or in part, without the Company's prior written consent, which the Company may withhold in its sole discretion, provided, however, that the Holder may transfer this Convertible Note to affiliates without the Company's prior written consent. The rights and obligations of the Company and the Holder under this Convertible Note shall be binding upon and benefit their respective permitted successors, assigns, heirs, administrators and transferees.

18. **GOVERNING LAW; JURISDICTION; VENUE.** This Convertible Note shall be governed by and construed under the internal laws of the State of New York, without reference to principles of conflict of laws or choice of laws. Each of the parties irrevocably consents that any legal action or proceeding for equitable relief which may be brought against any of them pursuant to the terms of this Convertible Note which arise out of or are in any manner related to this Convertible Note may be brought in the federal and state courts in New York, New York. Each party by the execution and delivery of this Convertible Note, expressly and irrevocably consents and submits to the personal jurisdiction of any of such courts in any such action or proceeding. Each party hereby expressly and irrevocably waives any claim or defense in any such action or proceeding based on any alleged lack of personal jurisdiction, improper venue or forum non conveniens or any similar basis.

19. **HEADINGS.** The headings and captions used in this Convertible Note are used only for convenience and are not to be considered in construing or interpreting this Convertible Note. All references in this Convertible Note to sections and exhibits shall, unless otherwise provided, refer to sections hereof and exhibits attached hereto, all of which exhibits are incorporated herein by this reference.

20. **NOTICES.** Unless otherwise provided, any notice required or permitted under this Convertible Note shall be given in writing and shall be deemed effectively given (i) at the time of personal delivery, if delivery is in person; (ii) one (1) business day after deposit with an express overnight courier for United States deliveries, or two (2) business days after such deposit for deliveries outside of the United States, with proof of delivery from the courier requested; or (iii) three (3) business days after deposit in the United States mail by certified mail (return receipt requested) for United States deliveries when addressed to the party to be notified at the address indicated for such party or, in the case of the Company, at 16 Hamilton Street, West Haven, CT 06516, Attn: Michael Bannon, President, or at such other address as any party or the Company may designate by giving ten (10) days' advance written notice to all other parties, and if to the Holder 140 Broadway, Suite 4614, New York, NY 10005, Attn: Dennis Antoneles, President.

21. **AMENDMENTS AND WAIVERS.** Any term of this Convertible Note may be amended, and the observance of any term of this Convertible Note may be waived (either generally or in a particular instance and either retroactively or prospectively) only with the written consent of the Company and the Holder(s) of at least two-thirds (66.66%) of the Principal Amount. Any amendment or waiver effected in accordance with this Section shall be binding upon the Holder, each future holder of such securities, and the Company.

22. **SEVERABILITY.** If one or more provisions of this Convertible Note are held to be unenforceable under applicable law, such provision(s) shall be excluded from this Convertible Note and the balance of the Convertible Note shall be interpreted as if such provision(s) were so excluded and shall be enforceable in accordance with its terms.

***[Signature Page Next]***

IN WITNESS WHEREOF, the Company has caused this Convertible Note to be signed in its name as of the date first above written.

**AIG, INC.**

By: /s/ Michael Bannon

Name: Michael Bannon

Title: President

**AGREED AND ACKNOWLEDGED:**

DRONE USA LLC

By: /s/ Dennis Antoneles

Name: Dennis Antoneles

Title: President



# Welcome to Servcorp

ONE WORLD TRADE CENTER

This Service Agreement is made between Servcorp (1), the Client (2a) and the Guarantor (2b) below

Tuesday, April 26, 2016

<b>SERVPCORP OFFICE</b>	<b>("The Centre")</b>
City	New York
	Servcorp Fulton Street
Web address	<a href="http://www.servcorp.com">www.servcorp.com</a>
Address	One World Trade Center Suite 8500
	New York, NY 10007
Business number	212-220-8500

## 2a CLIENT

Company name	Drone USA Inc.
Web address	<a href="http://www.drone1usa.com/">http://www.drone1usa.com/</a>
Address	140 Broadway 6th Floor
	New York, NY 10005
Email Address	<a href="mailto:mike@drone1usa.com">mike@drone1usa.com</a>
Business number	203-410-8924

## 2b GUARANTOR

Name	
Residential address	
Telephone number	
Email address	
Passport / Drivers licence number	

## 3 BANK

Servcorp bank	Wells Fargo
Servcorp branch	150 East 42nd Street 36th FL New York NY 10017
Servcorp account name	Servcorp Fulton Street LLC
Servcorp account number	4969145242 Sort Code: 121000248 Swift: WFBUS65
Client bank	
Client account name	
Client account number	Swift
Start date of Direct Debit	

## 4 CLIENT'S HEAD OFFICE

Contact name	
Address	
Email address	
Telephone number	

## 5 COMMERCIAL REFERENCES

<b>REFERENCE 1</b>	
Company name	
Contact name	
Telephone number	
<b>REFERENCE 2</b>	
Company name	
Contact name	
Telephone number	

## 6 INITIAL INVOICE DETAILS

Office(s) fee first month	\$	-	FR: 5/1/2016	TO: 5/31/2016
Outgoings	\$	-	Partitioned Double Windowed Office, included in rent	
Connect 2 Pack	\$	560.00	Connect 2 Pack includes:	
Telephone Connection	\$	-		2
Fibre Broadband Internet	\$	-		2
OneFone App	\$	-		2
OneFax	\$	-		1
Beverages	\$	120.00		2 persons x \$60
SERVPCORP ONLINE	\$	-		1
Additional furniture	\$	-		5 pieces complimentary
<b>INITIAL INVOICE</b>	<b>\$</b>	<b>680.00</b>		
Security deposit	\$	10,000.00		2 month's list rental
Activation fees	\$	1,700.00		\$850/person

Tax to be calculated with initial invoice

**SET UP FEES: \$ 11,700.00**

**TOTAL AMOUNT DUE \$12,380.00**

## 7 ACCOMMODATION DETAILS

Office number(s)	Offices #24	("The Office(s)")
List Office(s) fee	\$5,000	
Notice period	2 months (on or before February 28th, 2017)	
Term commencement date	May 1, 2016	
Initial term ending date	April 30, 2017	(Refer to Clause 4)
Term of the agreement	12 months	
Outgoings per office included in office rent		Number of People: 2
Office(s) fee per month	\$0	FR: 5/1/2016 TO: 7/31/2016
Office(s) fee per month	\$5,000	FR: 8/1/2016 TO: 4/30/2017
Office(s) fee per month	Market Rate	FR: 5/1/2017 ongoing

## 8 COMMENTS

Monthly Office Rental Fee shall be discounted by 100% from \$5,000 to \$0 per month for the period of May 1, 2016 through July 31, 2016 during the initial Service Agreement term only. Monthly Office Rental Fee will thereafter revert to \$5,000 from August 1, 2016 to April 30, 2017 as per section 7 above of this Service Agreement. Monthly Office Fee listed in section 7 will accommodate 2 people. To add additional people after the activation date, Servcorp Connect Packages and Activation Fees shall apply. Servcorp Connect 2 provides eligibility for up to \$560 per month in call credits on local, national, international, and mobile telephones calls and 30 GB of internet usage, subject to Servcorp's fair usage guidelines, then charged at \$0.02 per mb thereafter. Outbound phone calls are billed at current call rates depending on destination. All recurring fixed costs as noted in section 6 will apply for the entire term. At end of initial agreement term all discounts on office rental rates will expire and rates will reflect market list rates upon renewal. Should Client wish to terminate on the initial term ending April 30, 2017, a two months' written notice on or before February 28, 2017 is required. Should the client wish to use meeting rooms, day office or business lounge in addition to office usage, time will be billed in full based on current during hours and after hours rates and must be reserved in advance. Should Client wish to have phone, mail, meeting or guest services for company names other than the one listed in Section 2, business identity packages and additional fees shall apply. 5 pieces furniture included complimentary. Thereafter chargeable at \$85/piece per month.

## 9 INCLUDED IN OFFICE(S) FEE DURING INITIAL TERM

Executive Desk: 2  
Executive Chair: 2  
Two-Drawer Filing Cabinet: 1

## SERVPCORP ONLINE MEMBERSHIP

Membership Includes:

- \* Five days per month complimentary access to an office/business lounge in any other Servcorp city (subject to availability)
- \* "Test the Waters TM" two months virtual office facility in any Servcorp city
- \* Special Membership discounts
- \* Transfer your agreement to any Servcorp location (subject to availability)
- \* 100% Introduction fee for successful introduction a new Servcorp Client

The Client and Guarantor confirm that he/she has read and understood the terms and conditions overleaf and agrees to be bound by them and Servcorp agrees to provide the Services and Facilities as mentioned. THIS SERVICE AGREEMENT AND SUBSEQUENT SCHEDULES (which form part of this Service Agreement) ARE CONFIDENTIAL. The Servcorp International Partnership Manager can be contacted on +61 2 9231 7478. This Service Agreement does not automatically end. See section 4 Services Continuation clause Overleaf. This Agreement can not be terminated by the client during the initial Service Agreement term.

We enter into this Service Agreement and agree to all its conditions.

### Signed for and on behalf of Servcorp

Name (printed): Jennifer Goodwyn  
Date: 04.28.16  
Signature: Jennifer Goodwyn  
Email communication

### Signed by the Guarantor

Name (printed):  
Date:  
Signature:

### Signed for and on behalf of the Client

Name (printed): Michael Brennan  
Date: 4/28/16  
Drivers licence / passport number: 10Y515615  
Signature:

i. The email address provided on the Service Agreement shall be used by Servcorp for all email communication with the client. This includes general client communication, pricing changes, news and special offers. Written notification and an alternate email address must be provided to Servcorp if a client does not want to be contacted at this email address.

ii. Under no circumstances shall the client email address be provided to any external or third party providers.

**SERVPCORP**

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**THE CLIENT AND GUARANTOR (WHERE APPLICABLE) COVENANTS WITH SERVCORP:****1. Services**

- a. In order for Servcorp to provide temporary office services to the Client, Servcorp shall:
  - i. Provide core services including but not limited to Unified Communications, Servcorp Broadband Connection(s), Servcorp Online and beverage package(s) (hereinafter referred to as the "Core Services"). Core services are provided on a per person basis and can only be terminated if exceeding the number of people within the Office(s).
  - ii. Provide other ancillary services as requested by the Client and agreed to by Servcorp, the contents of which shall be separately designated by Servcorp (hereinafter referred to as the "Ancillary Services"). The Core Services and Ancillary Services shall be referred to collectively as the "Services". The Client shall pay Servcorp a fee for the Services.
  - iii. Provide a temporary accommodation service (hereinafter referred to as the "Accommodation Service") by permitting temporary use of office space (hereinafter referred to as the "Office(s)" as defined in Item 7 overleaf) and the functions of the Office(s) at such location or locations within the Centre as Servcorp shall designate from time to time.
- b. Servcorp and the Client acknowledge that this Service Agreement is an agreement for the provision of Services for temporary use of a complete suite of office services and neither this Service Agreement nor the presence of the Client or any person or persons at any time constitutes or creates any tenancy, tenancy interest, leasehold estate or other real property interest and this agreement is not a rental agreement with respect to the Office(s). The Client agrees and acknowledges that for as long as this Service Agreement continues if Servcorp deems necessary, the accommodation may be provided in office space other than the Office(s). Expenses incurred in connection with such move to other office space shall be borne to the extent reasonable by Servcorp.

**2. Payment**

- a. The Accommodation Service shall be paid for monthly in advance by way of **Direct Debit, Check, Direct Deposit on the first day** of each and every month to Servcorp at its bank and in respect of any broken period a pro-rata adjustment shall be made.
- b. Cancellation of the Direct Debit without Servcorp being notified in writing shall be deemed a fundamental breach of this Service Agreement.
- c. Services are to be paid for **SEVEN DAYS AFTER DATE OF INVOICE**. The Client will notify Servcorp in writing of any dispute and the reasons for it within seven days of date of invoice. If the parties agree there is a disputed amount, the Client shall pay the undisputed portion of the invoice(s) on or before the due date. Any invoice issued by Servcorp shall constitute formal demand for payment.

**3. Security Deposit**

- a. Upon receipt of a security deposit to hold an Office, a suitable amount of office space will be held for up to 30 days. This deposit is non-refundable if the Client does not proceed with this Service Agreement.
- b. Any security deposit lodged by the Client under this Service Agreement will be lodged as security for Servcorp or its agent against default by the Client and as security for the Client's liability for all matters under this Service Agreement. Servcorp shall be entitled to deduct from the security deposit any monies owed to Servcorp for the Services or apply the same towards the satisfaction of any amount that may be payable to Servcorp or to a third party in respect of this Service Agreement for any reason. Neither the giving of the security deposit nor any deduction from it by Servcorp shall relieve the Client from any of its obligations under this Service Agreement or act as a waiver of or otherwise limit Servcorp's right to recover against the Client for any breach of this Service Agreement.
- c. The security deposit is refundable to the Client but only after written request has been made by the Client with forwarding bank details to facilitate return of the security deposit. Servcorp shall be entitled to hold the security deposit for a period of 60 days after termination.
- d. If the Client's account for a month shall exceed by 50% the security deposit held, the Client shall within seven days after receipt of the account increase the amount of the Security Deposit by paying to Servcorp a sum equal to such excess.

**4. Services Continuation**

- Unless:
- a. Servcorp gives at least one month's written notice to the Client demanding that it ceases its temporary occupation of the Office(s) on the date of expiration of the original term of this Service Agreement; or
- b. The Client gives at least the required notice (as set out in Item 7 overleaf) to Servcorp IN WRITING to end temporary occupation on that date of expiration and not before the Initial Term Ending Date: This Service Agreement shall from that date of expiration continue as a periodic Service Agreement for a period equal to the term of the original term of the Service Agreement (as set out in Item 7 overleaf), at a service fee which is appropriate at the time of such renewal as determined by Servcorp in its absolute discretion and notified by it to the Client.

**5. Insurance**

- a. To insure for public liability covering all sums which the Client may become legally liable to pay for at least US\$2million.
- b. To insure all goods held in the Office(s). Servcorp will not be held responsible for loss, theft or damage of the goods however caused.
- c. Servcorp will insure for Public Liability covering all sums which Servcorp shall become legally liable to pay.

**6. Government Charges, Rates & Taxes**

- a. To pay all Local and other Government taxes due for Services. All amounts mentioned in this Service Agreement are exclusive of such taxes.
- b. To reimburse Servcorp within **SEVEN DAYS AFTER THE DATE OF INVOICE**, the percentage specified under "outgoings" (as set out in Item 7 overleaf) for rates, water and sewerage rates, and all other expenses from time to time payable by Servcorp in respect of the Centre (as set out in Item 1 overleaf).

**7. Use and Care of the Centre**

- a. To take care of any goods, facilities equipment or space used by or provided to the Client pursuant to this Service Agreement and to keep them in a clean condition.
- b. Not to make alterations or additions or install heavy equipment in the Centre, without the written consent of Servcorp.
- c. Not to damage or mistreat any equipment provided by Servcorp as part of the Services.
- d. Not to allow the installation of any machine, cabling, IT or telecoms connection in the Centre for sending or receiving of any communications without the written consent of Servcorp.
- e. Not to sleep or permit anyone to sleep in the Centre.
- f. Not to hold or permit to be held any retail sales or sale by auction in the Centre.
- g. Not to smoke, or permit others to smoke, in the Office(s) or on the floor of the Centre on which the Office(s) are located.
- h. Not to use the Centre for any immoral or illegal purposes.
- i. Not to obstruct others' sales and business activities.

**8. Equipment/Use**

- a. Not to use or permit to be used any communication or other equipment or machines by or for any other Client of Servcorp.
- b. Not to divert or transfer any communications whether oral, or in written data in any form to any PABX telephone system or electronic receiving device owned by Servcorp or its agents, without the written consent of Servcorp.

**9. Services**

- a. To pay during the term of the Service Agreement all charges for Services rendered by Servcorp to the Client at the rates stipulated by Servcorp from time to time. Servcorp reserves the right to change, review or vary the charges.
- b. Not to at any time directly or indirectly through another business or affiliate, provide to any other Client of Servcorp any of the Services provided by Servcorp or by any company affiliated with Servcorp.
- c. The Client must provide one month's notice to Servcorp in writing to terminate monthly service rentals (i.e. Unified Communications, Fax, Servcorp Broadband Connection(s), Parking, Furniture Rental, Directory Board Listing).
- d. The Client acknowledges that Servcorp owns all telephone numbers and I.P. addresses allocated to the Client, and agrees that they are only made available to the Client while they have this Service Agreement with Servcorp.
- e. Five days per month complimentary access to an office/business lounge and "Test the Waters"™ is available to the Client in cities where the Client is not a Servcorp or Servcorp Virtual Office client. Consecutive days are subject to availability. Bookings can only be made via Servcorp Online.
- f. Servcorp retains the right to not accept any excessively large, unreasonable or unlawful packages.
- g. The Client acknowledges that the beverage package is limited to self-service Twinings tea and coffee.

**10. Internet**

- a. All Servcorp Broadband Internet Connections are subject to the current terms of use which are determined by Servcorp from time to time.
- b. The Client acknowledges that the Service Level agreement is pursuant to the contract with the service provider.

**11. Notice**

- a. Any written notice required or authorised by this Service Agreement:
  - i. Shall be deemed to have been served on the Client if emailed, delivered to the Office(s) or posted to the last known address of the Client and in the latter case shall be deemed to have been served on the second working day after posting.
  - ii. Shall be deemed to have been served on Servcorp only if hand delivered or sent by registered post to Servcorp marked attention Manager.

**12. Headlease**

- a. The Client acknowledges that this Service Agreement is subject to the terms of Servcorp's headlease ("Headlease") and any other documents or provisions binding on Servcorp or Servcorp's use of the Building.
- b. The parties agree that this Service Agreement is dependent and conditional upon the Headlease and that if the Headlease is terminated for any reason this Service Agreement and any ability on the part of the Client to occupy the Office(s) shall also immediately terminate without prejudice to any antecedent rights.

**13. Termination**

- a. Servcorp may terminate this Service Agreement by giving one month's written notice to the Client at any time.
  - i. For security purposes, Servcorp has the right within 14 days of Client commencement to terminate the agreement immediately.
  - ii. Servcorp shall have the right to withhold Services (including incoming and outgoing telephone calls and Client access to the Office(s)) and/or re-enter the Office(s) without prior notice and shall have a general lien on all property of the Client physically situated on any premises of Servcorp or alternatively at Servcorp's discretion continue this Service Agreement as a periodic Service Agreement from month to month:
    - i. Where the Client has failed to pay for Accommodation or Services on the respective due dates; or
    - ii. Where the Client has breached any term of this Service Agreement and fails to remedy that breach within seven days of being requested by Servcorp to do so.
  - iii. The Client will be responsible for Servcorp's reasonable costs in recovering any monies owed under this Service Agreement.
- b. The Client may remove its possessions and shall remove their signs provided that any damage or delinquency occasioned in the course of such removal shall be remedied by the Client immediately and at their own expense. If it fails to do so Servcorp may do so at the Client's expense.
- c. Upon the termination or determination of this Service Agreement for any cause the Client shall promptly and peacefully cease to occupy of the Office(s) and leave them in the condition and state of repair required by Clause 7 of this Service Agreement, and at the same time hand over all keys and access cards.
- d. At time of termination, a fee (maximum fee will be two months list Accommodation Service) will be charged for administrative and office costs related to termination of the Service Agreement. This includes but is not limited to administrative fees, termination of phone and internet connections and make good of the premises (e.g. painting, steam cleaning of carpet, furniture repair). Common areas and floor equipment will be maintained during the Agreement. Restoration will be carried out by Servcorp's nominated contractors and personnel. Servcorp may continue to charge Accommodation to the Client for the time taken to restore/clean and will be charged at the rate applicable immediately prior to vacation.
- e. If the Client fails to demand the refund of the security deposit within 360 days after the date of termination of this Service Agreement, the security deposit shall be deemed forfeited to Servcorp absolutely.
- f. At the time of termination the Client, at Servcorp's discretion, will be required to pay a call administration/handling fee equivalent to the Platinum Virtual Membership for a period of three months from the date of termination. This Membership endeavours to ensure a smooth transition for the Client's business out of Servcorp.

**14. Assignment of Rights**

- a. The Client shall not assign, transfer or use as collateral, any rights or obligations arising in connection with this Agreement to any third party or hold them on trust for any such party.

**15. Servcorp Staff**

- a. If the Client, or any business of which the ownership or control is directly or indirectly associated with the Client, at any time during the term of the Service Agreement, or within 12 months after termination of the Service Agreement, employs any of the staff employed or who were employed by Servcorp or any business affiliated with Servcorp during the term of the Service Agreement then the Client shall pay to Servcorp by way of liquidated and/or ascertained damages an amount equal to 1.00% of the new annual wage and/or annual cash package of the employee. The applicability of liquidated and ascertained damages applies to all staff whether permanent, part-time or otherwise.
- b. The Client acknowledges that the Services will be shared with other Clients of Servcorp.
- c. Not to abuse or mistreat any persons employed by Servcorp.

**16. Guarantor's Liability**

- a. The Guarantor unconditionally agrees jointly and severally with the Client to be liable to Servcorp for the payment of Services and all other monies payable by the Client and also for the due performance and observance of all the terms and conditions on the part of the Client.
- b. All the provisions of this guarantee shall apply to any liabilities of the Client in respect of any other Servcorp's Affiliates.
- c. In case the Guarantors registered home address, name, business name, company representative(s), company registration, or any other personal contact information has changed, the Client and the Guarantor shall notify Servcorp in writing without any further delay.

**17. Indemnity Clause**

- a. With the exception of negligence, or willful misconduct, the Client shall expressly indemnify Servcorp, its employees, caretakers, cleaners, agents or invitees, against any theft or loss from the Office(s) or damage to the Office(s) and its contents attributable to the Client, howsoever occurring.
- b. The Client shall expressly indemnify Servcorp against any loss, damage, corruption of data or any loss of information whether from hardware, software, internet, voice or communication system failure that may occur to the Client during the term of this Service Agreement.

**18. Repairs**

- a. To pay to Servcorp on demand any sums required by Servcorp to repair to the satisfaction of Servcorp any damage to the Premises resulting from neglect, omission or a deliberate or careless act or a breach of any condition of the Service Agreement by the Client or any person who enters or is upon the Premises with the consent or sufferance of the Client. If the Client fails to do so Servcorp may do so at the Client's expense.

**19. Costs**

- a. Should payment for Services and/or charges be made by any payment method other than Direct Debit Servcorp reserves the right to charge a payment administration fee per payment.
- b. Should payment for Services and/or charges be made by credit card an administration fee of 5% of the amount paid will apply.
- c. To pay all reasonable costs relating to this Service Agreement, including any legal costs whatsoever, stamp duty and any bank charges payable by Servcorp in respect of Accommodation Services and other amounts received by Servcorp from the Client pursuant to this Service Agreement.

**20. Invoices**

- a. Any invoice issued by Servcorp to the Client shall constitute a formal demand for payment. Any monies owing to Servcorp for more than 14 days shall bear a late payment administrative fee at the rate of 5% per month until payment.

**21. Servcorp Clients**

- a. In the event that during this Service Agreement, or within two years of the termination or expiration of this Service Agreement, the Client entices or persuades customers receiving services of Servcorp or any Affiliate of such client to leave Servcorp offices and to move to other premises not owned or run by Servcorp or the Affiliates of Servcorp and receive services not operated by Servcorp or Servcorp's Affiliates, this shall constitute a material breach of this Service Agreement.
- b. In the event of a material breach of this Service Agreement by the Client, the Client shall promptly pay to Servcorp an amount of US\$15,000 as a penalty.
- c. Payment of the penalty under Clause 21b shall not preclude Servcorp demanding further payment for damages.

**22. Consignment**

- a. The Client confers on Servcorp, or any party appointed by Servcorp, the right to purchase and store drinks, including liquor, in place of the Client.

**23. Business-like dress standards apply at all times**

- a. The Client shall ensure that its employees, agents, contractors, clients and other persons who attend the premises wear business attire at all times.

**24. Governing Law**

- a. The governing law of this Service Agreement will be the law of the Country in which the premises are located.

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# SERVCORP

## SERVICES AGREEMENT ADDENDUM

Page | 1 of 1

This Addendum dated May 26, 2016 shall be attached to and form a part of the Service Agreement dated April 26, 2016 between **Servcorp LLC** d/b/a Servcorp ("Us/We") and **Drone USA Inc** ("Client").

**The following are additional provisions and/or modifications to the foregoing and annexed Service Agreement, effective as of May 26, 2016, and in effect for the duration of the term and may not be canceled or diminished until the next renewal period.** In the event of any inconsistency between the provisions of this Addendum and the provisions of the foregoing and annexed Service Agreement, the provisions of this Addendum shall prevail for the premises known as Suite Number 24.

The Client shall occupy an additional suite known as Suite 59 for a period of 12 months from July 1, 2016 to June 30, 2017. The list rental of Suite 59 is \$2500 and shall be discounted to \$0 for four (4) months only from July 1, 2016 – 30 October, 2016. Rent shall thereafter revert to \$2500 from November 1, 2016 for the remainder of the term. Two (2) people shall be the occupants of Suite 59.

Additional recurring fixed charges application for the 2 occupants per month shall apply as follow:

- Connect 2 - \$560
- Beverage Pack 2 - \$120

Further, additional Security Deposit of \$2500 shall be billed, and once-off setup fees for office, internet and phone installation/connections, security access passes and keys and mandatory background checks at \$850 per person shall be billed.

All provisions remain subject to the same terms and conditions contained within stated Service Agreement, and with specific reference to Item 8, Comments contained within the Overleaf. All terms and conditions not amended by this Addendum remain in effect and full force.

Signed:   
Selene Ng (May 27, 2016)

Name: Selene Ng

On behalf of **Servcorp LLC**

Date: May 27, 2016

Signed: MICHAEL BANNON  
MICHAEL BANNON (May 27, 2016)

Name: MICHAEL BANNON

On behalf of **Drone USA Inc**

Date: May 27, 2016

Signature:   
Ariel Reetz (May 27, 2016)

Email: houlouisiana@servcorp.com

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T +1 212 220 8500 **SERVCORP.COM**

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 Signed document emailed to MICHAEL BANNON (mike@drone1usa.com), helen.kim@servcorp.com, Selene Ng (selene.ng@servcorp.com.au) and Ariel Reetz (houlouisiana@servcorp.com)

05/27/2016 - 11:27:41 CDT

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# SERVCorp

## SERVICES ADDENDUM

This Addendum dated July 28, 2016 shall be attached to and form a part of the Service Agreement dated April 26, 2016 between **Servcorp LLC d/b/a Servcorp** ("Us/We") and **Drone USA Inc** ("Client").

The following are additional provisions and/or modifications to the foregoing and annexed Service Agreement, effective as of July 28, 2016, and in effect for the duration of the term and may not be canceled or diminished until the next renewal period. In the event of any inconsistency between the provisions of this Addendum and the provisions of the foregoing and annexed Service Agreement, the provisions of this Addendum shall prevail for the premises known as Suite Number 24.

The Client shall occupy an additional suite known as Suite 58 for a period of 12 months from September 1, 2016 to August 31, 2017. The list rental of Suite 58 is \$6500 and shall be discounted to \$0 for TWO (2) months only from September 1, 2016 – October 31, 2016. Rent shall thereafter revert to \$3500 from November 1, 2016 for the remainder of the term.

Additional recurring fixed charges application for the additional occupants per month shall apply as follow:

- ☐ Connect \$310 per person
- ☐ Beverage Pack \$60 per person

Further, additional Security Deposit of \$3500 shall be billed, and once-off setup fees for office, internet and phone installation/connections, security access passes and keys and mandatory background checks at \$850 per person shall be billed.

All provisions remain subject to the same terms and conditions contained within stated Service Agreement, and with specific reference to Item 8, Comments contained within the Overleaf. All terms and conditions not amended by this Addendum remain in effect and full force.

Signed: \_\_\_\_\_

**Selene Ng, General Manager**

On behalf of Servcorp LLC

Date: 28/7/16

Signed: \_\_\_\_\_

**Dennis Antonelos**

Drone USA Inc.

Date: 7/28/16

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**CREEKSIDE BUSINESS PARK  
STANDARD INDUSTRIAL LEASE - MULTI-TENANT  
AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION**

**1. Parties.** This Lease, dated, for reference purposes only, **April 28, 2009** is made by and between **Steve Strong dba Creekside Business Park** (herein called "Lessor") and **Howco Distributing Company** (herein called "Lessee").

**2. Premises, Parking and Common Areas.**

**2.1 Premises.** Lessor hereby leases to Lessee and Lessee leases from Lessor for the term, at the rental, and upon all of the conditions set forth herein, real property situated in the County of **Clark**, State of **Washington**, commonly known as **6101-B East 18<sup>th</sup> Street, Vancouver, WA 98661** and described as **approximately 3,200 SF with approximately 2,000 SF office** herein referred to as the "Premises," as may be outlined on an Exhibit attached hereto, including rights to the Common Areas as hereinafter specified but not including any rights to the roof of the Premises or to any Building in the Industrial Center. The Premises are a portion of a building herein referred to as the "Building." The Premises, the building, the Common Areas, the land upon which the same are located, along with all other buildings and improvements thereon, are herein collectively referred to as the "Industrial Center."

**2.2 Vehicle Parking.** Lessee shall be entitled to **six (6)** vehicle parking spaces, unreserved and unassigned, on those portions of the Common Areas designated by Lessor for parking. Lessee shall not use more parking spaces than said number. Said parking spaces shall be used only for parking by vehicles no larger than full-size passenger automobiles or pickup trucks, herein called "Permitted Size Vehicles." Vehicles other than Permitted Size Vehicles are herein referred to as "Oversized Vehicles."

**2.2.1** Lessee shall not permit or allow any vehicles that belong to or are controlled by Lessee or Lessee's employees, suppliers, shippers, customers, or invitees to be loaded, unloaded, or parking in areas other than those designated by Lessor for such activities. **See Lessor's designation for truck loading and unloading on Exhibit A. Vehicles shall include trucks of all sizes including full size trailer.**

**2.2.2** If Lessee permits or allows any of the prohibited activities described in paragraph 2.2 of this Lease, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

**2.3 Common Areas - Definition.** The term "Common Areas" is defined as all areas and facilities outside the Premises and within the exterior boundary line of the Industrial Center that are provided and designated by the Lessor from time to time for the general non-exclusive use of Lessor, Lessee, and other lessees of the Industrial Center and their respective employees, suppliers, shippers, customers and invitees, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways and landscaped areas.

**2.4 Common Areas - Lessee's Rights.** Lessor hereby grants to Lessee, for the benefit of Lessee and its employees, suppliers, shippers, customers and invitees, during the term of this Lease, the non-exclusive right to use, in common with others entitled to such use, the Common Areas as they exist from time to time, subject to any rights, powers, and privileges reserved by Lessor under the terms hereof or under the terms of any rules and regulations or restrictions governing the use of the Industrial Center. Under no circumstances shall the right herein granted to use the Common Areas be deemed to include the right to store any property, temporarily or permanently, in the Common Areas. Any such storage shall be permitted only by the prior written consent of Lessor or Lessor's designated agent which consent may be revoked at any time. In the event that any unauthorized storage shall occur, then Lessor shall have the right, without notice, in addition to such other rights and remedies that it may have, to remove the property and charge the cost to Lessee, which cost shall be immediately payable upon demand by Lessor.

**2.5 Common Areas - Rules and Regulations.** Lessor or such other person(s) as Lessor may appoint shall have the exclusive control and management of the Common Areas and shall have the right, from time to time, to establish, modify, amend, and enforce reasonable rules and regulations with respect thereto. Lessee agrees to abide by and conform to all such rules and regulations, and to cause its employees, suppliers, shippers, customers, and invitees to so abide and conform. Lessor shall not be responsible to Lessee for the noncompliance with said rules and regulations by other lessees of the Industrial Center.

Initials



**2.6 Common Areas - Changes.** Lessor shall have the right, in Lessor's sole discretion, from time to time:

(a) To make changes to the Common Areas, including, without limitation, changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading and unloading areas, ingress, egress, direction of traffic, landscaped areas and walkways. (b) To close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available. (c) To designate other land outside the boundaries of the Industrial Center to be a part of the Common Areas. (d) To add additional buildings and improvements to the Common Areas. (e) To use the Common Areas while engaged in making additional improvements, repairs or alterations to the Industrial Center, or any portion thereof. (f) To do and perform such other acts and make such other changes in, to, or with respect to the Common Areas and Industrial Center as Lessor may, in the exercise of sound business judgment, deem to be appropriate.

**2.6.1** Lessor shall at all times provide the parking facilities required by applicable law and in no event shall the number of parking spaces that Lessee is entitled to under paragraph 2.2 be reduced.

**3. Term.**

**3.1 Term.** The term of this lease shall be for **twenty-four (24) months** commencing on **June 1, 2009** and ending on **May 31, 2011** unless sooner terminated pursuant to any provision hereof.

**3.2 Delay in Possession.** Notwithstanding said commencement date, if for any reason Lessor cannot deliver possession of the Premises to Lessee on said date, Lessor shall not be subject to any liability therefore, nor shall such failure affect the validity of this Lease or the obligations of Lessee hereunder or extend the term hereof, but in such case, Lessee shall not be obligated to pay rent or perform any other obligation of Lessee under the terms of this Lease, except as may be otherwise provided in this Lease, until possession of the Premises is tendered to Lessee, provided, however, that if Lessor shall not have delivered possession of the Premises within sixty (60) days from said commencement date, Lessee may, at Lessee's option, by notice in writing to Lessor within ten (10) days thereafter, cancel this Lease, in which event the parties shall be discharged from all obligations hereunder, provided further, however, that if such written notice of Lessee is not received by Lessor within said ten (10) day period, Lessee's right to cancel this Lease hereunder shall terminate and be of no further force or effect.

**3.3 Early Possession.** If Lessee occupies the Premises prior to said commencement date, such occupancy shall be subject to all provisions of this Lease, such occupancy shall not advance the termination date, and Lessee shall pay rent for such period at the initial monthly rates set forth below.

**4. Rent.**

**4.1 Base Rent.** Lessee shall pay to Lessor, as Base Rent for the Premises, without any offset or deduction, except as may be otherwise expressly provided in this Lease, on the **First (1<sup>st</sup>)** day of each month of the term hereof, monthly payments in advance of **See Paragraph 51** Lessee shall pay Lessor upon execution hereof **See Paragraph 51** as Base Rent for **See Paragraph 51**. Rent for any period during the term hereof which is for less than one month shall be a pro rata portion of the Base Rent. Rent shall be payable in lawful money of the United States to Lessor at the address stated herein or to such other persons or at such other places as Lessor may designate in writing.

**4.2 Operating Expenses.** Lessee shall pay to Lessor during the term hereof, in addition to the Base Rent, Lessee's Share, as hereinafter defined, of all Operating Expenses, as hereinafter defined, during each calendar year of the term of this Lease, in accordance with the following provisions:

- (a) "Lessee's Share" is defined, for purposes of this Lease, **twenty-six point six one percent (26.61%)**.
- (b) "Operating Expenses" is defined, for purposes of this Lease, as all costs incurred by Lessor, if any, for:
  - (i) The operation, repair, and maintenance, in neat, clean, good order and condition, of the following

provisions:

Initials





(aa) The Common Areas, including parking areas, loading and unloading areas, trash areas, roadways, sidewalks, walkways, parkways, driveways, landscaped areas, striping, bumpers, irrigation systems, Common Area lighting facilities and fences and gates.

(bb) Management fee.

(cc) Tenant directories.

(dd) Fire detection systems including sprinkler system maintenance and repair.

(ee) Any other service to be provided by Lessor that is elsewhere in this Lease stated to be an "Operating Expense."

(ii) Any deductible portion of an insured loss concerning any of the items or matters described in this paragraph 4.2.

(iii) The cost of the premiums for the liability and property insurance policies to be maintained by Lessor under paragraph 8 hereof.

(iv) The amount of the real property tax to be paid by Lessor under paragraph 10.1 hereof

(v) The cost of water, gas and electricity to service the Common Areas.

(c) The inclusion of the improvements, facilities and services set forth in paragraph 4.2(b)(i) of the definition of Operating Expenses shall not be deemed to impose an obligation upon Lessor to either have said improvements or facilities or to provide those services unless the Industrial Center already has the same, Lessor already provides the services, or Lessor has agreed elsewhere in this Lease to provide the same or some of them.

(d) Lessee's Share of Operating Expenses shall be payable by Lessee within ten (10) days after a reasonably detailed statement of actual expenses is presented to Lessee by Lessor. At Lessor's option, however, an amount may be estimated by Lessor from time to time of Lessee's Share of annual Operating Expenses and the same shall be payable monthly or quarterly, as Lessor shall designate, during each 12-month period of the Lease term, on the same day as the Base Rent is due hereunder. In the event that Lessee pays Lessor's estimate of Lessee's Share of Operating Expenses as aforesaid, Lessor shall deliver to Lessee within 60 days after the expiration of each calendar year a reasonably detailed statement showing Lessee's Share of the actual Operating Expenses incurred during the preceding year. If Lessee's payments under this paragraph 4.2(d) during said preceding year exceed Lessee's Share as indicated on said statement, Lessee shall be entitled to credit the amount of such overpayment against Lessee's Share of Operating Expenses next falling due. If Lessee's payments under this paragraph during said preceding year were less than Lessee's Share as indicated on said statement, Lessee shall pay to Lessor the amount of the deficiency within ten (10) days after delivery by Lessor to Lessee of said statement.

**5. Security Deposit.** Lessee shall deposit with Lessor upon execution hereof **Two Thousand Five Hundred Twenty and No/100 (\$2,520.00)** as security for Lessee's faithful performance of Lessee's obligations hereunder. If Lessee fails to pay rent or other charges due hereunder, or otherwise defaults with respect to any provision of this Lease, Lessor may use, apply, or retain all or any portion of said deposit for the payment of any rent or other charge in default or for the payment of any other sum to which Lessor may become obligated by reason of Lessee's default, or to compensate Lessor for any loss or damage which Lessor may suffer thereby. If Lessor so uses or applies all or any portion of said deposit, Lessee shall within ten (10) days after written demand therefor deposit cash with Lessor in an amount sufficient to restore said deposit to the full amount then required of Lessee. If the monthly rent shall, from time to time, increase during the term of this Lease, Lessee shall, at the time of such increase, deposit with Lessor additional money as a security deposit so that the total amount of the security deposit held by Lessor shall at all times bear the same proportion to the then current Base Rent as the initial security deposit bears to the initial Base Rent set forth in paragraph 4. Lessor shall not be required to keep said security deposit separate from its general accounts. If Lessee performs all of Lessee's obligations hereunder, said deposit, or so much thereof as has not theretofore been applied by Lessor, shall be returned, without payment of interest or other increment for its use, to Lessee (or, at Lessor's option, to the last assignee, if any, of Lessee's interest hereunder) at the expiration of the term hereof, and after Lessee has vacated the Premises. No trust relationship is created herein between Lessor and Lessee with respect to said Security Deposit.

Initials



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**6. Use.**

**6.1 Use.** The Premises shall be used and occupied only for **general office and distribution of construction machinery, parts and equipment** or any other use which is reasonably comparable and for no other purpose.

**6.2 Compliance with Law.**

(a) Lessor warrants to Lessee that the Premises, in the state existing on the date that the Lease term commences, but without regard to the use for which Lessee will occupy the Premises, does not violate any covenants or restrictions of record, or any applicable building code, regulation or ordinance in effect on such Lease term commencement date. In the event it is determined that this warranty has been violated, then it shall be the obligation of the Lessor, after written notice from Lessee, to promptly, at Lessor's sole cost and expense, rectify any such violation. In the event Lessee does not give to Lessor written notice of the violation of this warranty within six (6) months from the date that the Lease term commences, the correction of same shall be the obligation of the Lessee at Lessee's sole cost. The warranty contained in this paragraph 6.2(a) shall be of no force or effect if, prior to the date of this Lease, Lessee was an owner or occupant of the Premises and, in such event, Lessee shall correct any such violation at Lessee's sole cost.

(b) Except as provided in paragraph 6.2(a) Lessee shall, at Lessee's expense, promptly comply with all applicable statutes, ordinances, rules, regulations, orders, covenants and restrictions of record, and requirements of any fire insurance underwriters or rating bureaus, now in effect or which may hereafter come into effect, whether or not they reflect a change in policy from the now existing, during the term or any part of the term hereof, relating in any manner to the Premises and the occupation and use by Lessee of the Premises and of the Common Areas. Lessee shall not use nor permit the use of the Premises or the Common Areas in any manner that will tend to create waste or a nuisance or shall tend to disturb other occupants of the Industrial Center.

**6.3 Condition of Premises.**

(a) Lessor shall deliver the Premises to Lessee clean and free of debris on the Lease commencement date (unless Lessee is already in possession) and Lessor warrants to Lessee that the plumbing, lighting, air conditioning, heating, and loading doors in the Premises shall be in good operating condition on the Lease commencement date. In the event that it is determined that this warranty has been violated, then it shall be the obligation of Lessor, after receipt of written notice from Lessee setting forth with specificity the nature of the violation, to promptly, at Lessor's sole cost, rectify such violation. Lessee's failure to give such written notice to Lessor within 30 days after the Lease commencement date shall cause the conclusive presumption that Lessor has complied with all of Lessor's obligations hereunder. The warranty contained in this paragraph 6.3(a) shall be of no force or effect if prior to the date of this Lease, Lessee was an owner or occupant of the Premises.

(b) Except as otherwise provided in this Lease, Lessee hereby accepts the Premises in their condition existing as of the Lease commencement date or the date that Lessee takes possession of the Premises, whichever is earlier, subject to all applicable zoning, municipal, county and state laws, ordinances and regulations governing and regulating the use of the Premises, and any covenants or restrictions of record, and accepts this Lease subject thereto and to all matters disclosed thereby and by any exhibits attached hereto. Lessee acknowledges that neither Lessor nor Lessor's agent has made any representation or warranty as to the present or future suitability of the Premises for the conduct of Lessee's business.

**7. Maintenance, Repairs, Alterations and Common Area Services.**

**7.1 Lessor's Obligations.** Subject to the provisions of paragraphs 4.2 (Operating Expenses), 6 (Use), 7.2 (Lessee's Obligations) and 9 (Damage or Destruction), and except for damage caused by any negligent or intentional act or omission of Lessee, Lessee's employees, suppliers, shippers, customers, or invitees, in which event Lessee shall repair the damage, Lessor, at Lessor's expense, subject to reimbursement pursuant to paragraph 4.2, shall keep in good condition and repair the foundations, exterior walls, structural condition of interior bearing walls, and roof of the Premises, as well as the parking lots, walkways, driveways, landscaping, fences, signs and utility installations of the Common Areas and all parts thereof, as well as providing the services for which there is an Operating Expense pursuant to paragraph 4.2. Lessor shall not, however, be obligated to paint the exterior or interior surface of exterior walls, nor shall Lessor be required to maintain, repair or replace windows, doors or plate glass of the Premises. Lessor shall have no obligation to make repairs under this paragraph 7.1 until a reasonable time after receipt of written notice from the Lessee of the need for such repairs. Lessee expressly waives the benefits of any statute now or hereafter in effect which would otherwise afford Lessee the right to make repairs at Lessor's expense or to terminate this Lease because of Lessor's failure to keep the Premises in good order, condition and repair. Lessor shall not be liable for damages or loss of any kind or nature by reason of Lessor's failure to furnish any Common

Area Services when such failure is caused by accident, breakage, repairs, strikes, lockout, or other labor disturbances or disputes of any character, or by any other cause beyond the reasonable control of Lessor.

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## 7.2 Lessee's Obligations.

(a) Subject to the provisions of paragraphs 6 (Use), 7.1 (Lessor's Obligations), and 9 (Damage or Destruction), Lessee, at Lessee's expense, shall keep in good order, condition and repair the Premises and every part thereof (whether or not the damaged portion of the Premises or the means of repairing the same are reasonably or readily accessible to Lessee) including, without limiting the generality of the foregoing, all plumbing, heating, ventilating and air conditioning systems (Lessee shall procure and maintain, at Lessee's expense, a ventilating and air conditioning system maintenance contract), electrical and lighting facilities and equipment within the Premises, fixtures, interior walls and interior surfaces of exterior walls, ceilings, windows, doors, plate glass, and skylights located within the Premises. Lessor reserves the right to procure and maintain the ventilating and air condition system maintenance contract and if Lessor so elects, Lessee shall reimburse Lessor, upon demand, for the cost thereof.

(b) If Lessee fails to perform Lessee's obligations under this paragraph 7.2 or under any other paragraph of this Lease, Lessor may enter upon the Premises after ten (10) days prior written notice to Lessee (except in the case of emergency, in which no notice shall be required), perform such obligations on Lessee's behalf and put the Premises in good order, condition and repair, and the cost thereof together with interest thereon at the maximum rate then allowable by law shall be due and payable as additional rent to Lessor together with Lessee's next Base Rent installment.

(c) On the last day of the term hereof, or on any sooner termination, Lessee shall surrender the Premises to Lessor in the same condition as received, ordinary wear and tear excepted, clean and free of debris. Any damage or deterioration of the Premises shall not be deemed ordinary wear and tear if the same could have been prevented by good maintenance practices. Lessee shall repair any damage to the Premises occasioned by the installation or removal of Lessee's trade fixtures, alterations, furnishings and equipment. Notwithstanding anything to the contrary otherwise stated in this Lease, Lessee shall leave the air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing and fencing on the Premises in good operating condition.

## 7.3 Alterations and Additions.

(a) Lessee shall not, without Lessor's prior written consent make any alterations, improvements, additions, or Utility Installations in, on, or about the Premises, or the Industrial Center, except for nonstructural alterations to the Premises not exceeding \$2,500 in cumulative costs, during the term of this Lease. In any event, whether or not in excess of \$2,500 in cumulative cost, Lessee shall make no change or alteration to the exterior of the Premises nor the exterior of the Building nor the Industrial Center without Lessor's prior written consent. As used in this paragraph 7.3 the term "Utility Installation" shall mean carpeting, window coverings, air lines, power panels, electrical distribution systems, lighting fixtures, space heaters, air conditioning, plumbing, and fencing. Lessor may require that Lessee remove any or all of said alterations, improvements, additions or Utility Installations at the expiration of the term, and restore the Premises and the Industrial Center to their prior condition. Lessor may require Lessee to provide Lessor, at Lessee's sole cost and expense, a lien and completion bond in an amount equal to one and one-half times the estimated cost of such improvements, to insure Lessor against any liability for mechanic's and materialmen's liens and to insure completion of the work. Should Lessee make any alterations, improvements, additions or Utility Installations without the prior approval of Lessor, Lessor may, at any time during the term of this Lease, require that Lessee remove any or all of the same.

(b) Any alterations, improvements, additions or Utility Installations in or about the Premises or the Industrial Center that Lessee shall desire to make and which requires the consent of the Lessor shall be presented to Lessor in written form, with proposed detailed plans. If Lessor shall give its consent, the consent shall be deemed conditioned upon Lessee acquiring a permit **if required** to do so from appropriate governmental agencies, the furnishing of a copy thereof to Lessor prior to the commencement of the work and the compliance by Lessee of all conditions of said permit in a prompt and expeditious manner.

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(c) Lessee shall pay, when due, all claims for labor or materials furnished or alleged to have been furnished to or for Lessee at or for use in the Premises, which claims are or may be secured by any mechanic's or materialmen's lien against the Premises, or the Industrial Center, or any interest therein. Lessee shall give Lessor not less than 10 days' notice prior to the commencement of any work in the Premises, and Lessor shall have the right to post notices of nonresponsibility in or on the Premises or the Building as provided by law. If Lessee shall, in good faith, contest the validity of any such lien, claim or demand, then Lessee shall, at its sole expense defend itself and Lessor against the same and shall pay and satisfy and such adverse judgment that may be rendered thereon before the enforcement thereof against the Lessor or the Premises or the Industrial Center, upon the condition that if Lessor shall require, Lessee shall furnish to Lessor a surety bond satisfactory to Lessor in an amount equal to such contested lien claim or demand indemnifying Lessor against liability for the same and holding the Premises and the Industrial Center free from the effect of such lien or claim. In addition, Lessor may require Lessee to pay Lessor's attorneys fees and costs in participating in such action if Lessor shall decide it is to Lessor's best interest to do so.

(d) All alterations, improvements, additions and Utility Installations (whether or not such Utility Installations constitute trade fixtures of Lessee), which may be made on the Premises, shall be the property of Lessor and shall remain upon and be surrendered with the Premises at the expiration of the Lease term, unless Lessor requires their removal pursuant to paragraph 7.3(a). Notwithstanding the provisions of this paragraph 7.3(d), Lessee's machinery and equipment, other than that which is affixed to the Premises so that it cannot be removed without material damage to the Premises, and other than Utility Installations, shall remain the property of Lessee and may be removed by Lessee subject to the provisions of paragraph 7.2.

**7.4 Utility Additions.** Lessor reserves the right to install new or additional utility facilities throughout the Building and the Common Areas for the benefit of Lessor or Lessee, or any other lessee of the Industrial Center, including, but not by way of limitation, such utilities as plumbing, electrical systems, security systems, communication systems, and fire protection and detection systems, so long as such installations do not unreasonably interfere with Lessee's use of the Premises.

## **8. Insurance; Indemnity.**

**8.1 Liability Insurance - Lessee.** Lessee shall, at Lessee's expense, obtain and keep in force during the term of this Lease a policy of Combined Single Limit Bodily Injury and Property Damage insurance insuring Lessee and Lessor against any liability arising out of the use, occupancy or maintenance of the Premises and the Industrial Center **by the Lessee**. Such insurance shall be in an amount not less than \$1,000,000.00 per occurrence. The policy shall insure performance by Lessee of the indemnity provisions of this paragraph 8. The limits of said insurance shall not, however, limit the liability of Lessee hereunder.

**8.2 Liability Insurance - Lessor.** Lessor shall obtain and keep in force during the term of this Lease a policy of Combined Single Limit Bodily Injury and Property Damage Insurance, insuring Lessor, but not Lessee, against any liability arising out of the ownership, use, occupancy or maintenance of the Industrial Center in an amount not less than \$1,000,000.00 per occurrence.

**8.3 Property Insurance.** Lessor shall obtain and keep in force during the term of this Lease a policy or policies of insurance covering loss or damage to the Industrial Center improvements, but not Lessee's personal property, fixtures, equipment or tenant improvements, in an amount not to exceed the full replacement value thereof, as the same may exist from time to time, providing protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, flood (in the event same is required by a lender having a lien on the Premises) special extended perils ("all risk," as such term is used in the insurance industry), plate glass insurance and such other insurance as Lessor deems advisable. In addition, Lessor shall obtain and keep in force, during the term of this Lease, a policy of rental value insurance covering a period of one year, with loss payable to Lessor, which insurance shall also cover all Operating Expenses for said period. In the event that the Premises shall suffer an insured loss as defined in paragraph 9.1(g) hereof, the deductible amounts under the casualty insurance policies relating to the Premises shall be paid by Lessee.

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#### 8.4 Payment of Premium Increase.

(a) After the term of this Lease has commenced, Lessee shall not be responsible for paying Lessee's Share of any increase in the property insurance premium for the Industrial Center specified by Lessor's insurance carrier as being caused by the use, acts or omissions of any other lessee of the Industrial Center, or by the nature of such other lessee's occupancy which create an extraordinary or unusual risk.

(b) Lessee, however, shall pay the entirety of any increase in the property insurance premium for the Industrial Center over what it was immediately prior to the commencement of the term of this Lease if the increase is specified by Lessor's insurance carrier as being caused by the nature of Lessee's occupancy or any act or omission of Lessee.

**8.5 Insurance Policies.** Insurance required hereunder shall be in companies holding a "General Policyholders Rating" of at least B plus, or such other rating as may be required by a lender having a lien on the Premises, as set forth in the most current issue of "Best's Insurance Guide." Lessee shall not do or permit to be done anything which shall invalidate the insurance policies carried by Lessor. Lessee shall deliver to Lessor copies of liability insurance policies required under paragraph 8.1 or certificates evidencing the existence and amounts of such insurance within seven (7) days after the commencement date of this Lease. No such policy shall be cancelable or subject to reduction of coverage or other modification except after 30 days prior written notice to Lessor. Lessee shall, at least 30 days prior to the expiration of such policies, furnish Lessor with renewals or "binders" thereof.

**8.6 Waiver of Subrogation.** Lessee and Lessor each hereby release and relieve the other and waive their entire right of recovery against the other for loss or damage arising out of or incident to the perils insured against which perils occur in, on or about the Premises, whether due to the negligence of Lessor or Lessee or their agents, employees, contractors and/or invitees. Lessee and Lessor shall, upon obtaining the policies of insurance required give notice to the insurance carrier or carriers that the foregoing mutual waiver of subrogation is contained in this Lease.

**8.7 Indemnity.** Lessee shall indemnify and hold harmless Lessor from and against any and all claims arising from Lessee's use of the Industrial Center, or from the conduct of Lessee's business or from any activity, work or things done, permitted or suffered by Lessee in or about the Premises or elsewhere and shall further indemnify and hold harmless Lessor from and against any and all claims arising from any breach or default in the performance of any obligation on Lessee's part to be performed under the terms of this Lease, or arising from any act or omission of Lessee, or any of Lessee's agents, contractors, or employees, and from and against all costs, attorney's fees, expenses and liabilities incurred in the defense of any such claim or any action or proceeding brought thereon; and in case any action or proceeding be brought against Lessor by reason of any such claim, Lessee upon notice from Lessor, shall defend the same at Lessee's expense by counsel reasonably satisfactory to Lessor and Lessor shall cooperate with Lessee in such defense.

**8.8 Exemption of Lessor from Liability.** Lessee hereby agrees that Lessor shall not be liable for injury to Lessee's business or any loss of income therefrom or for damage to the goods, wares, merchandise, or other property of Lessee. Lessee's employees, invitees, customers, or any other person in or about the Premises or the Industrial Center, nor shall Lessor be liable for injury to the person of Lessee, Lessee's employees, agents or contractors, whether such damage or injury is caused by or results from fire, steam, electricity, gas, water or rain, or from the breakage, leakage, obstruction or other defects of pipes, sprinklers, wires, appliances, plumbing, air conditioning or lighting fixtures, or from any other cause, whether said damage or injury results from conditions arising upon the Premises or upon other portions of the Industrial Center, or from other sources or places and regardless of whether the cause of such damage or injury or the means of repairing the same is inaccessible to Lessee.

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**9. Damage or Destruction.**

**9.1 Definitions.**

- (a) "Premises Partial Damage" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is less than fifty percent of the then replacement cost of the Premises.
- (b) "Premises Total Destruction" shall mean if the Premises are damaged or destroyed to the extent that the cost of repair is fifty percent or more of the then replacement cost of the Premises.
- (c) "Premises Building Partial Damage" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is less than fifty percent of the then replacement cost of the Building.
- (d) "Premises Building Total Destruction" shall mean if the Building of which the Premises are a part is damaged or destroyed to the extent that the cost to repair is fifty percent or more of the then replacement cost of the Building.
- (e) "Industrial Center Buildings" shall mean all of the buildings on the Industrial Center site.
- (f) "Industrial Center Buildings Total Destruction" shall mean if the Industrial Center Buildings are damaged or destroyed to the extent that the cost of repair is fifty percent or more of the then replacement cost of the Industrial Center Buildings.
- (g) "Insured Loss" shall mean damage or destruction which was caused by an event required to be covered by the insurance described in paragraph 8. The fact that an Insured Loss has a deductible amount shall not make the loss an uninsured loss.
- (h) "Replacement Cost" shall mean the amount of money necessary to be spent in order to repair or rebuild the damaged area to the condition that existed immediately prior to the damage occurring excluding all improvements made by lessees.

**9.2 Premises Partial Damage; Premises Building Partial Damage.**

- (a) Insured Loss: Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is an Insured Loss and which falls into the classification of either Premises Partial Damage or Premises Building Partial Damage, then Lessor shall, at Lessor's expense, repair such damage to the Premises, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect.
- (b) Uninsured Loss: Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage which is not an Insured Loss and which falls within the classification of Premises Partial Damage or Premises Building Partial Damage, unless caused by a negligent or willful act of Lessee (in which event Lessee shall make the repairs at Lessee's expense), which damage prevents Lessee from using the Premises, Lessor may at Lessor's option either (i) repair such damage as soon as reasonably possible at Lessor's expense, in which event this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within 30 days after the date of the occurrence of such damage of Lessor's intention to cancel and terminate this Lease as of the date of the occurrence of such damage. In the event Lessor elects to give such notice of Lessor's intention to cancel and terminate this Lease, Lessee shall have the right within ten (10) days after the receipt of such notice to give written notice to Lessor of Lessee's intention to repair such damage at Lessee's expense, without reimbursement from Lessor, in which event this Lease shall continue in full force and effect, and Lessee shall proceed to make such repairs as soon as reasonably possible. If Lessee does not give such notice within such 10-day period this Lease shall be canceled and terminated as of the date of the occurrence of such damage.

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### **9.3 Premises Total Destruction; Premises Building Total Destruction; Industrial Center Buildings Total Destruction.**

(a) Subject to the provisions of paragraphs 9.4 and 9.5, if at any time during the term of this Lease there is damage, whether or not it is an Insured Loss, and which falls into the classifications of either (i) Premises Total Destruction, or (ii) Premises Building Total Destruction, or (iii) Industrial Center Buildings Total Destruction, then Lessor may at Lessor's option either (i) repair such damage or destruction, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible at Lessor's expense, and this Lease shall continue in full force and effect, or (ii) give written notice to Lessee within 30 days after the date of occurrence of such damage of Lessor's intention to cancel and terminate this Lease, in which case this Lease shall be canceled and terminated as of the date of the occurrence of such damage.

### **9.4 Damage Near End of Term.**

(a) Subject to paragraph 9.4(b), if at any time during the last six months of the term of this Lease there is substantial damage, whether or not an Insured Loss, which falls within the classification of Premises Partial Damage, Lessor may at Lessor's option cancel and terminate this Lease as of the date of occurrence of such damage by giving written notice to Lessee or Lessor's election to do so within 30 days after the date of occurrence of such damage.

(b) Notwithstanding paragraph 9.4(a), in the event that Lessee has an option to extend or renew this Lease, and the time within which said option may be exercised has not yet expired, Lessee shall exercise such option, if it is to be exercised at all, no later than 20 days after the occurrence of an Insured Loss falling within the classification of Premises Partial Damage during the last six months of the term of this Lease. If Lessee duly exercises such option during said 20 day period, Lessor shall, at Lessor's expense, repair such damage, but not Lessee's fixtures, equipment or tenant improvements, as soon as reasonably possible and this Lease shall continue in full force and effect. If Lessee fails to exercise such option during said 20-day period, then Lessor may at Lessor's option terminate and cancel this Lease as of the expiration of said 20 day period by giving written notice to Lessee of Lessor's election to do so within ten (10) days after the expiration of said 20 day period, notwithstanding any term or provision in the grant of option to the contrary.

### **9.5 Abatement of Rent; Lessee's Remedies.**

(a) In the event Lessor repairs or restores the Premises pursuant to the provisions of this paragraph 9, the rent payable hereunder for the period during which such damage, repair or restoration continues shall be abated in proportion to the degree to which Lessee's use of the Premises is impaired. Except for abatement of rent, if any, Lessee shall have no claim against Lessor for any damage suffered by reason of any such damage, destruction, repair or restoration.

(b) If Lessor shall be obligated to repair or restore the Premises under the provisions of this paragraph 9 and shall not commence such repair or restoration within 90 days after such obligation shall accrue, Lessee may at Lessee's option cancel and terminate this Lease by giving Lessor written notice of Lessee's election to do so at any time prior to the commencement of such repair or restoration. In such event this Lease shall terminate as of the date of this notice.

**9.6 Termination - Advance Payments.** Upon termination of this Lease pursuant to this paragraph 9, an equitable adjustment shall be made concerning advance rent and any advance payments made by Lessee to Lessor. Lessor shall, in addition, return to Lessee so much of Lessee's security deposit as has not theretofore been applied by Lessor.

**9.7 Waiver.** Lessor and Lessee waive the provisions of any statute which relate to termination of leases when leased property is destroyed and agree that such event shall be governed by the terms of this Lease.

## **10. Real Property Taxes.**

**10.1 Payment of Taxes.** Lessor shall pay the real property tax, as defined in paragraph 10.3, applicable to the Industrial Center subject to reimbursement by Lessee of Lessee's Share of such taxes in accordance with the provisions of paragraph 4.2, except as otherwise provided in paragraph 10.2

**10.2 Additional Improvements.** Lessee shall not be responsible for paying Lessee's Share of any increase in real property tax specified in the tax assessor's records and work sheets as being caused by additional improvements placed upon the Industrial Center by other lessees or by Lessor for the exclusive enjoyment of such other lessees. Lessee shall, however, pay to Lessor at the time that

Operating Expenses are payable under paragraph 4.2(c) the entirety of any increase in real property tax if assessed solely by reason of additional improvements placed upon the Premises by Lessee or at Lessee's request.

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**10.3 Definition of "Real Property Tax."** As used herein, the term "real property tax" shall include any form of real estate tax or assessment, general, special, ordinary or extraordinary, and any license fee, commercial rental tax, improvement bond or bonds, levy or tax (other than inheritance, personal income or estate taxes) imposed on the Industrial Center or any portion thereof by any authority having the direct or indirect power to tax, including any city, county, state or federal government, or any school, agricultural, sanitary, fire, street, drainage or other improvement district thereof, as against any legal or equitable interest of Lessor in the Industrial Center or in any portion thereof, as against Lessor's right to rent or other income therefrom, and as against Lessor's business of leasing the Industrial Center. The term "real property tax" shall also include any tax, fee, levy, assessment or charge (i) in substitution of, partially or totally, any tax, fee, levy, assessment or charge hereinabove included within the definition of "real property tax," or (ii) the nature of which was hereinbefore included within the definition of "real property tax," or (iii) which is imposed for a service or right not charged prior to June 1, 1978, or, if previously charged, has been increased since June 1, 1978, or (iv) (v) which is imposed by reason of this transaction, any modifications or changes hereto, or any transfers hereof.

**10.4 Joint Assessment.** If the Industrial Center is not separately assessed, Lessee's Share of the real property tax liability shall be an equitable proportion of the real property taxes for all of the land and improvements included within the tax parcel assessed, such proportion to be determined by Lessor from the respective valuations assigned in the assessor's work sheets or such other information as may be reasonably available. Lessor's reasonable determination thereof, in good faith, shall be conclusive.

**10.5 Personal Property Taxes.**

(a) Lessee shall pay prior to delinquency all taxes assessed against and levied upon trade fixtures, furnishings, equipment and all other personal property of Lessee contained in the Premises or elsewhere. When possible, Lessee shall cause said trade fixtures, furnishings, equipment and all other personal property to be assessed and billed separately from the real property of Lessor.

(b) If any of Lessee's said personal property shall be assessed with Lessor's real property, Lessee shall pay to Lessor the taxes attributable to Lessee within ten (10) days after receipt of a written statement setting forth the taxes applicable to Lessee's property.

**11. Utilities.** Lessee shall pay for all water, gas, heat, light, power, telephone and other utilities and services supplied to the Premises, together with any taxes thereon. If any such services are not separately metered to the Premises, Lessee shall pay at Lessor's option, either Lessee's Share or a reasonable proportion to be determined by Lessor of all charges jointly metered with other premises in the Building.

**12. Assignment and Subletting.**

**12.1 Lessor's Consent Required.** Lessee shall not voluntarily or by operation of law assign, transfer, mortgage, sublet, or otherwise transfer or encumber all or any part of Lessee's interest in the Lease or in the Premises, without Lessor's prior written consent, which Lessor shall not unreasonably withhold. Lessor shall respond to Lessee's request for consent hereunder in a timely manner and any attempted assignment, transfer, mortgage, encumbrance or subletting without such consent shall be void, and shall constitute a breach of this Lease without the need for notice to Lessee under paragraph 13.1.

**12.2 Lessee Affiliate.** Notwithstanding the provisions of paragraph 12.1 hereof, Lessee may assign or sublet the Premises, or any portion thereof, without Lessor's consent, to any corporation which controls, is controlled by or is under common control with Lessee, or to any corporation resulting from the merger or consolidation with Lessee, or to any person or entity which acquires all the assets of Lessee as a going concern of the business that is being conducted on the Premises, all of which are referred to as "Lessee Affiliate," provided that before such assignment shall be effective said assignee shall assume, in full, the obligations of Lessee under this Lease. Any such assignment shall not, in any way, affect or limit the liability of Lessee under the terms of this Lease even if after such assignment or subletting the terms of this Lease are materially changed or altered without the consent of Lessee, the consent of whom shall not be necessary.

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**12.3 Terms and Conditions of Assignment.** Regardless of Lessor's consent, no assignment shall release Lessee of Lessee's obligations hereunder or alter the primary liability of Lessee to pay the Base Rent and Lessee's Share of Operating Expenses, and to perform all other obligations to be performed by Lessee hereunder. Lessor may accept rent from any person other than Lessee pending approval or disapproval of such assignment. Neither a delay in the approval or disapproval of such assignment nor the acceptance of rent shall constitute a waiver or estoppel of Lessor's right to exercise its remedies for the breach of any of the terms or conditions of this paragraph 12 or this Lease. Consent to one assignment shall not be deemed consent to any subsequent assignment. In the event of default by any assignee of Lessee or any successor of Lessee, in the performance of any of the terms hereof, Lessor may proceed directly against Lessee without the necessity of exhausting remedies against said assignee. Lessor may consent to subsequent assignments of this Lease or amendments or modifications to this Lease with assignees of Lessee, without notifying Lessee, or any successor of Lessee, and without obtaining its or their consent thereto and such action shall not relieve Lessee of liability under this Lease.

**12.4 Terms and Conditions Applicable to Subletting.** Regardless of Lessor's consent, the following terms and conditions shall apply to any subletting by Lessee of all or any part of the Premises and shall be included in subleases:

(a) Lessee hereby assigns and transfers to Lessor all of Lessee's interest in all rentals and income arising from any sublease heretofore or hereafter made by Lessee, and Lessor may collect such rent and income and apply same toward Lessee's obligations under this Lease; provided, however, that until a default shall occur in the performance of Lessee's obligations under this Lease, Lessee may receive, collect and enjoy the rents accruing under such sublease. Lessor shall not, by reason of this or any other assignment of such sublease to Lessor nor by reason of the collection of the rents from a sublessee, be deemed liable to the sublessee for any failure of Lessee to perform and comply with any of Lessee's obligations to such sublessee under such sublease. Lessee hereby irrevocably authorizes and directs any such sublessee, upon receipt of written notice from Lessor stating that a default exists in the performance of Lessee's obligations under this Lease, to pay to Lessor the rents due and to become due under the sublease. Lessee agrees that such sublessees shall have the right to rely upon any such statement and request from Lessor, and that such sublessee shall pay such rents to Lessor without any obligation or right to inquire as to whether such default exists and notwithstanding any notice from or claim from Lessee to the contrary. Lessee shall have no right or claim against such sublessee or Lessor for any such rents so paid by said sublessee to Lessor.

(b) No sublease entered into by Lessee shall be effective unless and until it has been approved in writing by Lessor. In entering into any sublease, Lessee shall use only such form of sublease as is satisfactory to Lessor, and once approved by Lessor, such sublease shall not be changed or modified without Lessor's prior written consent. Any sublessee shall, by reason of entering into a sublease under this Lease, be deemed, for the benefit of Lessor, to have assumed and agreed to conform and comply with each and every obligation herein to be performed by Lessee, other than such obligations as are contrary to or inconsistent with provisions contained in a sublease to which Lessor has expressly consented in writing.

(c) If Lessee's obligations under this Lease have been guaranteed by third parties, then a sublease and Lessor's consent thereto, shall not be effective unless said guarantors give their written consent to such sublease and the terms thereof.

(d) The consent by Lessor to any subletting shall not release Lessee from its obligations or alter the primary liability of Lessee to pay the rent and perform and comply with all of the obligations of Lessee to be performed under this Lease.

(e) The consent by Lessor to any subletting shall not constitute a consent to any subsequent subletting by Lessee or to any assignment or subletting by the sublessee. However, Lessor may consent to subsequent sublettings and assignments of the sublease or any amendments or modifications thereto without notifying Lessee or anyone else liable on the Lease or sublease and without obtaining their consent and such action shall not relieve such persons from liability.

(f) In the event of any default under this Lease, Lessor may proceed directly against Lessee, any guarantors or any one else responsible for the performance of this Lease, including the sublessee, without first exhausting Lessor's remedies against any other person or entity responsible therefor to Lessor, or any security held by Lessor or Lessee.

(g) In the event Lessee shall default in the performance of its obligations under this Lease, Lessor, at its option and without any obligation to do so, may require any sublessee to attorn to Lessor, in which event Lessor shall undertake the obligations of Lessee under such sublease from the time of the exercise of said option to the termination of such sublease; provided, however, Lessor shall not be liable for any prepaid rents or security deposit paid by such sublessee to Lessee or for any other prior defaults of Lessee under such sublease.

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(h) Each and every consent required of Lessee under a sublease shall also require the consent of Lessor.

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

(j) Lessor's written consent to any subletting of the Premises by Lessee shall not constitute an acknowledgment that no default then exists under this Lease of the obligations to be performed by Lessee nor shall such consent be deemed a waiver of any then existing default, except as may be otherwise stated by Lessor at the time.

(k) With respect to any subletting to which Lessor has consented, Lessor agrees to deliver a copy of any notice of default by Lessee to the sublessee. Such sublessee shall have the right to cure a default of Lessee within 10 days after service of said notice of default upon such sublessee, and the sublessee shall have a right of reimbursement and offset from and against Lessee for any such defaults cured by the sublessee.

**12.5 Attorney's Fees.** In the event Lessee shall assign or sublet the Premises or requests the consent of Lessor to any assignment or subletting or if Lessee shall request the consent of Lessor for any act Lessee proposes to do then Lessee shall pay Lessor's reasonable attorneys fees incurred in connection therewith, such attorneys fees not to exceed \$350.00 for each such request.

### **13. Default; Remedies.**

**13.1 Default.** The occurrence of any one or more of the following events shall constitute a material default of this Lease by Lessee:

(a) The vacating or abandonment of the Premises by Lessee.

(b) The failure by Lessee to make any payment of rent or any other payment required to be made by Lessee hereunder, as and when due, where such failure shall continue for a period of three (3) days after written notice thereof from Lessor to Lessee. In the event that Lessor serves Lessee with a Notice to Pay Rent or Quit pursuant to applicable Unlawful Detainer statutes such Notice to Pay Rent or Quit shall also constitute the notice required by this subparagraph.

(c) Except as otherwise provided in this Lease, the failure by Lessee to observe or perform any of the covenants, conditions, or provisions of this Lease to be observed or performed by Lessee, other than described in paragraph (b) above, where such failure shall continue for a period of 30 days after written notice thereof from Lessor to Lessee; provided, however, that if the nature of Lessee's noncompliance is such that more than 30 days are reasonably required for its cure, then Lessee shall not be deemed to be in default if Lessee commenced such cure within said 30-day period and thereafter diligently prosecutes such cure to completion. To the extent permitted by law, such 30-day notice shall constitute the sole and exclusive notice required to be given to Lessee under applicable Unlawful Detainer statutes.

(d) (i) The making by Lessee of any general arrangement or general assignment for the benefit of creditors; (ii) Lessee becomes a "debtor" as defined in 11 U.S.C. 101 or any successor statute thereto (unless, in the case of a petition filed against Lessee, the same is dismissed within 60 days); (iii) the appointment of a trustee or receiver to take possession of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where possession is not restored to Lessee within 30 days; or (iv) the attachment, execution or other judicial seizure of substantially all of Lessee's assets located at the Premises or of Lessee's interest in this Lease, where such seizure is not discharged within 30 days. In the event that any provision of this paragraph 13.1(d) is contrary to any applicable law, such provision shall be of no force or effect.

(e) The discovery by Lessor that any financial statement given to Lessor by Lessee, any assignee of Lessee, any subtenant of Lessee, any successor in interest of Lessee or any guarantor of Lessee's obligation hereunder, was materially false.

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**13.2 Remedies.** In the event of any such material default by Lessee, Lessor may at any time thereafter, with or without notice or demand and without limiting Lessor in the exercise of any right or remedy which Lessor may have by reason of such default:

(a) Terminate Lessee's right to possession of the Premises by any lawful means, in which case this Lease and the term hereof shall terminate and Lessee shall immediately surrender possession of the Premises to Lessor. In such event Lessor shall be entitled to recover from Lessee all damages incurred by Lessor by reason of Lessee's default including, but not limited to, the cost of recovering possession of the Premises; expenses of reletting, including necessary renovation and alteration of the Premises, reasonable attorney's fees, and any real estate commission actually paid; the worth at the time of award by the court having jurisdiction thereof of the amount by which the unpaid rent for the balance of the term after the time of such award exceeds the amount of such rental loss for the same period that Lessee proves could be reasonably avoided; that portion of the leasing commission paid by Lessor pursuant to paragraph 15 applicable to the unexpired term of this Lease.

(b) Maintain Lessee's right to possession in which case this Lease shall continue in effect whether or not Lessee shall have vacated or abandoned the Premises. In such event Lessor shall be entitled to enforce all of Lessor's rights and remedies under this Lease, including the right to recover the rent as it becomes due hereunder.

(c) Pursue any other remedy now or hereafter available to Lessor under the laws or judicial decisions of the state wherein the Premises are located. Unpaid installment of rent and other unpaid monetary obligations of Lessee under the terms of this Lease shall bear interest from the date due at the maximum rate then allowable by law.

**13.3 Default by Lessor.** Lessor shall not be in default unless Lessor fails to perform obligations required of Lessor within a reasonable time, but in no event later than 30 days after written notice by Lessee to Lessor and to the holder of any first mortgage or deed of trust covering the Premises whose name and address shall have theretofore been furnished to Lessee in writing, specifying wherein Lessor has failed to perform such obligation; provided, however, that if the nature of Lessor's obligation is such that more than 30 days are required for performance then Lessor shall not be in default if Lessor commences performance within such 30 day period and thereafter diligently prosecutes the same to completion.

**13.4 Late Charges.** Lessee hereby acknowledges that late payment by Lessee to Lessor of Base Rent, Lessee's Share of Operating Expenses or other sums due hereunder will cause Lessor to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. Such costs include, but are not limited to, processing and accounting charges, and late charges which may be imposed on Lessor by the terms of any mortgage or trust deed covering the Property. Accordingly, if any installment of Base Rent, Operating Expenses, or any other sum due from Lessee shall not be received by Lessor or Lessor's designee within ten (10) days after such amount shall be due, then, without any requirement for notice to Lessee, Lessee shall pay to Lessor a late charge equal to six percent (6%) of such overdue amount. The parties hereby agree that such late charge represents a fair and reasonable estimate of the costs Lessor will incur by reason of late payment by Lessee. Acceptance of such late charge by Lessor shall in no event constitute a waiver of Lessee's default with respect to such overdue amount, nor prevent Lessor from exercising any of the other rights and remedies granted hereunder. In the event that a late charge is payable hereunder, whether or not collected, for three (3) consecutive installments of any of the aforesaid monetary obligations of Lessee, then Base Rent shall automatically become due and payable quarterly in advance, rather than monthly, notwithstanding paragraph 4.1 or any other provision of this Lease to the contrary.

**14. Condemnation.** If the Premises or any portion thereof or the Industrial Center are taken under the power of eminent domain, or sold under the threat of the exercise of said power (all of which are herein called "condemnation"), this Lease shall terminate as to the part so taken as of the date the condemning authority takes title or possession, whichever first occurs. If more than 10% of the floor area of the Premises, or more than 25% of that portion of the Common Areas designated as parking for the Industrial Center is taken by condemnation, Lessee may, at Lessee's option, to be exercised in writing only within ten (10) days after Lessor shall have given Lessee written notice of such taking (or in the absence of such notice, within ten (10) days after the condemning authority shall have taken possession) terminate this Lease as of the date the condemning authority takes such possession. If Lessee does not terminate this Lease in accordance with the foregoing, this Lease shall remain in full force and effect as to the portion of the premises remaining, except that the rent shall be reduced in the proportion that the floor area of the Premises taken bears to the total floor area of the Premises. No reduction of rent shall occur if the only area taken is that which does not have the Premises located thereon. Any award for the taking of all or any part of the Premises under the power of eminent domain or any payment made under threat of the exercise of such power shall be the property of Lessor, whether such award shall be made as compensation for diminution in value of the leasehold or for the taking of the fee, or as severance damages: provided, however, that Lessee shall be entitled to any award for loss or damage to Lessee's trade fixtures and removable personal property. In the event that this Lease is not terminated by reason of such condemnation, Lessor shall to the extent of severance damages received by Lessor in connection with such condemnation, repair any damage to the Premises caused

by such condemnation except to the extent that Lessee has been reimbursed therefor by the condemning authority. Lessee shall pay any amount in excess of such severance damages required to complete such repair.

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**15. Broker's Fee.**

(a) Upon execution of this Lease by both parties, Lessor shall pay to **Eric Fuller & Associates, Inc.**, licensed real estate broker(s), a fee as set forth in a separate agreement between Lessor and said broker(s), or in the event there is no separate agreement between Lessor and said broker(s), the sum of **\$Per separate Agreement**, for brokerage services rendered by said broker(s) to Lessor in this transaction.

(b) Lessor further agrees that if Lessee exercises any Option, as defined in paragraph 39.1 of this Lease, which is granted to Lessee under this Lease, or any subsequently granted option which is substantially similar to an Option granted to Lessee under this Lease, or if Lessee acquires any rights to the Premises or other premises described in this Lease which are substantially similar to what Lessee would have acquired had an Option herein granted to Lessee been exercised, or if Lessee remains in possession of the Premises after the expiration of the term of this Lease after having failed to exercise an Option, or if said broker(s) are the procuring cause of any other lease or sale entered into between the parties pertaining to the Premises and/or any adjacent property in which Lessor has an interest, then as to any of said transactions, Lessor shall pay said broker(s) a fee in accordance with the schedule of said broker(s) in effect at the time of the execution of this Lease.

(c) Lessor agrees to pay said fee not only on behalf of Lessor but also on behalf of any person, corporation, association, or other entity having an ownership interest in said real property or any part thereof, when such fee is due hereunder. Any transferee of Lessor's interests in this Lease, whether such transfer is by agreement or by operation of law, shall be deemed to have assumed Lessor's obligation under this paragraph 15. Said broker shall be a third party beneficiary of the provisions of this paragraph 15.

**16. Estoppel Certificate.**

(a) Each party (as "responding party") shall at any time upon not less than ten (10) days' prior written notice from the other party ("requesting party") execute, acknowledge and deliver to the requesting party a statement in writing (i) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any, and (ii) acknowledging that there are not, to the responding party's knowledge, any uncured defaults on the part of the requesting party, or specifying such defaults if any are claimed. Any such statement may be conclusively relied upon by any prospective purchaser or encumbrance of the Premises or of the business of the requesting party.

(b) At the requesting party's option, the failure to deliver such statement within such times shall be a material default of this Lease by the party who is to respond, without any further notice to such party, or it shall be conclusive upon such party that (i) this Lease is in full force and effect, without modification except as may be represented by the requesting party, (ii) there are no uncured defaults in the requesting party's performance, and (iii) if Lessor is the requesting party, not more than one month's rent has been paid in advance.

(c) If Lessor desires to finance, refinance, or sell the Property, or any part thereof, Lessee hereby agrees to deliver to any lender or purchaser designated by Lessor such financial statements of Lessee as may be reasonably required by such lender or purchaser. Such statements shall include the past three (3) years' financial statements of Lessee. All such financial statements shall be received by Lessor and such lender or purchaser in confidence and shall be used only for the purposes herein set forth.

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**17. Lessor's Liability.** The term "Lessor" as used herein shall mean only the owner or owners, at the time in question, of the fee title or a lessee's interest in a ground lease of the Industrial Center, and except as expressly provided in paragraph 15, in the event of any transfer of such title or interest, Lessor herein named (and in case of any subsequent transfers then the grantor) shall be relieved from and after the date of such transfer of all liability as respects Lessor's obligations thereafter to be performed, provided that any funds in the hands of Lessor or the then grantor at the time of such transfer, in which Lessee has an interest, shall be delivered to the grantee. The obligations contained in this Lease to be performed by Lessor shall, subject as aforesaid, be binding on Lessor's successors and assigns, only during their respective periods of ownership.

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

**19. Interest on Past-Due Obligations.** Except as expressly herein provided, any amount due to Lessor not paid when due shall bear interest at the maximum rate then allowable by law from the date due. Payment of such interest shall not excuse or cure any default by Lessee under this Lease; provided, however, that interest shall not be payable on late charges incurred by Lessee nor on any amount upon which late charges are paid by Lessee.

**20. Time of Essence.** Time is of the essence with respect to the obligations to be performed under this Lease.

**21. Additional Rent.** All monetary obligations of Lessee to Lessor under the terms of this Lease, including but not limited to Lessee's Share of Operating Expenses and insurance and tax expenses payable shall be deemed to be rent.

**22. Incorporation of Prior Agreements; Amendments.** This Lease contains all agreements of the parties with respect to any matter mentioned herein. No prior or contemporaneous agreement or understanding pertaining to any such matter shall be effective. This lease may be modified in writing only, signed by the parties in interest at the time of the modification. Except as otherwise stated in this Lease, Lessee hereby acknowledges that neither the real estate broker listed in paragraph 15 hereof nor any cooperating broker on this transaction nor the Lessor or any employee or agents or any of said persons has made any oral or written warranties or representations to Lessee relative to the condition or use by Lessee of the Premises or the Property and Lessee acknowledges that Lessee assumes all responsibility regarding the Occupational Safety Health Act, the legal use and adaptability of the Premises and the compliance thereof with all applicable laws and regulations in effect during the term of this Lease except as otherwise specifically stated in this Lease.

**23. Notices.** Any notice required or permitted to be given hereunder shall be in writing and may be given by personal delivery or by certified mail, and if given personally or by mail, shall be deemed sufficiently given if addressed to Lessee or to Lessor at the address noted below the signature of the respective parties, as the case may be. Either party may by notice to the other specify a different address for notice purposes except that upon Lessee's taking possession of the Premises, the Premises shall constitute Lessee's address for notice purposes. A copy of all notices required or permitted to be given to Lessor hereunder shall be concurrently transmitted to such party or parties at such addresses as Lessor may from time to time hereafter designate by notice to Lessee.

**24. Waivers.** No waiver by Lessor or any provision hereof shall be deemed a waiver of any other provision hereof or of any subsequent breach by Lessee of the same or any other provision. Lessor's consent to, or approval of, any act shall not be deemed to render unnecessary the obtaining of Lessor's consent to approval of any subsequent act by Lessee. The acceptance of rent hereunder by Lessor shall not be a waiver of any preceding breach by Lessee of any provision hereof other than the failure of Lessee to pay the particular rent so accepted, regardless of Lessor's knowledge of such preceding breach at the time of acceptance of such rent.

**25. Recording.** Either Lessor or Lessee shall, upon request of the other, execute, acknowledge and deliver to the other a "short form" memorandum of this Lease for recording purposes.

**26. Holding Over. See Paragraph 50.**

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

**28. Covenants and Conditions.** Each provision of this Lease performable by Lessee or Lessor shall be deemed both a covenant and a condition.

**29. Binding Effect; Choice of Law.** Subject to any provisions hereof restricting assignment or subletting by Lessee and subject to the provisions of paragraph 17, this Lease shall bind the parties, their personal representatives, successors and assigns. This Lease shall be governed by the laws of the State where the Industrial Center is located and any litigation concerning this Lease between the parties hereto shall be initiated in the county in which the Industrial Center is located.

**30. Subordination.**

(a) This Lease, and any Option granted hereby, at Lessor's option, shall be subordinate to any ground lease, mortgage, deed of trust, or any other hypothecation or security now or hereafter placed upon the Industrial Center and to any and all advances made on the security thereof and to all renewals, modifications, consolidations, replacements and extensions thereof. Notwithstanding such subordination, Lessee's right to quiet possession of the Premises shall not be disturbed if Lessee is not in default and so long as Lessee shall pay the rent and observe and perform all of the provisions of this Lease, unless this Lease is otherwise terminated pursuant to its terms. If any mortgagee, trustee, or ground lessor shall elect to have this Lease and any Options granted hereby prior to the lien of its mortgage, deed of trust or ground lease, and shall give written notice thereof to Lessee, this Lease and such Options shall be deemed prior to such mortgage, deed of trust or ground lease, whether this Lease or such Options are dated prior or subsequent to the date of said mortgage, deed of trust or ground lease or the date of recording thereof

(b) Lessee agrees to execute any documents required to effectuate an attornment, a subordination or to make this Lease or any Option granted herein prior to the lien of any mortgage, deed of trust or ground lease, as the case may be. Lessee's failure to execute such documents within ten (10) days after written demand shall constitute a material default by Lessee hereunder without further notice to Lessee or, at Lessor's option, Lessor shall execute such documents on behalf of Lessee as Lessee's attorney-in-fact. Lessee does hereby make, constitute and irrevocably appoint Lessor as Lessee's attorney-in-fact and in Lessee's name, place and stead, to execute such documents in accordance with this paragraph 30(b).

**31. Attorney's Fees.** If either party or the broker(s) named herein bring an action to enforce the terms hereof or declare rights hereunder, the prevailing party in any such action, on trial or appeal, shall be entitled to his reasonable attorney's fees to be paid by the losing party as fixed by the court. The provisions of this paragraph shall inure to the benefit of the broker named herein who seeks to enforce a right hereunder.

**32. Lessor's Access.** Lessor and Lessor's agents shall have the right to enter the Premises at reasonable times for the purpose of inspecting the same, showing the same to prospective purchasers, lenders, or lessees, and making such alterations, repairs, improvements or additions to the Premises or to the building of which they are part as Lessor may deem necessary or desirable. Lessor may at any time place on or about the Premises or the Building any ordinary "For Sale" signs and Lessor may at any time during the last 120 days of the term hereof place on or about the Premises any ordinary "For Lease" signs. All activities of Lessor pursuant to this paragraph shall be without abatement of rent, nor shall Lessor have any liability to Lessee for the same.

**33. Auctions.** Lessee shall not conduct, nor permit to be conducted, either voluntarily or involuntarily, any auction upon the Premises or the Common Areas without first having obtained Lessor's prior written consent. Notwithstanding anything to the contrary in this Lease, Lessor shall not be obligated to exercise any standard or reasonableness in determining whether to grant such consent.

**34. Signs.** Lessee shall not place any sign upon the Premises or the Industrial Center without Lessor's prior written consent. Under no circumstances shall Lessee place a sign on any roof of the Industrial Center.

**35. Merger.** The voluntary or other surrender of this Lease by Lessee, or a mutual cancellation thereof, or a termination by Lessor, shall not work a merger, and shall, at the option of Lessor, terminate all or any existing subtenancies or may, at the option of Lessor, operate as an assignment to Lessor of any or all of such subtenancies.

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**36. Consents.** Except for paragraph 33 hereof, wherever in this Lease the consent of one party is required to an act of the other party such consent shall not be unreasonably withheld or delayed.

**37. Guarantor.** In the event that there is a guarantor of this Lease, said guarantor shall have the same obligations as Lessee under this Lease.

**38. Quiet Possession.** Upon Lessee paying the rent for the Premises and observing and performing all of the covenants, conditions and provisions on Lessee's part to be observed and performed hereunder, Lessee shall have quiet possession of the Premises for the entire term hereof subject to all of the provisions of this Lease. The individuals executing this Lease on behalf of Lessor represent and warrant to Lessee that they are fully authorized and legally capable of executing this Lease on behalf of Lessor and that such execution is binding upon all parties holding an ownership interest in the Property.

**39. Options.** Intentionally left blank.

**40. Security Measures.** Lessee hereby acknowledges that Lessor shall have no obligation whatsoever to provide guard service or other security measures for the benefit of the Premises or the Industrial Center. Lessee assumes all responsibility for the protection of Lessee, its agents, and invitees and the property of Lessee and of Lessee's agents and invitees from acts of third parties. Nothing herein contained shall prevent Lessor, at Lessor's sole option, from providing security protection for the Industrial Center or any part thereof, in which event the cost thereof shall be included within the definition of Operating Expenses, as set forth in paragraph 4.2(b).

**41. Easements.** Lessor reserves to itself the right, from time to time, to grant such easements, rights and dedications that Lessor deems necessary or desirable, and to cause the recordation of Parcel Maps and restrictions, so long as such easements, rights, dedications, Maps and restrictions do not unreasonably interfere with the use of the Premises by Lessee. Lessee shall sign any of the aforementioned documents upon request of Lessor and failure to do so shall constitute a material default of this Lease by Lessee without the need for further notice to Lessee.

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

**43. Authority.** If Lessee is a corporation, trust, or general or limited partnership, each individual executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of said entity. If Lessee is a corporation, trust or partnership, Lessee shall, within 30 days after execution of this Lease, deliver to Lessor evidence of such authority satisfactory to Lessor.

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

**45. Offer.** Preparation of this Lease by Lessor or Lessor's agent and submission of same to Lessee shall not be deemed an offer to lease. This Lease shall become binding upon Lessor and Lessee only when fully executed by Lessor and Lessee.

**46. Commission.** Owner shall pay a commission or fee to **Eric Fuller & Associates, Inc.** in accordance with the provisions of a separate commission contract. Each party represents that it has not had dealings with any other real estate broker or salesman with respect to this Lease, and each party shall defend, indemnify and hold harmless the other party from all costs and liabilities including reasonable attorney's fees resulting from any claims to the contrary.

**47. Agency Disclosure.** At the signing of this Agreement the listing agent, **William Connelly, CCIM of Eric Fuller & Associates, Inc.** represented the Lessor. The leasing agent, **Eleanor Davis and Mike Vandenburg of Macadam Forbes** represented the Lessee. Each party signing this document confirms that prior oral and/or written disclosure of agency was provided to him/her in this transaction. **See attached Exhibit "D", The Law of Real Estate Agency.**

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**48. Hazardous Materials.** The Lessee, at its sole cost and expense, shall comply with all laws, ordinances, regulations, and standards regulating or controlling hazardous wastes or hazardous substances, including, without limitation, the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. 9601, et seq., the Hazardous Material Transportation Act, 49 U.S.C. 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C. 6901, et seq.; the Carpenter-Presley-Tanner Hazardous Substance Account Act, Health and Safety Code section 25300, et seq.; the Underground Storage of Hazardous Substance Act, Health and Safety section 25280, et seq.; the Safe Drinking Water and Toxic Enforcement Act of 1986 (Health and Safety Code section 25249.5, et seq.); and the Hazardous Waste Control Law, Health and Safety Code section 25100, et seq. (the "Environmental Laws"). The Lessee hereby indemnifies and, at all times, shall indemnify and hold harmless the Lessor, the Lessor's trustees, directors, officers, employees, investment manager(s), attorneys, agents and any successors to the Lessor's interest in the chain of title to the Property, their trustees, directors, officers, employees, and agents from and against any and all claims, suits, demands, response costs, contribution costs, liabilities, losses, or damages, directly or indirectly arising out of the existence, use, generation, migration, storage, transportation, release, threatened release, or disposal of Hazardous Materials (defined below) in, on, or under the Property or in the groundwater under the Property and the migration or transportation of hazardous materials to or from the Property or the groundwater underlying the Property. This indemnity extends to the costs incurred by the Lessor or its successors to reasonably repair, clean up, dispose of, or remove such Hazardous Materials in order to comply with the Environmental Laws, provided the Lessor gives the Lessee not less than thirty (30) days advance written notice of its intention to incur such costs. The Lessee's obligations pursuant to the foregoing indemnification and hold harmless agreement shall survive the termination of this lease. The subtenants, contractors, agents, or invitees of the Lessee shall not use, generate, manufacture, store, transport, release, threaten release, or dispose of Hazardous Materials in, on, or about the Property unless the Lessee shall have received the Lessor's prior written consent therefore, which the Lessor may withhold or revoke at any time in its reasonable discretion, and shall not cause or permit the release or disposal of Hazardous Materials from the Property except in compliance with applicable Environmental Laws. The Lessee shall not permit any person, including its subtenants, contractors, agents, or invitees to use, generate, manufacture, store, transport, release, threaten release, or dispose of Hazardous Materials in, on, or about the Property or transport Hazardous Materials from the Property unless the Lessee shall have received the Lessor's prior written consent therefore, which the Lessor may withhold or revoke at any time in its reasonable discretion and shall not cause or permit the release or disposal of Hazardous Materials. The Lessee shall promptly deliver written notice to the Lessor if it obtains knowledge sufficient to infer that Hazardous Materials are located on the Property that are not in compliance with applicable Environmental Laws or if any third party, including, without limitation, any governmental agency, claims a significant disposal of Hazardous Materials occurred on the Property or is being or has been released from the Property, or any such party gives notice of its intention to declare the Property to be Border Zone Property (as defined in section 25117.4 of the California Health and Safety Code). Upon reasonable written request of the Lessor, the Lessee, through its professional engineers and at its cost, shall thoroughly investigate suspected Hazardous Materials contamination of the Property. The Lessee, using duly licensed and insured contractors, shall promptly commence and diligently complete the removal, repair, clean-up, and detoxification of any Hazardous Materials from the Property as may be required by applicable Environmental Laws.

Notwithstanding anything to the contrary in this Lease, nothing herein shall prevent the Lessee from using materials other than Hazardous Materials on the Premises as would be used in the ordinary course of the Lessee's business as contemplated by this Lease. The Lessee does not in the course of the Lessee's current business use Hazardous Materials. If during the term of this Lease, the Lessee contemplates utilizing such materials (or subleases/assigns this Lease to a subtenant or assignee who utilizes Hazardous Materials), the Lessee shall obtain prior written approval from the Lessor which approval shall not be unreasonably withheld. The Lessor, at its option, and at the Lessee's expense, may cause an engineer selected by the Lessor, to review (a) the Lessee's operations including materials used, generated, stored, disposed, and manufactured in the Lessee's business and (b) the Lessee's compliance with terms of this paragraph. The Lessee shall provide the engineer with such information reasonably requested by the engineer to complete the review. The first such review may occur prior to or shortly following commencement of the term of this Lease. Thereafter, such review shall not occur more frequently than once each year unless cause exists for some other review schedule. One-half (1/2) of the fees and costs of the engineer shall be paid promptly by the Lessee to the Lessor upon receipt of written notice of such fees and costs.

"Hazardous Materials" means any hazardous waste or hazardous substance as defined in any federal, state, county, municipal, or local statute, ordinance, rule, or regulation applicable to the Property, including, without limitation, the Environmental Laws. "Hazardous Materials" shall also include asbestos or asbestos-containing materials, radon gas, petroleum or petroleum fractions, urea formaldehyde foam insulation, transformers containing levels of polychlorinated biphenyls greater than 50 parts per million, and chemicals known to cause cancer or reproductive toxicity, whether or not defined as a hazardous waste or hazardous substance in any such statute, ordinance, rule, or regulation.

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**49. Zoning Disclaimer.** This agreement will not allow use of the Property described in this agreement in violation of applicable land use laws and regulations. Before signing or accepting this agreement, the person acquiring lease-hold to the Property should check with the appropriate City or County planning department to verify approved uses.

**50. Rules and Regulations.** Lessee shall faithfully observe and comply with the rules and regulations that Lessor shall from time to time promulgate. Lessor reserves the right from time to time to make all reasonable modifications to said rules. The additions and modifications to those rules shall be binding upon Lessee upon delivery of a copy of them to Lessee. Lessor shall not be responsible to Lessee for the nonperformance of any said rules by other Lessees or occupants. **Lessee acknowledges that the offices in the building are NON SMOKING and that no smoking is allowed in the offices or in front of open doorways at any time. See Exhibit "C" attached hereto.**

**51. Rent Schedule.**

<b>A. Months</b>	<b>Monthly Rent</b>
1 – 12	\$2,420.00 + triple net
13 – 24	\$2,520.00 + triple net

**B. Move-In Expense.** Upon lease execution, Lessee shall pay Lessor:

First 12 month's Rent	\$ 29,040.00
First 12month's Operating Expense	\$ 5,760.00
Security Deposit	\$ 2,520.00
<b>Total Move-In Expense</b>	<b>\$ 37,320.00</b>

**52. Holding Over.** Tenant will, at the termination of this Lease by lapse of time or otherwise, yield up immediate possession to Lessor. If Lessor agrees in writing that Lessee may hold over after the expiration or termination of this Lease, unless the parties hereto otherwise agree in writing on the terms of such holding over, the hold over tenancy shall be subject to termination by Lessor at any time upon not less than five (5) days, advance written notice, or by Lessee at any time upon not less than thirty (30) days advance written notice, and all of the other terms and provisions of this Lease shall be applicable during that period, except that Lessee shall pay Lessor from time to time upon demand, as rental for the period of any hold over, an amount equal to one and one-half (1-1/2) the Base Rent in effect on the termination date, plus all additional rental as defined herein, computed on a daily basis for each day of the hold over period. No holding over by Lessee, whether with or without consent of Lessor, shall operate to extend this Lease except as otherwise expressly provided. The preceding provisions of this paragraph 51 shall not be construed as Lessor's consent for Lessee to hold over.

**53. Construction Requirements.** Any work performed at the Building or on the Premises by Lessee or Lessee's contractor in connection with improvements shall be subject to the following additional requirements:

a. Such work shall not proceed until Lessor has approved (which approval shall not be unreasonably withheld or delayed) in writing: 1) Lessee's contractor, 2) the amount and coverage of public liability and property damage insurance, with Lessor named as an additional insured, carried by Lessee's contractor, 3) complete and detailed plans and specifications for such work, and 4) a schedule for the work.

b. All work shall be done in conformity with a valid permit when required, a copy of which shall be furnished to Lessor before such work is commenced. In any case, all such work shall be performed in accordance with all applicable laws. Notwithstanding any failure by Lessor to object to any such work, Lessor shall have no responsibility for Lessee's failure to comply with applicable laws.

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

THIS LEASE HAS BEEN PREPARED FOR SUBMISSION TO YOUR ATTORNEY FOR APPROVAL. NO REPRESENTATION OR RECOMMENDATION IS MADE BY THE AMERICAN INDUSTRIAL REAL ESTATE ASSOCIATION OR BY THE REAL ESTATE BROKER OR ITS AGENTS OR EMPLOYEES AS TO THE LEGAL SUFFICIENCY, LEGAL EFFECT, OR TAX CONSEQUENCES

OF THIS LEASE OR THE TRANSACTION RELATING THERETO: THE PARTIES SHALL RELY SOLELY UPON THE ADVICE OF THEIR OWN LEGAL COUNSEL AS TO THE LEGAL AND TAX CONSEQUENCES OF THIS LEASE.

Initials



**LESSOR:**

ADDRESSES FOR NOTICES AND RENT

**Creskide Business Park**

**6017-A East 18<sup>th</sup> Street**

**Vancouver, WA 98661**

**LESSEE:**

ADDRESS

**Howco Distributing Company**

**6101-B East 18<sup>th</sup> Street**

**Vancouver, WA 98661**

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THIS LEASE IS SUBJECT TO ACCEPTANCE BY LESSOR:

IN WITNESS WHEREOF, the parties hereto have executed this lease the date and year above written.

**LESSOR: Steve Strong dba Creekside Business Park**

By: /s/ Steven Strong  
Steven Strong

Address: 6017-A East 18<sup>th</sup> Street  
Vancouver, WA 98661

**LESSEE: Howco Distributing Company**

By: /s/ Paul Joy

Address: 6017-B East 18<sup>th</sup> Street  
Vancouver, WA 98661

**LESSOR:**

State of Washington     )  
                                      )ss.  
County of Clark         )

On May 6<sup>th</sup>, 2009, Steven Strong personally appeared before me,



\_\_\_\_\_ who is personally known to me

✓ \_\_\_\_\_ whose identity I proved on the basis of WDL

\_\_\_\_\_ whose identity I proved on the oath/affirmation of \_\_\_\_\_ a credible witness

to be the signer of the above document, and he/she acknowledged that he/she signed it with authorization to execute the instrument as the Member of Creekside Business Park.

[ILLEGIBLE]

Notary Public

**LESSEE:**

State of Washington     )  
                                      )ss.  
County of Clark         )

On May 5<sup>th</sup>, 2009, Paul Joy personally appeared before me,

\_\_\_\_\_ who is personally known to me

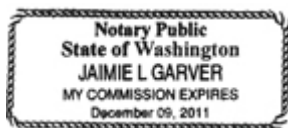
✓ \_\_\_\_\_ whose identity I proved on the basis of [ILLEGIBLE]

\_\_\_\_\_ whose identity I proved on the oath/affirmation of \_\_\_\_\_ a credible witness

to be the signer of the above document, and he/she acknowledged that he/she signed it with authorization to execute the instrument as the President of Howco Distributing.

/s/ Jaimie L Garver

Notary Public



Initials

LG

**EXHIBIT “A”**

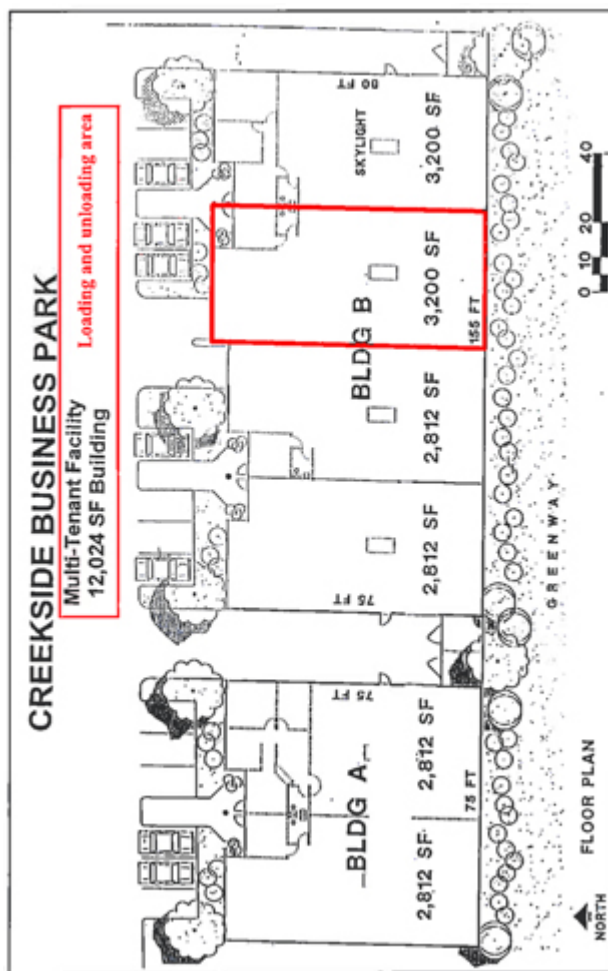
To the Lease dated **April 28, 2009**, between **Steve Strong dba Creekside Business Park**, Lessor, and **Howco Distributing Company**, Lessee.

The leased premises consists of approximately 3,200 SF in the **Creekside Business Park**, which is legally described as a portion of **James Jamison DLC #16-B aka Lot 3 SP2-692 EXE #2 Lots 3 SP2-692**, City of Vancouver, Clark County, Washington.

The premises is commonly known as:

**6101-B East 18<sup>th</sup> Street  
Vancouver, WA 98661**

For purposes of identification only, the premises general location is delineated below.



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*[Signature]*

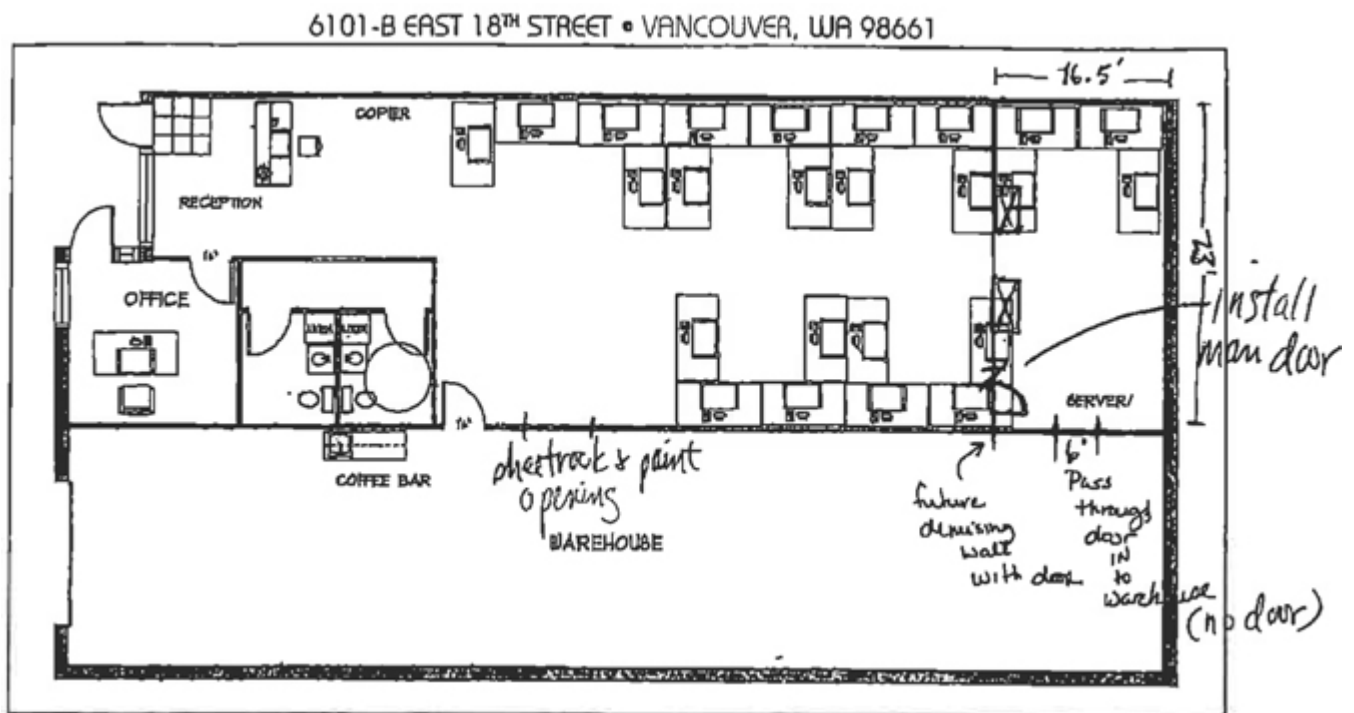
### EXHIBIT "B"

Condition of Premises. Lessee shall accept the Premises in their present condition, except that Lessor shall deliver the Premises broom clean with all general purpose heating, ventilating, air-conditioning and utility systems in good working order.

Improvements to be provided at Lessor's sole Expense:

- Drywall over current wall window between office and warehouse in mid-section of office area.
- Build a demising wall in back section of the office area that creates a large rectangle room of approximately 380 SF (approximately 16.5' x 23'). Add one (1) door in the back room.
- Open up a pass through from warehouse into back rectangular room of approximately 6' wide x 7.25' high. This open pass through can be the size of a double door. No doors are needed.

The Lessee and the Lessor shall mutually agree upon the final improvement plans.



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*[Handwritten initials]*

## EXHIBIT "C"

### RULES AND REGULATIONS

The following are initial rules and regulations applicable to Lessee's use of the Premises, which rules and regulations are subject to revisions by Lessor from time to time.

1. At occupancy date, Lessor shall provide Lessee with a key for the Premises. In the event at any time during the Lease term Lessee changes the locks on the entrance doors to the Premises and/or to any other doors within the Premises, if applicable, without Lessor's prior written approval, Lessee shall immediately provide Lessor with copies of all new keys and shall be responsible for any costs incurred by Lessor for re-keying the Premises on termination, if desired by Lessor.
2. Lessee understands and agrees that no right to store equipment, materials or inventory outside the Premises is being granted as part of this Lease. All equipment, materials and inventory, including, but not limited to, metal, pallets, boxes and items relative to Lessee's business, are to be stored inside the Premises.
3. No overnight sleeping in vehicles parked inside or outside the Premises or anywhere within the Park is permitted.
4. Lessee understands and agrees that all shelving, materials, inventory and other product stored in the warehouse area of the Premises must be kept a minimum of three (3) feet away from all sides of the electrical panel installed in the warehouse area.  
  
Lessee shall use drip pans, drop clothes, and all other appropriate protective methods and containers under any potential paint, oil, grease, or solvent sources within the Premises, consistent with stringent hazardous waste management practices, so as to minimize the leakage or deposit of such substances, to the maximum extent practical, will dispose of all such wastes consistent with applicable laws and under permit if appropriate, and will be responsible for returning the concrete warehouse floor back to the same condition and finish existing at the time of first occupancy by Lessee. In particular, all grease/oil and/or any other spill areas must be cleaned thoroughly such that all traces of the waste are removed from the Premises floors and other contaminated areas are completely remedied.
5. Lessee understands and agrees that washing, steam cleaning or sandblasting of any vehicles, tools, product or equipment is not permitted anywhere within the Premises or Park.
6. Consistent with the Lease, all tenant improvements done within the Premises during the Lease term by Lessee shall first be approved in writing by Lessor prior to the commencement of any construction, and must be done in accordance with all applicable local, state and federal codes, regulations and laws, and must be done by a Washington licensed, bonded and insured contractor and in accordance with the Park's Standard Improvement Specifications. All subcontractors utilized in the Premises for any improvements must first, before commencing work, sign lien releases in favor of Lessor.
7. Lessee acknowledges that the Premises are a portion of a multiple occupancy building. Lessee shall not create or allow to emanate from the Premises noise, noxious odors, or any type of disturbance which, as determined by Lessor, creates a nuisance or undue annoyance to any other tenants in the building.
8. The Premises will be cleaned thoroughly on a periodic basis and maintained in a clean and presentable condition throughout the Lease term. At the end of the Lease term, a thorough cleaning will be performed and any damage repaired immediately.
9. Lessee is not authorized to do any type of automobile, truck or heavy equipment repair, including oil changes, or dismantling on the Premises or in the Park generally.
10. Lessee shall not leave or store disabled vehicles or equipment on the Premises or in the Park.
11. Immediately prior to the turnover of the Premises to Lessor on termination of the Lease, Lessee shall walk through the Premises with a representative of Lessor in order to make determinations as to fixtures and any other alterations/additions/installations that have either been done by Lessee and/or for Lessee by Lessor, and that should be removed from the Premises by Lessee, prior to or at the date of Lease termination. Lessee and Lessor shall also agree as to how the Premises must be repaired after such removal; provided, however, that failing agreement, the reasonable determination of Lessor shall be binding on Lessee.
- 12.

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13. No animals are to be kept within the Premises at any time throughout the Lease term, including, but not limited to, guard dogs.
14. Lessee shall maintain in compliance with all applicable local, state, and federal regulations including, but not limited to, building and fire codes with regard to all activities to be performed within the Premises and in the Park.
15. No storage above office improvement area.

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## EXHIBIT "D"

### THE LAW OF REAL ESTATE AGENCY

*This pamphlet describes your legal rights in dealing with a real estate broker or salesperson. Please read it carefully before signing any documents.*

The following is only a brief summary of the attached law:

**Sec. 1. Definitions.** Defines the specific terms used in the law.

**Sec. 2. Relationships between Licensees and the Public.** States that a licensee who works with a buyer or tenant represents that buyer or tenant - unless the licensee is the listing agent, a seller's subagent, a dual agent, the seller personally or the parties agree otherwise. Also states that in a transaction involving two different licensees affiliated with the same broker, the broker is a dual agent and each licensee solely represents his or her client - unless the parties agree in writing that both licensees are dual agents.

**Sec. 3. Duties of a Licensee Generally.** Prescribes the duties that are owed by all licensees, regardless of who the licensee represents. Requires disclosure of the licensee's agency relationship in a specific transaction.

**Sec. 4. Duties of a Seller's Agent.** Prescribes the additional duties of a licensee representing the seller or landlord only.

**Sec. 5. Duties of a Buyer's Agent.** Prescribes the additional duties of a licensee representing the buyer or tenant only.

**Sec. 6. Duties of a Dual Agent.** Prescribes the additional duties of a licensee representing both parties in the same transaction and requires the written consent of both parties to the licensee acting as a dual agent.

**Sec. 7. Duration of Agency Relationship.** Describes when an agency relationship begins and ends. Provides that the duties of accounting and confidentiality continue after the termination of an agency relationship.

**Sec. 8. Compensation.** Allows brokers to share compensation with cooperating brokers. States that payment of compensation does not necessarily establish an agency relationship. Allows brokers to receive compensation from more than one party in a transaction with the parties' consent.

**Sec. 9. Vicarious Liability.** Eliminates the common law liability of a party for the conduct of the party's agent or subagent, unless the agent or subagent is insolvent. Also limits the liability of a broker for the conduct of a subagent associated with a different broker.

**Sec. 10. Imputed Knowledge and Notice.** Eliminates the common law rule that notice to or knowledge of an agent constitutes notice to or knowledge of the principal.

**Sec. 11. Interpretation.** This law replaces the fiduciary duties owed by an agent to a principal under the common law, to the extent that it conflicts with the common law.

**Sec. 12. Effective Date.** This law generally takes effect on January 1, 1997.

### **Sec 1. Definitions**

As used in this act unless the context clearly requires otherwise:

- (1) "Agency relationship" means the agency relationship created under this chapter or by written agreement, between a licensee and a buyer and/or seller relating to the performance of real estate brokerage services by the licensee,
- (2) "Agent" means a licensee who has entered into an agency relationship with a buyer or seller.
- (3) "Business opportunity" means and includes a business, business opportunity, and goodwill of an existing business, or any one or combination thereof.
- (4) "Buyer" means an actual or prospective purchaser in a real estate transaction, or an actual or prospective tenant in a real estate rental or lease transaction, as applicable.
- (5) "Buyer's agent" means a licensee who has entered into an agency relationship with only the buyer in a real estate transaction, and includes subagents engaged by a buyer's agent.
- (6) "Confidential information" means information from or concerning a principal of a licensee that:
  - (a) was acquired by the licensee during the course of an agency relationship with the principal;
  - (b) the principal reasonably expects to be kept confidential;
  - (c) the principal has not disclosed or authorized to be disclosed to third parties;
  - (d) would, if disclosed, operate to the detriment of the principal; and
  - (e) the principal personally would not be obligated to disclose to the other party.
- (7) "Dual agent" means a licensee who has entered into an agency relationship with both the buyer and seller in the same transaction.
- (8) "Licensee" means a real estate broker, associate real estate broker, or real estate salesperson, as those terms are defined in chapter 18.85 RCW.

"Material fact" means information that substantially adversely affects the value of the property or a party's ability to perform its obligations in a real estate transaction, or operates to materially impair or defeat, the purpose of the transaction. The fact or suspicion that the property, or any neighboring property, is or was the site of a murder, suicide or other death, rape or other sex crime, assault or other violent crime, robbery or burglary, illegal drug activity, gang-related activity, political or religious activity, or other act, occurrence, or use not adversely affecting the physical condition of or title to the property is not a material fact.
- (9) "Principal" means a buyer or a seller who has entered into an agency relationship with a licensee.
- (10) "Real estate brokerage services" means the rendering of services for which a real estate license is required under chapter 18,85 RCW,

"Real estate transaction" or "transaction" means an actual or prospective transaction involving a purchase, sale, option, or
- (11) exchange of any interest in real property or a business opportunity, or a lease or rental of real property. For purposes of this act, a prospective transaction does not exist until a written offer has been signed by at least one of the parties
- (12) "Seller" means an actual or prospective seller in a real estate transaction, or an actual or prospective landlord in a real estate rental or lease transaction, as applicable.
- (13) "Seller's agent" means a licensee who has entered into an agency relationship with only the seller in a real estate transaction, and includes subagents engaged by a seller's agent.
- (14) "Subagent" means a licensee who is engaged to act on behalf of a principal by the principal's agent where the principal has authorized the agent in writing to appoint subagents.
- (15)

### **Sec. 2. Relationships Between Licensees and the Public**

- (1) A licensee who performs real estate brokerage services for a buyer shall be deemed a buyer's agent unless:
  - (a) The licensee has entered into a written agency agreement with the seller,
  - (b) The licensee has entered into a subagency agreement with the seller's agent,
  - (c) The licensee has entered into a written agency agreement with both parties:
  - (d) The licensee is the seller or one of the sellers; or
  - (e) The parties agree otherwise in writing after the licensee has complied with section 3(1)(1).

In a transaction in which different licensees affiliated with the same broker represent different parties, the broker is a dual agent, and must obtain the written consent of both parties as required under section 6 of this act. In such a case, each licensee shall solely represent the party with whom the licensee has an agency relationship, unless all parties agree in writing that both licensees are dual agents.

A licensee may work with a party in separate transactions pursuant to different relationships, including, but not limited to,
- (2) representing a party in one transaction and at the same time not representing that party in a different transaction involving that party, if the licensee complies with this act in establishing the relationships for each transaction.

### **Sec. 3. Duties Of A Licensee Generally.**

- (1) Regardless of whether the licensee is an agent, a licensee owes to all parties to whom the licensee renders real estate brokerage services the following duties, which may not be waived:
- (a) To exercise reasonable skill and care;
  - (b) To deal honestly and in good faith;  
To present all written offers, written notices and other written communications to and from either party in a timely manner,
  - (c) regardless of whether the property is subject to an existing contract for sale or the buyer is already a party to an existing contract to purchase;  
To disclose all existing material facts known by the licensee and not apparent or readily ascertainable to a party; provided
  - (d) that this subsection shall not be construed to imply any duty to investigate matters that the licensee has not agreed to investigate;
  - (e) To account in a timely manner for all money and property received from or on behalf of either party;  
To provide, a pamphlet on the law of real estate agency in the form prescribed in section 13 of this act to all parties to whom the licensee renders real estate brokerage services, before the party signs an agency agreement with the licensee, signs an offer in a real estate transaction handled by the licensee, consents to dual agency, or waives any rights, under section 2(1)(e), 4(1)(e), 5(1)(e), or 6(2)(e) or 6(2)(F) whichever is soonest; and
  - (f) To disclose in writing to all parties to whom the licensee renders real estate brokerage services, before the party signs an offer in a real estate transaction handled by the licensee, whether the licensee represents the buyer, the seller, both parties, or neither party. The disclosure shall be set forth in a separate paragraph entitled "Agency Disclosure" in the agreement between the buyer and seller or in a separate writing entitled "Agency Disclosure."
  - (g)
- Unless otherwise agreed, a licensee owes no duty to conduct an independent inspection of the property or to conduct an independent investigation of either party's financial condition, and owes no duty to independently verify the accuracy or completeness of any statement made by either party or by any source reasonably believed by the licensee to be reliable.
- (2)

#### **Sec. 4. Duties Of A Seller's Agent.**

- (1) Unless additional duties are agreed to in writing signed by a seller's agent, the duties of a seller's agent are limited to those set forth in section 3 of this act and the following which may not be waived except as expressly set forth in (e) of this subsection:
- (a) To be loyal to the seller by taking no action that is adverse or detrimental to the seller's interest in a transaction;

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- (b) To timely disclose to the seller any conflicts of interest;
  - (c) To advise the seller to seek expert advice on matters relating to the transaction that are beyond the agent's expertise;
  - (d) Not to disclose any confidential information from or about the seller, except under subpoena or court order, even after termination of the agency relationship: and  
Unless otherwise agreed to in writing after the seller's agent has complied with section 3(1)(1) to make a good faith and
  - (e) continuous effort to find a buyer for the property; except that a seller's agent is not obligated to seek additional offers to purchase the property while the property is subject to an existing contract for sale.
- (2) A seller's agent may show alternative properties not owned by the seller to prospective buyers and may list competing properties for sale without breaching any duty to the seller.

#### **Sec. 5. Duties Of A Buyer's Agent.**

- (1) Unless additional duties are agreed to in writing signed by a buyer's agent, the duties of a buyer's agent are limited to those set forth in section 3 of this act and the following, which may not be waived except as expressly set forth in (e) of this subsection:
- (a) To be loyal to the buyer by taking no action that is adverse or detrimental to the buyer's interest in a transaction;
  - (b) To timely disclose to the buyer any conflicts of interest;
  - (c) To advise the buyer to seek expert advice on matters relating to the transaction that are beyond the agent's expertise,
  - (d) Not to disclose any confidential information from or about the buyer, except under subpoena or court order, even after termination of the agency relationship: and  
Unless otherwise agreed to in writing after the buyer's agent has complied with section 3(1)(1), to make a good faith and
  - (e) continuous effort to find a property for the buyer, except that a buyer's agent is not obligated to: (i) Seek additional properties to purchase while the buyer is a party to an existing contract to purchase; or (ii) show properties as to which there is no written agreement to pay compensation to the buyer's agent.
- (2) A buyer's agent may show properties in which the buyer is interested to other prospective buyers without breaching any duty to the buyer

#### **Sec. 6. Duties Of A Dual Agent.**

- (1) A licensee may act as a dual agent only with the written consent of both parties to the transaction after the dual agent has complied with section 3(1)(1), which consent must include a statement of the terms of compensation.
- (2) Unless additional duties are agreed to in writing signed by a dual agent, the duties of a dual agent are limited to those set forth in section 3 of this act and the following, which may not be waived except as expressly set forth in (e) and (f) of this subsection:
- (a) To take no action that is adverse or detrimental to either party's interest in a transaction;
  - (b) To timely disclose to both parties any conflicts of interest;
  - (c) To advise both parties to seek expert advice on matters relating to the transaction that are beyond the dual agent's expertise;
  - (d) Not to disclose any confidential information from or about either party, except under subpoena or court order, even after termination of the agency relationship;  
Unless otherwise agreed to in writing after the dual agent has complied with section 3(1)(f), to make a good faith and
  - (e) continuous effort to find a buyer for the property; except that a dual agent is not obligated to seek additional offers to purchase the property while the property is subject to an existing contract for sale; and  
Unless otherwise agreed to in writing after the dual agent has complied with section 3(1)(1), to make a good faith and
  - (f) continuous effort to find a property for the buyer, except that a dual agent is not obligated to: (i) seek additional properties to purchase while the buyer is a party to an existing contract to purchase; or (ii) show properties as to which there is no written agreement to pay compensation to the dual agent.
- (3) A dual agent may show alternative properties not owned by the seller to prospective buyers and may list competing properties for sale without breaching any duty to the seller
- (4) A dual agent may show properties in which the buyer is interested to other prospective buyers without breaching any duty to the buyer.

#### **Sec. 7. Duration Of Agency Relationship.**

- (1) The agency relationships set forth in this chapter commence at the time that the licensee undertakes to provide real estate brokerage services to a principal and continue until the earliest of the following.
- (a) completion of performance by the licensee.
  - (b) expiration of the term agreed upon by the parties; or
  - (c) termination of the relationship by mutual agreement of the parties.
- (2) Except as otherwise agreed to in writing, a licensee owes no further duty after termination of the agency relationship, other than the duties of:
- (a) Accounting for all monies and property received during the relationship; and

- (b) Not disclosing confidential information

**Sec. 8. Compensation.**

- (1) In any real estate transaction, the broker's compensation may be paid by the seller, the buyer, a third party, or by sharing the compensation between brokers.
- (2) An agreement to pay or payment of compensation does not establish an agency relationship between the party who paid the compensation and the licensee.
- (3) A seller may agree that a seller's agent may share with another broker the compensation paid by the seller.
- (4) A buyer may agree that a buyer's agent may share with another broker the compensation paid by the buyer.
- (5) A broker may be compensated by more than one party for real estate brokerage services in a real estate transaction, if those parties consent in writing at or before the time of signing an offer in the transaction.
- (6) A buyer's agent or dual agent may receive compensation based on the purchase price without breaching any duty to the buyer.
- (7) Nothing contained in this act shall obligate a buyer or seller to pay compensation to a licensee, unless the buyer or seller has entered into a written agreement with the licensee specifying the terms of such compensation

**Sec. 9. Vicarious Liability.**

- (1) A principal is not liable for an act, error, or omission by an agent or subagent of the principal arising out of an agency relationship
  - (a) unless the principal participated in or authorized the act, error, or omission; or
  - (b) except to the extent that: (i) The principal benefited from the act, error, or omission; and (ii) the court determines that it is highly probable that the claimant would be unable to enforce a judgment against the agent or subagent
- (2) A licensee is not liable for an act, error, or omission of a subagent under this act, unless the licensee participated in or authorized the act, error or omission. This subsection does not limit the liability of a real estate broker for an act, error, or omission by an Initials associate real estate broker or real estate salesperson licensed to that broker.

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**Sec. 10. Imputed Knowledge And Notice.**

- (1) Unless otherwise agreed to in writing, a principal does not have knowledge or notice of any facts known by an agent or subagent of the principal that are not actually known by the principal.  
Unless otherwise agreed to in writing, a licensee does not have knowledge or notice of any facts known by a subagent that are
- (2) not actually known by the licensee. This subsection does not limit the knowledge imputed to a real estate broker of any facts known by an associate real estate broker or real estate salesperson licensed to such broker

**Sec. 11. Interpretation.**

This act supersedes only the duties of the parties under the common law, including fiduciary duties of an agent to a principal to the extent inconsistent with this act. The common law continues to apply to the parties in all other respects Nothing in this act affects the duties of a licensee while engaging in the authorized or unauthorized practice of law as determined by the courts of this suite. This chapter shall he construed broadly

**Sec. 12. Effective Date.**

This act shall take effect on January 1, 1997, except that this act shall not apply to an agency relationship entered into before January 1, 1997, unless the principal and agent agree in writing that this act will, as January 1, 1997, apply to such agency relationship.

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#### FOURTH AMENDMENT TO LEASE

##### I. PARTIES AND DATE.

This Fourth Amendment to Lease (this "Amendment") dated April 26, 2016 is by and between Steven M. Strong dba Creekside Business Park ("Landlord"), and Howco Distributing Company ("Tenant").

##### II. RECITALS.

Landlord and Tenant entered into that certain Creekside Business Park Standard Industrial Lease-Multi-Tenant dated April 28, 2009, (the "Lease"), for the premises located at Creekside Business Park, 6025 East 18<sup>th</sup> Street Vancouver, Washington 98661, consisting of approximately 5000 total square feet, including approximately 2500 square feet of office space, as more particularly described in said Lease (the "Premises").

Landlord and Tenant agree that Tenant shall be allowed to expand and relocate to adjoining space at Creekside Business Park, 6025 East 18<sup>th</sup> Street, Suite A&B, Vancouver, WA 98661 described as approximately 5,624 square feet with approximately 2,300 square feet of office space herein referred to as the "Premises" as may be outlined on Exhibit "A" attached hereto.

Landlord and Tenant each desire to extend the term of the Lease and otherwise modify the Lease as set forth below.

##### III. MODIFICATIONS.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Landlord and Tenant hereby amend the Lease as follows:

---

A. Basic Lease Provisions.

- Incorporation; Define Terms. The Lease is hereby incorporated into this Amendment by this reference. All capitalized terms used and not otherwise defined in this Amendment, but defined in the Lease, shall have the same meaning in this Amendment to Lease.
- 

- Lease Term; Landlord and Tenant acknowledge that the term of the Lease is presently scheduled to expire on May 31, 3016. The term of the Lease is hereby extended for a period of twelve (12) months ("extension Term"),commencing on June 1, 2016 and, unless sooner terminated pursuant to the terms of the Lease, expiring on May 31, 2017. Such extension shall be on and subject to all the terms and conditions of the Lease, as amended by this Amendment.
- 

- Base Rent. Effective upon the commencement of the Extension term, the Base Rent payable by Tenant with respect to the Premises shall be as follows:
- 

Months	Monthly Base Rent
June 1, 2016-May 31, 2017	\$3,785.00
Triple Net expense is in addition to the Base Rent stated above	

- Effect on Additional Rent and Charges. Nothing contained in this Amendment shall affect Tenants liability for Tenants Share of Operating Expenses or any and all additional rent and charges payable by Tenant under the Lease. Such amounts shall be payable in accordance with the Lease, and Tenant's monthly payment of Base Rent. Tenant's failure to pay any amounts due in a timely manner shall constitute a default under the Lease.
- 4.

5. Tenant's Share. Tenant's share is defined, for purposes of this Amendment, as \$0.15 per square foot per month or \$844.00 per month, which will remain Unchanged for the term of the lease.

- Security Deposit. Upon execution of this Amendment, Tenant shall deliver to Landlord the sum of \$0.00 which shall be added to the deposit held by Landlord pursuant to Paragraph 5 of the Lease. Upon payment and application of such sum, the entire deposit held by Landlord as such security shall be \$3,567.00 (the "Security Deposit"), increased in accordance with Paragraph 5 of the Lease. The Security Deposit shall be held by Landlord as a security deposit and may be applied by Landlord as provided in Paragraph of the Lease.
- 6.

7. Current Premises. Tenant accepts Premises in its current condition except as stated in Paragraph 8 below.

9. Tenant shall perform routine maintenance of the HVAC unit every six months for the term of the lease. Tenant shall not be responsible for the replacement cost of the HVAC unit.

#### IV. MISCELLANEOUS.

- Effect of Amendment. Except to the extent the Lease is modified by this Amendment, the remaining terms and
- A. provisions of the Lease shall remain unmodified and in full force and effect. In the event of conflict between the terms of the Lease and the terms of this Amendment, this terms of Amendment shall prevail.
-

- B. Entire Agreement. This Amendment embodies the entire understanding between Landlord and Tenant with respect to its subject matter and may be changed only by an instrument in writing signed by Landlord and Tenant.
- C. Counterparts. This Amendment may be executed in counterparts, each of which shall be deemed an original, but all of which, together, shall constitute one in the same Amendment.

V. EXECUTION.

Landlord and Tenant executed this Fourth Amendment to Lease as of the date First above written.

LANDLORD:

TENANT:

Steven M. Strong, dba Creekside Business Park

Howco Distributing Company

By: /s/ Steven M. Strong

By: /s/ Paul Joy

Date: 4-28-16

Date: 4-28-16

Signatures witnessed by:

Deborah Chandler

Kathryn Joy

/s/ Deborah Chandler

/s/ Kathryn Joy

Date: 4-28-16

Date: 4-28-16

## EXHIBIT "A"

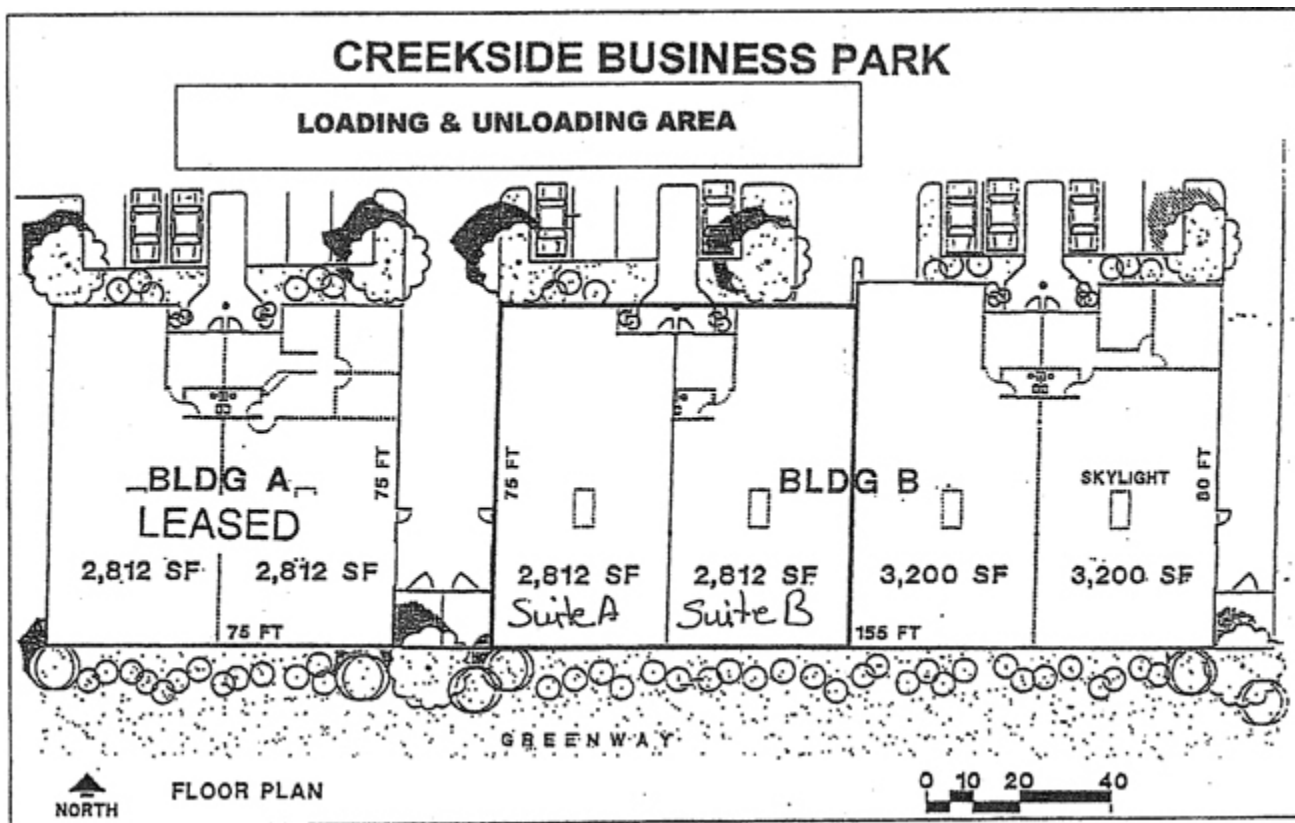
To the Lease Amendment dated April 26, 2016, between Steve Strong dba Creekside Business Park, Landlord, and Howco Distributing Company, Tenant.

The leased premises consists of approximately 5,624 square feet in the Creekside Business Park, which is legally described as a portion of the James Jamison DLC#16-Baka Lot 3 SP2-692 EXE#2 Lots 3 SP2-692, City of Vancouver, Clark County, Washington.

The Premises is commonly known as:

6025 East 18<sup>th</sup> Street, Suite A&B Vancouver, WA 98661

For purposes of identification only, the Premises general location is delineated below.





March 28<sup>th</sup>, 2017

Michael Bannon  
CEO  
Drone USA, Inc.  
One World Trade Center, 85<sup>th</sup> Floor  
285 Fulton Street  
New York, NY 10007-0103

RE: Investment Banking Services

Dear Mr. Bannon:

This agreement by and between TCA Global Credit Master Fund, LP ("TCA") and Drone USA, Inc (hereinafter collectively known as the "Company") is dated March 28<sup>th</sup>, 2017 and encompasses the following advisory services to be provided by TCA to the Company (the "Agreement").

1. Services Provided:

A range of services which may, or may not, include (1) identifying, evaluating and advising in relation to the Company's current structural (including business model), financial, operational, managerial, strategic, restructuring, workouts, reorganizations and other distressed situation advisory work (2) preparing and coordinating with the Company and others in the development of business plans and financial models, (3) identifying potential merger, acquisition, divestiture, consolidation or other combination ("M&A Transaction") opportunities and negotiating, structuring and advising in connection with potential M&A Transactions, (4) advising and assisting the Company in connection with the preparation of any registration statements, periodic or other SEC reports or proxies, and (5) coordinating with, and advising in connection with, the activities of outside professionals, including without limitation attorneys, accountants, market professionals, etc. (the "Services").

In order to enable TCA to provide the Services requested, the Company agrees to provide all information reasonably requested including historical and projected financials (for the Company and any subsidiaries) and any known litigation and pending liabilities. The Company also agrees to make available its management and legal counsel upon request.

2. Duties.

TCA shall perform the Services as reasonably requested by the Company from time to time, including but not limited to the Services described in Section 1 above. TCA shall devote its commercially reasonable efforts and attention to the performance of the Services for the Company on a timely basis and shall also make itself available to answer questions, provide advice and provide Services to the Company upon reasonable request and notice from the Company.



3. Limitation of Engagement to the Company.

The Company acknowledges that TCA has been retained only by the Company, that TCA is providing Services hereunder as an independent contractor (and not in any fiduciary or agency capacity) and that the Company's engagement of TCA is not deemed to be on behalf of, and is not intended to confer rights upon, any shareholder, owner or partner of the Company or any other person not a party hereto as against TCA or any of its affiliates, or any of its or their respective officers, directors, controlling persons (within the meaning of Section 15 of the Securities Act or Section 20 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), employees or agents. Unless otherwise expressly agreed in writing by TCA, no one other than the Company is authorized to rely upon this Agreement or any other statements or conduct of TCA, and no one other than the Company is intended to be a beneficiary of this Agreement. The Company acknowledges that any recommendation or advice, written or oral, given by TCA to the Company in connection with TCA's engagement is intended solely for the benefit and use of the Company's management and directors and any such recommendation or advice is not on behalf of, and shall not confer any rights or remedies upon, any other person or be used or relied upon for any other purpose. TCA shall not have the authority to make any commitment binding on the company.

4. Limitation of TCA's Liability to the Company.

TCA and the Company further agree that neither TCA nor any of its affiliates or any of its or their respective officers, directors, controlling persons (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act), employees or agents shall have any liability to the Company, its security holders or creditors, or any person asserting claims on behalf of or in the right of the Company (whether direct or indirect, in contract, tort, for an act of negligence or otherwise) for any losses, fees, damages, liabilities, costs, expenses or equitable relief arising out of or relating to this Agreement or the Services rendered hereunder, except for losses, fees, damages, liabilities, costs or expenses that arise out of or are based on any action of or failure to act by TCA and that are finally judicially determined to have resulted solely from the gross negligence or willful misconduct of TCA.

5. Changes to Services.

Any material changes to the Services to be rendered, including the schedule, deliverables, and related fees, must be approved in writing.



6. Notices.

All notices hereunder will be in writing and sent by certified mail, hand delivery, overnight delivery or email, if sent to 19950 W Country Club Drive, Suite 101, Aventura, FL 33180 the address set forth on the page hereof, or email address [Dsilverman@tcaglobalfund.com](mailto:Dsilverman@tcaglobalfund.com), and [Rpress@tcaglobalfund.com](mailto:Rpress@tcaglobalfund.com), Attention: Donna Silverman and Robert Press. Notices sent by certified mail shall be deemed received five days thereafter, notices sent by hand delivery or overnight delivery shall be deemed received on the date of the relevant written record of receipt, and notices delivered by fax shall be deemed received as of the date and time printed thereon by the fax machine.

7. Performance of Services.

TCA shall use its best efforts to perform the Services such that the results are satisfactory to the company.

8. Compensation:

In consideration for the Services provided by TCA to the Company as of this date, the Company shall compensate TCA in the amount of \$ 1,200,000.00 which is considered earned upon execution.

If the Company is a quoted company on any listed exchange, TCA will accept a single preferred share convertible into common stock never to exceed 4.99%. The number of shares issued will be set at 100% of the amount due up to availability. Upon sale of these securities, TCA will provide a reconciliation to the Company. If at that time the value of the stock is greater than the amount owed, the balance of the shares shall be returned to the Company. If the then current value of the shares is less than the amount due, then the Company will be responsible for immediately delivering additional shares to be sold by TCA in order for TCA to realize the full value of the amount owed.

9. Reimbursement of Expenses:

The Company shall promptly reimburse TCA for any reasonable costs and expenses incurred by TCA in connection with any Services specifically requested by the Company and actually performed by TCA pursuant to the terms of this Agreement. Each such expenditure or cost shall be reimbursed only if: (i) with respect to costs in excess of \$250.00 dollars, individually, TCA receives prior approval from the Company's CEO or CFO or other executive for such expenditure or cost, and (ii) with respect to costs less than \$250 dollars, individually, provided TCA furnishes to the Company adequate records and other documents reasonably acceptable to the Company evidencing such expenditure or cost.



10. General Restrictions on Use.

TCA agrees to hold all Proprietary Information in confidence and not to, directly or indirectly, disclose, use, copy, publish, summarize, or remove from the Company's premises any Proprietary Information (or remove from the premises any other property of the Company), except (i) during the consulting relationship to the extent authorized and necessary to carry out TCA's responsibilities under this Agreement, and (ii) after termination of the consulting relationship, only as specifically authorized in writing by the Company. Notwithstanding the foregoing, such restrictions shall not apply to: (x) information which TCA can show was rightfully in TCA's possession at the time of disclosure by the Company; (y) information which TCA can show was received from a third party who lawfully developed the information independently of the Company or obtained such information from the Company under conditions which did not require that it be held in confidence; or (z) information which, at the time of disclosure, is generally available to the public.

11. Ownership of Work Product.

All Work Product shall be considered work(s) made by TCA for hire for the Company and shall belong exclusively to the Company and its designees. If by operation of law, any of the Work Product, including all related intellectual property rights, is not owned in its entirety by the Company automatically upon creation thereof, then TCA agrees to assign, and hereby assigns, to the Company and its designees the ownership of such Work Product, including all related intellectual property rights. "Work Product" shall mean any writings (including excel, power point, emails, etc.), programming, documentation, data compilations, reports, and any other media, materials, or other objects produced as a result of TCA's work or delivered by TCA in the course of performing that work.

12. Return of Proprietary Information

Upon termination of this Agreement, TCA shall upon request by the Company promptly deliver to the Company (at the Company's sole cost and expense) all: drawings, blueprints, manuals, specification documents, documentation, source or object codes, tape discs and any other storage media, letters, notes, notebooks, reports, flowcharts, and all other materials in its possession or under its control relating to the Proprietary Information and/or Services, as well as all other property belonging to the Company which is then in TCA's possession or under its control. Notwithstanding the foregoing, TCA shall retain ownership of all works owned by TCA prior to commencing work for the Company hereunder, subject to the Company's nonexclusive, perpetual, paid up right and license to use such works in connection with its use of the Services and any Work Product.

13. Governing Law

The validity, interpretation, enforceability, and performance of this Agreement shall be governed by and construed in accordance with the laws of the State of Nevada.



Should the terms and conditions contained herein be acceptable, please execute the agreement below.

Sincerely,

By: /s/ Robert Press  
Name: Robert Press  
Title: Director  
TCA GLOBAL CREDIT MASTER FUND, LP

By: /s/ Michael Bannon  
Name: Michael Bannon  
Title: CEO  
DRONE USA, INC



26 Broadway, Suite 1107  
New York, NY 10004  
Telephone: (212) 375-2957  
Facsimile: (212) 931-9339

Confidential

January 7, 2017

**Michael Bannon**, Chief Executive Officer  
Drone USA, Inc  
One World Trade Center, 85<sup>th</sup> Floor  
285 Fulton Street  
New York, NY 10007-0103

Re: Financial Advisory Agreement

Dear Michael:

Based on our discussions, we are pleased to confirm the arrangements under which, **Ardour Capital Investments LLC**, ("Ardour") will be engaged by **Drone USA, Inc.** together with its subsidiaries and affiliates ("Drone" or "Company"), to act as the Company's financial advisor ("Advisor") with respect to providing a potential capital raise and other capital market opportunities including Mergers and Acquisitions. The term of this agreement shall commence on January 7, 2017 and end on upon written notification of termination. This agreement may be terminated by the Company any time after the initial 30 day period .. Any termination shall be made with 30 days prior written notice.

- Subject to the satisfactory completion of due diligence by Advisor, and upon Company's request, Advisor will assist and advise the Company with respect to its business plan and its corporate strategy and planning, and will also assist the Company with capital structure analysis. Advisor will assist and advise the Company on investor presentation preparation and review. Advisor agrees to arrange and accompany the Company on institutional grade "road shows," with both current and potential shareholders during the term of engagement. For acting as the Company's Advisor, the Company will pay Ardour Capital Investments, LLC three (3) cash retainer fees equal to \$10,000 for the first month, \$7,500 for the second month and \$5,000 for the third month. The first month retainer is due and payable upon the signing of this agreement by wire transfer or ACH transfer and each subsequent retainer shall be due and payable on the monthly anniversary of this agreement.
- 1.

- Upon request, Ardour agrees to act as Underwriter and/or placement agent for a capital raise for the Company. Upon the satisfactory completion of due diligence, the preparation of any necessary presentation materials, and the preparation of any necessary marketing documents (the "Due Diligence Requirements"), Ardour would, on an exclusive basis, as the placement agent or underwriter for the Company in connection with a proposed institutional financing transaction.
- 2.

Ardour Capital Investment, LLC

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3. Advisor shall receive compensation as follows:

For acting as the Company's underwriter/placement agent for any equity or equity derivative offering, Advisor shall receive a cash commission equal to 7% of total dollar amount raised as cash compensation, payable at closing. In addition, Ardour would receive a warrant equal to 3% of the total shares issued in the transaction at an exercise price equal to 110% of the transaction market price. Ardour shall receive as compensation a Cash Sales Commission of 3% of gross proceeds received from any straight debt-related transaction.

- Upon request Advisor agree to act as the Company's financial advisor in connection with any merger, acquisition or divestiture in whole or part of any of the Company's assets or the acquisition of any target company and or its assets, the Company will pay Advisor a cash success fee equal to the following;
1. 5% on the first \$10,000,000 of Transaction Value.
  2. 4% on the next \$5,000,000 of Transaction Value.
  3. 3% on the next \$5,000,000 of Transaction Value.
  4. 2% on the balance of the total Transaction Value.

Total Transaction Value shall be defined as the total amount of cash and the fair market value of all other consideration paid by the Company to the target or its equity holders plus any amounts of indebtedness for borrowed money assumed by the Company.

- The Company acknowledges that Ardour makes no commitment whatsoever as to making a market in the Company's securities or to recommending. Ardour acknowledges that the Company shall have the absolute right in its sole discretion to determine whether to proceed with any warrant conversion/solicitation and further, Ardour understands and agrees it is not authorized to commit or create a binding obligation on behalf of the Company.
- The Company agrees that Ardour has the right to place advertisements in financial and other newspapers and journals describing its services to the Company hereunder following review and approval by the Company.

- This letter agreement shall be binding upon and inure to the benefit of each of the parties hereto and their respective successors, legal representatives and assigns. No provision of this letter agreement may be amended, modified or waived, except in a writing signed by all of the parties hereto.

- Advisor will act under this agreement as an independent contractor with duties to the Company. Because Advisor will be acting on the Company's behalf in this capacity, it is Ardour's practice to receive and give mutual indemnification. A copy of Ardour's standard indemnification form is attached to this letter agreement, and is incorporated herein. Ardour represents and warrants to the Company that Ardour is a broker-dealer registered with the Financial Industry Regulatory Authority, and has all such other licenses or registrations with such state or foreign governmental or quasi-governmental authorities or agencies as are required in connection with the performance of this agreement by Ardour.
- 7.

- In addition to the fees payable hereunder and regardless of whether any transaction or financing is proposed or consummated, Company shall reimburse Advisor for all reasonable travel and out-of-pocket expenses incurred by Advisor in connection with the performance of its services hereunder, including without limitation, hotel, food and associated expenses; provided, however, expenses over \$1000 shall require the prior approval of the Company. Such expenses shall be submitted by Advisor on a monthly basis, together with originals of receipts and other documentation in form satisfactory to the Company supporting all expenditures in excess of \$25 and reimbursed by Company upon receipt. Advisor shaU not retain its own counsel other than at its own expense.
- 8.

- Notwithstanding the termination of this Agreement through the passage of time or otherwise, if Ardour introduces the Company to an individual contact during the term of this Agreement and the Company and that contact enter into a transaction within 12 months immediately following the termination or expiration of this Agreement, Ardour shall be entitled to receive the compensation provided in this Agreement.
- 9.

- Any notice or communication permitted or required hereunder shall be in writing and shall be deemed given upon receipt and shall be (i) hand-delivered; (ii) sent postage prepaid by registered mail, return receipt requested, or (iii) sent by confirmed facsimile, to the respective parties as set forth below, or to such other address as either party may notify the other in writing:
- 10.

If the Company, to:

**Michael Bannon**, Chief Executive Officer  
Drone USA, Inc  
One World Trade Center, 85th Floor  
285 Fulton Street  
New York, NY 10007-0103

If to the Advisor, to:

Ardour Capital Investments, LLC  
26 Broadway, Suite 1107



New York, NY 10004  
Attn: Kerry J Dukes, Managing Partner  
Phone: + 1.212.375.2957  
[kdukes@ardourcapital.com](mailto:kdukes@ardourcapital.com)

This letter agreement shall be binding upon and inure to the benefit of each of the parties hereto and their respective successors,  
11. legal representatives and permitted assigns. No provision of this letter agreement may be amended, modified or waived, except in a writing signed by all of the parties hereto.

If any portion of this letter agreement shall be held or made unenforceable or invalid by a statute, rule, regulation, decision of a  
12. tribunal or otherwise, the remainder of this letter agreement shall not be affected thereby and shall remain in full force and effect, and, to the fullest extent, the provisions of the letter agreement shall be severable.

This letter agreement shall be construed in accordance with and governed by the laws of the State of New York, without giving effect to its conflict of law principles. Each of the Company and the Advisor agrees that any controversy or claim arising out of  
13. or relating to this letter agreement, or the breach thereof, shall be settled by arbitration administered by the American Arbitration Association in New York, New York, in accordance with its Commercial Arbitration Rules, and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

If the terms of our engagement as set forth in this letter are satisfactory to you, kindly sign and date the enclosed copy of this agreement and the indemnification form thereto as Exhibit A and return them to us.

Very truly yours,

ARDOUR CAPITAL INVESTMENTS

By: /s/ Kerry Dukes  
Name: Kerry Dukes  
Title: Managing Director

ACCEPTED AND AGREED TO:

By: /s/ Dennis Antoneles

Name: Dennis Antoneles

Title: CFO

Ardour Capital Investment, LLC

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## Exhibit A

Gentlemen:

This letter will confirm that we have engaged Ardour Capital Investments LLC (Advisor) to advise and assist us in connection with the matters referred to in our letter agreement dated August 20, 2015 ("Engagement Letter"). In consideration of your agreement to act on our behalf in connection with such matters, we agree to indemnify and hold harmless you and your affiliates and you and their respective officers, directors, employees and agents and each other person, if any, controlling you or any of your affiliates (you and each such other person being an "Indemnified Person") from and against any losses, claims, damages or liabilities related to, arising out of or in connection with, the engagement (the "Engagement") under the Engagement Letter, and will reimburse each Indemnified Person for all expenses (including reasonable fees and expenses for one counsel) as they are incurred in connection with investigating, preparing, pursuing or defending any action, claim, suit, investigation or proceeding related to, arising out of or in connection with the Engagement, whether or not pending or threatened and whether or not any Indemnified Person is a party. We will not, however, be responsible to any Indemnified Person for any losses, claims, damages or liabilities (or expenses relating thereto) that are finally judicially determined to have resulted from the willful misconduct or negligence of such Indemnified Person. We also agree that no Indemnified Person shall have any liability (whether direct or indirect, in contract or tort or otherwise) to us for or in connection with the Engagement except for any such liability for losses, claims, damages or liabilities incurred by us that are finally judicially determined to have resulted from the willful misconduct or negligence of such Indemnified Person.

We will not, without your prior written consent, settle, compromise, consent to the entry of any judgment in or otherwise seek to terminate any action, claim, suit or proceeding in respect of which indemnification may be sought hereunder (whether or not any Indemnified Person is a party thereto) unless such settlement, compromise, consent or termination includes a release of each Indemnified Person from any liabilities arising out of such action, claim, suit or proceeding. No Indemnified Person seeking indemnification, reimbursement or contribution under this agreement will, without our prior written consent, settle, compromise, consent to the entry of any judgment in or otherwise seek to terminate any action, claim, suit, investigation or proceeding referred to in the preceding paragraph.



If the indemnification provided for in the first paragraph of this agreement is judicially determined to be unavailable (other than in accordance with the third sentence of the first paragraph hereof) to an Indemnified Person in respect of any losses, claims, damages or liabilities referred to herein, then, in lieu of indemnifying such Indemnified Person hereunder, we shall contribute to the amount paid or payable by such Indemnified Person as a result of such losses, claims, damages or liabilities (and expense relating thereto) (i) in such proportion as is appropriate to reflect the relative benefits to you, on the one hand, and us, on the other hand, of the Engagement or (ii) if the allocation provided by clause (i) above is not available, in such proportion as is appropriate to reflect not only the relative benefits referred to in such clause (i) but also the relative fault of each of you and us, as well as any other relevant equitable considerations; provided, however, in no event shall your aggregate contribution to the amount paid or payable exceed the aggregate amount of fees actually received by you under the Engagement Letter. For the purposes of this agreement, the relative benefits to us and you of the Engagement shall be deemed to be in the same proportion as (a) the total value paid or contemplated to be paid or received or contemplated to be received by us, our affiliates and/or our shareholders, officers and/or directors as the case may be, in the transaction or transactions that are the subject of the Engagement, whether or not any such transaction is consummated, bears to (b) the fees paid to you in connection with the Transaction.

The provisions of this agreement shall apply to the Engagement and any modification thereof and shall remain in full force and effect regardless of any termination or the completion of your services under the Engagement Letter.

This agreement and the Engagement Letter shall be governed by and construed in accordance with the laws of the State of New York applicable to contracts executed and to be performed in that state.

Very truly—yours;

By: /s/ Dennis Antonelos

Name: Dennis Antonelos

Title: CFO

ACCEPTED AND AGREED TO  
as of February 7 2017 : Ardour

Capital Investments LLC

By: /s/ Kerry Dukes  
Name: Kerry Dukes  
Title: Managing Partner

Ardour Capital Investment, LLC



### **CONSULTING AGREEMENT**

THIS AGREEMENT (the “Agreement”), is made and entered into as of this 26<sup>th</sup> day of December 2016, by and between Caro Partners LLC., a Florida corporation, with offices at 344 Kingfisher Drive, Jupiter, Florida 33458 (“Caro” or the “Consultant”), and Drone USA Inc., with offices at One World Trade Center 85<sup>th</sup> Floor, 285 Fulton Street, New York, New York 10007 (the “Company”) (together the “Parties”).

**WHEREAS**, Consultant in the business of providing services for management consulting, business advisory, shareholder information and public relations;

**WHEREAS**, the Company deems it to be in its best interest to retain Consultant to render to the Company such services as may be needed; and

**WHEREAS**, the Parties desire to set forth the terms and conditions under which Consultant shall provide services to the Company.

**NOW, THEREFORE**, in consideration of the mutual promises and covenants herein contained, and other valid consideration, receipt of which is hereby acknowledged, the Parties agree as follows:

#### **Term of Agreement**

The Agreement shall remain in effect from the date hereof through the expiration of a period of six months from the date hereof unless terminated pursuant to this Agreement (the “Term”), and thereafter will be automatically renewed unless upon the written consent of the company.

#### **Nature of Services to be rendered.**

During the Term and any renewal thereof, Consultant shall use its best efforts to: (a) provide the Company with corporate consulting services in connection with introductions to other financial relations companies and other financial services; (b) contact the Company’s existing shareholders, responding in a professional manner to their questions and following up as appropriate; (c) introduce the Company to various securities dealers, investment advisors, analysts, funding sources and other members of the financial community with whom it has established relationships, and generally assist the Company in its efforts to enhance its visibility in the financial community (collectively, the “Services”). It is acknowledged by the Company that Consultant carries no professional licenses, and is not rendering legal advice or performing accounting services, nor acting as an investment advisor or broker/dealer within the meaning of the applicable state and federal securities laws. The Services of Consultant shall not be exclusive nor shall Consultant be required to render any specific number of hours or assign specific personnel to the Company or its projects, however it is anticipated and agreed upon by both Parties that considerable time and resources will be required to fulfill the obligations to the Company under this agreement. The Consultant shall specifically not provide any of the following services to the Company: (i) negotiation for the sale of any the Company’s securities; (ii) discuss details of the nature of the securities sold or whether recommendations were made concerning the sale of the securities; (iii) engage in due diligence activities; (iv) provide advice relating to the valuation of or the financial advisability of any investments in the Company; or (v) handle any funds or securities on behalf of the Company.

**Consulting Agreement December 26, 2016 for DRUS**



## **Disclosure of Information**

Consultant agrees that it shall NOT disclose to any third party any material non-public information or data (“Confidential Information”) received from the Company without the prior written consent and approval of the Company other than: (i) to its agents or representatives that have a need to know in connection with the Services hereunder; provided such agents and representatives have a similar obligation to maintain the confidentiality of such information; (ii) as may be required by applicable law; provided, Consultant shall provide prompt prior written notice thereof to the Company to enable the Company to seek a protective order or otherwise prevent such disclosure; and (iii) such information as becomes publicly known through no action of the Consultant, or its agents or representatives.

The Parties further agree that Confidential Information shall not be used for the enrichment, directly or indirectly, of the Recipient or its affiliates, without the express written consent of disclosing Party. The Parties further agree that following receipt of Confidential Information from a disclosing Party including but not limited to relationships and business contacts, each Party shall not contract or attempt to sell to, transact with or purchase from disclosing Party-provided sources without the written permission from the disclosing Party unless (i) a business relationship between the Party and the disclosing Party’s-provided source predated the Effective Date of this Agreement, and (ii) Party can substantiate exchanges specific to the disclosed information and/or sources between Party and the disclosing Party-provided source prior to the date of the signing of this Agreement.

## **Compensation.**

Upon execution of the Agreement, the Consultant shall purchase and the Company will issue 400,000 shares of the Company’s restricted common stock (symbol: DRUS) (the “Restricted Stock”) for a total purchase price of two hundred dollars (\$200.00) as per the Investment Representation Letter (incorporated by reference into the Agreement and attached as Addendum A). During the Term of this Agreement the Company shall pay the Consultant the sum of \$10,000 per month. (The Consultant agrees to accrue monthly cash fees until the Company closes a qualified financing). The Parties acknowledge and agree that the Shares shall be fully earned upon signing of this Agreement and that the date of acquisition of the Shares is the effective date of this Agreement.

If any change is made in the Capital Structure of the Company through merger, consolidation, reorganization, recapitalization, reincorporation, dividend, stock split, combination of shares, exchange of shares, change in the corporate structure or other transaction, the balance of the unissued shares under this Agreement shall be adjusted on a pari-passu basis with other holders of common stock of the Company and the balance of the unissued shares shall be appropriately adjusted in the number of securities and price per share.

**Consulting Agreement December 26, 2016 for DRUS**



### **Representations and Warranties of the Consultant.**

In order to induce the Company to enter into this Agreement, the Consultant hereby makes the following unconditional representations and warranties:

In connection with its execution of and performance under this Agreement, the Consultant has not taken and will not take any action that will cause it to become required to make any filings with or to register in any capacity with the Securities and Exchange Commission (the "SEC"), the FINRA, the securities commissioner or department of any state, or any other regulatory or governmental body or agency. Neither the Consultant nor any of its principals is subject to any sanction or restriction imposed by the SEC, the FINRA, any state securities commission or department, or any other regulatory or governmental body or agency, which would prohibit, limit or curtail the Consultant's execution of this Agreement or the performance of its obligation hereunder. The Consultant's purchase of shares pursuant to this Agreement is an investment made for its own account. The Consultant is permitted to provide consulting services to any corporation or entity engaged in a business identical or similar to the Company's.

### **Registration Obligations.**

At any time following the signing of the Agreement if the Company files a registration statement with the SEC registering an amount of securities equal to at least \$500,000 ("Registration Statement"), the Company must provide piggy back registration rights and include the all of the consultant shares in the Registration Statement.

### **Duties of the Company.**

The Company will supply Consultant, on a regular basis and timely basis, with all approved data and information about the Company, its management, its products, and its operations as reasonably requested by Consultant and which the Company can obtain with reasonable effort; and Company shall be responsible for advising Consultant of any facts which would affect the accuracy of any prior data and information previously supplied to Consultant so that the Consultant may take corrective action.

The Company must, within five (5) business days of receiving written notice from the Consultant accompanied with an opinion of qualified securities counsel, provide a letter to the Consultant and the Transfer Agent for the Company's Restricted Stock addressing the permissible resale of the Restricted Stock (in compliance with and pursuant to applicable securities laws) transferred to the Consultant under this Agreement.

**Consulting Agreement December 26, 2016 for DRUS**



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

In order to induce the Consultant to enter into this Agreement, the Company hereby makes the following unconditional representations and warranties: The Company is not subject to any restriction imposed by the SEC or by operation of the 1933 Act, the Exchange Act of 1934, as amended (the "1934 Act") or any of the rules and regulations promulgated under the 1933 Act or the 1934 Act which prohibit its execution of this Agreement or the performance of its obligations to the Consultant set forth herein. The Company has not been sanctioned by the SEC, FINRA or any state securities commissioner or department in connection with any issuance of its securities. All payments required to be made on time and in accordance with the payment terms and conditions set forth herein.

### **Compliance with Securities Laws**

The Parties acknowledge and agree that the Company is subject to the requirements of the 1934 Act, and that the 1933 Act, the 1934 Act, the rules and regulations promulgated there-under and the various state securities laws (collectively, "Securities Laws") impose significant burdens and limitations on the dissemination of certain information about the Company by the Company and by persons acting for or on behalf of the Company. Each of the Parties agrees to comply with all applicable Securities Laws in carrying out its obligations under the Agreement; and without limiting the generality of the foregoing, the Company hereby agrees (i) all information about the Company provided to the Consultant by the Company, which the Company expressly agrees may be disseminated to the public by the Consultant in providing any public relations or other services pursuant to the Agreement, shall not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements made, in light of the circumstances in which they were made, not misleading, (ii) the Company shall promptly notify the Consultant if it becomes aware that it has publicly made any untrue statement of a material fact regarding the Company or has omitted to state any material fact necessary to make the public statements made by the Company, in light of the circumstances in which they were made, not misleading, and (iii) the Company shall promptly notify the Consultant of any "quiet period" or "blackout period" or other similar period during which public statements by or on behalf of the Company are restricted by any Securities Law. Each Party (an "Indemnifying Party") hereby agrees, to the full extent permitted by applicable law, to indemnify and hold harmless the other Party (the "Indemnified Party") for any damages caused to the Indemnified Party by the Indemnifying Party's breach or violation of any Securities Law, except to the extent that the Indemnifying Party's breach or violation of a Securities Law is caused by the Indemnified Party's breach or violation of the Agreement, or any Securities Law.

### **Issuance of Restricted Stock to Consultant**

The Restricted Stock shall be issued as fully-paid and non-assessable securities. The Company shall take all corporate action necessary for the issuance of the Restricted Stock, to be legally valid and irrevocable, including obtaining the prior approval of its Board of Directors.

**Consulting Agreement December 26, 2016 for DRUS**



#### **Indemnification of Consultant by the Company.**

The Company acknowledges that the Consultant relies on information provided by the Company in connection with the provisions of Services hereunder and represents that said information does not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements made, in light of the circumstances in which they were made, not misleading, and agrees to hold harmless and indemnify the Consultant for claims against the Consultant as a result of any breach of such representation and for any claims relating to the purchase and/or sale of the Company's securities occurring out of or in connection with the Consultant's relationship with the Company including, without limitation, reasonable attorney's fees and other costs arising out of any such claims; provided, however, that the Company will not be liable in any such case for losses, claims, damages, liabilities or expenses that arise from the gross negligence or willful misconduct of the Consultant.

#### **Indemnification of the Company by the Consultant.**

The Consultant shall identify and hold harmless the Company and its principals from and against any and all liabilities and damages arising out of any the Consultant's gross negligence or intentional breach of its representations, warranties or agreements made hereunder.

#### **Applicable Law.**

It is the intention of the Parties hereto that this Agreement and the performance hereunder and all suits and special proceedings hereunder be construed in accordance with and under and pursuant to the laws of the State of New York and that in any action, special proceeding or other proceedings that may be brought arising out of, in connection with or by reason of this Agreement, the law of the State of New York shall be applicable and shall govern to the exclusion of the law of any other forum, without regard to the jurisdiction on which any action or special proceeding may be instituted.

#### **Disputes.**

Any conflicts, disputes and disagreements arising out of or in connection with the Agreement, shall be subject to state court in New York City, New York. However, if Consultant needs to enforce any registration rights or shareholder rights, Consultant reserves the right to file an injunctive action in a court in New York, New York. In signing this Agreement, the Company waives their right to challenge jurisdiction on this issue.

#### **Entire Understanding/Incorporation of other Documents.**

The Agreement together with the Investor Letter of the Consultant attached hereto contains the entire understanding of the Parties with regard to the subject matter hereof, superseding any and all prior agreements or understandings whether oral or written, and no further or additional agreements, promises, representations or covenants may be inferred or construed to exist between the Parties.

**Consulting Agreement December 26, 2016 for DRUS**



**No Assignment or Delegation Without Prior Approval.**

No portion of the Agreement or any of its provisions may be assigned, nor obligations delegated, to any other person or party without the prior written consent of the Parties except by operation of law or as otherwise set forth herein.

**Survival of Agreement.**

The Agreement and all of its terms shall inure to the benefit of any permitted assignees of or lawful successors to either Party.

**Independent Contractor.**

Consultant agrees to perform its consulting duties hereto as an independent contractor. Nothing contained herein shall be considered as creating an employer-employee relationship between the Parties to this Agreement. Consultant shall be responsible for any and all income or other taxes resulting from payments in connection with this Agreement made to Consultants.

**No Amendment Except in Writing.**

Neither the Agreement nor any of its provisions may be altered or amended except in a dated writing signed by the Parties.

**Waiver of Breach.**

No waiver of any breach of any provision hereof shall be deemed to constitute a continuing waiver or a waiver of any other portion of the Agreement.

**Severability of the Agreement.**

Except as otherwise provided herein, if any provision hereof is deemed by arbitration or a court of competent jurisdiction to be legally unenforceable or void, such provision shall be stricken from the Agreement and the remainder hereof shall remain in full force and effect.

**Non-Circumvention.** The Parties agree that confidential Information shall not be used for the enrichment, directly or indirectly, of the Recipient or its affiliates, without the express written consent of disclosing Party. The Parties further agree that following receipt of Confidential Information from a disclosing Party including but not limited to relationships and business contacts, shall not contract or attempt to sell to, transact with or purchase from disclosing Party-provided sources without the written permission from the disclosing Party unless (i) a business relationship between the Party and the disclosing Party's-provided source predated the Effective Date of this Agreement, and (ii) Party can substantiate exchanges specific to the disclosed information and/or sources between Party and the disclosing Party-provided source prior to the date of the signing of this Agreement.

**Consulting Agreement December 26, 2016 for DRUS**



### **Termination of the Agreement.**

The Company may terminate the Agreement, with or without cause, by providing written notification to the Consultant. The Agreement will terminate thirty days following the date of receipt of the written notification by the Consultant ("Date of Termination"). In the event of termination of the Agreement by the Company, the Consultant shall be entitled to keep any and all fees, Company stock or other compensation it received from the Company under the Agreement prior to the Date of Termination.

### **Counterparts and Facsimile Signature.**

This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original, but all of which taken together shall constitute one and the same instrument. Execution and delivery of this Agreement by exchange of electronic copies bearing the signature of a Party hereto shall constitute a valid and binding execution and delivery of this Agreement by such Party. Such electronic copies shall constitute enforceable original documents.

### **No Construction Against Drafter.**

The Agreement shall be construed without regard to any presumption or other requiring construction against the Party causing the drafting hereof.

**IN WITNESS WHEREOF**, the Parties hereto have duly executed and delivered this Agreement, effective as of the date set forth above.

**Drone USA Inc.**

**Caro Partners LLC.**

**By:** /s/ Mike Bannon

**By:** /s/ Brian S. John

Mr. Mike Bannon CEO

Brian S. John, Managing Member

**Consulting Agreement December 26, 2016 for DRUS**

**REPRESENTATION LETTER**  
**(ADDENDUM A)**

The undersigned subscriber, Caro Partners, LLC., (the “Subscriber”) is acquiring 400,000 shares of the common stock (the “Shares”) of Drone USA Inc. (the “Company”) for Two Hundred Dollars (\$200.00) in connection with the Consulting Agreement dated December 26th 2016 between the Subscriber and the Company. In order to induce the Company to issue the Shares to the Subscriber, the Subscriber hereby makes the following representations, gives the following warranties, and acknowledges the following information:

1. The Subscriber represents that it has full power and authority to execute this Investor Representation Letter (this Letter”) and make the representations contained herein. The Subscriber understands that the Company is relying on this Letter in issuing it the Shares.
2. The shares are being purchased solely for investment purposes, for the Subscriber’s own account, and not with a view to, or for sale in conjunction with, any distribution of the shares within the meaning of the Securities Act of 1933, as amended (the “Securities Act”). The Subscriber further represents that it does not have any contract, undertaking or arrangement with any person to sell, transfer or grant participation to such person or to any third person, with respect to any of the Shares. The Subscriber acknowledges that the Shares are being offered and sold pursuant to an exemption under Section 4(a)(2) of the Securities Act.
3. The Subscriber acknowledges that the Shares have not been registered under the Securities Act and are to be issued to the Subscriber in reliance upon one or more exemptions from registration contained in the Securities Act and applicable state securities laws. The Subscriber has no right to demand the registration of the Shares to permit them to be resold, and no representations about subsequent registrations have been made by the Company. The Subscriber acknowledges that the Shares cannot be transferred except pursuant to a registration under the Securities Act or pursuant to an exemption from the Securities Act deemed to be lawfully available. In this connection, the Subscriber represents that it is familiar with SEC Rule 144 as presently in effect, and understand the resale limitations imposed thereby and by the Securities Act.
4. The Subscriber acknowledges that the exemption provided by Rule 144 under the Securities Act provide for limited sale of unregistered shares but may not be available to the Subscriber at the time it may desire to sell the Shares. No representations have been made to the Subscriber that any part of the Shares will be saleable Pursuant to Rule 144 at any particular time.
5. The Subscriber has had an opportunity to ask questions of and receive answers from the Company regarding the Company, its business and prospects and the terms and conditions of the sale of the Shares. It believes it has received all the information it considers necessary or appropriate for deciding whether to acquire the Shares.

DRUS Investment Rep Letter December 2016

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6. The Shares represent a speculative investment involving a high degree of risk loss of the purchase price. The Subscriber has such knowledge and experience in financial and business matters that it is capable of evaluating the merits and risks of an investment in the Shares and of making an informed investment decision. The Subscriber is able to bear the economic risk of the investment in the Share, to hold the Shares an indefinite period of time, and to afford a complete loss of the purchase price.

7. The Shares will be represented by a certificate bearing a prominent legend setting forth the restricted nature of the Shares as deemed appropriate by the Company's counsel.

8. The Subscriber will furnish the Company with an opinion of counsel, that such transfer will not require registration of such shares under the Act. The undersigned understands that the Company is not obligated, and does not intend, to register any such Shares under the Act or any state securities laws.

ACCEPTED BY

**Caro Partners LLC**

By: /s/ Brian S. John  
Brian S. John, Managing Mbr.  
DATE 12/26/2016

**Drone USA Inc**

By: /s/ Mike Bannon  
Mike Bannon CEO  
DATE 12/26/2016

DRUS Investment Rep Letter December 2016

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SUBLEASE AGREEMENT

between

EMPIRICAL SYSTEMS AEROSPACE, INC.

Sublessor

and

DRONE USA, INC.

Sublessee

Dated as of November 17<sup>th</sup>, 2016

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## SUBLEASE AGREEMENT

This Sublease Agreement (this "Sublease") dated as of November 17th, 2016 is entered into by and between EMPIRICAL SYSTEMS AEROSPACE, INC., having a mailing address at P.O. Box 595, Pismo Beach, CA 93448 (the "Sublessor"), and Drone USA, Inc., having its principal office at One World Trade Center, 285 Fulton Street, 85th Floor, New York, NY 10007 (the "Sublessee").

### WITNESSETH:

WHEREAS, pursuant to a certain Lease, dated November 17th, 2016 (the "Lease"), by and between Empirical Systems Aerospace, Inc, as landlord (the "Landlord") and the Sublessor, as tenant, (the "Premises") comprising \_\_\_\_\_, as more particularly described in the Lease, of the building located at 3580 Sueldo, San Luis Obispo, 93401 (the "Building"); and

WHEREAS, Sublessor desires to sublet to Sublessee, and Sublessee desires to sublet from Sublessor, the Premises consisting of approximately \_\_\_\_\_ rentable square feet (the "Sublet Space"), see exhibit B Andy's email dated 11/15/17, to conduct Sublessor's business of the development and manufacturing of unmanned aerial vehicles ("UAVs"), on the terms and conditions hereinafter set forth;

NOW, THEREFORE, for and in consideration of the rental payments to be made hereunder by Sublessee to Sublessor and the mutual terms, provisions, covenants and conditions hereinafter set forth, the parties hereby agree as follows:

1. Demised Sublet Space. Sublessor does hereby sublease to Sublessee, and Sublessee does hereby take and hire from Sublessor, the Sublet Space for the term and upon the conditions hereinafter set forth.

2. Term. (a) The term (the "Term") of this Sublease shall commence on February 1st, 2017 (or such later date as Sublessor provides possession of the Sublet Space, the "Sublease Commencement Date") and shall terminate at midnight EDT on January 31<sup>st</sup>, 2019 (the "Sublease Expiration Date"), unless sooner terminated as provided herein or pursuant to law unless 60 days prior to the Sublease Expiration Date Sublessee notifies Sublessor that Sublessee desires to extend the Term for up to an additional 24 months.

(a) Sublessor and Sublessee agree to execute and deliver any documentation and/or furnish any information reasonably requested by Landlord and otherwise cooperate reasonably with each other and Landlord in connection with obtaining the required consent of Landlord.

(b) When the Sublease Commencement Date has occurred and been established, Sublessor and Sublessee shall, within 30 days of a request by Sublessor or Sublessee, execute an agreement confirming such date as the Sublease Commencement Date. Any failure of the parties to execute such agreement shall not affect the validity of the Sublease Commencement Date or the Sublease Expiration Date.

3. Basic Rent. Sublessee hereby covenants and agrees to pay to Sublessor commencing on the Sublease Commencement Date and ending on the Sublease Expiration Date, in the manner hereinafter provided, basic rent (the "Basic Rent") of \$180,000 per annum, payable in equal monthly installments of \$15,000, which sum shall, at Sublessee's election, be increased to \$16,500 per month should the Sublease be extended at Sublessee's election for an additional period of time following the 36<sup>th</sup> month from the date of this Agreement. Each monthly installment of Basic Rent shall be payable in advance on the first day of each calendar month during the Term without notice or demand and without abatement, deduction or set-off of any amount whatsoever.

4. Use of Sublet Space. Sublessee may use and occupy the Sublet Space for executive offices, administrative offices, and/or general offices for the conduct of any lawful and reputable business not prohibited by the Lease, and for no other purposes whatsoever. In no event shall Sublessee use or occupy the Sublet Space in a manner inconsistent with the provisions of the Lease. Sublessee acknowledges and agrees (i) that the Sublet Space will be accessible only through Sublessor's Space and, therefore, Sublessee covenants and agrees that it shall conduct, and shall cause its employees, agents and representatives and guests to conduct, their activities in a professional manner that is not disruptive to the peaceful enjoyment by Sublessor and its employees, agents, representatives and guests of the Sublessor's Space, (ii) other than as a means of ingress and egress, Sublessee shall not use any of the reception area, lobby or conference area in the Sublessor's Space, and (iii) Sublessee shall take all actions necessary or desirable to ensure the security of the Premises, including without limitation the Sublessor's Space.

5. Release from Liability. Each party hereby agrees to cause all insurance policies carried by such party with respect to the Sublet Space or the Premises to comply with any of the provisions of the Lease, which provisions, if any, are incorporated herein by reference, with respect to obtaining waivers of subrogation endorsements and releases of liability from the insurers. The releases, if any, contained in the Lease are incorporated herein and made applicable to Sublessor and Sublessee.

6. Surrender of Premises. On the Sublease Expiration Date, whether the Sublease Expiration Date occurs by expiration, lapse of time or otherwise, or the sooner termination of this Sublease, Sublessee, at Sublessee's sole cost and expense, shall quit and surrender the Sublet Space to Sublessor in the same condition (reasonable wear and tear excepted) in which Sublessor has delivered the Sublet Space to Sublessee, including, without limitation, the removal of all of Sublessee's Changes and the restoration of the Sublet Space to its existing condition and finishes on the Sublease Commencement Date, provided that Sublessor may request Sublessee to surrender the Sublet Space in its then existing condition Sublessee hereby consents and agrees that if Sublessee should "hold over" after the termination or expiration of this Sublease, Sublessee shall pay to Sublessor for use and occupancy of the Sublet Space for each month or part thereof during which Sublessee shall hold over, a sum equal to two (2) times the Basic Rent and any additional rent payable hereunder during the last full month of the Term. Sublessee hereby indemnifies and holds Sublessor harmless from and against any costs, expenses (including, without limitation, attorneys' fees), damages or liabilities (including, without limitation, any liability of Sublessor to Landlord) arising from the failure of Sublessee to surrender the Sublet Space in accordance with the terms of this Sublease upon the termination or expiration of this Sublease.

7. Sublessor's Representations and Warranties Sublessor covenants, warrants and represents:

(a) that Sublessor is a corporation duly organized, validly existing, and in good standing under the laws of its state or country of organization;

(b) that Sublessor has all requisite corporate power and authority to execute, deliver, and perform its obligations under this Sublease, and the execution, delivery and performance of this Sublease by the Sublessor, and the consummation of all transactions contemplated hereby, have been duly authorized by all necessary corporate action of the Sublessor and will not violate any laws or governmental or court regulations or orders or, subject to obtaining the consent of Landlord to this Sublease, any agreements to which the Sublessor is a party or is subject or by which it is otherwise bound; and

(c) Sublessor has delivered a true and complete copy of the Lease, within 90 days, to Sublessee and there are no other agreements between Sublessor and Landlord with respect to the Sublet Space:

(d) the Lease is in full force and effect and, to the best knowledge of Sublessor, there is no material default by Sublessor or Landlord thereunder;

(e) Sublessor shall comply with all of the terms of the Lease and make all payments under the Lease except to the extent the failure to so comply or make any payment is due to Sublessee's default hereunder; and

(f) Sublessor shall indemnify, defend and hold Sublessee harmless from and against any and all claims, liabilities, damages, losses or expenses (including, without limitation, reasonable attorneys fees) which may be imposed or incurred by Sublessee by reason of a breach of the covenant set forth in subparagraph (e) above.

8. Sublessee's Representations and Warranties Sublessee covenants, warrants and represents that:

(a) Sublessee is a Delaware corporation duly organized, validly existing and in good standing under the laws of the State of Delaware;

(b) Sublessee has all requisite corporate power and authority to execute, deliver and perform its obligations under this Sublease, and the execution, delivery and performance of this Sublease by the Sublessee, and the consummation of all transactions contemplated hereby, have been duly authorized by all necessary corporate action of Sublessee and will not violate any laws or governmental or court regulations or orders or any agreements of which Sublessee is a party or is subject or by which it is otherwise bound;

(c) Sublessee shall perform all of its obligations under this Sublease (including, without limitation, all of the obligations arising under the Lease which are incorporated herein by reference);

(d) that Sublessee will not do or omit to do anything which would constitute a default under the provisions of the Lease incorporated herein by reference; and

9. Broker. Sublessor and Sublessee each represents to the other that no broker has been engaged by such party with respect to this Sublease. Each party shall indemnify the other from and against any losses, including reasonable attorneys' fees, incurred by the other party resulting from breach of the representation in this Section 21.

10. Notice. Any notice, demand, request or other communication (each, a "notice") to Sublessee with respect to this Sublease shall be deemed properly given if sent in writing by registered mail, return receipt requested, by electronic mail with confirmation of receipt or by hand delivery or by an overnight delivery service which provides evidence of delivery, addressed to Sublessee's address at the Sublet Space (or, prior to the Sublease Commencement Date, at Sublessee's mailing address stated in the preamble to this Agreement). Any notice to Sublessor shall also be sent to Akerman LLP, 750 Ninth Street, N.W., Suite 750, Washington, D.C. 20001, Attention: Ernest M. Stern, Esq. Each party shall have the right to designate by notice in writing by registered mail or by hand delivery such other address to which such party's notice is to be sent. All notices shall be deemed given on the date of actual receipt by the party to whom such notice is addressed.

11. Governing Law. The laws of the State of New York shall govern the rights, duties and remedies of the parties hereto and construction and interpretation of the terms and provisions hereof.
12. Headings. The headings contained in this Sublease are for convenience only and are not to be deemed a part hereof.
13. Successors and Assigns The terms, covenants and provisions contained herein shall be binding upon and shall inure to the benefit of the parties hereto and their respective permitted successors and assigns.
14. Counterparts. This Sublease may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all of such counterparts shall together constitute but one and the same instrument
15. Furnishings. Sublessee shall take good care of and maintain in at least its present condition the furniture and furnishings (if any) included in the Sublet Space. At all times, Sublessor shall be the owner of the furniture and fixtures (if any) included in the Sublet Space.
16. Exhibit A. Paulo's understanding of this lease agreement.
17. Exhibit B. Andy's answers to Dennis' questions concerning how much space Drone USA Inc. will have in this lease.

*[Signature Page Follows]*

IN WITNESS WHEREOF, Sublessor and Sublessee herein have duly executed this Sublease Agreement as of the day and year first above written.

SUBLESSOR:

EMPIRICAL SYSTEMS AEROSPACE, INC.

By: /s/ Andrew Gibson

Name: Andrew Gibson

Title: CEO

SUBLESSEE:

DRONE USA, INC.

By: /s/ Michael Bannon

Name: Michael Bannon

Title: President

This lease agreement between Drone USA Inc. and ES AERO is signed with objectives over and above payment for real estate; It comprises an intent for a longterm relationship of cooperation through synergies and common growth objectives. Hence, it encompasses the following expectations:

1. Priority responding to campaign requirements
2. Access to Engineering and Manufacturing resources
3. Joint response to tenders through the development of priced-to-win proposals
4. Open access to the plant
5. Support during customer, investor, and audit visits and meetings
6. Dedicated manufacturing and office space
7. Logo placement on outer and inner walls

It is with a resilient intention of mutual success though a long-term relationship through cooperative efforts as described above, and aiming at a future acquisition of ES AERO, that Drone USA embarks into this venture and endorses this lease agreement.

## Exhibit B

## Michael Bannon

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**From:** Michael Bannon  
**Sent:** Wednesday, November 16, 2016 1:43 PM  
**To:** Michael Bannon  
**Subject:** Fwd: Lease questions

Sent from my iPhone

Begin forwarded message:

**From:** Dennis Antonelos <[dennis@droneusainc.com](mailto:dennis@droneusainc.com)>  
**Date:** November 15, 2016 at 4:20:17 PM EST  
**To:** Michael Bannon <[mike@droneusainc.com](mailto:mike@droneusainc.com)>  
**Subject:** FW: Lease questions

**From:** Andrew Gibson [<mailto:andrew.gibson@esaero.com>]  
**Sent:** Tuesday, November 15, 2016 3:58 PM  
**To:** Dennis Antonelos <[dennis@droneusainc.com](mailto:dennis@droneusainc.com)>; [benjamin.schiltgen@esaero.com](mailto:benjamin.schiltgen@esaero.com); 'Ike Bayraktar' <[ikebayraktar@aol.com](mailto:ikebayraktar@aol.com)>  
**Subject:** RE: Lease questions

So I'll take a stab since I'm sitting in this meeting.....

1. Total is 32,220 sq.ft. What was originally envisioned being a facility access agreement, was for Drone to receive whatever is required as ESAero would prioritize your needs. But, since it's now a sublease, it will be 9,000 - 10,000 sq.ft. total; it's flexible pending requirements, and if we end up needing way more space for Drone (a good problem), we can adjust the agreement or built it into ESAero overhead. That's a good future problem we can deal with when we get there.
2. Office space is ~8,000 sq.ft. Total, and Drone will use 2,000 of that, also pending requirements. As for exactly what it is, again we are flexible. We are planning for you guys to have some executive office space, and have some space in the general engineering area.
3. As a facility access agreement, the 15K was going to apply to both rent/NNN and O/H expenses. As a sublease, we might be able to keep it the same way; the 15K includes everything. But as a sublease, does Drone need to pay their portion of utilities? I actually haven't thought about this yet.

Thanks,

Andy





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Andrew R. Gibson  
President/Aerospace Engineer  
Empirical Systems Aerospace  
[andrew.gibson@esaero.com](mailto:andrew.gibson@esaero.com)  
[LinkedIn](#)

(P) 805.275.1053  
(C) 805.704.1865



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**From:** Dennis Antonelos  
[<mailto:dennis@droneusainc.com>]  
**Sent:** Tuesday, November 15, 2016

12:44 PM  
**To:** [benjamin.schiltgen@esaero.com](mailto:benjamin.schiltgen@esaero.com)  
**Cc:** Andrew Gibson  
**Subject:** Lease questions

Hello Ben,

Dennis here from Drone USA, it's nice to meet you over email. I wanted to ask you some specific questions around the lease and since you're in charge of finance, I thought you'd be the man to reach out to.

- ? What is the total sf of the facility? What sf will Drone USA receive?
- ? How many offices or office sf are in the facility? What office sf/# offices will Drone receive?
- ? Can you breakdown the \$15,000/mo figure for me? Is it all being applied towards rent, or is a portion being applied to overhead costs as well? If so, what overhead costs are included, and which will be the responsibility of Drone?

Not trying to complicate things, but we have to satisfy some reporting obligations (PubCo audit) and the Board is asking for a little more clarity as well.

Look forward to hearing back and to meeting you in person.

Best regards,  
Dennis



**Dennis Antonelos**  
[dennis@droneusainc.com](mailto:dennis@droneusainc.com)  
☎ (917) 710-0398

One World Trade Center, 85th Floor  
285 Fulton Street  
New York, NY 10007-0103



This email has been checked for viruses by Avast antivirus software.  
[www.avast.com](http://www.avast.com)



**Dennis Antonelos**  
[dennis@droneusainc.com](mailto:dennis@droneusainc.com)  
☎ (917) 710-0398

One World Trade Center, 85th Floor  
285 Fulton Street  
New York, NY 10007-0103



## MANUFACTURING AGREEMENT

This **MANUFACTURING AGREEMENT** (this “Agreement”) is entered into this \_\_\_\_ day of November, 2016, by and between **DRONE USA, Inc.** (“DRUS”), a Delaware corporation with offices at One World Trade Center, 285 Fulton Street, 85th Floor, New York, NY 10007, and **Empirical Systems Aerospace, Inc.** (“ESAero”) a [California] corporation (“Manufacturer”), with offices at P.O. Box 595, Pismo Beach, CA 93448, both DRUS and Manufacturer collectively referred to as the Parties and each individually as a Party.

**WHEREAS**, this Agreement concerns the manufacturing and development of DRUS’s low altitude unmanned aerial vehicles (“UAVs”) or unmanned aerial systems;

**WHEREAS**, the Parties desire assistance with the manufacturing and integration of the component parts of DRUS’s UAVs to facilitate commercialization of such UAVs;

**WHEREAS**, Manufacturer has the ability to provide these services;

**NOW, THEREFORE**, for and in consideration of the mutual covenants and promises set forth in the Agreement and other valuable consideration, the receipt and sufficiency of which is hereby mutually acknowledged, the Parties agree to the following covenants, provisions, terms and conditions as follows:

### GRANT OF MANUFACTURING RIGHTS:

1. **Right to Manufacture.** Manufacturer is hereby granted the right to manufacture components of DRUS UAV and other models and enhancements that will be designed in the future for a commercially reasonable price based on agreed to manufacturing costs. DRUS will ensure that Manufacturer will not be limited in its ability to fabricate and/or assemble the UAV in accordance with specifications and plans and to meet the time requirements set forth in the to be negotiated Purchase Orders and Sales Agreements with customers.
2. **Sourcing of Components.** At DRUS request, Manufacturer will manage procurement of components of the UAV and manage the supply chain for manufacturing the UAV.
3. **Plan of Manufacturing.** Manufacturer is currently analyzing and developing a manufacturing and assembly plan to meet DRUS’s anticipated sales needs and price structure.
4. **Coordination with BRVANT.** Manufacturer will cooperate with BRVANT as requested by DRUS to perform its manufacturing and procurement services.
5. **Term.** The initial term of this Agreement is three (3) years with one (1) year renewals.

- Price.** Manufacturer agrees to offer DRUS its best financial price and terms for manufacturing the UAV system. DRUS agrees after to pay Manufacturer's Government approved rates on a time and materials ("T&M") or cost plus fixed fee ("CPFF") basis, such fees to be adjusted quarterly. Manufacturer shall not charge any fee during the first year of this Agreement but shall charge a fee of 10% after the first year, provided, however, that the situation involving Turkey shall be negotiated further by the Parties in the future. Manufacturer agrees to explore a payment by DRUS based upon manufacturing lots on a firm fixed price ("FFP") basis. (See Formula Photo Attached – Exhibit A)
- 6.

- Manufacturing Capacity and Quality Assurance.** Manufacturer will provide sufficient capacity and superior quality control to meet the anticipated growth in sales as contemplated by the Parties. Manufacturer will make an investment in its facilities sufficient to provide optimal quality and timeliness required to meet demand as scheduled by the Parties and to properly serve DRUS's sales efforts. This includes ISO certifications, manufacturing engineering, manufacturing design, training and staffing, OSHA compliance, certification testing and warranty. Additionally, Manufacturer will provide visitation, inspection and other customer related assurances with notice to maintain high level customer relationships. ESAero Investment will tie directly to DRUS sales projections and guaranteed manufacturing.
- 7.

- Costs and expectations.** It is expected that for the first four units of each UAV flavor, for purposes of demonstrators and manufacturing learning curve, Drone USA and ES Aero will share the costs. Drone USA will bring the products, and ES Aero will provide the integration, prepare the units for demonstration, and prepare production lines for follow up manufacturing. It is understood that if there are material costs, i.e. sensors, batteries, etc., Drone USA will cover them. Also, should a major redesign be required as a result of an initial bad design, Drone USA will look for a way to fairly compensate ES Aero.
- 8.

- Attendance at Customer and Vendor Meetings.** Manufacturer will attend customer and vendor meetings at the request of DRUS. DRUS agrees to pay the reasonable expenses of Manufacturer for attending such meetings.
- 9.

- Intellectual Property License and Ownership.** DRUS is the owner of the UAV technology and shall license at no charge to Manufacturer the technology to Manufacturer to manufacture, assemble, install, support and service DRUS's UAVs.
- 10.

- Inspection.** Manufacturer will provide access to DRUS's representatives with reasonable notice to all manufacturing facilities for the UAV system, including computer systems that contain DRUS information.
- 11.

12. **Manufacturing Invoicing and Sales Agreements.** The Parties will collectively formulate a sales and invoicing process that meets their respective needs.

## GENERAL PROVISIONS

13. **Intellectual Property (IP).** What Drone come to the table with (IP) is Drones. What EsAero comes to the table with (IP) is ESAeros. Resulting IP beyond the date of this agreement will belong to both Drone USA and ESAero.

- Confidentiality.** Each Party hereby undertakes to the other to keep confidential and not to disclose to any other person (other than their respective employees, agents or professional advisers who need to know same), and not in any event to make use of for its own purposes, any information concerning the business or affairs of the other, or the subject matter of this Agreement which either party may divulge or supply to the other or to which the other is allowed access or which it otherwise obtains, and also to use all reasonable endeavors to assure that their respective employees, agents and professional advisers observe the same obligation of confidentiality. For other customers or venders, ESAero will take precautions including executing NDA's as a reasonable endeavor to ensure confidentiality
- 14.

- No Announcements or Public Releases.** DRUS or Manufacturer may not make any announcement to the public regarding any actual or potential joint business objectives that will be mutually undertaken with or without this Agreement without the prior written consent of the other Party.
- 15.

- Mediation and Arbitration.** Any dispute or misunderstanding between the Parties that cannot be resolved in a businesslike manner will be settled by mandatory mediation and if not successful, binding arbitration, under the Commercial Rules of the American Arbitration Association. The location of any dispute resolution meetings will be New York City. The arbitrator is authorized to award reasonable attorney's fees to the party
- 16.

- Benefit and Assignment.** This Agreement will be binding upon and will inure to the benefit of the Parties executing this Agreement and their respective successors and assigns.
- 17.

- Entirety of Understanding.** This Agreement supersedes any previous oral or written agreements between the Parties in relation to the subject matter of this Agreement and represents the current understanding between the Parties in relation to the subject hereof. Any waiver or any term or condition of this Agreement or any breach will not operate as a waiver of any such terms, condition or breach, and no failure to enforce any provision hereof will operate as a waiver of such provision or of any other provision in this Agreement. Any other relevant matters not specifically provided for in this Agreement may be mutually agreed upon between the Parties and may be expressed in other succeeding written documents effective only when signed by both Parties.
- 18.

- Choice of Law.** This Agreement and the rights and obligations of the parties hereunder shall be construed, interpreted and enforced in accordance with the substantive and procedural laws of the State of New York, without regard to the law relating to conflicts and choice of law. If any of the provisions or parts of this Agreement are invalid under any applicable statutes or rule of law, they shall, to that extent, be deemed to be omitted from this Agreement while all other provisions of this Agreement not so affected shall remain valid and binding.
- 19.

*[Signature Page Follows]*

**IN WITNESS WHEREOF**, the Parties listed below, who hereby acknowledge they have the legal capacity to execute this Agreement and bind their respective organizations, with the intent to be legally bound thereby, have executed this Agreement as follows

**DRONE USA, INC.**

By: /s/ Michael Bannon

Name: Michael Bannon

Its:

**EMPIRICAL SYSTEMS AEROSPACE, INC.**

By: /s/ Andrew R. Gibson

Name: Andrew R. Gibson

Its: President/Aerospace Engineer

*[Signature Page to Manufacturing Agreement]*

SUBLEASE AGREEMENT

between

EMPIRICAL SYSTEMS AEROSPACE, INC.

Sublessor

and

DRONE USA, INC.

Sublessee

Dated as of November 17<sup>th</sup>, 2016

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## SUBLEASE AGREEMENT

This Sublease Agreement (this "Sublease") dated as of November 17th, 2016 is entered into by and between EMPIRICAL SYSTEMS AEROSPACE, INC., having a mailing address at P.O. Box 595, Pismo Beach, CA 93448 (the "Sublessor"), and Drone USA, Inc., having its principal office at One World Trade Center, 285 Fulton Street, 85th Floor, New York, NY 10007 (the "Sublessee").

### WITNESSETH:

WHEREAS, pursuant to a certain Lease, dated November 17th, 2016 (the "Lease"), by and between Empirical Systems Aerospace, Inc, as landlord (the "Landlord") and the Sublessor, as tenant, (the "Premises") comprising \_\_\_\_\_, as more particularly described in the Lease, of the building located at 3580 Sueldo, San Luis Obispo, 93401 (the "Building"); and

WHEREAS, Sublessor desires to sublet to Sublessee, and Sublessee desires to sublet from Sublessor, the Premises consisting of approximately \_\_\_\_\_ rentable square feet (the "Sublet Space"), see exhibit B Andy's email dated 11/15/17, to conduct Sublessor's business of the development and manufacturing of unmanned aerial vehicles ("UAVs"), on the terms and conditions hereinafter set forth;

NOW, THEREFORE, for and in consideration of the rental payments to be made hereunder by Sublessee to Sublessor and the mutual terms, provisions, covenants and conditions hereinafter set forth, the parties hereby agree as follows:

1. Demised Sublet Space. Sublessor does hereby sublease to Sublessee, and Sublessee does hereby take and hire from Sublessor, the Sublet Space for the term and upon the conditions hereinafter set forth.

2. Term. (a) The term (the "Term") of this Sublease shall commence on February 1st, 2017 (or such later date as Sublessor provides possession of the Sublet Space, the "Sublease Commencement Date") and shall terminate at midnight EDT on January 31<sup>st</sup>, 2019 (the "Sublease Expiration Date"), unless sooner terminated as provided herein or pursuant to law unless 60 days prior to the Sublease Expiration Date Sublessee notifies Sublessor that Sublessee desires to extend the Term for up to an additional 24 months.

(a) Sublessor and Sublessee agree to execute and deliver any documentation and/or furnish any information reasonably requested by Landlord and otherwise cooperate reasonably with each other and Landlord in connection with obtaining the required consent of Landlord.

(b) When the Sublease Commencement Date has occurred and been established, Sublessor and Sublessee shall, within 30 days of a request by Sublessor or Sublessee, execute an agreement confirming such date as the Sublease Commencement Date. Any failure of the parties to execute such agreement shall not affect the validity of the Sublease Commencement Date or the Sublease Expiration Date.

3. Basic Rent. Sublessee hereby covenants and agrees to pay to Sublessor commencing on the Sublease Commencement Date and ending on the Sublease Expiration Date, in the manner hereinafter provided, basic rent (the "Basic Rent") of \$180,000 per annum, payable in equal monthly installments of \$15,000, which sum shall, at Sublessee's election, be increased to \$16,500 per month should the Sublease be extended at Sublessee's election for an additional period of time following the 36<sup>th</sup> month from the date of this Agreement. Each monthly installment of Basic Rent shall be payable in advance on the first day of each calendar month during the Term without notice or demand and without abatement, deduction or set-off of any amount whatsoever.

4. Use of Sublet Space. Sublessee may use and occupy the Sublet Space for executive offices, administrative offices, and/or general offices for the conduct of any lawful and reputable business not prohibited by the Lease, and for no other purposes whatsoever. In no event shall Sublessee use or occupy the Sublet Space in a manner inconsistent with the provisions of the Lease. Sublessee acknowledges and agrees (i) that the Sublet Space will be accessible only through Sublessor's Space and, therefore, Sublessee covenants and agrees that it shall conduct, and shall cause its employees, agents and representatives and guests to conduct, their activities in a professional manner that is not disruptive to the peaceful enjoyment by Sublessor and its employees, agents, representatives and guests of the Sublessor's Space, (ii) other than as a means of ingress and egress, Sublessee shall not use any of the reception area, lobby or conference area in the Sublessor's Space, and (iii) Sublessee shall take all actions necessary or desirable to ensure the security of the Premises, including without limitation the Sublessor's Space.

5. Release from Liability. Each party hereby agrees to cause all insurance policies carried by such party with respect to the Sublet Space or the Premises to comply with any of the provisions of the Lease, which provisions, if any, are incorporated herein by reference, with respect to obtaining waivers of subrogation endorsements and releases of liability from the insurers. The releases, if any, contained in the Lease are incorporated herein and made applicable to Sublessor and Sublessee.

6. Surrender of Premises. On the Sublease Expiration Date, whether the Sublease Expiration Date occurs by expiration, lapse of time or otherwise, or the sooner termination of this Sublease, Sublessee, at Sublessee's sole cost and expense, shall quit and surrender the Sublet Space to Sublessor in the same condition (reasonable wear and tear excepted) in which Sublessor has delivered the Sublet Space to Sublessee, including, without limitation, the removal of all of Sublessee's Changes and the restoration of the Sublet Space to its existing condition and finishes on the Sublease Commencement Date, provided that Sublessor may request Sublessee to surrender the Sublet Space in its then existing condition Sublessee hereby consents and agrees that if Sublessee should "hold over" after the termination or expiration of this Sublease, Sublessee shall pay to Sublessor for use and occupancy of the Sublet Space for each month or part thereof during which Sublessee shall hold over, a sum equal to two (2) times the Basic Rent and any additional rent payable hereunder during the last full month of the Term. Sublessee hereby indemnifies and holds Sublessor harmless from and against any costs, expenses (including, without limitation, attorneys' fees), damages or liabilities (including, without limitation, any liability of Sublessor to Landlord) arising from the failure of Sublessee to surrender the Sublet Space in accordance with the terms of this Sublease upon the termination or expiration of this Sublease.

7. Sublessor's Representations and Warranties Sublessor covenants, warrants and represents:

(a) that Sublessor is a corporation duly organized, validly existing, and in good standing under the laws of its state or country of organization;

(b) that Sublessor has all requisite corporate power and authority to execute, deliver, and perform its obligations under this Sublease, and the execution, delivery and performance of this Sublease by the Sublessor, and the consummation of all transactions contemplated hereby, have been duly authorized by all necessary corporate action of the Sublessor and will not violate any laws or governmental or court regulations or orders or, subject to obtaining the consent of Landlord to this Sublease, any agreements to which the Sublessor is a party or is subject or by which it is otherwise bound; and

(c) Sublessor has delivered a true and complete copy of the Lease, within 90 days, to Sublessee and there are no other agreements between Sublessor and Landlord with respect to the Sublet Space:

(d) the Lease is in full force and effect and, to the best knowledge of Sublessor, there is no material default by Sublessor or Landlord thereunder;

(e) Sublessor shall comply with all of the terms of the Lease and make all payments under the Lease except to the extent the failure to so comply or make any payment is due to Sublessee's default hereunder; and

(f) Sublessor shall indemnify, defend and hold Sublessee harmless from and against any and all claims, liabilities, damages, losses or expenses (including, without limitation, reasonable attorneys fees) which may be imposed or incurred by Sublessee by reason of a breach of the covenant set forth in subparagraph (e) above.

8. Sublessee's Representations and Warranties Sublessee covenants, warrants and represents that:

(a) Sublessee is a Delaware corporation duly organized, validly existing and in good standing under the laws of the State of Delaware;

(b) Sublessee has all requisite corporate power and authority to execute, deliver and perform its obligations under this Sublease, and the execution, delivery and performance of this Sublease by the Sublessee, and the consummation of all transactions contemplated hereby, have been duly authorized by all necessary corporate action of Sublessee and will not violate any laws or governmental or court regulations or orders or any agreements of which Sublessee is a party or is subject or by which it is otherwise bound;

(c) Sublessee shall perform all of its obligations under this Sublease (including, without limitation, all of the obligations arising under the Lease which are incorporated herein by reference);

(d) that Sublessee will not do or omit to do anything which would constitute a default under the provisions of the Lease incorporated herein by reference; and

9. Broker. Sublessor and Sublessee each represents to the other that no broker has been engaged by such party with respect to this Sublease. Each party shall indemnify the other from and against any losses, including reasonable attorneys' fees, incurred by the other party resulting from breach of the representation in this Section 21.

10. Notice. Any notice, demand, request or other communication (each, a "notice") to Sublessee with respect to this Sublease shall be deemed properly given if sent in writing by registered mail, return receipt requested, by electronic mail with confirmation of receipt or by hand delivery or by an overnight delivery service which provides evidence of delivery, addressed to Sublessee's address at the Sublet Space (or, prior to the Sublease Commencement Date, at Sublessee's mailing address stated in the preamble to this Agreement). Any notice to Sublessor shall also be sent to Akerman LLP, 750 Ninth Street, N.W., Suite 750, Washington, D.C. 20001, Attention: Ernest M. Stern, Esq. Each party shall have the right to designate by notice in writing by registered mail or by hand delivery such other address to which such party's notice is to be sent. All notices shall be deemed given on the date of actual receipt by the party to whom such notice is addressed.

11. Governing Law. The laws of the State of New York shall govern the rights, duties and remedies of the parties hereto and construction and interpretation of the terms and provisions hereof.
12. Headings. The headings contained in this Sublease are for convenience only and are not to be deemed a part hereof.
13. Successors and Assigns The terms, covenants and provisions contained herein shall be binding upon and shall inure to the benefit of the parties hereto and their respective permitted successors and assigns.
14. Counterparts. This Sublease may be executed by the parties hereto in separate counterparts, each of which when so executed and delivered shall be an original, but all of such counterparts shall together constitute but one and the same instrument
15. Furnishings. Sublessee shall take good care of and maintain in at least its present condition the furniture and furnishings (if any) included in the Sublet Space. At all times, Sublessor shall be the owner of the furniture and fixtures (if any) included in the Sublet Space.
16. Exhibit A. Paulo's understanding of this lease agreement.
17. Exhibit B. Andy's answers to Dennis' questions concerning how much space Drone USA Inc. will have in this lease.

*[Signature Page Follows]*

IN WITNESS WHEREOF, Sublessor and Sublessee herein have duly executed this Sublease Agreement as of the day and year first above written.

SUBLESSOR:

EMPIRICAL SYSTEMS AEROSPACE, INC.

By: /s/ Andrew Gibson

Name: Andrew Gibson

Title: CEO

SUBLESSEE:

DRONE USA, INC.

By: /s/ Michael Bannon

Name: Michael Bannon

Title: President

This lease agreement between Drone USA Inc. and ES AERO is signed with objectives over and above payment for real estate; It comprises an intent for a longterm relationship of cooperation through synergies and common growth objectives. Hence, it encompasses the following expectations:

1. Priority responding to campaign requirements
2. Access to Engineering and Manufacturing resources
3. Joint response to tenders through the development of priced-to-win proposals
4. Open access to the plant
5. Support during customer, investor, and audit visits and meetings
6. Dedicated manufacturing and office space
7. Logo placement on outer and inner walls

It is with a resilient intention of mutual success though a long-term relationship through cooperative efforts as described above, and aiming at a future acquisition of ES AERO, that Drone USA embarks into this venture and endorses this lease agreement.

## Exhibit B

## Michael Bannon

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**From:** Michael Bannon  
**Sent:** Wednesday, November 16, 2016 1:43 PM  
**To:** Michael Bannon  
**Subject:** Fwd: Lease questions

Sent from my iPhone

Begin forwarded message:

**From:** Dennis Antonelos <[dennis@droneusainc.com](mailto:dennis@droneusainc.com)>  
**Date:** November 15, 2016 at 4:20:17 PM EST  
**To:** Michael Bannon <[mike@droneusainc.com](mailto:mike@droneusainc.com)>  
**Subject:** FW: Lease questions

**From:** Andrew Gibson [<mailto:andrew.gibson@esaero.com>]  
**Sent:** Tuesday, November 15, 2016 3:58 PM  
**To:** Dennis Antonelos <[dennis@droneusainc.com](mailto:dennis@droneusainc.com)>; [benjamin.schiltgen@esaero.com](mailto:benjamin.schiltgen@esaero.com); 'Ike Bayraktar' <[ikebayraktar@aol.com](mailto:ikebayraktar@aol.com)>  
**Subject:** RE: Lease questions

So I'll take a stab since I'm sitting in this meeting.....

1. Total is 32,220 sq.ft. What was originally envisioned being a facility access agreement, was for Drone to receive whatever is required as ESAero would prioritize your needs. But, since it's now a sublease, it will be 9,000 - 10,000 sq.ft. total; it's flexible pending requirements, and if we end up needing way more space for Drone (a good problem), we can adjust the agreement or built it into ESAero overhead. That's a good future problem we can deal with when we get there.
2. Office space is ~8,000 sq.ft. Total, and Drone will use 2,000 of that, also pending requirements. As for exactly what it is, again we are flexible. We are planning for you guys to have some executive office space, and have some space in the general engineering area.
3. As a facility access agreement, the 15K was going to apply to both rent/NNN and O/H expenses. As a sublease, we might be able to keep it the same way; the 15K includes everything. But as a sublease, does Drone need to pay their portion of utilities? I actually haven't thought about this yet.

Thanks,

Andy

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Andrew R. Gibson  
President/Aerospace Engineer  
Empirical Systems Aerospace  
[andrew.gibson@esaero.com](mailto:andrew.gibson@esaero.com)  
[LinkedIn](#)

(P) 805.275.1053  
(C) 805.704.1865



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**From:** Dennis Antonelos  
[<mailto:dennis@droneusainc.com>]  
**Sent:** Tuesday, November 15, 2016

12:44 PM  
**To:** [benjamin.schiltgen@esaero.com](mailto:benjamin.schiltgen@esaero.com)  
**Cc:** Andrew Gibson  
**Subject:** Lease questions

Hello Ben,

Dennis here from Drone USA, it's nice to meet you over email. I wanted to ask you some specific questions around the lease and since you're in charge of finance, I thought you'd be the man to reach out to.

- ? What is the total sf of the facility? What sf will Drone USA receive?
- ? How many offices or office sf are in the facility? What office sf/# offices will Drone receive?
- ? Can you breakdown the \$15,000/mo figure for me? Is it all being applied towards rent, or is a portion being applied to overhead costs as well? If so, what overhead costs are included, and which will be the responsibility of Drone?

Not trying to complicate things, but we have to satisfy some reporting obligations (PubCo audit) and the Board is asking for a little more clarity as well.

Look forward to hearing back and to meeting you in person.

Best regards,  
Dennis



**Dennis Antonelos**  
[dennis@droneusainc.com](mailto:dennis@droneusainc.com)  
☎ (917) 710-0398

One World Trade Center, 85th Floor  
285 Fulton Street  
New York, NY 10007-0103



This email has been checked for viruses by Avast antivirus software.  
[www.avast.com](http://www.avast.com)



**Dennis Antonelos**  
[dennis@droneusainc.com](mailto:dennis@droneusainc.com)  
☎ (917) 710-0398

One World Trade Center, 85th Floor  
285 Fulton Street  
New York, NY 10007-0103

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**EXECUTIVE EMPLOYMENT AGREEMENT**

This Executive Employment Agreement (this “Agreement”) is made as of the 1<sup>st</sup> day of October, 2016 by and between DroneUSA, Inc., a Delaware corporation (the “Company”), and Michael Bannon, a natural person, residing in the State of Connecticut (“Executive”).

WHEREAS, the Company wishes to employ Executive as its President and CEO of the Company and Executive wishes to accept such employment;

WHEREAS, the Company and Executive wish to set forth the terms of Executive’s employment and certain additional agreements between Executive and the Company.

NOW, THEREFORE, in consideration of the foregoing recitals and the representations, covenants and terms contained herein, the parties hereto agree as follows:

**1. Employment Period**

The Company will employ Executive, and Executive will serve the Company, under the terms of this Agreement (the “Commencement Date”) for a term of three (3) years unless earlier terminated under Section 4 hereof. The period of time between the commencement and the termination of Executive’s employment hereunder shall be referred to herein as the “Employment Period.”

**2. Duties and Status**

The Company hereby engages Executive as its President and CEO on the terms and conditions set forth in this Agreement, including the terms and conditions of the Employee Proprietary Information, Inventions, and Non-Competition Agreement attached hereto as Exhibit A and incorporated herein (the “Non-Disclosure Agreement”). Executive agrees to devote the Executive’s entire business time, attention and energies to the business and interests of the Company during the Employment Period. During the Employment Period, Executive shall report directly to the Board of Directors of the Company (the “Board”) and shall exercise such authority, perform such executive functions and discharge such responsibilities as are reasonably associated with Executive’s position, commensurate with the authority vested in Executive pursuant to this Agreement and consistent with the governing documents of the Company.

**3. Compensation and Benefits**

- (a) *Salary.* During the Employment Period, the Company shall pay to Executive, as compensation for the performance of his duties and obligations under this Agreement, a base salary of \$370,000.00 per annum, payable semi-monthly, provided, however, that the Company may elect to pay such salary in cash or stock or defer any cash payment until it has sufficient funds to do so.

- (b) *Bonus.* During the Employment Period, Executive shall be eligible for a bonus to be paid in cash, stock or both on terms that shall be mutually acceptable to the Board and Executive to meet mutually agreed to performance goals.
- (c) *Equity.* Upon execution of this Agreement, Executive shall receive \_\_\_\_\_ shares of the Company's common stock as founder's stock.
- (d) *Options.* Upon execution of this Agreement, Executive shall also be entitled to receive restricted stock and stock options under the Company's 2016 Stock Incentive Plan to acquire shares of the Company's common stock at the discretion of the Board.
- (e) *Other Benefits.* During the Employment Period, Executive shall be entitled to participate in all of the employee benefit plans, programs and arrangements of the Company in effect during the Employment Period which are generally available to senior executives of the Company, subject to and on a basis consistent with the terms, conditions and overall administration of such plans, programs and arrangements. In addition, during the Employment Period, Executive shall be entitled to fringe benefits and perquisites comparable to those of other senior executives of the Company including, but not limited to, standard holidays, twenty (25) days of vacation pay plus five (5) sick/personal days, to be
- (f) senior executives.
- (g) *Business Expenses.* During the Employment Period, the Company shall promptly reimburse Executive for all appropriately documented, reasonable business expenses incurred by Executive in the performance of his duties under this Agreement, including telecommunications expenses and travel expenses.

#### 4. Termination of Employment

- (a) *Termination for Cause.* The Company may terminate Executive's employment hereunder for Cause (defined below). For purposes of this Agreement and subject to Executive's opportunity to cure as provided in Section 4(c) hereof, the Company shall have Cause to terminate Executive's employment hereunder if such termination shall be the result of:
  - (i) a material breach of fiduciary duty or material breach of the terms of this Agreement or any other agreement between Executive and the Company (including without limitation any agreements regarding confidentiality, inventions assignment and non-competition);

- (ii) the commission by Executive of any act of embezzlement, fraud, larceny or theft on or from the Company;
- (iii) substantial and continuing neglect or inattention by Executive of the duties of his employment or the willful misconduct or gross negligence of Executive in connection with the performance of such duties which remains uncured for a period of fifteen (15) days following receipt of written notice from the Board specifying the nature of such breach;
- (iv) the commission and indictment by Executive of any crime involving moral turpitude or a felony; and
- (v) Executive's performance or omission of any act which becomes known to any of the customers, clients, stockholders or regulators of the Company, and, as found by the Board, threatens to have or has a material and adverse impact on the business of the Company.

(b) *Termination for Good Reason.* Executive shall have the right at any time to terminate his employment with the Company upon not less than thirty (30) days prior written notice of termination for Good Reason (defined below). For purposes of this Agreement and subject to the Company's opportunity to cure as provided in Section 4(c) hereof, Executive shall have Good Reason to terminate his employment hereunder if such termination shall be the result of:

- (i) the Company's material breach of this Agreement;
- (ii) A requirement by the Company that Executive perform any act or refrain from performing any act that would be in violation of any applicable law;
- (iii) A material and substantial reduction of the Employee's responsibilities that is inconsistent with the Employee's status as a senior executive of the Company, but in each case subject to the limitations on the Employee's rights and responsibilities set forth in Section 2; or
- (iv) A requirement that Executive relocate his permanent residence more than thirty (30) miles from his current address.

- Notice and Opportunity to Cure.* Notwithstanding the foregoing, it shall be a condition precedent to the Company's right to terminate Executive's employment for Cause and Executive's right to terminate for Good Reason that (i) the party seeking termination shall first have given the other party written notice stating with specificity the reason for the termination ("breach") and (ii) if such breach is susceptible of cure or remedy, a
- (c) period of fifteen (15) days from and after the giving of such notice shall have elapsed without the breaching party having effectively cured or remedied such breach during such 15-day period, unless such breach cannot be cured or remedied within fifteen (15) days, in which case the period for remedy or cure shall be extended for a reasonable time (not to exceed an additional thirty (30) days) provided the breaching party has made and continues to make a diligent effort to effect such remedy or cure.
- (d) *Voluntary Termination.* Executive, at his election, may terminate his employment upon not less than sixty (60) days prior written notice of termination other than for Good Reason.
- Termination Upon Death or Permanent and Total Disability.* The Employment Period shall be terminated by the death of Executive. The Employment Period may be terminated by the Board if Executive shall be rendered incapable of performing his duties to the Company by reason of any medically determined physical or mental impairment that can be reasonably expected to result in death or that can be reasonably be expected to last for a period of either (i) six (6) or more consecutive months from the first date of Executive's absence due to the disability or (ii) nine (9) months during any twelve-month period (a "Permanent and Total Disability"). If the Employment Period is terminated by reason of a Permanent and Total Disability of Executive, the Company shall give thirty (30) days' advance written notice to that effect to Executive.
- (e)
- (f) *Termination at the Election of the Company.* At the election of the Company, otherwise than for Cause as set forth in Section 4(a) above, upon not less than sixty (60) days prior written notice of termination.
- Termination for Business Failure.* Anything contained herein to the contrary notwithstanding, in the event the Company's business is discontinued because continuation is rendered impracticable by substantial financial losses, lack of funding, legal decisions, administrative rulings, declaration of war, dissolution, national or local economic depression or crisis or any reasons beyond the control of the Company, then this Agreement shall terminate as of the day the Company determines to cease operation with the same force and effect as if such day of the month were originally set as the termination date hereof. In the event this Agreement is terminated pursuant to this Section 4(g), the Executive will not be entitled to severance pay.
- (g)

## 5. Consequences of Termination

- By Executive for Good Reason or the Company Without Cause.* In the event of a termination of Executive's employment during the Employment Period by Executive for Good Reason pursuant to Section 4(b) or the Company without Cause pursuant to Section 4 (f) the Company shall pay Executive (or his estate) and provide him with the following, provided that Executive enter into a release of claims agreement agreeable to the Company and Executive:
- (a)
    - (i) *Cash Payment.* A cash payment, payable in equal installments over a six (6) month period after Executive's termination of employment, equal to the sum of the following:
      - (A) *Salary.* The equivalent of the greater of (i) twelve (12) months of Executive's then-current base salary or (ii) the remainder of the term of this Agreement (the "Severance Period"); plus
      - (B) *Earned but Unpaid Amounts.* Any previously earned but unpaid salary through Executive's final date of employment with the Company, and any previously earned but unpaid bonus amounts prior to the date of Executive's termination of employment.
      - (C) *Equity.* All Equity vested at time of termination shall be retained by Executive and all Equity that has not vested shall be accelerated and be deemed vested for purposes of this Section 5.
      - (D) *Severance.* A onetime payment of two and half million dollars (\$2,500,000.00) payable thirty-days after termination of employment.

- Other Benefits.* The Company shall provide continued coverage for the Severance Period under all health, life, disability and similar employee benefit plans and programs of the Company on the same basis as Executive was entitled to participate immediately prior to such termination, provided that Executive's continued participation is possible under the general terms and provisions of such plans and programs. In the event that Executive's participation in any such plan or program is barred, the Company shall use its commercially reasonable efforts to provide Executive with benefits substantially similar (including all tax effects) to those which Executive would otherwise have been entitled to receive under such plans and programs from which his continued participation is barred. In the event that Executive is covered under substitute benefit plans of another employer prior to the expiration of the Severance Period, the Company will no longer be obligated to continue the coverages provided for in this Section 5(a)(ii).
- (ii)

- Other Termination of Employment.* In the event that Executive's employment with the Company is terminated during the Employment Period by the Company for Cause (as provided for in Section 4(a) hereof) or by Executive other than for Good Reason (as provided for in Section 4(b) hereof), the Company shall pay or grant Executive any earned but unpaid salary, bonus, and Options through Executive's final date of employment with the Company, and the Company shall have no further obligations to Executive.
- (b)

- Withholding of Taxes.* All payments required to be made by the Company to Executive under this Agreement shall be subject only to the withholding of such amounts, if any, relating to tax, excise tax and other payroll deductions as may be required by law or regulation.
- (c)

- No Other Obligations.* The benefits payable to Executive under this Agreement are not in lieu of any benefits payable under any employee benefit plan, program or arrangement of the Company, except as specifically provided herein, and Executive will receive such benefits or payments, if any, as he may be entitled to receive pursuant to the terms of such plans, programs and arrangements. Except for the obligations of the Company provided by the foregoing and this Section 5, the Company shall have no further obligations to Executive upon his termination of employment.
- (d)

- Mitigation or Offset.* Executive shall not be required to mitigate the damages provided by this Section 5 by seeking substitute employment or otherwise and there shall not be an offset of the payments or benefits set forth in this Section 5.
- (e)

## **6. Governing Law**

This Agreement and the rights and obligations of the parties hereto shall be construed in accordance with the laws of the State of New York, without giving effect to the principles of conflict of laws.

## **7. Indemnity and Insurance**

The Company shall indemnify and save harmless Executive for any liability incurred by reason of any act or omission performed by Executive while acting in good faith on behalf of the Company and within the scope of the authority of Executive pursuant to this Agreement and to the fullest extent provided under the Bylaws, the Certificate of Incorporation and the Delaware General Corporation Law, except that Executive must have in good faith believed that such action was in, or not opposed to, the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that such conduct was unlawful.

The Company shall provide that Executive is covered by Directors and Officers insurance that the Company provides to other senior executives and/or board members.

## **8. Cooperation with the Company After Termination of Employment**

Following termination of Executive's employment for any reason, Executive shall fully cooperate with the Company in all matters relating to the winding up of Executive's pending work on behalf of the Company including, but not limited to, any litigation in which the Company is involved, and the orderly transfer of any such pending work to other employees of the Company as may be designated by the Company. Following any notice of termination of employment by either the Company or Executive, the Company shall be entitled to such full time or part time services of Executive as the Company may reasonably require during all or any part of the sixty (60)-day period following any notice of termination, provided that Executive shall be compensated for such services at the same rate as in effect immediately before the notice of termination.

## **9. Notice**

All notices, requests and other communications pursuant to this Agreement shall be sent by overnight mail, by electronic mail with proof of receipt or by fax with proof of transmission to the following addresses:

If to Executive:

Michael Bannon

Phone: (203) 410-8924

email: mike @dronelusa.com

Fax:

If to the Company:

DroneUSA, Inc.

One World Trade Center

285 Fulton Street, 85th Floor

New York, NY 10007

Attn: Dennis Antonelos, CFO

email: dennis@dronelusa.com

Phone: (212) 220 8780

#### **10. Waiver of Breach**

Any waiver of any breach of this Agreement shall not be construed to be a continuing waiver or consent to any subsequent breach on the part of either Executive or of the Company.

#### **11. Non-Assignment / Successors**

Neither party hereto may assign his/her or its rights or delegate his/hers or its duties under this Agreement without the prior written consent of the other party; provided, however, that (i) this Agreement shall inure to the benefit of and be binding upon the successors and assigns of the Company upon any sale or all or substantially all of the Company's assets, or upon any merger, consolidation or reorganization of the Company with or into any other corporation, all as though such successors and assigns of the Company and their respective successors and assigns were the Company; and (ii) this Agreement shall inure to the benefit of and be binding upon the heirs, assigns or designees of Executive to the extent of any payments due to them hereunder. As used in this Agreement, the term "Company" shall be deemed to refer to any such successor or assign of the Company referred to in the preceding sentence.

#### **12. Severability**

To the extent any provision of this Agreement or portion thereof shall be invalid or unenforceable, it shall be considered deleted there from and the remainder of such provision and of this Agreement shall be unaffected and shall continue in full force and effect.

### **13. Counterparts**

This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

### **14. Arbitration**

Executive and the Company shall submit to mandatory and exclusive binding arbitration, any controversy or claim arising out of, or relating to, this Agreement or any breach hereof where the amount in dispute is greater than or equal to \$50,000, provided, however, that the parties retain their right to, and shall not be prohibited, limited or in any other way restricted from, seeking or obtaining equitable relief from a court having jurisdiction over the parties. In the event the amount of any controversy or claim arising out of, or relating to, this Agreement, or any breach hereof, is less than \$50,000, the parties hereby agree to submit such claim to mediation. Such arbitration shall be governed by the Federal Arbitration Act and conducted through the American Arbitration Association (“AAA”) in New York, New York, before a single neutral arbitrator, in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association in effect at that time. The parties may conduct only essential discovery prior to the hearing, as defined by the AAA arbitrator. The arbitrator shall issue a written decision which contains the essential findings and conclusions on which the decision is based. Mediation shall be governed by, and conducted through, the AAA. Judgment upon the determination or award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

### **15. Entire Agreement**

This Agreement and all schedules and other attachments hereto constitute the entire agreement by the Company and Executive with respect to the subject matter hereof and, except as specifically provided herein, supersedes any and all prior agreements or understandings between Executive and the Company with respect to the subject matter hereof, whether written or oral. This Agreement may be amended or modified only by a written instrument executed by Executive and the Company.

*[Signature Page Follows]*

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date above

**DRONEUSA, INC.**

/s/ Dennis Antonelos

By: Dennis Antonelos

Its: CFO

/s/ Michael Bannon

Michael Bannon

*[Signature Page to Michael Bannon Executive Employment Agreement]*

**Employee Proprietary Information, Inventions, and Non-Competition Agreement**

**EXECUTIVE EMPLOYMENT AGREEMENT**

This Executive Employment Agreement (this “Agreement”) is made as of the 1<sup>st</sup> day of October, 2016 by and between Drone USA, Inc., a Delaware corporation (the “Company”), and Dennis Antonelos, a natural person, residing in the State of New Jersey (“Executive”).

WHEREAS, the Company wishes to employ Executive as its CFO of the Company and Executive wishes to accept such employment;

WHEREAS, the Company and Executive wish to set forth the terms of Executive’s employment and certain additional agreements between Executive and the Company.

NOW, THEREFORE, in consideration of the foregoing recitals and the representations, covenants and terms contained herein, the parties hereto agree as follows:

**1. Employment Period**

The Company will employ Executive, and Executive will serve the Company, under the terms of this Agreement (the “Commencement Date”) for a term of three (3) years unless earlier terminated under Section 4 hereof. The period of time between the commencement and the termination of Executive’s employment hereunder shall be referred to herein as the “Employment Period.”

**2. Duties and Status**

The Company hereby engages Executive as its CFO on the terms and conditions set forth in this Agreement, including the terms and conditions of the Employee Proprietary Information, Inventions, and Non-Competition Agreement attached hereto as Exhibit A and incorporated herein (the “Non-Disclosure Agreement”). Executive agrees to devote the Executive’s entire business time, attention and energies to the business and interests of the Company during the Employment Period. During the Employment Period, Executive shall report directly to the Board of Directors of the Company (the “Board”) and shall exercise such authority, perform such executive functions and discharge such responsibilities as are reasonably associated with Executive’s position, commensurate with the authority vested in Executive pursuant to this Agreement and consistent with the governing documents of the Company.

**3. Compensation and Benefits**

- (a) *Salary.* During the Employment Period, the Company shall pay to Executive, as compensation for the performance of his duties and obligations under this Agreement, a base salary of \$250,000 per annum, payable semi-monthly, provided, however, that the Company may elect to pay such salary in cash or stock or defer any cash payment until it has sufficient funds to do so.

- (b) *Bonus.* During the Employment Period, Executive shall be eligible for a bonus to be paid in cash, stock or both on terms that shall be mutually acceptable to the Board and Executive to meet mutually agreed to performance goals.
- (c) *Equity.* Upon execution of this Agreement, Executive shall receive \_\_\_\_\_ shares of the Company's common stock as founder's stock.
- (d) *Options.* Upon execution of this Agreement, Executive shall also be entitled to receive restricted stock and stock options under the Company's 2016 Stock Incentive Plan to acquire shares of the Company's common stock at the discretion of the Board.
- (e) *Other Benefits.* During the Employment Period, Executive shall be entitled to participate in all of the employee benefit plans, programs and arrangements of the Company in effect during the Employment Period which are generally available to senior executives of the Company, subject to and on a basis consistent with the terms, conditions and overall administration of such plans, programs and arrangements. In addition, during the Employment Period, Executive shall be entitled to fringe benefits and perquisites comparable to those of other senior executives of the Company including, but not limited to, standard holidays, twenty (20) days of vacation pay plus five (5) sick/personal days, to be used in accordance with the Company's vacation pay policy for senior executives.
- (f) *Business Expenses.* During the Employment Period, the Company shall promptly reimburse Executive for all appropriately documented, reasonable business expenses incurred by Executive in the performance of his duties under this Agreement, including telecommunications expenses and travel expenses.

#### 4. Termination of Employment

- (a) *Termination for Cause.* The Company may terminate Executive's employment hereunder for Cause (defined below). For purposes of this Agreement and subject to Executive's opportunity to cure as provided in Section 4(c) hereof, the Company shall have Cause to terminate Executive's employment hereunder if such termination shall be the result of:
- (i) a material breach of fiduciary duty or material breach of the terms of this Agreement or any other agreement between Executive and the Company (including without limitation any agreements regarding confidentiality, inventions assignment and non-competition);

- (ii) the commission by Executive of any act of embezzlement, fraud, larceny or theft on or from the Company;
- (iii) substantial and continuing neglect or inattention by Executive of the duties of his employment or the willful misconduct or gross negligence of Executive in connection with the performance of such duties which remains uncured for a period of fifteen (15) days following receipt of written notice from the Board specifying the nature of such breach;
- (iv) the commission and indictment by Executive of any crime involving moral turpitude or a felony; and
- (v) Executive's performance or omission of any act which becomes known to any of the customers, clients, stockholders or regulators of the Company, and, as found by the Board, threatens to have or has a material and adverse impact on the business of the Company.

(b) *Termination for Good Reason.* Executive shall have the right at any time to terminate his employment with the Company upon not less than thirty (30) days prior written notice of termination for Good Reason (defined below). For purposes of this Agreement and subject to the Company's opportunity to cure as provided in Section 4(c) hereof, Executive shall have Good Reason to terminate his employment hereunder if such termination shall be the result of:

- (i) the Company's material breach of this Agreement;
- (ii) A requirement by the Company that Executive perform any act or refrain from performing any act that would be in violation of any applicable law;
- (iii) A material and substantial reduction of the Employee's responsibilities that is inconsistent with the Employee's status as a senior executive of the Company, but in each case subject to the limitations on the Employee's rights and responsibilities set forth in Section 2; or
- (iv) A requirement that Executive relocate his permanent residence more than thirty (30) miles from his current address.

*Notice and Opportunity to Cure.* Notwithstanding the foregoing, it shall be a condition precedent to the Company's right to terminate Executive's employment for Cause and Executive's right to terminate for Good Reason that (i) the party seeking termination shall first have given the other party written notice stating with specificity the reason for the termination ("breach") and (ii) if such breach is susceptible of cure or remedy, a

(c) period of fifteen (15) days from and after the giving of such notice shall have elapsed without the breaching party having effectively cured or remedied such breach during such 15-day period, unless such breach cannot be cured or remedied within fifteen (15) days, in which case the period for remedy or cure shall be extended for a reasonable time (not to exceed an additional thirty (30) days) provided the breaching party has made and continues to make a diligent effort to effect such remedy or cure.

(d) *Voluntary Termination.* Executive, at his election, may terminate his employment upon not less than sixty (60) days prior written notice of termination other than for Good Reason.

*Termination Upon Death or Permanent and Total Disability.* The Employment Period shall be terminated by the death of Executive. The Employment Period may be terminated by the Board if Executive shall be rendered incapable of performing his duties to the Company by reason of any medically determined physical or mental impairment that can be reasonably expected to result in death or that can be reasonably be expected to last for

(e) a period of either (i) six (6) or more consecutive months from the first date of Executive's absence due to the disability or (ii) nine (9) months during any twelve-month period (a "Permanent and Total Disability"). If the Employment Period is terminated by reason of a Permanent and Total Disability of Executive, the Company shall give thirty (30) days' advance written notice to that effect to Executive.

(f) *Termination at the Election of the Company.* At the election of the Company, otherwise than for Cause as set forth in Section 4(a) above, upon not less than sixty (60) days prior written notice of termination.

*Termination for Business Failure.* Anything contained herein to the contrary notwithstanding, in the event the Company's business is discontinued because continuation is rendered impracticable by substantial financial losses, lack of funding, legal decisions, administrative rulings, declaration of war, dissolution, national or local economic depression or crisis or any reasons beyond the control of the Company, then this Agreement shall

(g) terminate as of the day the Company determines to cease operation with the same force and effect as if such day of the month were originally set as the termination date hereof. In the event this Agreement is terminated pursuant to this Section 4(g), the Executive will not be entitled to severance pay.

## 5. Consequences of Termination

- By Executive for Good Reason or the Company Without Cause.* In the event of a termination of Executive's employment during the Employment Period by Executive for Good Reason pursuant to Section 4(b) or the Company without Cause pursuant to Section 4 (f) the Company shall pay Executive (or his estate) and provide him with the following, provided that Executive enter into a release of claims agreement agreeable to the Company and Executive:
- (a)
    - (i) *Cash Payment.* A cash payment, payable in equal installments over a six (6) month period after Executive's termination of employment, equal to the sum of the following:
      - (A) *Salary.* The equivalent of the greater of (i) twelve (12) months of Executive's then-current base salary or (ii) the remainder of the term of this Agreement (the "Severance Period"); plus
      - (B) *Earned but Unpaid Amounts.* Any previously earned but unpaid salary through Executive's final date of employment with the Company, and any previously earned but unpaid bonus amounts prior to the date of Executive's termination of employment.
      - (C) *Equity.* All Equity vested at time of termination shall be retained by Executive and all Equity that has not vested shall be accelerated and be deemed vested for purposes of this Section 5.
      - (D) *Severance.* A onetime payment of one and half million dollars (\$1,500,000.00) payable thirty-days after termination of employment.

- (ii) *Other Benefits.* The Company shall provide continued coverage for the Severance Period under all health, life, disability and similar employee benefit plans and programs of the Company on the same basis as Executive was entitled to participate immediately prior to such termination, provided that Executive's continued participation is possible under the general terms and provisions of such plans and programs. In the event that Executive's participation in any such plan or program is barred, the Company shall use its commercially reasonable efforts to provide Executive with benefits substantially similar (including all tax effects) to those which Executive would otherwise have been entitled to receive under such plans and programs from which his continued participation is barred. In the event that Executive is covered under substitute benefit plans of another employer prior to the expiration of the Severance Period, the Company will no longer be obligated to continue the coverages provided for in this Section 5(a)(ii).

- (b) *Other Termination of Employment.* In the event that Executive's employment with the Company is terminated during the Employment Period by the Company for Cause (as provided for in Section 4(a) hereof) or by Executive other than for Good Reason (as provided for in Section 4(b) hereof), the Company shall pay or grant Executive any earned but unpaid salary, bonus, and Options through Executive's final date of employment with the Company, and the Company shall have no further obligations to Executive.

- (c) *Withholding of Taxes.* All payments required to be made by the Company to Executive under this Agreement shall be subject only to the withholding of such amounts, if any, relating to tax, excise tax and other payroll deductions as may be required by law or regulation.

- (d) *No Other Obligations.* The benefits payable to Executive under this Agreement are not in lieu of any benefits payable under any employee benefit plan, program or arrangement of the Company, except as specifically provided herein, and Executive will receive such benefits or payments, if any, as he may be entitled to receive pursuant to the terms of such plans, programs and arrangements. Except for the obligations of the Company provided by the foregoing and this Section 5, the Company shall have no further obligations to Executive upon his termination of employment.

- (e) *Mitigation or Offset.* Executive shall not be required to mitigate the damages provided by this Section 5 by seeking substitute employment or otherwise and there shall not be an offset of the payments or benefits set forth in this Section 5.

## **6. Governing Law**

This Agreement and the rights and obligations of the parties hereto shall be construed in accordance with the laws of the State of New York, without giving effect to the principles of conflict of laws.

## **7. Indemnity and Insurance**

The Company shall indemnify and save harmless Executive for any liability incurred by reason of any act or omission performed by Executive while acting in good faith on behalf of the Company and within the scope of the authority of Executive pursuant to this Agreement and to the fullest extent provided under the Bylaws, the Certificate of Incorporation and the General Corporation Law of Delaware, except that Executive must have in good faith believed that such action was in, or not opposed to, the best interests of the Company, and, with respect to any criminal action or proceeding, had no reasonable cause to believe that such conduct was unlawful.

The Company shall provide that Executive is covered by Directors and Officers insurance that the Company provides to other senior executives and/or board members.

## **8. Cooperation with the Company After Termination of Employment**

Following termination of Executive's employment for any reason, Executive shall fully cooperate with the Company in all matters relating to the winding up of Executive's pending work on behalf of the Company including, but not limited to, any litigation in which the Company is involved, and the orderly transfer of any such pending work to other employees of the Company as may be designated by the Company. Following any notice of termination of employment by either the Company or Executive, the Company shall be entitled to such full time or part time services of Executive as the Company may reasonably require during all or any part of the sixty (60)-day period following any notice of termination, provided that Executive shall be compensated for such services at the same rate as in effect immediately before the notice of termination.

## **9. Notice**

All notices, requests and other communications pursuant to this Agreement shall be sent by overnight mail, by electronic mail with proof of receipt or by fax with proof of transmission to the following addresses:

If to Executive:

Dennis Antonelos

Phone: (917) 710-0398

email: dennis @dronelusa.com

Fax:

If to the Company:

DroneUSA, Inc.

One World Trade Center

285 Fulton Street, 85th Floor

New York, NY 10007

Attn: Michael Bannon, CEO

email: Mike@dronelusa.com

Phone: (212) 220-8795

Fax: ( )

#### **10. Waiver of Breach**

Any waiver of any breach of this Agreement shall not be construed to be a continuing waiver or consent to any subsequent breach on the part of either Executive or of the Company.

#### **11. Non-Assignment / Successors**

Neither party hereto may assign his/her or its rights or delegate his/hers or its duties under this Agreement without the prior written consent of the other party; provided, however, that (i) this Agreement shall inure to the benefit of and be binding upon the successors and assigns of the Company upon any sale or all or substantially all of the Company's assets, or upon any merger, consolidation or reorganization of the Company with or into any other corporation, all as though such successors and assigns of the Company and their respective successors and assigns were the Company; and (ii) this Agreement shall inure to the benefit of and be binding upon the heirs, assigns or designees of Executive to the extent of any payments due to them hereunder. As used in this Agreement, the term "Company" shall be deemed to refer to any such successor or assign of the Company referred to in the preceding sentence.

#### **12. Severability**

To the extent any provision of this Agreement or portion thereof shall be invalid or unenforceable, it shall be considered deleted there from and the remainder of such provision and of this Agreement shall be unaffected and shall continue in full force and effect.

### **13. Counterparts**

This Agreement may be executed in one or more counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

### **14. Arbitration**

Executive and the Company shall submit to mandatory and exclusive binding arbitration, any controversy or claim arising out of, or relating to, this Agreement or any breach hereof where the amount in dispute is greater than or equal to \$50,000, provided, however, that the parties retain their right to, and shall not be prohibited, limited or in any other way restricted from, seeking or obtaining equitable relief from a court having jurisdiction over the parties. In the event the amount of any controversy or claim arising out of, or relating to, this Agreement, or any breach hereof, is less than \$50,000, the parties hereby agree to submit such claim to mediation. Such arbitration shall be governed by the Federal Arbitration Act and conducted through the American Arbitration Association (“AAA”) in New York, New York, before a single neutral arbitrator, in accordance with the National Rules for the Resolution of Employment Disputes of the American Arbitration Association in effect at that time. The parties may conduct only essential discovery prior to the hearing, as defined by the AAA arbitrator. The arbitrator shall issue a written decision which contains the essential findings and conclusions on which the decision is based. Mediation shall be governed by, and conducted through, the AAA. Judgment upon the determination or award rendered by the arbitrator may be entered in any court having jurisdiction thereof.

### **15. Entire Agreement**

This Agreement and all schedules and other attachments hereto constitute the entire agreement by the Company and Executive with respect to the subject matter hereof and, except as specifically provided herein, supersedes any and all prior agreements or understandings between Executive and the Company with respect to the subject matter hereof, whether written or oral. This Agreement may be amended or modified only by a written instrument executed by Executive and the Company.

*[Signature Page Follows]*

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date above

**DRONE USA, INC.**

/s/ Michael Bannon

By: Michael Bannon

Its: CEO

/s/ Dennis Antonelos

Dennis Antonelos

*[Signature Page to Dennis Antonelos Executive Employment Agreement]*

**Employee Proprietary Information, Inventions, and Non-Competition Agreement**



**EMPLOYMENT AGREEMENT  
PAULO FERRO**

THIS EMPLOYMENT AGREEMENT, (this “Agreement” is entered into effective as of May 31<sup>st</sup>, 2016. as a condition of my employment with Drone USA, Inc., a Delaware corporation, its subsidiaries, affiliates, successors or assigns (together the “Company”), and in consideration of my employment with the Company and my receipt of the compensation now and hereafter paid to me by Company.

**1. Employment.** The Company hereby agrees to employ me as Chief Strategy Officer and I hereby agree to work for the Company upon the terms and conditions set forth herein. In addition, I will serve as a member of the Company’s Board of Directors while I am employed by the Company and until my earlier resignation or removal. Paulo’s employment will commence on July 10, 2016.

**2. Term — Initial Term and At-Will Employment.** - Subject to earlier termination in accordance with Section 6 below, this Agreement will be effective on the date set forth above ( the “effective date”) and will have an initial term of three (3) years (the “Initial Term”). Upon expiration of the Initial Term, this Agreement shall continue on an “At-Will” basis, subject to Section 6. I UNDERSTAND AND ACKNOWLEDGE THAT MY EMPLOYMENT WITH THE COMPANY, FOLLOWING THE INITIAL TERM, IS FOR AN UNSPECIFIED DURATION AND CONSTITUTES “AT-WILL” EMPLOYMENT. I ACKNOWLEDGE THAT, FOLLOWING THE INITIAL TERM. THIS EMPLOYMENT RELATIONSHIP MAY BE TERMINATED AT ANY TIME, WITH OR WITHOUT GOOD CAUSE OR FOR ANY OR NO CAUSE, AT THE OPTION EITHER OF THE COMPANY OR MYSELF, WITH OR WITHOUT NOTICE.

**3. Scope of Duties; Representations and Warranties.**

(a) I will have such duties as are assigned or delegated to me by the Board of Directors of the Company and will initially serve as Chief Strategy Officer of the Company. It is understood and agreed that I shall work primarily from my home in Rancho Palos Verdes, CA, 90275 but shall be reasonably available for company or other meetings from time to time,

(b) I represent and warrant that by my execution and delivery of this Agreement I do not, and the performance of my obligations hereunder will not, with or without the giving of notice or the passage of time, or both: (1) violate any judgment, writ, injunction, or order of any court, arbitrator, or governmental agency applicable to me, (ii) conflict with, result in the breach of any provisions of or the termination of, or constitute a default under, any agreement to which I am a party or by which I am or may be bound.

**4. Compensation.**

(a) The Company shall initially pay me base compensation of Four Hundred Thousand Dollars (\$400,000) per year, subject to adjustment as provided below, which will be payable in equal periodic installments according to the Company’s customary payroll practices, but no less frequently than bi-monthly. My base compensation will be reviewed by the management of the Company not less frequently than annually, and following the Initial Term, may be adjusted upward or downward in the sole discretion of the management of the Company.

(b) In addition to my base compensation the Company shall pay me a signing bonus of One Hundred Thousand Dollars (\$100,000), payable during the first year of my employment.

(c) As additional consideration under this Agreement, the Company will grant me Seven Million Five Hundred Thousand (7,500,000) shares of its common stock. The shares granted are subject to the insider bleed out rule 144 SEC.

## **5. Fringe Benefits; Expenses.**

(a) So long as I am employed by the Company, I will be eligible to participate in all employee benefit plans sponsored by the Company for its employees in accordance with the Company's policies, including but not limited to vacation policy, sick leave and disability leave, life insurance, family health insurance, dental insurance; provided, however, that the nature, amount and limitations of such plans shall be determined from time to time by the Board of Directors of the Company based on legally imposed penalties under the Internal Revenue Code of 1986, as amended. Initially, I understand that my family will be provided with a 52,000,000 term life insurance policy on myself and a \$500,000 term policy on my wife.

(b) The Company shall reimburse me for all approved reasonable business expenses, incurred by me in the scope of my employment; provided, however, I must file expense reports with respect to such expenses in accordance with the Company's policies as are in effect from time to time. I shall be entitled to travel business or first class, provided with a company car, telephone and credit card.

(c) Paulo will be eligible to participate in the company 401K plan. The company will match Paulo's contributions to the maximum the law will permit.

(d) I am entitled to four weeks paid vacation. I will also be entitled to the paid holidays and other paid leave set forth in the Company's policies.

**6. Termination.** I agree that my employment may be terminated by the Company without "Cause" at any time, subject to the terms of this Section 6. Such termination shall be effective upon delivery of written notice to me of the Company's election to terminate my employment under this Section 6.

(a) *Termination Without Cause.* In the event that my employment is terminated by the Company without Cause, the Company shall, subject to the terms of subsection (e) of this Section 6 below, (i) pay to me an amount equal to the cash balance due for the Initial Term (ii) continue to provide benefits in the amounts provided up to the date of termination of the initial term, including continuation of any Company-paid benefits as described in Section 5 for me and my family.

(b) *Disability; Death.* If at any time during the term of this Agreement, I am unable due to physical or mental disability to perform effectively my duties hereunder, the Company shall continue payment of compensation as provided in Section 6 for the initial term. If I should die during the term of this Agreement, my employment and the Company's obligations hereunder shall terminate as of the day that my death occurs and there will be no salary, wages and benefit continuation period since the Company has provided for such event in the form of a term life insurance policy in the amount of \$2,000,000 pursuant to Section 4 above.

(c) *Securities Matters.* I agree that I will sign any lock-up letters, standstill agreements, or other similar documentation required by an underwriter in connection with a financing by the Company or take other actions reasonably related thereto as requested by the Board of Directors of the Company. In addition, I agree that in such event the Company can seek and obtain specific performance of such covenant, including any injunction requiring execution of such documents and the taking of such actions, and I hereby appoint the then current president of the Company to sign any such documents on my behalf so long as such documents are prepared on the same basis as other management shareholders generally.

(d) *Waiver and Release.* In the event that my employment is terminated by the Company without Cause, I agree to accept, in full settlement of any and all claims, losses, damages and other demands which I may have arising out of such termination, as liquidated damages and not as a penalty, the applicable amounts payable to me as set forth in this Section 6. I hereby waive any and all rights I may have to bring any cause of action or proceeding contesting any termination without Cause.

## 7. Confidential Information.

(a) *Company Information.* I agree at all times during the term of my employment and thereafter, to hold in strictest confidence, and not to use, except for the benefit of the Company, or to disclose to any person, firm or corporation without written authorization of the Board of Directors of the Company, any Confidential Information of the Company. I understand that "Confidential Information" means any Company proprietary information, technical data, trade secrets or know-how, including, but not limited to, research, product plans, products, services, customer lists and customers (including, but not limited to, customers of the Company on whom I called or with whom I became acquainted during the term of my employment), markets, software, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, finances or other business information disclosed to me by the Company either directly or indirectly in writing, orally or by drawings or observation of parts or equipment. I further understand that Confidential Information does not include any of the foregoing items which have become publicly known and made generally available through no wrongful act of mine or others who were under confidentiality obligations as to the item or items involved. Further Confidential Information does not include information that is required to be disclosed by order of a governmental agency or by a court of competent jurisdiction.

(b) *Third Party Information.* I recognize that the Company has received and in the future will receive from third parties their confidential or proprietary information subject to a duty on the Company's part to maintain the confidentiality of such information and to use it only for certain limited purposes. I agree to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or corporation or to use it except as necessary in carrying out my work for the Company consistent with the Company's agreement with such third party.

(c) *Continuing Obligations.* The obligations of this Section 7 shall survive the expiration or termination of this Agreement.

**8. Returning Company Documents.** I agree that, at the time of leaving the employ of the Company, I will deliver to the Company (and will not keep in my possession, recreate or deliver to anyone else) any and all devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, materials, equipment, other documents or property, or reproductions of any aforementioned items developed by me pursuant to my employment with the Company or otherwise belonging to the Company, its successors or assigns

**9. Notification of New Employer.** In the event that I leave the employ of the Company, I hereby grant consent to notification by the Company to my new employer about my rights and obligations under this Agreement.

**10. Representations.** I agree to execute any proper oath or verify any proper document required to carry out the terms of this Agreement. I represent that my performance of all the terms of this Agreement will not breach any agreement to keep in confidence proprietary information acquired by me in confidence or in trust prior to my employment by the Company. I have not entered into, and I agree I will not enter into, any oral or written agreement in conflict herewith.

## 11. General Provisions.

(a) *Governing Law; and Venue.* This Agreement shall be construed and interpreted in accordance with the laws of the State of California without reference to principles of conflicts of laws. The parties agree that all actions or proceedings arising in connection with this Agreement shall be tried and litigated only in the State or Federal Courts located in the State of California. Each of the parties hereto waives to the extent permitted under applicable law, any right each may have to assert the doctrine of forum non-conveniens or to object to venue to the extent any proceeding is brought in accordance with this section relating to this Agreement.

(b) *Entire Agreement.* This Agreement sets forth the entire agreement and understanding between the Company and me relating to the subject matter herein and merges all prior discussions between us. No modification of or amendment to this Agreement, nor any waiver of any rights under this agreement, will be effective unless in writing signed by the party to be charged. Any subsequent change or changes in duties, salary or compensation will not affect the validity or scope of this Agreement.

(c) *Severability.* If one more of the provisions in this Agreement are deemed void by law, then the remaining provisions will continue in full force and effect.

(d) *Successors and Assigns.* This Agreement will be binding upon my heirs, executors, administrators and other legal representatives and will be for the benefit of the Company, its successors, and its assigns.

(f) *Waiver and Amendments: Cumulative Rights and Remedies.*

i.) This Agreement may be amended, modified or supplemented, and any obligation hereunder may be waived, only by a written instrument executed by the parties hereto. The waiver by either party of a breach of any provision of this Agreement shall not operate as a waiver of any subsequent breach.

ii.) No failure on the part of any party to exercise, and no delay in exercising, any right or remedy hereunder shall operate as a waiver hereof, nor shall any single or partial exercise of any such right or remedy by such party preclude any other or further exercise thereof or the exercise of any other right or remedy. All rights and remedies hereunder are cumulative and are in addition to all other rights and remedies provided by law, agreement or otherwise.

iii.) The Employees obligations to the Company and the Company's rights and remedies hereunder are in addition to all other obligations of the Employee and rights and remedies of the Company created pursuant to any other agreement.

(g) *Construction.* Each party to this Agreement has had the opportunity to review this Agreement with legal counsel. This Agreement shall not be construed or interpreted against any party on the basis that such party drafted or authored a particular provision, parts of or the entirety of this Agreement.

## 12. Corporate Guarantee

The undersigned Michael Bannon and Dennis Antoneles hereby personally and unconditionally guarantee and promise to pay or perform any and all obligations listed above for two full years. Mike and Dennis will share the personal guarantee 50-50. Drone USA Inc. hereby unconditionally guarantees and promises to pay or perform any and all obligation listed above for the remaining 3<sup>rd</sup> year. When Paulo cashes in his stock, Mike and Dennis' guarantee obligation will reduce dollar for dollar.

### EMPLOYEE

/s/ Paulo Ferro

Paulo Ferro

### EMPLOYER

DRONE USA, INC.

/s/ Michael Bannon

Michael Bannon, Chairman of the Board & CEO

### PERSONAL GUARANTEE

/s/ Michael Bannon

Michael Bannon,

### PERSONAL GUARANTEE

/s/ Dennis Antoneles

Dennis Antoneles,

**EMPLOYMENT AGREEMENT**

THIS EMPLOYMENT AGREEMENT (the "**Agreement**"), made as of the 28<sup>th</sup> day of March, 2017 (the "**Commencement Date**"), is entered into by Howco Distributing Co., a Washington corporation with its principal place of business at 6025 E. 18<sup>th</sup> Street, Vancouver, WA 98661 (the "**Company**"), and Matthew Wiles, an individual residing at 9611 N.E. 19th Street, Vancouver, WA. 98661 (the "**Employee**").

WHEREAS the Company desires to employ the Employee, and the Employee desires to be employed by the Company.

NOW, THEREFORE, in consideration of the mutual covenants and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties agree as follows:

1. Employment. The Company hereby agrees to employ the Employee under the terms and conditions set forth below, including the terms and conditions of the Employee Proprietary Information and Non-Competition Agreement attached hereto as Exhibit A and incorporated herein (the "**Non-Disclosure Agreement**").

2. Term of Employment. The Company is an "at will" employer and may terminate the Employee's employment for any reason, at any time, with or without cause, subject to the provisions of Section 5.

3. Title and Capacity. The Employee shall serve as General Manager of the Company. The Employee shall be based in Vancouver, Washington or such other place as is reasonably requested by the Company. The Employee shall report directly to Chuck Joy, Vice President. The Company, in its sole discretion, may change, amend or alter the Employee's work location from time to time as it deems appropriate. The Employee hereby accepts such employment and agrees to undertake the duties and responsibilities inherent in such position. The Employee agrees to abide by the rules, regulations, instructions, personnel practices and policies of the Company and any changes therein which may be adopted from time to time by the Company.

4. Compensation and Benefits.

4.1 Salary and Bonus. During the Employment Period, the Company shall pay to the Employee, as compensation for the performance of the Employee's duties and obligations under this Agreement, a base salary of \$140,000.00 per annum, payable on the 15<sup>th</sup> of each month and final business day each month. The Employee also will be eligible for a bonus of 10% of the Company's profits over \$1.25 million to be paid in cash after the annual financial statements have been completed and, if applicable, audited for filing with the SEC.

The Employee's annual salary shall be reviewed annually and may be unchanged, increased or decreased at the discretion of the Company. The Employee shall also be eligible to receive additional compensation in the form of a bonus, payable in cash or equity in the Company, depending on a combination of the Company and individual performance factors against agreed objectives.

4.2 Equity. The Employee shall receive an option to acquire 250,000 shares of the Company's common stock under the 2016 Stock Incentive Plan of Drone USA, Inc. (the "Plan"), the Company's parent, to acquire shares of Drone USA, Inc. common stock at the discretion of the Board. 20% of the options shall vest annually commencing with the first anniversary of this Agreement in accordance with the Stock Grant Agreement under the Plan. The Employee is also entitled to receive additional stock awards under the Plan at the discretion of the Board.

4.3 Fringe Benefits. The Employee shall be eligible to participate in all benefit programs, including health insurance, that the Company establishes and makes available to its employees to the extent that the Employee's position, tenure, salary, age, health and other qualifications make her eligible to participate. The Company may discontinue, amend or alter such employee benefit programs at any time and from time to time as the Company, in its sole discretion, may deem appropriate.

4.4 Vacation and Leave. The Employee shall be entitled to vacation and leave in accordance with the terms of the Company's Employee Handbook, the receipt of which the Employee acknowledges.

4.5 Performance Review. The Employee may receive a performance review annually. The Review will be based on an analysis of the Employee's progress and performance. This will include a discussion of goals, strengths, weaknesses, likes, and dislikes. The conclusions of this review will be put into a written report signed by both parties and placed in the Employee's employment record file.

5. Employment Termination; Severance. Either party may terminate this Employment Agreement upon fourteen (14) days prior notice at any time. The parties may terminate this Employment Agreement for any reason, and no reason need be given for termination. It is agreed, however, that the Employee may be terminated without notice in the event of incompetence, insubordination, dishonesty, the violation of any rule, regulation or policy established by the Employer, any act adverse to the interests of the Employer, or for any material failure by the Employee to perform as required hereunder. In the event of termination, the Employee shall be entitled to all compensation accrued under this Employment Agreement up to the effective date of termination, with payment to occur on the next regularly scheduled payday. In the discretion of the Employer, pay in lieu of notice may be given under this Section 5. In the event that the Employee is terminated for any reason other than a termination without notice the Company shall make a severance payment to the Employee of twelve (12) months of the Employee's then-current base salary to be paid in equal amounts over a period of twelve (12) months.

6. Notices. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (a) upon personal delivery to the party to be notified, (b) when sent by electronic mail with proof of receipt or confirmed facsimile if sent during normal business hours of the recipient, (c) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (d) one (1) day after deposit with a nationally recognized overnight courier, specifying next day delivery, with written verification of receipt, addressed to the other party at the address shown above, or at such other address or addresses as either party shall designate to the other in accordance with this Section 6.

7. Entire Agreement. This Agreement and the exhibits hereto constitutes the entire agreement between the parties and supersedes all prior agreements and understandings, whether written or oral, relating to the subject matter of this Agreement.

8. Amendment. This Agreement may be amended or modified only by a written instrument executed by both the Company and the Employee.

9. Governing Law. This Agreement shall be construed, interpreted and enforced in accordance with the laws of the State of Washington, without regard to its conflict of laws principles.

10. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of both parties and their respective successors and assigns, including any corporation with which or into which the Company may be merged or which may succeed to its assets or business, provided, however, that the obligations of the Employee are personal and shall not be assigned by him.

11. Arbitration. The parties agree that any controversy, claim, or dispute arising out of or relating to this Agreement, or the breach thereof, or arising out of or relating to the employment of the Employee, or the termination thereof, including any claims under federal, state, or local law, shall be resolved by arbitration in Vancouver, Washington, in accordance with the Employment Dispute Resolution Rules of the American Arbitration Association. The parties agree that any award rendered by the arbitrator shall be final and binding, and that judgment upon the award may be entered in any court having jurisdiction thereof.

12. Miscellaneous.

12.1 No delay or omission by the Company in exercising any right under this Agreement shall operate as a waiver of that or any other right. A waiver or consent given by the Company on any one occasion shall be effective only in that instance and shall not be construed as a bar or waiver of any right on any other occasion.

12.2 The captions of the sections of this Agreement are for convenience of reference only and in no way define, limit or affect the scope or substance of any section of this Agreement.

12.3 In case any provision of this Agreement shall be invalid, illegal or otherwise unenforceable, the validity, legality and enforceability of the remaining provisions shall in no way be affected or impaired thereby.

12.4 This Agreement is effective as of the date of execution of this Agreement, will survive Employees employment with the Company, and does not in any way restrict Employee's right or the right of the Company to terminate Employee's employment.

12.5 Employee certifies and acknowledges that she has carefully read all of the provisions of this Agreement and that she understands and will fully and faithfully comply with its provisions.

*[Signatures on the Following Page]*

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day and year first set forth above.

**HOWCO DISTRIBUTING CO.**

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

Michael Bannon, CEO

**EMPLOYEE:**

\_\_\_\_\_  
Matthew Wiles

**Proprietary Information and Non-Competition Agreement**



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**EMPLOYMENT, CONFIDENTIALITY, NON-COMPETE  
AND INTELLECTUAL PROPERTY AGREEMENT  
FOR  
PAUL CHARLES JOY**

THIS EMPLOYMENT, CONFIDENTIALITY, NON-COMPETE AND INTELLECTUAL PROPERTY AGREEMENT (this “Agreement”) is entered into effective as of the 9<sup>th</sup> day of September, 2016 by and between Drone USA, Inc., a Delaware corporation, its subsidiaries, affiliates, successors or assigns (hereinafter “**Drone USA**”), and Paul Charles Joy (hereinafter “**Employee**”). In consideration of Employee’s employment with Drone USA and Employee’s receipt of the compensation now and hereafter paid to Employee by Drone USA, the parties hereby agree as follows:

**1. Employment.** Drone USA hereby agrees to employ Employee and Employee hereby agrees to work for Drone USA and to advance the interests of the Drone USA and its affiliate Howco Distributing Co., a Washington corporation (“**Howco**”) upon the terms and conditions set forth herein.

**2. Initial Term – Subsequent At-Will Employment.** The parties acknowledge and agree that Employee’s employment with Drone USA is for an initial period of two (2) years (the “**Initial Term**”); provided, however, Drone USA and Employee may Terminate Employee’s employment with Drone USA during the Initial Term as forth in Section 6. Upon expiration of the Initial Term, Employee’s employment with Drone USA, shall be for an unspecified duration and shall constitute “at-will” employment.

**3. Scope of Duties; Representations and Warranties.**

a. This Agreement is entered into in connection with that certain Stock Purchase Agreement of even date involving the sale of 100% of the common stock of Howco Distributing, Co. to Drone USA, LLC (the “**Stock Purchase Agreement**”). Employee will have such duties as are assigned or delegated to Employee by Drone USA’s Board of Directors, and will initially serve as the Howco CEO of Drone USA and use Employee’s best efforts to assist with the transition of the ownership and the operations of Howco. Employee shall devote his/her entire business time, attention, skills, and energy exclusively to the business of Howco and Drone USA and will use his/her best efforts to promote the continued success, profitability and growth of Howco as well as Drone USA and will cooperate fully with their respective Boards of Directors and management in the advancement of their best interests.

b. Employee represents and warrants that by execution and delivery of this Agreement, Employee does not, and the performance of obligations hereunder will not, with or without the giving of notice or the passage of time, or both: (i) violate any judgment, writ, injunction, or order of any court, arbitrator, or governmental agency applicable to Employee, (ii) conflict with, result in the breach of any provisions of or the termination of, or constitute a default under, any agreement to which Employee is a party or by which Employee is or may be bound.

c. Employee agrees that from time to time Drone USA may engage and use professional employment organizations (“**PEO’s**”) to address its human resources, payroll, insurance and other employment related needs. Many PEO’s use the term “co-employment,” to describe the relationship between an employee on the one hand and the PEO and the PEO’s client on the other hand; in that event Employee may be deemed to be an employee of the Drone USA and the PEO. In the event that Drone USA elects to use a PEO or change from one PEO to another, Employee’s employment with Drone USA will remain unchanged with respect to Employee’s obligations to Drone USA and Howco under this Agreement; and, in the event of any inconsistency or contradictory provision contained in any PEO agreement to which Drone USA or Employee is a party, the terms of this Agreement shall control and supersede the terms of any such other agreement.

#### **4. Compensation.**

a. Drone USA shall initially pay Employee base compensation of One Hundred Twenty Five Thousand Dollars (\$125,000) per year, subject to adjustment as provided below, which will be payable in equal periodic installments according to Drone USA’s customary payroll practices, but no less frequently than twice per month, subject to adjustment as provided below. Following the Initial Term, Employee base compensation will be reviewed by the management of Drone USA no less frequently than annually, and may be adjusted upward or downward in the sole discretion of the management of Drone USA.

b. All payments of salary and other compensation paid to Employee shall be made after deduction of any taxes and other amounts which are required to be withheld with respect thereto under applicable federal and state laws.

#### **5. Fringe Benefits; Expenses.**

a. So long as Employee is employed by Drone USA, Employee shall be eligible to participate in all employee benefit plans sponsored by Drone USA for its employees in accordance with Drone USA’s policies, including but not limited to sick leave and disability leave, life insurance, health insurance, dental insurance, and stock ownership and/or profit sharing plans; provided, however, that the nature, amount and limitations of such plans shall be determined from time to time by the Board of Directors of Drone USA. Employee agrees that by being eligible to participate in benefits such as health insurance, dental insurance and life insurance, participation will be subject to employee contributions which may change from time to time. Notwithstanding the forgoing, during the Initial Term of Employee’s employment, the benefits to which Employee is entitled shall be substantially the same as those that Employee received while employed by Howco during the two (2) year period immediately prior to the effective date of this Agreement, and in the event that the benefit program in effect for Drone USA employees is less favorable than the benefits provided by Howco to Employee, an adjustment shall be made to Employee’s base compensation to compensate for any deficiency in such benefits.

b. Drone USA shall reimburse Employee for all approved reasonable business expenses incurred by Employee in the scope of employment; provided, however, that such expenses must be pre-approved and Employee must file expense reports with respect to such expenses in accordance with Drone USA’s policies as are in effect from time to time.

c. Employee shall be entitled to paid vacation consistent with the paid vacation received by Employee while employed by Howco during the two (2) year period immediately prior to the effective date of this Agreement. Employee shall also be entitled to the paid holidays and other paid leave set forth in Drone USA's policies.

## **6. Termination.**

a. Termination During the Initial Term. Drone USA and Employee agree that during the Initial Term Employee's employment may only be terminated as hereinafter set forth;

i. Termination by Drone USA for Cause. During the Initial Term, Drone USA may terminate Employee's employment for Cause, which termination shall be effective upon delivery of written notice by Drone USA to Employee.

1. Definition of "Cause". When used in connection with the termination of Employee's employment with Drone USA, "**Cause**" shall mean: (a) the willful and material breach of Employee's obligations under this Agreement, which willful and material breach continues to occur after reasonable notice and opportunity to cure; (b) Employee's willful failure to adhere to any written Drone USA policy after Employee has been given a reasonable opportunity to comply with such policy or cure any failure to comply; (c) the conviction of or the entering of a guilty plea or plea of no contest with respect to, a felony, the equivalent thereof, or any other crime which results in Employee's imprisonment; (d) the commission by Employee of an act of fraud upon Drone USA or Howco or any of their affiliates; (e) the misappropriation (or attempted misappropriation) of any funds or property of Drone USA, Howco or any of their affiliates by Employee; (f) Employee's willful failure to perform duties assigned to Employee after reasonable notice and opportunity to cure such performance; (g) Employee's continued engagement, after reasonable notice and opportunity to cure, in any direct, material conflict of interest with Drone USA or Howco without compliance with the Drone USA's conflict of interest policies, if any, then in effect; or (h) Employee's continued engagement, after reasonable notice and opportunity to cure, and without the written approval of the Board of Directors of the Drone USA, in any activity which competes with the business of Drone USA, Howco or any of their affiliates or which would result in a material injury to Drone USA, Howco or any of their affiliates.

2. Compensation and Benefits. If Drone USA terminates Employee's employment for Cause during the Initial Term, Drone USA shall pay any salary or wages earned through the date of termination, but all rights to any other compensation or benefits arising hereunder shall be canceled and terminated in all respects concurrently with such termination of employment; provided that Employee may elect to continue to participate, at Employee's own expense, in such health insurance and other benefits as to which the opportunity for continuing participation is mandated by applicable law.

ii. Disability; Death. If at any time during the Initial Term, Employee is unable due to physical or mental disability to perform effectively Employee's duties hereunder, Drone USA shall continue payment of compensation as provided in Section 6 during the three (3) months of such disability to the extent not covered by any disability insurance policies. Upon the expiration of such three (3) month period, Drone USA, at its sole option, may continue payment of salary or wages for such additional periods as it elects, or may terminate this Agreement without further obligations hereunder. If Employee should die during the term of Employee's employment, Drone USA's obligations hereunder shall terminate as of the day that death occurs and there will be no salary, wages and benefit continuation period.

iii. Termination by Employee.

1. During the first six months of the Initial Term, Employee may not voluntarily terminate Employee's employment with Drone USA.

2. During the period beginning on the first day of the seventh month of the Initial Term and ending on the last day of the twelve month of the Initial Term, Employee may Terminate Employee's employment with Drone USA effective upon thirty (30) days written notice to Employer, provided Drone USA or Howco has in place the personnel to perform the financial, operations, and customer and supplier relations management, human resources duties, and pricing functions provided by Employee to Howco immediately prior to the effective date of this Agreement.

3. After the first twelve months of the Initial Term, Employee may terminate employment with Drone USA for any reason on the thirty (30) days' notice to Drone USA.

b. Termination After Initial Term. Following expiration of the Initial Term, either Drone USA or Employee may terminate Employee's employment at any time, and such termination shall be effective upon delivery of written notice by either party to the other party.

i. Termination by Drone USA. In the event that Employee's employment is terminated by Drone USA without Cause at any time following the expiration of the Initial Term,, Drone USA shall pay to Employee an amount equal to two (2) weeks compensation at Employee's then current salary or wages payable in a lump sum, and shall continue to provide benefits in the kind and amounts provided up to the date of termination for such two (2) week period, including continuation of any Drone USA-paid benefits as described in Section 5 for Employee and family.

ii. Waiver and Release. In the event that Employee's employment is terminated by Drone USA without Cause following the expiration of the Initial Term, Employee agrees to accept, in full settlement of any and all claims, losses, damages and other demands which Employee may have arising out of such termination, as liquidated damages and not as a penalty, the applicable amounts payable to Employee as set forth in Section 6.b.i. Employee hereby waives any and all rights Employee may have to bring any cause of action or proceeding contesting any termination without Cause which occurs after the expiration of the Initial Term. In the event Employee's termination is for Cause – either during the Initial Term or at any time thereafter – Employee agrees that under no circumstances shall Employee be entitled to any compensation or confirmation of any benefits under this Agreement for any period of time following the date of such termination for Cause.

## 7. Confidential Information.

a. Drone USA and Howco Confidential Information. Employee agrees at all times during the term of employment and thereafter, to hold in strictest confidence, and not to use, except for the benefit of Drone USA and Howco, or to disclose to any person, firm or corporation without written authorization of the Board of Directors of the Drone USA, any Confidential Information of the Drone USA or Howco. Employee understands that “**Confidential Information**” means any Drone USA or Howco proprietary information, technical data, or trade secrets, including, but not limited to, research and development, product plans, products, services, information regarding the skills and compensation of employees of Drone USA or Howco; the identity of the Drone USA’s and Howco’s clients, potential clients, customers and potential customers, but excluding the United States Government or any agency thereof, or any branch of the United States military (hereinafter referred to collectively as “**Customers**”), the particular preferences, likes, dislikes and needs of those Customers; Customer information regarding contact persons, pricing, sales calls, timing, sales terms, and service plans; methods, practices, strategies, forecasts, and other marketing techniques; the identities of key accounts and potential key accounts (but excluding the United States Government or any agency thereof, or any branch of the United States military); the identities of Drone USA’s and Howco’s suppliers, independent contractors and consultants, and information regarding contact persons, pricing, sales calls, timing, sales terms, and service plans; methods, practices, strategies, forecasts, and other techniques of the forgoing; markets, software, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, finances or other business information, strategy and cost data; disclosed to Employee by Drone USA either directly or indirectly in writing, orally or by drawings or observation of parts or equipment or known by Employee with respect to Howco. Employee further understands that Confidential Information does not include any of the foregoing items which have become publicly known and made generally available through no direct or indirect wrongful act of Employee or others who were under confidentiality obligations as to the item or items involved. Further Confidential Information does not include information that is required to be disclosed by order of a governmental agency or by a court of competent jurisdiction. Further, Employee acknowledges that any and all of the forgoing information with respect to Howco is expressly covered by the terms of this Section 7 and that no such information has been generally available or made publicly known and with the sale of Howco to Drone USA, such Confidential Information remains confidential. For avoidance of doubt, the parties acknowledge that general know-how concerning how to do business with the United States Government or any agency thereof or any branch of the United States Military is not Confidential Information.

b. Material Non-Public Information. Employee acknowledges that Drone USA is publicly traded and that U.S. Securities laws prohibit any person who is in possession of material non-public information about a public company from purchasing or selling that company’s securities or from providing, such information to third parties. Some of the information that Employee will have as an employee will be material non-public information and is subject to trading restrictions. Employee will not disclose any such information to third parties or others without the express approval of Drone USA’s Board of Directors and will not engage in any purchase or sales of Drone USA’s securities except in compliance with its approved trading policies in effect, from time to time.

c. Third Party Information. Employee recognizes that Drone USA and Howco have received and in the future will receive, from third parties, their confidential or proprietary information subject to a duty on Drone USA's and Howco's parts to maintain the confidentiality of such information and to use it only for certain limited purposes. Employee agrees to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or corporation or to use it except as necessary in carrying out Employee's work for Drone USA consistent with the their agreement(s) with such third parties.

d. Continuing Obligations. The obligations of this Section 7 shall survive the expiration or termination of this Agreement.

## **8. Inventions.**

a. Inventions Retained and Licensed. Employee has attached hereto, as Exhibit A, a list describing all inventions, original works of authorship, developments, and improvements which were made by Employee prior to employment with Drone USA (collectively referred to as "**Prior Inventions**"), which belong to Employee, relate to Howco products or research and development, and which are not assigned to Drone USA hereunder; or, if no such list is attached, Employee represents that there are no such Prior Inventions. If in the course of employment with Drone USA, Employee incorporates into a Drone USA product, process or technology a Prior Invention owned by Employee or in which Employee has an interest, Drone USA is hereby granted and shall have an exclusive, royalty-free, irrevocable, perpetual, worldwide license to make, have made, modify, use and sell such Prior Invention as part of or in connection with such product, process or machine.

b. Assignment of Inventions and other Intellectual Property. Employee agrees that Employee will promptly make full written disclosure to Drone USA, will hold in trust for the sole right and benefit of Drone USA, and hereby assign to Drone USA, or its designee, all of Employee's right, title, and interest in and to any and all inventions, original works of authorship, developments, concepts, improvements or trade secrets, whether or not patentable or registrable under copyright, patent or similar laws, which Employee may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice which relate in any way to any Drone USA Products, as defined herein, together with the zone of foreseeable expansion, during the period of time Employee is in the employ of Drone USA (collectively referred to as "**Inventions**"). Employee further acknowledges that all original works of authorship which are made by Employee (solely or jointly with others) within the scope of and during the period of employment with Drone USA and which are protectable by copyright are "works made for hire," as that term is defined in the United States Copyright Act.

c. Maintenance of Records. Employee agrees to keep and maintain adequate and current written records of all Inventions made by Employee (solely or jointly with others) during the term of employment with Drone USA. The records will be in the form of notes, sketches, drawings, and any other format that may be specified by Drone USA. The records will be available to and remain the sole property of Drone USA at all times.

d. Patent and Copyright Registrations. Employee agrees to assist Drone USA, or its designee, at the Drone USA's expense, in every proper way to secure Drone USA's rights in the Inventions and any copyrights, patents, mask work rights or other intellectual property rights relating thereto in any and all countries, including the disclosure of Drone USA of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments and all other instruments which Drone USA shall deem necessary in order to apply for and obtain such rights and in order to assign and convey to Drone USA, its successors, assigns, and nominees the sole and exclusive rights, title and interest in and to such Inventions, and any copyrights, patents, mask work rights or other intellectual property rights relating thereto. Employee further agrees that Employee's obligation to execute or cause to be executed, when it is in Employee's power to do so, any such instrument or papers shall continue after the termination of this Agreement. If Drone USA is unable because of Employee's mental or physical incapacity or for any other reason to secure Employee's signature to apply for or to pursue any application of any United States or foreign patents or copyright registrations covering Inventions or original works of authorship assigned to Drone USA as above, then Employee hereby irrevocably designates and appoints Drone USA and its duly authorized officers and agents as Employee's agent and attorney in fact, to act for and in Employee's behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of letters patent or copyright registrations thereon with the same legal force and effect as if executed by Employee.

## 9. **Covenant Not to Compete, Non-Solicitation.**

a. Non Competition and Non Solicitation. Employee agrees that beginning with the effective date of this Agreement and continuing for a period of five (5) years after the longer of (x) the termination of Employee's employment or (y) the first anniversary of the date hereof, Employee will not alone, or in any capacity with another entity or individual, within any geographic location in which Howco or Drone USA, at the date of the termination of Employee's employment, has engaged or has plans to engage in any business:

i. directly or indirectly participate or support in any capacity (e.g. as an advisor, principal agent, partner, member, governor, officer, director, manager, shareholder, owner, employee or otherwise) the sale, solicitation of sale, or marketing, of a Drone USA Product. "**Drone USA Product**" means any actual or projected product or product line that has been developed (or is under active development), marketed or sold by Drone USA or Howco continuing through the termination of Employee's employment. Such Drone USA Products shall specifically include, but not be limited to, those products sold to customers of Howco or any products that were being considered for sale or distribution prior to the effective date of the aforementioned Stock Purchase Agreement.

ii. call upon, solicit, contact or serve any of the then-existing vendors or suppliers that have had a relationship with Drone USA or Howco during the preceding twenty four (24) months, or any potential, vendors or suppliers that were solicited by Drone USA or Howco during the preceding twenty four (24) months in connection a Drone USA Product;

iii. disrupt, damage or impair (or attempt to do the same) with the business of Drone USA or Howco whether by way of interfering with or disrupting Drone USA's or Howco's relationship with their employees, customers, agents, representatives or vendors, or

iv. employ or attempt to employ (by assisting anyone else in the solicitation of) any of Drone USA's or Howco's current employees on behalf of any other entity or person, whether or not such entity or person competes with Drone USA, Howco or any Drone USA Product.

b. Employee agrees that the limitations set forth herein on Employee's rights to compete with Drone USA, Howco and their affiliates are reasonable and necessary for the protection of Drone USA, Howco and their affiliates. In this regard, Employee specifically agrees that the limitations as to period of time and geographic area, as well as all other restrictions on activities specified herein, are reasonable and necessary for the protection of Drone USA, Howco and their affiliates. The substantial sums invested by Drone USA in Howco's business also make these restrictions necessary in order to protect Drone USA's investment. Employee agrees that, in the event that the provisions of this Agreement should ever be deemed to exceed the scope of business, time or geographic limitations permitted by applicable law, such provisions shall be and are hereby reformed to the maximum scope of business, time or geographic limitations permitted by applicable law.

c. Employee agrees that the remedy at law for any breach of this Section 9 will be inadequate and that Drone USA and/or Howco shall also be entitled to injunctive relief without the necessity of posting any bond or other security, due to irreparable harm that such breach would cause.

d. Notwithstanding any other provision in this Agreement to the contrary, Employer agrees (i) nothing contained in this Agreement shall limit Employee from doing business with the United States Federal Government so long as it does not involve the direct or indirect participation or support of the sale, solicitation of sale, or marketing of a Drone USA Product; and (ii) in the event of a default by Employer under this Agreement or a default by Drone USA, LLC or Howco under the Stock Purchase Agreement or any related agreement, the restrictions set forth in Section 9 shall automatically terminate, and thereafter, Employee may disregard such non-competition and non-solicitation provisions and do business in any manner whatsoever.

**10. Returning Documents.** Employee agrees that, at the time of leaving the employ of Drone USA, Employee will deliver to Drone USA (and will not keep in possession, recreate or deliver to anyone else) any and all devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, materials, equipment, other documents or property, or reproductions of any aforementioned items developed by me pursuant to my employment with Drone USA or Howco or otherwise belonging to Drone USA or Howco, their parent, successors or assigns.

**11. Notification of New Employer.** In the event that Employee leaves the employ of Drone USA, Employee hereby grants consent to notification by Drone USA to any new employer about Employee's rights and obligations under this Agreement.

**12. Representations.** Employee agrees to execute any proper oath or verify any proper document required to carry out the terms of this Agreement. Employee represents that performance of all the terms of this Agreement will not breach any agreement to keep in confidence proprietary information acquired by Employee in confidence or in trust prior to employment by Drone USA. Employee has not entered into, and agrees not to enter into, any oral or written agreement in conflict herewith.

### 13. General Provisions.

a. Governing Law; and Venue. This Agreement shall be construed and interpreted in accordance with the laws of the State of Washington without reference to principles of conflicts of laws. The parties agree that all actions or proceedings arising in connection with this Agreement shall be tried and litigated only in the State or Federal Courts located in the State of Washington. Each of the parties hereto waives to the extent permitted under applicable law, any right each may have to assert the doctrine of forum non-conveniens or to object to venue to the extent any proceeding is brought in accordance with this section relating to this Agreement.

b. Entire Agreement. This Agreement sets forth the entire agreement and understanding between Drone USA and Employee relating to the subject matter herein and merges all prior discussions between Drone USA and Employee. No modification of or amendment to this Agreement, nor any waiver of any rights under this agreement, will be effective unless in writing signed by the party to be charged. Any subsequent change or changes in duties, salary or compensation will not affect the validity or scope of this Agreement.

c. Severability. If one more of the provisions in this Agreement are deemed void by law, then the remaining provisions will continue in full force and effect. This Agreement is made and executed pursuant to the provisions of the Stock Purchase Agreement. However, no default by Employee hereunder shall be deemed to constitute a default under the Stock Purchase Agreement, it being agreed by the parties that each Agreement shall be separately applied, construed and enforced and that a default under one shall not constitute a default under the other.

d. Successors and Assigns. This Agreement will be binding upon Employee's heirs, executors, administrators and other legal representatives and will be for the benefit of Drone USA, Howco, their successors, and assigns.

e. Waiver and Amendments; Cumulative Rights and Remedies.

i. This Agreement may be amended, modified or supplemented, and any obligation hereunder may be waived, only by a written instrument executed by the parties hereto. The waiver by either party of a breach of any provision of this Agreement shall not operate as a waiver of any subsequent breach.

ii. No failure on the part of any party to exercise, and no delay in exercising, any right or remedy hereunder shall operate as a waiver hereof, nor shall any single or partial exercise of any such right or remedy by such party preclude any other or further exercise thereof or the exercise of any other right or remedy. All rights and remedies hereunder are cumulative and are in addition to all other rights and remedies provided by law, agreement or otherwise.

iii. Employee's obligations to Drone USA and Drone USA's rights and remedies hereunder are in addition to all other obligations of Employee and rights and remedies of Drone USA created pursuant to any other agreement.

f. Construction. Each party to this Agreement has had the opportunity to review this Agreement with legal counsel. This Agreement shall not be construed or interpreted against any party on the basis that such party drafted or authored a particular provision, parts of or the entirety of this Agreement.

EMPLOYEE

/s/ Paul Charles Joy

Paul Charles Joy

DRONE USA, INC.

/s/ Michael Bannon

Michael Bannon, CEO

**EXHIBIT A**

**LIST OF PRIOR INVENTIONS  
AND ORIGINAL WORKS OF AUTHORSHIP**

Identifying

Title	Date	or Brief Description
Number		

---

  X   No inventions or improvements  
      Additional Sheets Attached

/s/ Paul Charles Joy  
Signature of Employee

Paul Charles Joy  
Print name of Employee



**EMPLOYMENT, CONFIDENTIALITY, NON-COMPETE  
AND INTELLECTUAL PROPERTY AGREEMENT  
FOR  
KATHRYN BLAKE JOY**

THIS EMPLOYMENT, CONFIDENTIALITY, NON-COMPETE AND INTELLECTUAL PROPERTY AGREEMENT (this “Agreement”) is entered into effective as of the 9<sup>th</sup> day of September, 2016 by and between Drone USA, Inc., a Delaware corporation, its subsidiaries, affiliates, successors or assigns (hereinafter “**Drone USA**”), and Kathryn Blake Joy (hereinafter “**Employee**”). In consideration of Employee’s employment with Drone USA and Employee’s receipt of the compensation now and hereafter paid to Employee by Drone USA, the parties hereby agree as follows:

**1. Employment.** Drone USA hereby agrees to employ Employee and Employee hereby agrees to work for Drone USA and to advance the interests of the Drone USA and its affiliate Howco Distributing Co., a Washington corporation (“**Howco**”) upon the terms and conditions set forth herein.

**2. Initial Term – Subsequent At-Will Employment.** The parties acknowledge and agree that Employee’s employment with Drone USA is for an initial period of two (2) years (the “**Initial Term**”); provided, however, Drone USA and Employee may Terminate Employee’s employment with Drone USA during the Initial Term as forth in Section 6. Upon expiration of the Initial Term, Employee’s employment with Drone USA, shall be for an unspecified duration and shall constitute “at-will” employment.

**3. Scope of Duties; Representations and Warranties.**

a. This Agreement is entered into in connection with that certain Stock Purchase Agreement of even date involving the sale of 100% of the common stock of Howco Distributing, Co. to Drone USA, LLC (the “**Stock Purchase Agreement**”). Employee will have such duties as are assigned or delegated to Employee by Drone USA’s Board of Directors, and will initially serve as the Howco COO of Drone USA and use Employee’s best efforts to assist with the transition of the ownership and the operations of Howco. Employee shall devote his/her entire business time, attention, skills, and energy exclusively to the business of Howco and Drone USA and will use his/her best efforts to promote the continued success, profitability and growth of Howco as well as Drone USA and will cooperate fully with their respective Boards of Directors and management in the advancement of their best interests.

b. Employee represents and warrants that by execution and delivery of this Agreement, Employee does not, and the performance of obligations hereunder will not, with or without the giving of notice or the passage of time, or both: (i) violate any judgment, writ, injunction, or order of any court, arbitrator, or governmental agency applicable to Employee, (ii) conflict with, result in the breach of any provisions of or the termination of, or constitute a default under, any agreement to which Employee is a party or by which Employee is or may be bound.

c. Employee agrees that from time to time Drone USA may engage and use professional employment organizations (“**PEO’s**”) to address its human resources, payroll, insurance and other employment related needs. Many PEO’s use the term “co-employment,” to describe the relationship between an employee on the one hand and the PEO and the PEO’s client on the other hand; in that event Employee may be deemed to be an employee of the Drone USA and the PEO. In the event that Drone USA elects to use a PEO or change from one PEO to another, Employee’s employment with Drone USA will remain unchanged with respect to Employee’s obligations to Drone USA and Howco under this Agreement; and, in the event of any inconsistency or contradictory provision contained in any PEO agreement to which Drone USA or Employee is a party, the terms of this Agreement shall control and supersede the terms of any such other agreement.

#### **4. Compensation.**

a. Drone USA shall initially pay Employee base compensation of One Hundred Twenty Five Thousand Dollars (\$125,000) per year, subject to adjustment as provided below, which will be payable in equal periodic installments according to Drone USA’s customary payroll practices, but no less frequently than twice per month, subject to adjustment as provided below. Following the Initial Term, Employee base compensation will be reviewed by the management of Drone USA no less frequently than annually, and may be adjusted upward or downward in the sole discretion of the management of Drone USA.

b. All payments of salary and other compensation paid to Employee shall be made after deduction of any taxes and other amounts which are required to be withheld with respect thereto under applicable federal and state laws.

#### **5. Fringe Benefits; Expenses.**

a. So long as Employee is employed by Drone USA, Employee shall be eligible to participate in all employee benefit plans sponsored by Drone USA for its employees in accordance with Drone USA’s policies, including but not limited to sick leave and disability leave, life insurance, health insurance, dental insurance, and stock ownership and/or profit sharing plans; provided, however, that the nature, amount and limitations of such plans shall be determined from time to time by the Board of Directors of Drone USA. Employee agrees that by being eligible to participate in benefits such as health insurance, dental insurance and life insurance, participation will be subject to employee contributions which may change from time to time. Notwithstanding the forgoing, during the Initial Term of Employee’s employment, the benefits to which Employee is entitled shall be substantially the same as those that Employee received while employed by Howco during the two (2) year period immediately prior to the effective date of this Agreement, and in the event that the benefit program in effect for Drone USA employees is less favorable than the benefits provided by Howco to Employee, an adjustment shall be made to Employee’s base compensation to compensate for any deficiency in such benefits.

b. Drone USA shall reimburse Employee for all approved reasonable business expenses incurred by Employee in the scope of employment; provided, however, that such expenses must be pre-approved and Employee must file expense reports with respect to such expenses in accordance with Drone USA's policies as are in effect from time to time.

c. Employee shall be entitled to paid vacation consistent with the paid vacation received by Employee while employed by Howco during the two (2) year period immediately prior to the effective date of this Agreement. Employee shall also be entitled to the paid holidays and other paid leave set forth in Drone USA's policies.

## **6. Termination.**

a. Termination During the Initial Term. Drone USA and Employee agree that during the Initial Term Employee's employment may only be terminated as hereinafter set forth;

i. Termination by Drone USA for Cause. During the Initial Term, Drone USA may terminate Employee's employment for Cause, which termination shall be effective upon delivery of written notice by Drone USA to Employee.

1. Definition of "Cause". When used in connection with the termination of Employee's employment with Drone USA, "**Cause**" shall mean: (a) the willful and material breach of Employee's obligations under this Agreement, which willful and material breach continues to occur after reasonable notice and opportunity to cure; (b) Employee's willful failure to adhere to any written Drone USA policy after Employee has been given a reasonable opportunity to comply with such policy or cure any failure to comply; (c) the conviction of or the entering of a guilty plea or plea of no contest with respect to, a felony, the equivalent thereof, or any other crime which results in Employee's imprisonment; (d) the commission by Employee of an act of fraud upon Drone USA or Howco or any of their affiliates; (e) the misappropriation (or attempted misappropriation) of any funds or property of Drone USA, Howco or any of their affiliates by Employee; (f) Employee's willful failure to perform duties assigned to Employee after reasonable notice and opportunity to cure such performance; (g) Employee's continued engagement, after reasonable notice and opportunity to cure, in any direct, material conflict of interest with Drone USA or Howco without compliance with the Drone USA's conflict of interest policies, if any, then in effect; or (h) Employee's continued engagement, after reasonable notice and opportunity to cure, and without the written approval of the Board of Directors of the Drone USA, in any activity which competes with the business of Drone USA, Howco or any of their affiliates or which would result in a material injury to Drone USA, Howco or any of their affiliates.

2. Compensation and Benefits. If Drone USA terminates Employee's employment for Cause during the Initial Term, Drone USA shall pay any salary or wages earned through the date of termination, but all rights to any other compensation or benefits arising hereunder shall be canceled and terminated in all respects concurrently with such termination of employment; provided that Employee may elect to continue to participate, at Employee's own expense, in such health insurance and other benefits as to which the opportunity for continuing participation is mandated by applicable law.

ii. Disability; Death. If at any time during the Initial Term, Employee is unable due to physical or mental disability to perform effectively Employee's duties hereunder, Drone USA shall continue payment of compensation as provided in Section 6 during the three (3) months of such disability to the extent not covered by any disability insurance policies. Upon the expiration of such three (3) month period, Drone USA, at its sole option, may continue payment of salary or wages for such additional periods as it elects, or may terminate this Agreement without further obligations hereunder. If Employee should die during the term of Employee's employment, Drone USA's obligations hereunder shall terminate as of the day that death occurs and there will be no salary, wages and benefit continuation period.

iii. Termination by Employee.

1. During the first six months of the Initial Term, Employee may not voluntarily terminate Employee's employment with Drone USA.

2. During the period beginning on the first day of the seventh month of the Initial Term and ending on the last day of the twelve month of the Initial Term, Employee may Terminate Employee's employment with Drone USA effective upon thirty (30) days written notice to Employer, provided Drone USA or Howco has in place the personnel to perform the financial, operations, and customer and supplier relations management, human resources duties, and pricing functions provided by Employee to Howco immediately prior to the effective date of this Agreement.

3. After the first twelve months of the Initial Term, Employee may terminate employment with Drone USA for any reason on the thirty (30) days' notice to Drone USA.

b. Termination After Initial Term. Following expiration of the Initial Term, either Drone USA or Employee may terminate Employee's employment at any time, and such termination shall be effective upon delivery of written notice by either party to the other party.

i. Termination by Drone USA. In the event that Employee's employment is terminated by Drone USA without Cause at any time following the expiration of the Initial Term,, Drone USA shall pay to Employee an amount equal to two (2) weeks compensation at Employee's then current salary or wages payable in a lump sum, and shall continue to provide benefits in the kind and amounts provided up to the date of termination for such two (2) week period, including continuation of any Drone USA-paid benefits as described in Section 5 for Employee and family.

ii. Waiver and Release. In the event that Employee's employment is terminated by Drone USA without Cause following the expiration of the Initial Term, Employee agrees to accept, in full settlement of any and all claims, losses, damages and other demands which Employee may have arising out of such termination, as liquidated damages and not as a penalty, the applicable amounts payable to Employee as set forth in Section 6.b.i. Employee hereby waives any and all rights Employee may have to bring any cause of action or proceeding contesting any termination without Cause which occurs after the expiration of the Initial Term. In the event Employee's termination is for Cause – either during the Initial Term or at any time thereafter – Employee agrees that under no circumstances shall Employee be entitled to any compensation or confirmation of any benefits under this Agreement for any period of time following the date of such termination for Cause.

## 7. Confidential Information.

a. Drone USA and Howco Confidential Information. Employee agrees at all times during the term of employment and thereafter, to hold in strictest confidence, and not to use, except for the benefit of Drone USA and Howco, or to disclose to any person, firm or corporation without written authorization of the Board of Directors of the Drone USA, any Confidential Information of the Drone USA or Howco. Employee understands that “**Confidential Information**” means any Drone USA or Howco proprietary information, technical data, or trade secrets, including, but not limited to, research and development, product plans, products, services, information regarding the skills and compensation of employees of Drone USA or Howco; the identity of the Drone USA’s and Howco’s clients, potential clients, customers and potential customers, but excluding the United States Government or any agency thereof, or any branch of the United States military (hereinafter referred to collectively as “**Customers**”), the particular preferences, likes, dislikes and needs of those Customers; Customer information regarding contact persons, pricing, sales calls, timing, sales terms, and service plans; methods, practices, strategies, forecasts, and other marketing techniques; the identities of key accounts and potential key accounts (but excluding the United States Government or any agency thereof, or any branch of the United States military); the identities of Drone USA’s and Howco’s suppliers, independent contractors and consultants, and information regarding contact persons, pricing, sales calls, timing, sales terms, and service plans; methods, practices, strategies, forecasts, and other techniques of the forgoing; markets, software, developments, inventions, processes, formulas, technology, designs, drawings, engineering, hardware configuration information, marketing, finances or other business information, strategy and cost data; disclosed to Employee by Drone USA either directly or indirectly in writing, orally or by drawings or observation of parts or equipment or known by Employee with respect to Howco. Employee further understands that Confidential Information does not include any of the foregoing items which have become publicly known and made generally available through no direct or indirect wrongful act of Employee or others who were under confidentiality obligations as to the item or items involved. Further Confidential Information does not include information that is required to be disclosed by order of a governmental agency or by a court of competent jurisdiction. Further, Employee acknowledges that any and all of the forgoing information with respect to Howco is expressly covered by the terms of this Section 7 and that no such information has been generally available or made publicly known and with the sale of Howco to Drone USA, such Confidential Information remains confidential. For avoidance of doubt, the parties acknowledge that general know-how concerning how to do business with the United States Government or any agency thereof or any branch of the United States Military is not Confidential Information.

b. Material Non-Public Information. Employee acknowledges that Drone USA is publicly traded and that U.S. Securities laws prohibit any person who is in possession of material non-public information about a public company from purchasing or selling that company’s securities or from providing such information to third parties. Some of the information that Employee will have as an employee will be material non-public information and is subject to trading restrictions. Employee will not disclose any such information to third parties or others without the express approval of Drone USA’s Board of Directors and will not engage in any purchase or sales of Drone USA’s securities except in compliance with its approved trading policies in effect, from time to time.

c. Third Party Information. Employee recognizes that Drone USA and Howco have received and in the future will receive, from third parties, their confidential or proprietary information subject to a duty on Drone USA's and Howco's parts to maintain the confidentiality of such information and to use it only for certain limited purposes. Employee agrees to hold all such confidential or proprietary information in the strictest confidence and not to disclose it to any person, firm or corporation or to use it except as necessary in carrying out Employee's work for Drone USA consistent with the their agreement(s) with such third parties.

d. Continuing Obligations. The obligations of this Section 7 shall survive the expiration or termination of this Agreement.

## **8. Inventions.**

a. Inventions Retained and Licensed. Employee has attached hereto, as Exhibit A, a list describing all inventions, original works of authorship, developments, and improvements which were made by Employee prior to employment with Drone USA (collectively referred to as "**Prior Inventions**"), which belong to Employee, relate to Howco products or research and development, and which are not assigned to Drone USA hereunder; or, if no such list is attached, Employee represents that there are no such Prior Inventions. If in the course of employment with Drone USA, Employee incorporates into a Drone USA product, process or technology a Prior Invention owned by Employee or in which Employee has an interest, Drone USA is hereby granted and shall have an exclusive, royalty-free, irrevocable, perpetual, worldwide license to make, have made, modify, use and sell such Prior Invention as part of or in connection with such product, process or machine.

b. Assignment of Inventions and other Intellectual Property. Employee agrees that Employee will promptly make full written disclosure to Drone USA, will hold in trust for the sole right and benefit of Drone USA, and hereby assign to Drone USA, or its designee, all of Employee's right, title, and interest in and to any and all inventions, original works of authorship, developments, concepts, improvements or trade secrets, whether or not patentable or registrable under copyright, patent or similar laws, which Employee may solely or jointly conceive or develop or reduce to practice, or cause to be conceived or developed or reduced to practice which relate in any way to any Drone USA Products, as defined herein, together with the zone of foreseeable expansion, during the period of time Employee is in the employ of Drone USA (collectively referred to as "**Inventions**"). Employee further acknowledges that all original works of authorship which are made by Employee (solely or jointly with others) within the scope of and during the period of employment with Drone USA and which are protectable by copyright are "works made for hire," as that term is defined in the United States Copyright Act.

c. Maintenance of Records. Employee agrees to keep and maintain adequate and current written records of all Inventions made by Employee (solely or jointly with others) during the term of employment with Drone USA. The records will be in the form of notes, sketches, drawings, and any other format that may be specified by Drone USA. The records will be available to and remain the sole property of Drone USA at all times.

d. Patent and Copyright Registrations. Employee agrees to assist Drone USA, or its designee, at the Drone USA's expense, in every proper way to secure Drone USA's rights in the Inventions and any copyrights, patents, mask work rights or other intellectual property rights relating thereto in any and all countries, including the disclosure of Drone USA of all pertinent information and data with respect thereto, the execution of all applications, specifications, oaths, assignments and all other instruments which Drone USA shall deem necessary in order to apply for and obtain such rights and in order to assign and convey to Drone USA, its successors, assigns, and nominees the sole and exclusive rights, title and interest in and to such Inventions, and any copyrights, patents, mask work rights or other intellectual property rights relating thereto. Employee further agrees that Employee's obligation to execute or cause to be executed, when it is in Employee's power to do so, any such instrument or papers shall continue after the termination of this Agreement. If Drone USA is unable because of Employee's mental or physical incapacity or for any other reason to secure Employee's signature to apply for or to pursue any application of any United States or foreign patents or copyright registrations covering Inventions or original works of authorship assigned to Drone USA as above, then Employee hereby irrevocably designates and appoints Drone USA and its duly authorized officers and agents as Employee's agent and attorney in fact, to act for and in Employee's behalf and stead to execute and file any such applications and to do all other lawfully permitted acts to further the prosecution and issuance of letters patent or copyright registrations thereon with the same legal force and effect as if executed by Employee.

## 9. **Covenant Not to Compete, Non-Solicitation.**

a. Non Competition and Non Solicitation. Employee agrees that beginning with the effective date of this Agreement and continuing for a period of five (5) years after the longer of (x) the termination of Employee's employment or (y) the first anniversary of the date hereof, Employee will not alone, or in any capacity with another entity or individual, within any geographic location in which Howco or Drone USA, at the date of the termination of Employee's employment, has engaged or has plans to engage in any business:

i. directly or indirectly participate or support in any capacity (e.g. as an advisor, principal agent, partner, member, governor, officer, director, manager, shareholder, owner, employee or otherwise) the sale, solicitation of sale, or marketing, of a Drone USA Product. "**Drone USA Product**" means any actual or projected product or product line that has been developed (or is under active development), marketed or sold by Drone USA or Howco continuing through the termination of Employee's employment. Such Drone USA Products shall specifically include, but not be limited to, those products sold to customers of Howco or any products that were being considered for sale or distribution prior to the effective date of the aforementioned Stock Purchase Agreement.

ii. call upon, solicit, contact or serve any of the then-existing vendors or suppliers that have had a relationship with Drone USA or Howco during the preceding twenty four (24) months, or any potential, vendors or suppliers that were solicited by Drone USA or Howco during the preceding twenty four (24) months in connection a Drone USA Product;

iii. disrupt, damage or impair (or attempt to do the same) with the business of Drone USA or Howco whether by way of interfering with or disrupting Drone USA's or Howco's relationship with their employees, customers, agents, representatives or vendors, or

iv. employ or attempt to employ (by assisting anyone else in the solicitation of) any of Drone USA's or Howco's current employees on behalf of any other entity or person, whether or not such entity or person competes with Drone USA, Howco or any Drone USA Product.

b. Employee agrees that the limitations set forth herein on Employee's rights to compete with Drone USA, Howco and their affiliates are reasonable and necessary for the protection of Drone USA, Howco and their affiliates. In this regard, Employee specifically agrees that the limitations as to period of time and geographic area, as well as all other restrictions on activities specified herein, are reasonable and necessary for the protection of Drone USA, Howco and their affiliates. The substantial sums invested by Drone USA in Howco's business also make these restrictions necessary in order to protect Drone USA's investment. Employee agrees that, in the event that the provisions of this Agreement should ever be deemed to exceed the scope of business, time or geographic limitations permitted by applicable law, such provisions shall be and are hereby reformed to the maximum scope of business, time or geographic limitations permitted by applicable law.

c. Employee agrees that the remedy at law for any breach of this Section 9 will be inadequate and that Drone USA and/or Howco shall also be entitled to injunctive relief without the necessity of posting any bond or other security, due to irreparable harm that such breach would cause.

d. Notwithstanding any other provision in this Agreement to the contrary, Employer agrees (i) nothing contained in this Agreement shall limit Employee from doing business with the United States Federal Government so long as it does not involve the direct or indirect participation or support of the sale, solicitation of sale, or marketing of a Drone USA Product; and (ii) in the event of a default by Employer under this Agreement or a default by Drone USA, LLC or Howco under the Stock Purchase Agreement or any related agreement, the restrictions set forth in Section 9 shall automatically terminate, and thereafter, Employee may disregard such non-competition and non-solicitation provisions and do business in any manner whatsoever.

**10. Returning Documents.** Employee agrees that, at the time of leaving the employ of Drone USA, Employee will deliver to Drone USA (and will not keep in possession, recreate or deliver to anyone else) any and all devices, records, data, notes, reports, proposals, lists, correspondence, specifications, drawings, blueprints, sketches, materials, equipment, other documents or property, or reproductions of any aforementioned items developed by me pursuant to my employment with Drone USA or Howco or otherwise belonging to Drone USA or Howco, their parent, successors or assigns.

**11. Notification of New Employer.** In the event that Employee leaves the employ of Drone USA, Employee hereby grants consent to notification by Drone USA to any new employer about Employee's rights and obligations under this Agreement.

**12. Representations.** Employee agrees to execute any proper oath or verify any proper document required to carry out the terms of this Agreement. Employee represents that performance of all the terms of this Agreement will not breach any agreement to keep in confidence proprietary information acquired by Employee in confidence or in trust prior to employment by Drone USA. Employee has not entered into, and agrees not to enter into, any oral or written agreement in conflict herewith.

**13. General Provisions.**

a. Governing Law; and Venue. This Agreement shall be construed and interpreted in accordance with the laws of the State of Washington without reference to principles of conflicts of laws. The parties agree that all actions or proceedings arising in connection with this Agreement shall be tried and litigated only in the State or Federal Courts located in the State of Washington. Each of the parties hereto waives to the extent permitted under applicable law, any right each may have to assert the doctrine of forum non-conveniens or to object to venue to the extent any proceeding is brought in accordance with this section relating to this Agreement.

b. Entire Agreement. This Agreement sets forth the entire agreement and understanding between Drone USA and Employee relating to the subject matter herein and merges all prior discussions between Drone USA and Employee. No modification of or amendment to this Agreement, nor any waiver of any rights under this agreement, will be effective unless in writing signed by the party to be charged. Any subsequent change or changes in duties, salary or compensation will not affect the validity or scope of this Agreement.

c. Severability. If one more of the provisions in this Agreement are deemed void by law, then the remaining provisions will continue in full force and effect. This Agreement is made and executed pursuant to the provisions of the Stock Purchase Agreement. However, no default by Employee hereunder shall be deemed to constitute a default under the Stock Purchase Agreement, it being agreed by the parties that each Agreement shall be separately applied, construed and enforced and that a default under one shall not constitute a default under the other.

d. Successors and Assigns. This Agreement will be binding upon Employee's heirs, executors, administrators and other legal representatives and will be for the benefit of Drone USA, Howco, their successors, and assigns.

e. Waiver and Amendments; Cumulative Rights and Remedies.

i. This Agreement may be amended, modified or supplemented, and any obligation hereunder may be waived, only by a written instrument executed by the parties hereto. The waiver by either party of a breach of any provision of this Agreement shall not operate as a waiver of any subsequent breach.

ii. No failure on the part of any party to exercise, and no delay in exercising, any right or remedy hereunder shall operate as a waiver hereof, nor shall any single or partial exercise of any such right or remedy by such party preclude any other or further exercise thereof or the exercise of any other right or remedy. All rights and remedies hereunder are cumulative and are in addition to all other rights and remedies provided by law, agreement or otherwise.

iii. Employee's obligations to Drone USA and Drone USA's rights and remedies hereunder are in addition to all other obligations of Employee and rights and remedies of Drone USA created pursuant to any other agreement.

f. Construction. Each party to this Agreement has had the opportunity to review this Agreement with legal counsel. This Agreement shall not be construed or interpreted against any party on the basis that such party drafted or authored a particular provision, parts of or the entirety of this Agreement.

EMPLOYEE

/s/ Kathryn Blake Joy

Kathryn Blake Joy

DRONE USA, INC.

/s/ Michael Bannon, CEO

Michael Bannon, CEO

**EXHIBIT A**

**LIST OF PRIOR INVENTIONS  
AND ORIGINAL WORKS OF AUTHORSHIP**

Identifying

Title	Date	or Brief Description
Number		

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\_\_\_\_\_ No inventions or improvements

\_\_\_\_\_ Additional Sheets Attached

/s/ Kathryn Blake Joy

Signature of Employee

Kathryn Blake Joy

Print Name of Employee

SUBSIDIARIES

Howco Distributing Co.

Drone USA, LLC

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