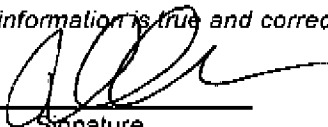


Form PTO-1595 (Rev. 03/01) OMB No. 0651-0027 (exp. 5/31/2002) Tab settings ⇨ ⇨ ⇨ ▼	<b>RECORDATION FORM COVER SHEET</b> <b>PATENTS ONLY</b>	U.S. DEPARTMENT OF COMMERCE U.S. Patent and Trademark Office Attorney Docket No.: 3769-010
To the Honorable Commissioner of Patents and Trademarks: Please record the attached original documents or copy thereof.		
1. Name of conveying party(ies): <u>MICRO-HEAT, INC.</u>  Additional name(s) of conveying party(ies) attached <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	2. Name and address of receiving party(ies) Name: <u>EUROPA INTERNATIONAL INC</u>  Internal Address: _____ <u>200 Park Avenue, Suite 3900</u> <u>New York, NY 10166</u> <u>US</u>  Street Address: _____ <u>same as above</u>  City: _____ State: _____ Zip: _____  Additional name(s) & address(es) attached? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No	
3. Nature of conveyance: <input type="checkbox"/> Assignment <input type="checkbox"/> Merger <input type="checkbox"/> Security Agreement <input type="checkbox"/> Change of Name <input checked="" type="checkbox"/> Other <u>Convertible Debenture Purchase Agreement</u>	Execution Date: <u>February 3, 2004</u>	
4. Application number(s) or patent number(s): If this document is being filed together with a new application, the execution date of the application is: _____ A. Patent Application No.(s) _____ B. Patent No.(s) <u>6,199,587</u> <u>6,164,564</u> <u>6,615,438</u> <u>6,669,109</u> Additional numbers attached? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No	5. Name and address of party to whom correspondence concerning document should be mailed: Name: <u>WEISZ, Tiberiu</u>  Internal Address: <u>Gottlieb Rackman &amp; Reisman PC</u> <u>270 Madison Avenue</u> <u>New York, NY 10016-0601</u> <u>USA</u>  Street Address: _____ <u>same as above</u>  City: _____ State: _____ Zip: _____	
6. Total number of applications and patents involved: <input type="text" value="4"/>	7. Total fee (37 CFR 3.41).....\$ <u>160</u> <input type="checkbox"/> Enclosed <input checked="" type="checkbox"/> Authorized to be charged to deposit account	
8. Deposit account number:  <u>07-1730</u>  (Attach duplicate copy of this page if paying by deposit account)		
<b>DO NOT USE THIS SPACE</b>		
9. Statement and signature. <i>To the best of my knowledge and belief, the foregoing information is true and correct and any attached copy is a true copy of the original document.</i> <u>WEISZ, Tiberiu Reg No 29,876</u>  <u>March 15, 2004</u> Name of Person Signing                      Signature                      Date		
Total number of pages including cover sheet, attachments, and documents: <input type="text" value="36"/> for recordation		

Mail documents to be recorded with required cover sheet information to:  
 Commissioner of Patents & Trademarks, Box Assignments  
 Washington, D.C. 20231

Continuation of Box 2 - Name and address of receiving party(ies):

MUUS & COMPANY LLC  
146 Central Park West, Suite 10D  
New York, NY 10023

MAOT GROUP PARTNERS  
3300 NE 191 Street, Suite 2018  
Aventura, FL 33180

MATTHEW J MARYLES  
220 East 42 Street, Suite 2201  
New York, NY 10017

SULAM TRUST  
500 Stanton Christiana Road  
Newark, DE 19713

## CONVERTIBLE DEBENTURE PURCHASE AGREEMENT

**THIS CONVERTIBLE DEBENTURE PURCHASE AGREEMENT** (the "Agreement") is made and entered into as of the 3<sup>rd</sup> day of February, 2004, by and between **MICRO-HEAT, INC.** a Delaware corporation with offices at 27611 Halsted Rd, Farmington Hills, Michigan (the "Company"), and the persons listed on Schedule I (each, an "Investor" and collectively, the "Investors").

### WITNESSETH:

**WHEREAS**, the Company desires to sell, assign, and transfer to the Investors Debentures, (as herein defined) due on May 3, 2004 in the aggregate principal amount of \$300,000 upon the terms and conditions set forth herein; and

**WHEREAS**, the Investors desire to purchase the Debentures from the Company upon the terms and conditions set forth herein.

**NOW, THEREFORE**, in consideration of the premises and the mutual agreements, representations, warranties, conditions, and covenants contained herein, the parties hereto, intending to be legally bound, agree as follows:

### AGREEMENT

#### **SECTION 1. TERMS OF PURCHASE; PAYMENT TERMS**

**1.1 Sale and Purchase.** Subject to the terms and conditions of this Agreement, the Company hereby issues and sells to each Investor, and each Investor hereby purchases from the Company, a convertible debenture, in the form attached hereto as Exhibit A, in the principal amount set forth opposite the name of such Investor on Schedule I (with respect to each Investor, the "Debenture"; collectively, the "Debentures"), at the aggregate purchase price set forth opposite the name of such Investor on Schedule I. The Debentures will be dated the date of issuance thereof, mature on May 3, 2004 (the "Maturity Date"), and be convertible as set forth hereunder. The Company shall further issue the Investors warrants (the "Warrants") to acquire shares of Common Stock (no par value) as set forth in Section 6 hereunder.

#### **1.2 Terms of the Debentures.**

**(a) Maturity.** Subject to prior conversion pursuant to the terms of this Agreement, the Company shall pay to the Investors in cash the principal balance of the Debentures without set-off, deduction or counterclaim on the Maturity Date, in accordance with the terms and provisions set forth hereunder.

**(b) Conversion.** The Debentures may be converted at any time, prior to the Maturity Date or prior to the payment of the Debentures, at the election of the Investors into fully paid and

non-assessable shares of Common Stock (no par value) of the Company at a conversion rate of \$2400 per share, subject to adjustments set forth in Section 5.2 hereinafter, all in accordance with the terms and provisions set forth hereunder.

(c) **Payments on the Debentures.** All payments of the Debentures shall be made by the Company in lawful money of the United States of America in immediately available funds, on the date such payment is due, at the address designated in writing by the Investors to the Company or, at the Investor's election, by crediting the Investor account at a bank designated by the Investors in writing to the Company.

(d) **Interest.** The Debentures shall bear interest (computed on the basis of a 360-day year for the actual number of days elapsed) on the unpaid principal balance at a rate of 6.00% per annum.

1.3 **Closing.** The sale and purchase of the Debentures and Warrants pursuant to Section 1.1 hereof (the "Closing") shall take place on the date hereof at 12:00 noon at the offices of the Company or at such other time or place as the Company and the Investors may mutually agree. The date such Closing occurs is referred to herein as the "Closing Date." At the Closing, the Company shall deliver the Debentures in the principal amount being acquired by the Investors, in such Investor's name or in the name of its nominee, to such Investor against payment of the purchase price therefor, by check payable to the order of the Company or wire transfer pursuant to the Company's instruction.

## **SECTION 2. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.**

The Company hereby represents and warrants to each Investor as of the date of this Agreement as follows:

### **Section 2.1 Organization, Good Standing and Corporate Power**

The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware. The Company has all requisite corporate power and authority to own and operate its properties and assets, to execute and deliver this Agreement, to issue and sell the Debentures and to carry out the provisions of this Agreement and to carry on its business as presently conducted and as presently proposed to be conducted.

### **Section 2.2 Subsidiaries**

Except as set forth on Schedule 2.2, the Company owns no equity securities of any other corporation, limited partnership or similar entity. The Company is not a participant in any joint venture, partnership or similar arrangement.

### **Section 2.3 Capitalization**

The authorized capital stock of the Company, immediately prior to the Closing, consists of (i) 100,000 shares of Common Stock (no par value), of which 16,203.83 shares are issued and

outstanding and (ii) 25,000 shares of preferred stock (no par value) (the "Preferred Stock"), of which 5,000 shares have been designated Series A Preferred Stock, 856.21 of which are issued and outstanding. The Company has reserved 125 shares of Common Stock for issuance upon conversion of the Debentures and 125 shares of Common Stock for issuance upon exercise of the Warrants. All issued and outstanding shares of the Company's Common Stock have been duly authorized and are validly issued, fully paid and nonassessable, and were issued in compliance with all applicable state and federal laws. Schedule 2.3(a) contains a list of all record holders of more than 2.5% of capital stock of the Company and the capital stock owned by such holder. Except as set forth on Schedule 2.3(b), as of the Closing Date, there are no outstanding options, warrants, rights (including conversion or preemptive rights and rights of first refusal), agreements or commitments of any kind for the purchase or acquisition from the Company of any of its securities. Upon issuance and delivery of the Debentures and the Warrants (and the shares upon conversion and exercise thereof pursuant to the terms of this Agreement) to each Investor pursuant to this Agreement against payment of the consideration therefor, such shares issuable upon conversion and exercise will be validly issued, fully paid and nonassessable, and will be free of any liens or encumbrances, other than restrictions on transfer under this Agreement, or imposed by applicable state and federal securities laws or any liens or encumbrances created by or through the Investors.

#### **Section 2.4 Authorization; Binding Obligation**

All corporate action on the part of the Company, its officers, directors and stockholders necessary for the authorization of this Agreement, the performance of all obligations of the Company hereunder at the Closing and the authorization, sale, issuance and delivery of the Debentures and the Warrants has been taken prior to the Closing. The Agreement constitutes a valid and binding obligation of the Company, enforceable in accordance with its terms except (a) as limited by applicable bankruptcy, insolvency, reorganization, moratorium or other laws of general application affecting enforcement of creditors' rights, and (b) general principles of equity that restrict the availability of equitable remedies. The sale of the Debentures and the Warrants is not and will not be subject to any preemptive rights or rights of first refusal.

#### **Section 2.5 Financial Statements**

The Company has made available to the Investors (i) a draft of its unaudited balance sheet as of December 31, 2003 (the "Statement Date") and unaudited consolidated statement of income and cash flow for the period ending on the Statement Date (collectively, the "Financial Statements"). The Financial Statements have been prepared from the books and records of the Company and are in accordance with generally accepted accounting principles consistently applied, and fairly and accurately present in all material respects the consolidated financial condition and operating results of the Company as of the Statement Date and for the period presented, subject to normal year-end adjustments. Except as reflected or set forth in the Financial Statements or as set forth on Schedule 2.5, the Company does not have any material liabilities, contingent or otherwise, other than (i) liabilities incurred in the ordinary course of business subsequent to the Statement Date, and (ii) obligations under contracts and commitments incurred in the ordinary course of business.

**Section 2.6   Agreements; Discussions**

(a) Except as set forth in the Financial Statements or on Schedule 2.6, there are no agreements, understandings or proposed transactions between the Company and any of its respective officers, directors, shareholders or any affiliate thereof.

(b) Except as set forth in the Financial Statements or on Schedule 2.6, there are no agreements, understandings, instruments, contracts, judgments, orders, writs or decrees to which the Company is a party or to its knowledge by which it is bound which involve (i) obligations (contingent or otherwise) of, or payments to, the Company in excess of \$50,000 (other than obligations of, or payments to, the Company arising from purchase or sale of goods or services agreements entered into in the ordinary course of business or salary payments to employees or consultants), or (ii) the license of any patent, copyright, trade secret or other proprietary right to or from the Company (other than licenses arising from the purchase of "off the shelf" or other standard products), or (iii) provisions restricting or affecting the development, manufacture or distribution of the Company's products or services, or (iv) indemnification by the Company with respect to infringements of proprietary rights (other than indemnification obligations arising from purchase or sale of goods or services agreements entered into in the ordinary course of business).

(c) The Company has not engaged in the past six (6) months in any discussion (i) with any representative of any corporation or corporations regarding the consolidation or merger of the Company with or into any such corporation or corporations, (ii) with any corporation, partnership, association or other business entity or any individual regarding the sale, conveyance or disposition of all or substantially all of the assets of the Company, or a transaction or series of related transactions in which more than fifty percent (50%) of the voting power of the Company is disposed of, or (iii) regarding any other form of acquisition, liquidation, dissolution or winding up of the Company.

**Section 2.7   Obligations to Related Parties**

Except as set forth in the Financial Statements or on Schedule 2.7 hereto, there are no obligations of the Company to officers, directors, stockholders, consultants or employees of the Company other than for (a) payment of salary for services rendered, (b) reimbursement of reasonable expenses incurred on behalf of the Company and (c) other standard employee and consultant benefits made generally available to all employees and consultants. None of the officers, directors or stockholders of the Company, or any members of their immediate families, are indebted to the Company or have any direct or indirect ownership interest in any firm or corporation with which the Company is affiliated or with which the Company has a business relationship, or to the Company's knowledge, any firm or corporation which competes with the Company, except that officers, directors and/or stockholders of the Company may own stock in publicly traded companies which may compete with the Company. Except as set forth on Schedule 2.7 hereto, no officer, director or stockholder, or any member of their immediate families, is, directly or indirectly, interested in any material contract with the Company (other than such contracts as relate to any such person's ownership of capital stock or other securities of the Company). The Company is not a guarantor or indemnifier of any indebtedness of any other person, firm or corporation.

**Section 2.8 Title to Properties and Assets; Liens, etc.**

Except as set forth in the Financial Statements or as set forth on Schedule 2.8, the Company has good and marketable title to their respective properties and assets, and good title to their respective leasehold estates, in each case subject to no mortgage, pledge, lien, lease, encumbrance or charge, other than (a) those resulting from taxes which have not yet become delinquent, (b) minor liens and encumbrances which do not materially detract from the value of the property subject thereto or materially impair the operations of the Company, and (c) those that have otherwise arisen in the ordinary course of business. All facilities, machinery, equipment, fixtures, vehicles and other properties owned, leased or used by the Company are in good operating condition and are reasonably fit and usable for the purposes for which they are being used.

**Section 2.9 Patents and Trademarks**

Except as set forth in the Financial Statements or on Schedule 2.9 hereto, the Company owns or possesses sufficient legal rights to all patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information and other proprietary rights and processes necessary for its business as now conducted and as presently proposed to be conducted (all such rights and applications therefor being set forth on Schedule 2.9 and Schedule 2.9(a)), without any known infringement of the rights of others. There are no outstanding options, licenses or agreements of any kind relating to the foregoing, nor is the Company bound by or a party to any options, licenses or agreements of any kind with respect to the patents, trademarks, service marks, trade names, copyrights, trade secrets, licenses, information and other proprietary rights and processes of any other person or entity other than such licenses or agreements arising from the purchase of "off the shelf" or standard products. Furthermore, the assignors referred to in Schedule 2.9(a), have no claims, with respect to such assignment, against the Company and they have received full consideration for the said assignments with respect to the technology underlying said assignments. The Company has not received any communications alleging that the Company has violated any of the patents, trademarks, service marks, trade names, copyrights or trade secrets or other proprietary rights of any other person or entity, including any sub-contractors located in Israel and Russia which have provided services to the Company. The Company is not aware that any of its employees or consultants is obligated under any contract (including licenses, covenants or commitments of any nature) or other agreement, or subject to any judgment, decree or order of any court or administrative agency, that would interfere with their duties to the Company. Neither the execution nor delivery of this Agreement, nor the carrying on of the Company's business by the employees and consultants of the Company, will to the Company's knowledge, conflict with or result in a breach of the terms, conditions or provisions of, or constitute a default under, any contract, covenant or instrument under which any employee or consultant of the Company is now obligated. The Company does not believe it is or will be necessary to utilize any inventions, trade secrets or proprietary information of any of its employees or consultants made prior to their employment or retention by the Company, except for inventions, trade secrets or proprietary information that have been assigned to the Company, and which are set forth on Schedule 2.9. The Company does not have any information that would render any patent granted on the patent application described on Schedule 2.9(a) invalid.

### **Section 2.10 Compliance with Other Instruments**

Except as set forth in Schedule 2.10 hereto, the Company is not in violation or default of any material term of its Certificate of Incorporation or Bylaws, or of any provision of any mortgage, indenture, contract, agreement, instrument or contract to which it is a party or by which it is bound, which violation or default would have a Material Adverse Effect, or of any judgment, decree, order, writ or, to the Company's knowledge, any statute, rule or regulation applicable to the Company which would have a Material Adverse Effect. The execution, delivery, and performance of and compliance with this Agreement, and the issuance and sale of the Debentures and the Warrants pursuant hereto, will not, with or without the passage of time or giving of notice, result in any violation of, or be in conflict with or constitute a default under this Agreement or result in the creation of any mortgage, pledge, lien, encumbrance or charge upon any of the properties or assets of the Company or the suspension, revocation, impairment, forfeiture or nonrenewal of any permit, license, authorization or approval applicable to the Company, its business or operations or any of its assets or properties, the result of which would have a Material Adverse Effect.

### **Section 2.11 Litigation**

Except as set forth on Schedule 2.11, there is no action, suit, proceeding or investigation pending or, to the Company's knowledge, currently threatened against the Company that questions the validity of this Agreement, or the right of the Company to enter into this Agreement, or to consummate the transactions contemplated hereby, or which might result, either individually or in the aggregate, in a Material Adverse Effect, nor is the Company aware that there is any basis for the foregoing. The Company is not a party or subject to the provisions of any order, writ, injunction, judgment or decree of any court or government agency or instrumentality.

### **Section 2.12 Use of Proceeds**

As of the Statement Date the Company's total liabilities are approximately \$4.8m (subject to annual audit adjustments), of which (i) \$1.4m is owed to commercial vendors (the "Vendors") in connection with calendar year 2003 activities; (ii) approximately \$1.35m is owed to existing shareholders (the "Lenders") in connection with certain bridge loans granted to the Company during calendar year 2003; and (iii) \$1.21m is owed to certain key officers and employees in connection with unpaid salaries during calendar years 2002 and 2003 (the "Accrual"). The Company agreed to pay the 50% of the Accrual upon closing of the next round of financing pursuant to which the Company shall receive at least \$5m. The proceeds from the sale and issuance of the Debentures and Warrants as contemplated hereunder shall be used to cover the February 1, 2004 payroll and other operating expenses for a period of three (3) weeks from the date hereof.

### **Section 2.13 Compliance with Laws; Permits**

To the Company's knowledge, the Company is not in violation of any applicable statute, rule, regulation, order or restriction of any domestic or foreign government or any instrumentality or agency thereof in respect of the conduct of its business or the ownership of its properties, which violation would have a Material Adverse Effect. No governmental orders, permissions, consents, approvals or authorizations are required to be obtained and no registrations or declarations are



required to be filed in connection with the execution and delivery of this Agreement and the issuance of the Debentures, except such as have been duly and validly obtained or filed or that can be filed following the Closing. The Company has all franchises, permits, licenses and other approvals or authorizations from governmental regulatory authorities ("Permits") as are necessary under applicable law to conduct its business in the manner currently being conducted, except where the failure to hold such Permits would not have a Material Adverse Effect.

#### **Section 2.14 Offering**

Assuming the accuracy of the representations and warranties of the Investors contained in Section 3 of this Agreement, the offer, sale and issuance of the Debentures and Warrants as contemplated hereunder will be exempt from the registration requirements of the U.S. Securities Act of 1933, as amended (the "Securities Act").

#### **Section 2.15 Brokers.**

The Company has not agreed to pay any agent, broker, investment banker, person or firm acting on behalf of or under the authority of the Company, any broker's or finder's fee or any other commission, in connection with the transactions contemplated herein.

### **SECTION 3. REPRESENTATIONS AND WARRANTIES OF THE INVESTORS.**

Each Investor hereby represents and warrants to the Company as of the date of this Agreement as follows:

#### **Section 3.1 Accredited Investor.**

Such Investor is an "accredited investor" within the meaning of Rule 501 promulgated under the Securities Act of 1933, as amended (the "Act") (which, among other things, means an individual whose net worth, or joint net worth with that person's spouse, exceeds \$1,000,000 at the time of purchase, or who had income in excess of \$200,000 in each of the two most recent years or joint income with that person's spouse in excess of \$300,000 and has a reasonable expectation of reaching the same income level in the current year).

#### **Section 3.2 Authorization.**

Such Investor has the capacity to enter into and perform this Agreement and to purchase the Debentures and the Warrants. This Agreement has been duly authorized, executed and delivered by such Investor, and constitutes the legal, valid, and binding obligation of such Investor, enforceable in accordance with its terms.

#### **Section 3.3 Investment Knowledge.**

Such Investor has sufficient knowledge and experience in financial and business matters so

as to be capable of evaluating the risks and merits of the investment in the Company.

**Section 3.4 Investor's Independent Investigation.**

Such Investor, in purchasing the Debentures and Warrants hereunder, has relied solely upon an independent investigation made by such Investor and its representatives, if any. Prior to the date hereof, such Investor has been given the opportunity to ask questions of, and receive answers from, representatives of the Company regarding the Company's management, finances, and business. Such Investor also has been given access to and the opportunity to examine all material documents of the Company. In making its investment decision to purchase the Debentures and the Warrants, such Investor is not relying on any oral or written representations or assurances from the Company or any other person, other than as set forth in this Agreement. Such Investor has received and carefully reviewed the Company's business presentation, its Financial Statements, and is knowledgeable about the business and financial affairs of the Company.

**Section 3.5 Investment Intent.**

The Debentures and Warrants purchased hereunder are being acquired for such Investor's own account for the purpose of investment and not with a view to or for resale in connection with any distribution thereof or interest therein.

**Section 3.6 Debentures Not Registered Under the Act.**

Such Investor understands that (a) the offer and sale of the Debentures and Warrants have not been registered under the Act or the laws of any state or other jurisdiction (collectively, the "State Acts"), and is being offered and sold pursuant to an exemption under the Act based in part upon the representations of such Investor contained herein; (b) the Debentures and Warrants and any security issued upon conversion of the Debentures or exercise of the Warrants (the "Underlying Security") must be held indefinitely unless a subsequent disposition thereof is registered under the Act or is exempt from such registration (it being understood that the Company has no present intention of registering any disposition of the Debentures or Warrants or any Underlying Security); (c) the certificates evidencing the Debentures shall bear a legend to such effect, and (d) the Company will make a notation on its transfer books to such effect.

**Section 3.7 Investor's Economic Risk.**

Such Investor understands and acknowledges that an investment in the Company involves numerous and substantial risks, including, without limitation, those risks discussed in Schedule 3.7. In particular, such Investor understands and acknowledges that the Company is in the development stage, needs substantial additional capital, has substantial debts, that the proceeds from the sale and issuance of the Debentures and Warrants hereunder will be used to cover the payroll due on February 1, 2004 and are expected to last for a period of 3 weeks from the date hereof, is not generating any revenue from operations, and there are limitations on the liquidity of the Debentures and Warrants purchased hereunder. Such Investor represents that he is able to bear the economic risk of an investment in the Company, including a possible total loss of investment. In making this statement, such Investor hereby represents and warrants that such Investor has adequate means of

providing for such Investor's current needs and contingencies, and that such Investor is able to afford to hold the Debentures for an indefinite period. Further, such Investor represents that he has no present need for liquidity in the purchased Debentures and such Investor is willing to accept such investment risks.

**Section 3.8 No Government Recommendation or Approval.**

Such Investor understands that no United States federal or state agency, or similar agency of any other country, has reviewed, approved, passed upon, or made any recommendation or endorsement of the Company or the purchase of the Debentures and Warrants hereunder.

**Section 3.9 No Tax Advice From Company or Its Agents.**

Such Investor has had an opportunity to review with its own tax advisors this Agreement and the tax consequences of the transactions contemplated by this Agreement. Such Investor is relying solely on such advisors and not on any statements or representations of the Company or any of its agents, and understands that such Investor (and not the Company) shall be responsible for such Investor's own tax liability that may arise as a result of the transactions contemplated by this Agreement.

**Section 3.10 No Legal Advice from Company or Its Agents.**

Such Investor has had the opportunity to review this Agreement and the transactions contemplated by this Agreement with its own legal counsel. Such Investor is relying solely on such counsel and not on any statements or representations of the Company or any of its employees or agents for legal advice with respect to this Agreement and the transactions contemplated by this Agreement, except for representations, warranties and covenants set forth herein.

**SECTION 4. REALES OF DEBENTURE AND UNDERLYING SECURITIES**

**Section 4.1 Resale.**

Each Investor acknowledges, covenants, and agrees that such Investor may not and will not sell or otherwise transfer its Debentures, Warrants or any Underlying Security unless such sale or transfer is made pursuant to an exemption from registration under the Act or pursuant to an effective and current registration statement under the Act. Prior to any such sale or transfer (except a sale or transfer pursuant to an effective and current registration statement), such Investor shall deliver to the Company (a) a written notice briefly describing the manner of such sale or transfer, (b) an agreement, duly executed by the purchaser or transferee, containing provisions substantially similar to the provisions contained in this Section 4, and containing such other provisions, agreements, representations, and warranties as the Company shall reasonably request, and (c) if requested by the Company, a written opinion of counsel for such Investor (provided that such counsel, and the form and substance of such opinion, are reasonably satisfactory to the Company) to the effect that such sale or transfer may be effected without the registration of such sale or transfer under the Act and any applicable State Acts.

**Section 4.2 Legend.**

To insure compliance with the provisions of the Act, the certificates evidencing the Debentures and the Underlying Securities shall bear a legend substantially as follows:

"The securities represented by this certificate have been acquired for investment and have not been registered pursuant to the Securities Act of 1933, as amended (the "Act"), or any applicable state statutes. Such securities may not be sold, transferred, pledged, hypothecated, or otherwise disposed of unless (i) a registration statement under the Act and applicable state securities laws shall have become effective with regard thereto, or (ii) an exemption from registration exists under the Act (or regulations promulgated thereunder) and applicable state securities laws and such exemption is applicable thereto."

**SECTION 5. CONVERSION****Section 5.1 Conversion.**

(a) **Right to Convert.** At any time on or prior to the Maturity Date and prior to payment of the Debentures, the Investors may elect, upon seven (7) days prior written notice to the Company, to convert the unpaid principal of the Debentures plus accrued interest into fully paid and non-assessable shares of Common Stock (no par value) of the Company at a conversion rate of \$2400 per share (the "Conversion Rate") subject to adjustments as set forth in Section 5.2 hereunder.

(b) **Mechanisms of Conversion.** If (i) the Debentures are converted into shares of Common Stock of the Company as described above, the Company shall issue and deliver, or cause to be issued and delivered, to the Investors, registered in the name of the Investors, a certificate for the Common Stock, and the Investors shall surrender the Debentures to the Company; or (ii) no such conversion shall occur, the Company shall pay the principal amount of the Debentures when due and the Investors shall surrender the Debentures to the Company.

**Section 5.2 Adjustments**

(a) **Dividends, Subdivision and Combination.** In case the Company shall at any time declare a dividend or make a distribution on its outstanding shares of Common Stock in shares of Common Stock, or subdivide or combine its outstanding shares of Common Stock, the Conversion Rate shall forthwith be proportionately decreased in the case of a dividend, distribution or subdivision, or increased in the case of combination.

(b) **Adjustment in Numbers of Securities.** Upon each adjustment of the Conversion Rate pursuant to the provisions of this Section 5.2, the number of shares of Common Stock issuable upon the conversion at the adjusted Conversion Rate of the Debentures shall be adjusted to the nearest one-thousandth of a whole number by multiplying a number equal to the Conversion Rate in effect immediately prior to such adjustment by the number of shares of

Common Stock issuable upon Conversion of the Debentures immediately prior to such adjustment and dividing the product so obtained by the adjusted Conversion Rate.

(c) **Adjustment upon Merger.** In case of any consolidation of the Company with, or merger of the Company with, or merger of the Company into, another corporation (other than a consolidation or merger which does not result in any reclassification or change of the outstanding Common Stock), the corporation formed by such consolidation or merger shall execute and deliver to the Investors a supplemental Debenture Certificate providing that the holder of each Debenture then outstanding shall have the right thereafter (until the Maturity Date) to receive, upon conversion of such Debentures, the kind and number of shares of Common Stock and other securities and property receivable upon such consolidation or merger by a holder of the number of shares of Common Stock of the Company for which such Debentures might have been converted immediately prior to such consolidation, merger, sale or transfer.

Such supplemental Debenture Certificate shall provide for adjustments that shall be identical to the adjustments provided herein. The provisions of this paragraph shall similarly apply to successive consolidations or mergers.

### **Section 5.3 Anti-dilution.**

(a) In case the Company shall hereafter issue shares of its Common Stock (excluding shares (i) issued in any of the transactions described in Section 5.2(a) or Section 5.3(b), (ii) issued to shareholders of any corporation which merges into the Company in proportion to their stock holdings of such corporation immediately prior to such merger, upon such merger, (iii) issued in a bona fide public offering, or (iv) issued in connection with an acquisition of a business or technology which has been approved by a majority of the Company's non-employee directors), for a consideration per share (the "Offering Price") less than the Exercise Price, the Exercise Price shall be immediately reset to equal such lower Offering Price.

(b) In case the Company shall hereafter issue any securities convertible into or exercisable or exchangeable for its Common Stock (excluding (i) securities issued in transactions described in Section 5.3(a), (ii) options or warrants granted to the Company's officers, directors, employees and consultants which grant has been approved by the Company's Board of Directors including a majority of its non-employee members ("Disinterested Majority"), if such options or warrants would otherwise be included in this Subsection (b)), for a consideration per share of Common Stock (the "Exchange Price") initially payable and thereafter deliverable upon conversion, exercise or exchange of such securities less than the Conversion Rate, the Conversion Rate shall be immediately reset to equal such lower Exchange Price.

### **Section 5.4 Calculation of Adjustment.**

(a) Any other provision of this Agreement to the contrary notwithstanding, no adjustment in the number or type of securities that may be acquired hereunder or the Conversion Rate shall be required to be made (and no notice shall be required to be given with respect thereto) unless such adjustment would result in an increase or decrease, as the case may be, of at least one cent in the Conversion Rate; *provided, however*, that any adjustment which is not made

by reason of this Section 5.4 shall be carried forward and cumulated with any subsequent adjustment required to be made hereunder.

(b) If, by reason of the foregoing provisions hereof, the Investors shall become entitled to any shares of capital stock, other than common stock, or other securities or property of the Company or any other person, the number or amount and type of such other shares, securities or property thereafter receivable upon the conversion of the Debentures shall be subject to adjustment from time to time in a manner and on terms as nearly equivalent as practicable to the adjustments required to be made in respect of the common stock.

(c) No adjustment of the Conversion Rate hereunder shall have the effect of increasing the Conversion Rate above the Conversion Rate in effect immediately prior to such adjustment.

(d) The Company may (but shall not be required to) engage independent certified public accountants (who may be then regularly engaged by the Company) to calculate any adjustment required hereunder. The certificate of such accountants shall be presumptive, but not conclusive, evidence of the correctness of such adjustment.

(e) The Company shall not, by amendment of its certificate of incorporation or through any recapitalization or capital reorganization, sale, exchange or other disposition of assets, merger, consolidation, dissolution, liquidation, winding up, issue or sale of securities, or any other voluntary action, avoid or seek to avoid the observance or performances of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith carry out all the provisions hereof, as applicable, and take all such action as may be necessary or appropriate in order to protect the exercise rights of the holder against impairment.

#### **Section 5.5 Notice of Adjustment; Officers Certificate.**

Whenever the number or type of shares or the Conversion Rate is adjusted as hereinabove provided, or when other securities, cash or property are to be received by the Investors upon conversion of the Debentures, the Company shall (i) promptly give notice to the Investors hereof, setting forth the adjusted number or type of shares and the adjusted Conversion Rate and the reason therefor, or what other properties, cash or securities are available upon conversion of the Debentures; and (ii) promptly file in the custody of its Secretary at its principal office and with the transfer agent, if any, for the common stock a certificate, duly executed on behalf of the Company by its President or a Vice President and attested by its Secretary or an Assistant Secretary, setting forth the adjusted number or type of shares and the adjusted Conversion Rate, or what other properties, cash or securities are available upon conversion of the Debentures, and stating in reasonable detail the event or circumstance requiring, and the manner of computing, such adjustment or other change. No such adjustment or change shall compel immediate conversion of the Debentures or otherwise affect the Maturity Date. The officer's certificate shall always be made available for inspection by the Investors during reasonable business hours, and the Company shall promptly mail or cause to be mailed a copy of such certificate to the Investor. Irrespective of any adjustment or other changes made hereunder, the Debentures (or any other debenture issued in exchange therefor) may continue to express the same number and

kind of shares and the same Conversion Rate as are initially stated herein.

**SECTION 6. WARRANTS**

**Section 6.1 Warrants Grant**

In connection with the sale and purchase of the Debentures hereunder, the Company shall issue the Investors warrants, in the form attached hereto as Exhibit B, to acquire 125 shares of Common Stock (no par value), in such amounts as set forth on Schedule I hereto, at an exercise price of \$2400 per share if exercised prior to or on December 31, 2004 and \$4000 per share if exercised thereafter, in any event exercisable no later than the fifth anniversary of the date hereof.

**SECTION 7. SECURITY INTEREST**

**Section 7.1 Collateral**

(a) **Collateral.** The Company hereby grants the Investors a continuing second lien on and security interest in all the Company's right, title and interest in and to the Collateral (as hereinafter defined) up to the aggregate amount of the Debentures plus accrued interest in order to secure the payment and performance of all the duties and obligations contemplated hereunder. For the purpose of this Agreement the term Collateral shall mean the Company's right, title and interest in and to all patents covering a windshield washer heating system and other proprietary technology for the rapid heating of fluids including all know how, techniques and other information used in connection therewith, and the proceeds and products therefrom.

(b) **Additional Documents.** The parties hereto agree to execute and deliver all such further instruments and take such other and further actions as may be reasonably necessary or appropriate to carry out the provisions of this Agreement and to fully consummate the transaction contemplated hereunder.

**SECTION 8. MISCELLANEOUS**

**Section 8.1 Notices.**

Any notice or other communication under this Agreement or under any Debenture shall be in writing and shall be considered given when delivered personally or by facsimile or email (if such facsimile or email is acknowledged by return facsimile or email within 24 hours after being sent), two days after being sent by a major overnight courier, or five days after being mailed by registered air mail, to the Company at its address first set forth above and to the Investors at their respective addresses set forth on Schedule I (or at such other or additional address(es) as a party may specify by notice to the other).

**Section 8.2 Expenses.**

Each party shall bear its own expenses in connection with this Agreement and in connection with all obligations required to be performed by it under this Agreement.

**Section 8.3 Finders.**

The Investors and the Company each represent and warrant to the other that it has not retained or dealt with any broker or finder in connection with the transactions contemplated by this Agreement.

**Section 8.4 Entire Agreement.**

This Agreement and the Debentures contain a complete statement of all the arrangements between the parties with respect to its subject matter and supersedes any previous agreements between them relating to that subject matter.

**Section 8.5 Headings.**

The section headings of this Agreement are for reference purposes only and are to be given no effect in the construction or interpretation of this Agreement.

**Section 8.6 Governing Law.**

This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without giving any effect to any doctrine pertaining to the conflict of laws. The parties hereto irrevocably (a) submit to the jurisdiction of any state or federal court of competent jurisdiction sitting in the city of New York in any action or proceeding arising out of or relating to this Agreement, (b) agree that all claims with respect to such action or proceeding shall be heard and determined in such a New York state or federal court, and (c) waive, to the fullest extent possible, the defense of an inconvenient forum. The parties hereby consent to and grant any such court jurisdiction over the persons of such parties and over the subject matter of any such dispute and agree that delivery or mailing of process or other papers in connection with any such action or proceeding in the manner provided in Section 8.1 hereof or in such other manner as may be permitted by law shall be valid and sufficient service thereof.

**Section 8.7 Separability.**

If any provision of this Agreement is invalid or unenforceable, the balance of this Agreement shall remain in effect.

**Section 8.8 Amendments.**

The provisions of this Agreement cannot be altered, amended, changed, terminated, or modified in any respect unless the same shall be in writing and signed by Investors and the Company. No waiver of any provision shall be construed as a waiver of any other provision.

**Section 8.9 No Third Party Beneficiaries; Assignments.**



Nothing in this Agreement shall create or be deemed to create any third party beneficiary rights in any person or entity not a party to this Agreement. This Agreement shall be binding on and inure to the benefit of the parties and their respective successors, assigns, heirs, executors, and personal representatives.

**Section 8.10 Counterparts.**

This Agreement may be executed in one or more counterparts, each of which shall be an original, and all of which together shall constitute one instrument, and shall become effective when counterparts have been signed by each party and delivered to the other parties hereto, it being understood that all parties need not sign the same counterpart. Execution may be made by delivery by facsimile.

[SIGNATURES APPEAR ON NEXT PAGE]

**IN WITNESS WHEREOF**, the parties hereto have caused this Agreement to be duly executed as of the date and year set forth in the first paragraph hereof.

**MICRO-HEAT, INC.**

By:   
Peter Neustadter

**INVESTORS:**

**KNOLL CAPITAL MANAGEMENT LP**

By: \_\_\_\_\_  
Name:  
Title:

**MAOT GROUP PARTNERS**

By: \_\_\_\_\_  
Name:  
Title:

**MUUS & COMPANY LLC**

By: \_\_\_\_\_  
Name:  
Title:

**SULAM TRUST**

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

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P. 003

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date and year set forth in the first paragraph hereof.

MICRO-HEAT, INC.

By: \_\_\_\_\_  
Peter Neustadter

INVESTORS:

EUROPA INTERNATIONAL INC.

By: \_\_\_\_\_  
Name: Fred KNOLL - KNOLL Capital Mgt.  
Title: Investment manager For  
Europa Intl

MAOT GROUP PARTNERS

By: \_\_\_\_\_  
Name:  
Title:

MUUS & COMPANY LLC

By: \_\_\_\_\_  
Name:  
Title:

SULAM TRUST

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

\_\_\_\_\_  
Matthew J. Maryles

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly  
dated as of the date and year set forth in the first paragraph hereof.

**MICRO-HEAT, INC.**

By: \_\_\_\_\_  
Peter Neustadter

**INVESTORS:**

**KNOLL CAPITAL MANAGEMENT LP**

By: \_\_\_\_\_  
Name:  
Title:

**MAOT GROUP PARTNERS**

By: \_\_\_\_\_  
Name: *Angela P. ...*  
Title: *Chair P. ...*

**MUUS & COMPANY LLC**

By: \_\_\_\_\_  
Name:  
Title:

**SULAM TRUST**

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

\_\_\_\_\_  
Matthew J. Maryles

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly  
dated as of the date and year set forth in the first paragraph hereof.

**MICRO-HEAT, INC.**

By: \_\_\_\_\_  
Peter Neustadter

**INVESTORS:**


**KNOLL CAPITAL MANAGEMENT LP**

By: \_\_\_\_\_  
Name:  
Title:

**MAOT GROUP PARTNERS**

By: \_\_\_\_\_  
Name:  
Title:

**MUUS & COMPANY LLC**

By:   
Name: MICHAEL W. SONNENFELDT  
Title: MANAGING MEMBER

\_\_\_\_\_  
**MATTHEW J. MARYLES**

**IN WITNESS WHEREOF**, the parties hereto have caused this Agreement to be duly executed as of the date and year set forth in the first paragraph hereof.

**MICRO-HEAT, INC.**

By: \_\_\_\_\_  
Peter Neustadter

**INVESTORS:**

**KNOLL CAPITAL MANAGEMENT LP**

By: \_\_\_\_\_  
Name:  
Title:

**MAOT GROUP PARTNERS**


By: \_\_\_\_\_  
Name:  
Title:

**MUUS & COMPANY LLC**

By: \_\_\_\_\_  
Name:  
Title:

**SULAM TRUST**

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

  
\_\_\_\_\_  
Matthew J. Maryles

**IN WITNESS WHEREOF**, the parties hereto have caused this Agreement to be duly executed as of the date and year set forth in the first paragraph hereof.

**MICRO-HEAT, INC.**

By: \_\_\_\_\_  
Peter Neustadter

**INVESTORS:**

**KNOLL CAPITAL MANAGEMENT LP**

By: \_\_\_\_\_  
Name:  
Title:

**MAOT GROUP PARTNERS**

By: \_\_\_\_\_  
Name:  
Title:

**MUUS & COMPANY LLC**

By: \_\_\_\_\_  
Name:  
Title:

**JP MORGAN TRUST COMPANY OF  
DELAWARE AS TRUSTEE OF THE  
SULAM TRUST**

By: Meghan Maguire  
Name: Meghan Maguire, Associate

**SCHEDULE I****INVESTORS**

<u>Name of Investor</u>	<u>Address</u>	<u>Principal Amount of Debenture Purchased</u>	<u>Purchase Price</u>
<b>Europa International Inc</b>	200 Park Avenue, Suite 3900, New York, NY 10166	<b>\$75,000</b>	<b>\$75,000</b>
<b>MUUS &amp; Company LLC</b>	146 Central Park West, Suite 10D New York, NY 10023	<b>\$75,000</b>	<b>\$75,000</b>
<b>Maot Group Partners</b>	3300 N.E. 191 <sup>st</sup> Street, Suite 2018, Aventura Florida 33180	<b>\$55,000</b>	<b>\$55,000</b>
<b>Matthew J. Maryles</b>	220 East 42 <sup>nd</sup> Street, Suite 2201, New York, NY 10017	<b>\$20,000</b>	<b>\$20,000</b>
<b>Sulam Trust</b>	500 Stanton Christiana Rd,  Newark, De 19713	<b>\$75,000</b>	<b>\$75,000</b>
<b>Total:</b>		<b><u>\$300,000</u></b>	<b><u>\$300,000</u></b>



**WARRANTS**

<u>Name of Investor</u>	<u>Number of Warrants Shares</u>
<b>Europa International Inc</b>	<b>31.25</b>
<b>MUUS &amp; Company LLC</b>	<b>31.25</b>
<b>Maot Group Partners</b>	<b>22.916</b>
<b>Matthew J. Maryles</b>	<b>8.333</b>
<b>Sulam Trust</b>	<b>31.25</b>
<b>Total:</b>	<b><u>125</u></b>

**Disclosure Schedules****Schedule 2.2**

The Company owns 100% of the shares and voting power of Micro Heat Israel (2000) Ltd. ("MH Israel"), an Israeli corporation with offices at 5 Habonim St., Poleg Industry Zone, Netanya, Israel. MH Israel provides research and development services to the Company on a cost plus 2% basis.

**Schedule 2.3(a)**

<b>Name</b>	<b>Number of Shares of Common Stock</b>	<b>Series A Preferred Stock</b>	<b>Percentage*</b>
Helsby Developments Ltd. (3); (5)	4,819.79		21.38%
IAT Holdings, LLC (4)	2,552.034		11.32%
Tobias Berman	1,611.492		7.148%
Aronoff Group LLC	624.64		2.77%
First International S.A. (5); (3)	526.35		2.335%
Solomon Franco	500		2.218%
Vychislav Ivanov	500		2.218%
Insight Capital Ltd.	833.33		3.69%
Keshet Ltd. (6)	500		2.218%
Various individuals (7)	3,736.194		16.57%
Various individuals (7)		856.21	3.79%
* Warrants, Options and Convertible Debentures	5483.57		24.32%
<b>Total</b>	<b>22,543.61</b>		<b>100%</b>

**Notes:**

1. Percentage is calculated on a fully diluted basis assuming all outstanding warrants, options and convertible debentures are exercised or converted.
2. Insight Capital Ltd., an existing shareholder, was granted an adjustment of purchase price protection in connection with its Common Stock investment of \$2,000,000 on September

16, 2002, which provides that in the event the Company shall issue shares of stock at a price per share which is less than \$4000 per share, additional shares shall be issued to implement this price protection. On December 24, 2003 the Company issued Insight Capital Ltd., 333.33 shares of Common Stock in connection with the adjustment of purchase price set forth in this Note 2 to this Agreement.

3. Helsby Developments Ltd is directed and controlled by Mr. Solomon Franco, the Company's founder.
4. IAT Holdings LLC is directed and controlled by Mr. Peter Neustadter, a major shareholder and current acting CEO and Chairman of the Board of Directors. Mr. Peter Neustadter further controls the voting stock with respect to 349.62 shares of Common Stock and 85.83 shares of Series A Preferred Stock. (See Note 7.)
5. First International SA is directed and controlled by Mr. Solomon Franco, the Company's founder.
6. Keshet Ltd is directed and controlled by Mr. Asher Segev, the Company's VP International Sales
7. Including 349.62 shares of Common Stock and 85.83 shares of Series A Preferred Stock the voting stock of which is controlled by Peter Neustadter.

### **Schedule 2.3 (b)**

The Company has reserved 5483.57 shares of its authorized and unissued shares of Common Stock for issuance upon exercise and conversion of certain options, warrants and convertible debentures as follows:

1. In connection with a Bridge Loan Agreement dated April 15, 2003 (the "Bridge Loan Agreement") the Company issued certain existing shareholders warrants to acquire 317.4 shares of Common Stock at an exercise price of \$2400 per share for the first year and \$4000 per share thereafter, exercisable over a period of 5 years.
2. In connection with a Debenture Purchase Agreement dated June 9, 2003 (the "Debenture Purchase Agreement"), Insight Capital Ltd, an existing shareholder, was granted (i) warrants to acquire 1250 shares of Common Stock at an exercise price of \$2400 per share (as adjusted), exercisable over a period of 3 years; and (ii) a \$5m convertible debenture, due on June 9, 2006 and convertible into 2083.33 shares of Common Stock based on a conversion rate of \$2400 per share (as adjusted). Paragraph 3 of Schedule 2.6 is hereby incorporated by reference.

3. Pursuant to a Bridge Loan Agreement dated September 8, 2003 the Company issued Aronoff Group LLC, an existing shareholder, warrants to acquire 196.38 shares of Common Stock at an exercise price of \$4000 per share, exercisable over a period of 3 years, subject to extension in certain circumstances.
4. Pursuant to an Employment Proposal Letter dated August 1, 2003, the Company intends to issue its Chief Operation Officer, Mr. John Bledsoe, options to purchase 600 shares of Common Stock at an exercise price of \$4000 per share, subject to a stock option plan to be adopted by the Company.
5. Pursuant to an Engagement Letter dated October 10, 2003 with Capital Results LLC. ("CR") which provides that CR shall render the Company certain financial advice and assistance, the Company issued CR retainer warrants to acquire 5 shares of Common Stock at an exercise price of \$2400 per share for the first year and \$4000 per share thereafter, exercisable over a period of 5 years and commission warrants to acquire 16.65 shares of Common Stock on the same terms and conditions.
6. Pursuant to Section 1(e) of the Bridge Loan Agreement dated April 15, 2003 the Company issued the Lenders therein, penalty warrants to acquire 158.6 shares of Common Stock at an exercise price of \$2400 per share for the first year and \$4000 per share thereafter, exercisable over a period of 5 years, in connection with the Company's default of its obligations under the Bridge Loan Agreement.
7. Pursuant to a Securities Purchase Agreement dated December 24, 2003 by and between the Company and certain existing shareholders, the Company issued warrants to acquire 429.17 shares of Common Stock at an exercise price of \$2400 per share for the first year and \$4000 per share thereafter, exercisable over a period of 5 years.
8. Pursuant to a Securities Purchase Agreement dated January 9, 2004 by and between the Company and certain investors, the Company issued the investors warrants to acquire 427.04 shares of Common Stock at an exercise price of \$2400 per share for the first year and \$4000 per share thereafter, exercisable over a period of 5 years.
9. On January 20, 2004 the Company agreed to issue Mr. Michael Cahr, ("Cahr") an existing shareholder, warrants to acquire 238.05 shares of Common Stock, exercisable over a period of 5 years, at an exercise price of \$2400 per share for the first year and \$4000 per share thereafter in connection with a payout arrangement with respect to a \$900,000 bridge loan provided by Cahr on March 02, 2003. It was agreed that Cahr shall be paid \$500,000 upon closing of the first round of financing pursuant to which the Company shall receive gross proceeds totaling at least \$5,000,000. The remaining balance shall be paid upon closing of a further round of financing pursuant to which the Company shall receive gross proceeds totaling at least \$5,000,000.

**Schedule 2.5**

1. On the 26<sup>th</sup> day of November 2003 Mr. Tobias Berman, an existing shareholder, granted the Company a \$100,000 bridge loan (the "Loan"). The Loan bears interest at the rate of 5.00% per annum and shall be repaid upon closing of the financing reflected in the current Agreement, provided the aggregate amount raised shall be at least \$5,000,000.
2. Paragraph 8 of Schedule 2.6 is hereby incorporated by reference.
3. The Company is currently in default and in breach of its obligations and covenants pursuant to the Bridge Loan Agreement with Aronoff Group LLC, an existing shareholder, dated September 8, 2003. The Company is currently negotiating a payment arrangement with the lender. Such default entails the following penalties (I) the original amount of the loan multiplied by two shall be due and payable immediately; and (II) liquidated damages at the rate of \$75,000 shall be due and payable immediately.
4. Paragraph 9 of Schedule 2.3(b) is hereby incorporated by reference.
5. As of the Statement Date the Company's total liabilities are approximately \$4.8m (subject to annual audit adjustments) of which (i) \$1.4m is owed to commercial vendors (the "Vendors") in connection with calendar year 2003 activities; (ii) approximately \$1.35m is owed to existing shareholders (the "Lenders") in connection with certain bridge loans granted to the Company during calendar year 2003; and (iii) \$1.21m is owed to certain key officers and employees in connection with unpaid salaries during calendar years 2002 and 2003. The Company is currently negotiating certain payout arrangements with the Vendors and Lenders.
6. On January 20, 2004 Tobias Berman executed a waiver pursuant to which it was agreed that a potential claim for the amount of \$550,000 included in the Financial Statements in connection with an unpaid fee and a personal guarantee granted in connection with a debenture purchase agreement dated June 9, 2003 was waived subject to the following terms and conditions: a) that the \$100,000 bridge loan referred to in paragraph 1 of Schedule 2.5. shall be repaid upon closing of the first round of financing pursuant to which the Company shall receive \$5,000,000; b) the Company shall pay Mr. Michael Cahr the amount of \$500,000 in connection with a \$900,000 bridge loan dated March 02, 2003 as set forth in paragraph 9 to Schedule 2.3(b); c) the Company shall grant Mr. Michael Cahr warrants to acquire shares of Common Stock as set forth on Paragraph 9 to Schedule 2.3(b); d) the \$500,000 bridge loan dated April 15, 2003 referred to in paragraph 1 to Schedule 2.3(b) shall be converted as part of the next round of financing pursuant to which the Company shall raise at least \$5,000,000; and e) an adjustment of purchase price undertaking granted personally by Mr. Tobias Berman to certain investors shall be released on certain terms and conditions.

**Schedule 2.6**

1. Pursuant to a Consulting and Services Agreement dated June 1, 2000 by and between the Company and its wholly owned subsidiary, Micro Heat Israel (2000) Ltd., ("MH Israel") MH Israel provides to the Company certain research and development services on a cost plus 2% basis.
2. Paragraphs 1, 6 and 9, of Schedule 2.3(b) are hereby incorporated by reference.
3. On June 9, 2003 the Company entered into a Debenture Purchase Agreement with an existing shareholder, pursuant to which the Company issued and sold a \$5,000,000 convertible debenture for the purchase price of \$3,000,000 on certain terms and conditions, as set forth in the Financial Statements. To secure the payment and performance of the obligation set forth under the convertible debenture purchase agreement, the Company granted the lender a lien on and security interest in its right, title and interest in its windshield washer heating technology, all as set forth in the Financial Statements. Additionally, all duties and obligations pursuant to the Debenture Purchase Agreement were personally guaranteed by Mr. Tobias Berman, an existing shareholder. Paragraph 2 of Schedule 2.3(b) is hereby incorporated by reference. The lender was granted an adjustment of purchase price protection pursuant to the debenture purchase agreement and the associated warrants issued in connection therewith, which provides that in the event the Company shall issue shares at a price per share which is less than \$4000 per share, the conversion price and exercise price, as applicable, shall be adjusted accordingly. In connection with a Securities Purchase Agreement dated December 24, 2003 by and between the Company and certain investors, the debenture conversion rate was adjusted to \$2400 per share.
4. Schedule 2.5 and paragraph 3 of Schedule 2.3(b) are hereby incorporated by reference. Pursuant to the warrant granted in connection with the Bridge Loan Agreement dated September 8, 2003, the Lender was granted the right to sell the entire number of shares of stock which the Lender may acquire upon exercise of the warrant in each financing transaction, following the date the warrant was granted, until the warrant expiration date.
5. Pursuant to a Securities Purchase Agreement dated December 24, 2003 (the "Securities Purchase Agreement") by and between the Company and certain existing shareholders (the "Purchasers") the Company sold and issued to the Purchasers 429.17 shares of its Series A Preferred Stock, having the rights, privileges and preferences as set forth in the Certificate of Designation of Series A Preferred Stock of the Company and (ii) warrants for the purchase of up to 429.17 shares of Common Stock, at an exercise price of \$2,400 per share for the first year following the closing and \$4,000 per share thereafter. The Warrants shall be exercisable for a period of 5

years from the date of issuance and include customary registration rights and anti dilution provisions in case the Company shall issue securities for a consideration per share less than \$2400 (subject to certain exceptions). The shares and the warrants were sold as units, each unit consisting of one Share and one Warrant, for an aggregate purchase of \$2,400 per unit.

6. Pursuant to the Securities Purchase Agreement the parties thereto agreed that the officer's accrual in the aggregate amount of \$1,210,000 as set forth in the Financial Statements as of the Statement Date, in connection with unpaid salaries to certain key officers and employees during calendar years 2002 and 2003, shall be paid as follows: (i) 50% shall be paid upon closing of the next round of financing pursuant to which the Company shall receive gross proceeds totaling at least \$5,000,000; and (ii) 50% shall be paid upon the Company reaching the Milestone, as hereinafter defined. The term "Milestone" was defined as the Company's receipt of contracts or orders providing for the purchase of at least 2 million units of the Company's windshield washer heating system per year.
7. Pursuant to the Securities Purchase Agreement, the parties thereto agreed that unless otherwise agreed to by the Purchasers, the By-laws of the Company shall be amended and/or resolutions adopted, if necessary, to provide that the Board of Directors shall be comprised of up to 7 members. The Purchasers have the right, by vote of the majority of the securities purchased, to designate 3 of the 7 available board seats, as long as they own at least 20% of the securities purchased pursuant hereto.
8. On December 24, 2003 the Company entered into a Consulting Agreement with certain existing shareholders and a director, one of which was appointed as acting CEO and Chairman of the Board of Directors (the "Consultants"), pursuant to which the Consultants shall provide certain business financial services and strategic advice to the Company, with the objectives of strengthening the Company's ability to exploit its technology, carry out its business plan, restructure its current management, obtain the necessary financing in connection therewith, and enhance shareholder exit value (the "Consulting Agreement").

Pursuant to the Consulting Agreement, the Company engaged the Consultants as financial advisors for a period of 3 years on certain terms and conditions. The Consultants shall also advise the Company on accessing the capital markets, attracting senior management, and assist the Company in meeting and negotiating with investment bankers, financial institutions, and other prospective investors or lenders with the objective of securing for the Company the necessary working capital and cash needs.

In consideration for the Consultant's services pursuant to the Consulting Agreement,

the Company agreed to pay the Consultants a transaction fee ("Transaction Fee") upon any Sale Transaction (as hereinafter defined) equal to nine percent (9%) of the Sale Transaction Value (as hereinafter defined). For purposes of the Consulting Agreement, a Sale Transaction was defined as a sale or other transfer, directly or indirectly and whether in one or a series of transactions, of all or a significant portion of the assets or securities of the Company or any extraordinary corporate transaction involving a change in control of the Company, regardless of the form or structure of the transaction. As used in the Consulting Agreement, "Sale Transaction Value" means the total value of all consideration (including cash, securities or other property) paid or received or to be paid or received, directly or indirectly, in connection with a Sale Transaction in respect of the assets of the Company or the outstanding securities of the Company on a fully diluted basis, plus the principal amount of any debt of the Company outstanding as of the closing date of a Sale Transaction or directly or indirectly assumed, refinanced or extinguished in connection with a Sale Transaction, and amounts payable in connection with a Sale Transaction in respect of employment or consulting agreements, agreements not to compete or similar arrangements. If the Sale Transaction takes the form of a recapitalization or similar transaction, "Sale Transaction Value" will also include the value of all shares retained by the shareholders of the acquired company. If any portion of Sale Transaction Value is payable in the form of securities, the value of such securities, for purposes of calculating the Transaction Fee, will be determined based on the average closing price for such securities for the 10 trading days prior to the closing of the Sale Transaction. In the case of securities that do not have an existing public market, the Transaction Fee will be determined based on the fair market value of such securities as mutually agreed upon in good faith by the Company and the Consultant prior to the closing of the Sale Transaction. If less than one hundred percent (100%) of the Company is sold pursuant to a Sale Transaction and there is no buyout formula for the remaining portion, then the Transaction Fee shall be calculated assuming one hundred percent (100%) of the Company was sold, valuing the unsold portion at the same proportionate value as the sold portion, and multiplying the amount so calculated by the percentage of the Company sold. The Transaction Fee shall be payable upon the closing of a Sale Transaction, whether during the term of the Consulting Agreement or thereafter, and regardless of whether the Sale Transaction is the result of Consultant's services hereunder.

It was further agreed and understood between the parties that in the event Mr. Michael Sonnenfeldt, an existing shareholder, (or any other person designated by the Consultant to assist the Consultants in performing the services to be performed by the Consultants), joins and becomes a party to this Agreement within 6 months from the closing date thereof, the Transaction Fee shall be increased to 10% of the Sale Transaction Value, and Mr. Sonnenfeldt (or the other designee) will be entitled to the additional 1%.

9. Pursuant to the Securities Purchase Agreement, the parties thereto agreed that Mr. Peter Neustadter, a major shareholder, was appointed by the Board of Directors as chief executive officer on a temporary basis (the "CEO"). The CEO shall have such



duties and authority as are commensurate with one employed in the position of Chief Executive Officer, and as may be assigned to the CEO from time to time by the Board of Directors of the Company. Additionally, Mr. Peter Neustadter was appointed as Chairman of the Board of Directors until such time as the Board of Directors determines otherwise.

10. On December 24, 2003 the Company entered into a Consulting and Services Agreement with its founder, Solomon Franco, ("Franco") pursuant to which the Company shall engage Franco to provide certain research and development services and to act as a consultant and advisor to the Company on certain terms and conditions. Franco has resigned from his position as Chairman of the Board of Directors and CEO.
11. On December 24, 2003 the Company entered into an Employment Agreement with Asher Segev ("Segev") pursuant to which the Segev formally became an Executive VP International Sales of the Company on certain terms and conditions.
12. Pursuant to a Securities Purchase Agreement dated January 09, 2004 (the "Gidwitz Securities Purchase Agreement") by and between the Company and certain investors (the "Investors") the Company sold and issued to the Investors 427.04 shares of its Series A Preferred Stock, having the rights, privileges and preferences as set forth in the Certificate of Designation of Series A Preferred Stock of the Company and (ii) warrants for the purchase of up to 427.04 shares of Common Stock, at an exercise price of \$2,400 per share for the first year following the closing and \$4,000 per share thereafter. The Warrants shall be exercisable for a period of 5 years from the date of issuance. The Shares and the Warrants were sold as units, each unit consisting of one Share and one Warrant, for an aggregate purchase of \$2,400 per unit. .

### Schedule 2.7

- In connection with a Bridge Loan Agreement dated September 8, 2003 with Aronoff Group LLC (the "Lender") pursuant to which the Lender loaned the Company the aggregate amount of \$250,000 (the "Loan") and warrants to acquire 196.38 shares of Common Stock on certain terms and conditions, granted thereunder, the Lender was granted the right to sell the entire number of shares of stock issued upon exercise of the warrant in each financing transaction, following the date the warrant was granted, until the warrant expiration date. Pursuant to the promissory note granted in connection with the Loan, the Company agreed not to incur additional indebtedness that shall prejudice or disturb its ability to pay back the Loan to the Lender, or which ranks on parity to or is senior to the Loan, without the Lender's consent. The Bridge Loan Agreement dated September 8, 2003 and the promissory note issued in connection thereunder, contain the following penalties in the event of the Company's default of its obligations to repay the loan plus accrued interest on the maturity date (I) the

original amount of the loan multiplied by two shall be due and payable immediately; and (II) liquidated damages at the rate of \$75,000.

- Note 2 of Schedule 2.3(a) is hereby incorporated by reference.
- Schedule 2.6 is hereby incorporated by reference.
- In connection with an equity financing dated August 2, 2002 a personal adjustment of purchase price protection commitment was provided by Mr. Tobias Berman, an existing shareholder, to certain investors.

### **Schedule 2.8**

On June 9, 2003, the Company entered into a Debenture Purchase Agreement (the "Debenture Purchase Agreement") with Insight Capital Ltd, an existing shareholder ("Insight Capital"), pursuant to which the Insight Capital purchased from the Company a \$5,000,000 convertible debenture, due in June 9, 2006, for the aggregate purchase price of \$3,000,000 on certain terms and conditions. To secure the payment and performance of all the obligations pursuant to the Debenture Purchase Agreement, Insight Capital was granted a continuing lien on and security interest in all the Company's right, title and interest in and to the Collateral (as defined below) up to the amount of \$5,000,000. It was further agreed that the security interest granted pursuant to the Debenture Purchase Agreement shall be terminated upon closing of the next round of financing for the aggregate amount of at least \$7,500,000 provided the price per share shall be not less than \$4000. For the purposes of the Debenture Purchase Agreement, the term Collateral was defined as the Company's right, title and interest in and to all patents covering a windshield washer heating system and other proprietary technology for the rapid heating of fluids including know-how, techniques and other information used in connection therewith. All duties and obligation of the Company pursuant to the Debenture Purchase Agreement were personally guaranteed by Mr. Tobias Berman.

### **Schedule 2.9**

- Pursuant to Assignments of Technology Rights the Company owns all right, title and interests in and to certain vehicle windshield de-icing apparatuses, and certain proprietary technology for the rapid heating of fluids and a solenoid valve used in connection therewith, as well as certain other inventions, know-how, methodologies and techniques used or useful in connection therewith, with respect to the whole world.
- Schedule 2.8 is hereby incorporated by reference.

## **PATENTS AND TRADEMARKS**

### **Schedule 2.9(a)**

1. The Company has four patents (the "**Patents**") as follows:
  - (a) A United States patent application for: Solenoid Valve with Permanent Magnet ("**Patent 1**"); US Patent No. 6,199,587
  - (b) A United States patent application for: Vehicle Windshield De-Icing Apparatus and Method ("**Patent 2**"); US Patent No. 6,615,438
  - (c) A United States patent application for: Apparatus for Cleaning or De-Icing a Vehicle Window ("**Patent 3**"); US Patent No. 6,164,564
  - (d) A United States patent application for: Apparatus for Cleaning or De-Icing a Vehicle Window ("**Patent 4**"); US Patent No. 6,669,109.

As of the Closing Date, Patent 1, Patent 2, Patent 3, and Patent 4 were issued and granted in the US.

2. Schedule 2.8 is hereby incorporated by reference.

### **Schedule 2.10**

- Paragraphs 3, 4 and 6 of Schedule 2.5 are hereby incorporated by reference.

**Schedule 2.11****Litigation**

1. In May 2001, a former employee of the Company filed a complaint with the Tel Aviv Labor Court against the Company seeking remuneration for alleged unpaid salary. The Company has answered the complaint and filed a motion to dismiss. In accordance with an opinion of counsel, the Company's management included in its financial statements a provision of \$30,000 for possible losses.
2. As of the Statement Date the Company's total debt is estimated at approximately \$4.8m (subject to annual audit adjustments) of which \$1.4m is owed to commercial vendors (the "Vendors") in connection with calendar year 2003 activities and approximately \$1.35m is owed to existing shareholders (the "Lenders") in connection with certain bridge loans granted to the Company during calendar year 2003. The Company is currently negotiating certain payment arrangements and plans with the Vendors and Lenders. To the extent the Company fails to conclude such payout arrangement to the full satisfaction of the Vendors and Lenders, the Company may be subject to the risks of potential litigation.
3. Paragraph 3 of Schedule 2.5 is hereby incorporated by reference.

**GOTTLIEB, RACKMAN & REISMAN, P.C.**

270 Madison Avenue, 8th Floor  
New York, New York 10016-0601

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**TO:** Assignment Division - Office of Public Records

**COMPANY:** United States Patent and Trademark Office

**TELEFAX NO.:** (703) 306 5995

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**FROM:** Belinda J. Hunter - Patent Paralegal

We are sending a communication of 34 page(s) (including this cover sheet). Please call (212) 684-3900 immediately if transmission is interrupted or of poor quality.

March 15, 2004

Your Ref No.: 09/120,867

Our Ref. No.: 3769-010

**Re: Recordation of Convertible Debenture Purchase Agreement**

**CERTIFICATE OF TRANSMISSION UNDER 37 CFR §1.8**

I hereby certify that this correspondence is being facsimile transmitted to Examiner Antione Royall, Assignment Div-Office of Public Records, at Fax 703 306 5995, Mail Stop Assignment, Commissioner for Patents, PO Box 1450, Arlington, VA 22313-1450 on 03.15.2004.

*Belinda J. Hunter*  
HUNTER, Belinda J

PTO/SB/21 (08-03)

Approved for use through 08/30/2003. OMB 0851-0031

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<b>TRANSMITTAL FORM</b>  <i>(to be used for all correspondence after initial filing)</i>	Application Number	09/120,867	
	Filing Date	July 21, 1998	
	First Named Inventor	FRANCO, Shlomi	
	Art Unit	3753	
	Examiner Name	MICHAELSKY, Gerald A.	
Total Number of Pages in This Submission	<u>38</u>	Attorney Docket Number	3769-004

**ENCLOSURES** (Check all that apply)

<input type="checkbox"/> Fee Transmittal Form <input type="checkbox"/> Fee Attached <input type="checkbox"/> Amendment/Reply <input type="checkbox"/> After Final <input type="checkbox"/> Affidavits/declaration(s) <input type="checkbox"/> Extension of Time Request <input type="checkbox"/> Express Abandonment Request <input type="checkbox"/> Information Disclosure Statement <input type="checkbox"/> Certified Copy of Priority Document(s) <input type="checkbox"/> Response to Missing Parts/Incomplete Application <input type="checkbox"/> Response to Missing Parts under 37 CFR 1.52 or 1.53	<input type="checkbox"/> Drawing(s) <input type="checkbox"/> Licensing-related Papers <input type="checkbox"/> Petition <input type="checkbox"/> Petition to Convert to a Provisional Application <input type="checkbox"/> Power of Attorney, Revocation <input type="checkbox"/> Change of Correspondence Address <input type="checkbox"/> Terminal Disclaimer <input type="checkbox"/> Request for Refund <input type="checkbox"/> CD, Number of CD(s) _____	<input type="checkbox"/> After Allowance communication to Technology Center (TC) <input type="checkbox"/> Appeal Communication to Board of Appeals and Interferences <input type="checkbox"/> Appeal Communication to TC (Appeal Notice, Brief, Reply Brief) <input type="checkbox"/> Proprietary Information <input type="checkbox"/> Status Letter <input checked="" type="checkbox"/> Other Enclosure(s) (please identify below): Assignment Recordal; Convertible Debenture Purchase Agreement
Remarks: _____ <p style="text-align: center;"><b>CERTIFICATE OF TRANSMISSION UNDER 37 CFR §1.8</b></p> <p style="text-align: center;">I hereby certify that this correspondence is being facsimile transmitted to: Assignment Division at Fax (703) 306-5995, Mail Stop Assignment, Commissioner for Patents, PO Box 1450, Alexandria, VA 22313-1450 on March 15, 2004.</p> <p style="text-align: center;">HUNTER, Belinda J. <i>Belinda J. Hunter</i></p>		

**SIGNATURE OF APPLICANT, ATTORNEY, OR AGENT**

Firm or Individual name	WEISZ, Tiborn Reg No 29,876	
Signature	<i>Tiborn Weisz</i>	
Date	March 15, 2004	

**CERTIFICATE OF TRANSMISSION/MAILING**

I hereby certify that this correspondence is being facsimile transmitted to the USPTO or deposited with the United States Postal Service with sufficient postage as first class mail in an envelope addressed to: Commissioner for Patents, P.O. Box 1450, Alexandria, VA 22313-1450 on the date shown below.

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This collection of information is required by 37 CFR 1.5. The information is required to obtain or retain a benefit by the public which is to file (and by the USPTO to process) an application. Confidentiality is governed by 35 U.S.C. 122 and 37 CFR 1.14. This collection is estimated to take 12 minutes to complete, including gathering, preparing, and submitting the completed application form to the USPTO. Time will vary depending upon the individual case. Any comments on the amount of time you require to complete this form and/or suggestions for reducing this burden, should be sent to the Chief Information Officer, U.S. Patent and Trademark Office, U.S. Department of Commerce, P.O. Box 1450, Alexandria, VA 22313-1450. DO NOT SEND FEES OR COMPLETED FORMS TO THIS ADDRESS. SEND TO: Commissioner for Patents, P.O. Box 1450, Alexandria, VA 22313-1450.

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**TO:** Assignment Division - Office of Public Records  
 Attention: Examiner Jeevon JONES

**COMPANY:** United States Patent and Trademark Office

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*Belinda J. Hunter*  
 HUNTER, Belinda J