

UNITED STATES DISTRICT COURT  
FOR THE DISTRICT OF ARIZONA

GEORGE WOOD, On Behalf of Himself and All  
Others Similarly Situated,

Plaintiff,

vs.

IONATRON, INC., ROBERT HOWARD, AND  
THOMAS C. DEARMIN,

Defendant.

Case No.: 4:06-cv-00354-CKJ

RAYMOND DEEDON, Individually and on Behalf of  
All Others Similarly Situated,

Plaintiff,

vs.

IONATRON, INC., ROBERT HOWARD; AND  
THOMAS C. DEARMIN,

Defendant.

Case No.: 4:06-cv-00377-CKJ

**NOTICE OF PROPOSED SETTLEMENT OF CLASS ACTION**

IF YOU PURCHASED THE PUBLICLY TRADED SECURITIES OF IONATRON, INC. ("IONATRON") BETWEEN MAY 4, 2005 AND MAY 10, 2006 (INCLUSIVE) ("CLASS PERIOD"), YOU COULD GET A PAYMENT FROM A CLASS ACTION SETTLEMENT.

*A federal court authorized this notice. This is not a solicitation from a lawyer.*

The Settlement will provide a Settlement Fund of \$6.5 million, consisting of \$5.3 million in cash and \$1.2 million worth of the common stock of Applied Energetics, Inc. (the "Settlement Fund"), to pay claims of investors who suffered alleged damages from transactions of Ionatron publicly traded securities between May 4, 2005 and May 10, 2006, inclusive.<sup>1</sup> Lead Plaintiffs for the class estimate that there were approximately 14.63 million Ionatron common shares and common share equivalents, inclusive, allegedly damaged during and held at the end of the Class Period. Lead Plaintiffs estimate that if claims are filed on behalf of 100% of these shares, then the Settlement represents an estimated average recovery of \$0.44 per share. This recovery figure is an estimate and is before deduction of the cost of notice and administration of the Settlement, attorneys' fees and out-of-pocket expenses. Your actual recovery, if any, will vary depending on your purchase price and sale price, the dates of your purchase and/or sale and the number of shareholders that file Proof of Claim and Release forms. See Question 8 below for a more detailed explanation.

Lead Plaintiffs' Counsel intend to ask the Court to award them attorneys' fees not to exceed 33 1/3% of the Settlement Fund, along with reimbursement of out-of-pocket expenses, including expert fees, in an amount not to exceed \$235,000.00. If the Court awards 33 1/3% of the Settlement Fund as attorneys' fees, together with reimbursement of out-of-pocket expenses, the impact will affect the per damaged share recovery by an estimated amount of \$0.17 per share. Lead Plaintiffs' Counsel have expended considerable time and effort in the

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<sup>1</sup> Applied Energetics is the successor company to Ionatron, Inc. The Settlement requires Defendants, in addition to the cash payment, to provide to the Class an amount of Applied Energetics shares sufficient to equal a total value of \$1.2 million (as determined by the average closing price per share of Applied Energetics stock for the ten (10) trading days immediately prior to the final Fairness Hearing held in this action) up to a cap of four (4) million shares.

prosecution of this litigation on a contingent fee basis, and have advanced the expenses of the litigation in the expectation that if they were successful in obtaining a recovery for the Class they would be paid from such recovery. In this type of litigation, it is customary for plaintiffs' counsel to be awarded a percentage of the Settlement Fund as their attorneys' fees. Any fee awarded will be an in-kind award, consisting of cash and stock in the same ratio as recovered for the Class.

The Settlement resolves a lawsuit concerning whether during the Class Period, Defendants knowingly disseminated materially false and misleading information about the development and production capability of the Company's Joint IED Neutralizer ("JIN") product, as well as the status of real or potential sales of the JIN to the U.S. government. The lawsuit alleges that as a result of these alleged misrepresentations and omissions, the prices of Ionatron stock during the Class Period were artificially inflated. The parties disagree on both liability and damages. The issues on which the parties disagree include (a) the amount by which the price of Ionatron stock was allegedly artificially inflated (if at all) during the Class Period; (b) the extent to which the various matters that Lead Plaintiff alleged were materially false or misleading influenced (if at all) the trading price of Ionatron stock at various times during the Class Period; and (c) whether the statements made or facts allegedly omitted in violation of law were material or otherwise actionable under the federal securities laws. Lead Plaintiffs' Counsel considered that there was a substantial risk that Lead Plaintiffs and the Class might not have prevailed on all their claims and that there were risks that the decline in the price of Ionatron stock could be attributed, in whole or in part, to other factors. Therefore, Lead Plaintiffs and the Class could have recovered nothing or substantially less than the amount of the Settlement. The Defendants deny that they are liable to Lead Plaintiffs or the Class and deny that Lead Plaintiffs or the Class have suffered any damages. Lead Plaintiffs' Counsel believe this Settlement is in the best interests of the Class considering the risks posed by further litigation. See Question 4 below for further explanation.

**Your legal rights are affected whether you act or don't act. Read this notice carefully.**

**YOUR LEGAL RIGHTS AND OPTIONS IN THIS SETTLEMENT**

SUBMIT A CLAIM FORM	The only way to get a payment from the Settlement Fund.
EXCLUDE YOURSELF	Receive no payment. This is the only option that allows you to ever be part of any other lawsuit against Ionatron concerning the legal claims being released by this Settlement.
OBJECT BUT REMAIN IN THE SETTLEMENT	Submit written objection to any aspect of the Settlement to the Court.
GO TO A HEARING	A hearing will be held on September 24, 2009 and is open to the public. To speak in Court, however, you need to give advance written notice to the Court and to the parties.
DO NOTHING	Receive no payment. Give up your right to object to the Settlement, or any part of it, or to request exclusion from the Settlement.

These rights and options – **and the deadlines to exercise them** – are explained in this notice.

The Court in charge of this case still has to decide whether to approve the Settlement. Payments will be made if the Court approves the Settlement, after appeals are resolved if any are filed, and after the claims are processed. Please be patient.

Further information regarding this Settlement may be obtained by contacting Lead Plaintiffs' Counsel, Arthur L. Shingler III, Esq., Scott+Scott LLP, 600 B Street, Suite 1500, San Diego, CA 92101 (619) 233-4565 or Jeffrey S. Nobel, Esq., Izard Nobel LLP, 29 South Main Street, Suite 215, Hartford, CT 06107 (860) 493-6292.

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## BASIC INFORMATION

### 1. **Why did I receive this notice package?**

The Court authorized this notice to be sent to you because you or someone in your family may have purchased or acquired Ionatron securities between May 4, 2005 and May 10, 2006 (inclusive) (the “Class Period”). The Court in charge of the case is the United States District Court for the District of Arizona and the case is known as *Wood v. Ionatron, Inc., et al.*, Case No. 4:06-cv-00354-CKJ (D. Ariz.). The people who brought suit are called Plaintiffs. The Lead Plaintiffs and Class Representatives are Hylton S. Petit, Jr. and Claire Silverman (“Lead Plaintiffs”). The company and individuals they sued – Ionatron, Inc., Robert Howard and Thomas C. Dearmin – are called the Defendants.

The Court authorized this notice to be sent to you because you have a right to know about the proposed Settlement of a class action lawsuit, and about all of your options, before the Court decides whether to approve the Settlement. If the Court approves the Settlement and resolves any objections that may be filed in opposition to the Settlement, as explained below, and if any appeals are resolved, then an administrator appointed by the Court will distribute the payments that the Settlement permits. You may track the progress of the Settlement by visiting [www.ionatronincsecuritieslitigation.com](http://www.ionatronincsecuritieslitigation.com). **This package explains the lawsuit, the Settlement, your legal rights, what benefits are available, who is eligible for them and how to obtain them.**

### 2. **What is this lawsuit about?**

The lawsuit claims that Defendants issued false and misleading statements during the Class Period in its public filings, as well as in related press releases and during investor conference calls. This lawsuit alleges that, upon the revelations of previously undisclosed material information during the Class period, the price of Ionatron stock dropped, thereby causing damages to Lead Plaintiffs and the other members of the Class.

This lawsuit began on July 12, 2006, when the first of two class action lawsuits was filed in the District of Arizona against Defendants. By Order dated October 13, 2006, the Court appointed Lead Plaintiffs and approved Lead Plaintiffs’ selection of Scott+Scott LLP and Izard Nobel LLP as Lead Counsel for the Class. A Consolidated Amended Class Action Complaint (the “Complaint”) was filed on December 18, 2006, by Lead Plaintiffs on behalf of the Class. Defendants answered the Complaint on June 2, 2008.

The merits of the case and the issue of damages are sharply disputed. Defendants have denied and continue to deny each claim and contention alleged against them. Defendants have asserted at all times that they acted properly and in compliance with the federal securities laws.

Lead Plaintiff recognizes that both the merits of the action and the fact and amount of damages are sharply disputed, and that a jury might find that the Defendants did not violate the securities laws, or did not cause damages, or that the damages were much less than those asserted by Lead Plaintiffs.

### 3. **Why is this a class action?**

In a class action, one or more people called Class Representatives (in this case Lead Plaintiffs) sue on behalf of persons who have similar claims. All these persons and/or entities are referred to collectively as a Class, and are referred to individually as Class Members. Bringing a case such as this as a class action allows adjudication of many similar claims of persons and entities that might be economically too small to being in individual actions. One court resolves the issues for all Class Members, except for those who exclude themselves from the Class.

### 4. **Why is there a Settlement?**

The Court did not decide in favor of Lead Plaintiffs and the Class or Defendants. Instead, Lead Plaintiffs and Defendants have agreed to settle the lawsuit. The parties retained the services of Honorable Nicholas H. Politan, United States District Judge (retired), and Jed Melnick, Esq. of JAMS as mediators for this

action. The Settlement was the product of extensive arms-length negotiations, with the assistance of these two respected mediators.

Lead Plaintiffs have agreed to settle the lawsuit based on the risks that would be involved in a trial and their conclusion that the proposed Settlement is fair, reasonable and adequate and serves the best interests of the Class Members. Counsel for Lead Plaintiffs have determined that by settling, the cost and risks of a trial will be avoided, while at the same time providing compensation to the Class. Lead Plaintiffs and Lead Plaintiffs' Counsel believe that the Settlement is best for all Class Members.

As described above, Lead Plaintiffs and Defendants do not agree regarding the merits of Lead Plaintiffs' allegations with respect to liability or the average amount of damages, if any, that would be recoverable if Lead Plaintiffs were to prevail on each claim asserted. The issues on which the parties disagree include: (1) whether Defendants made any false and misleading statements; (2) whether the statements made were materially false when made, or are otherwise actionable under the federal securities laws; (3) whether, and at what point in time, Defendants had a duty to correct any prior false and misleading statements; (4) whether Defendants made any false and misleading statements with the requisite intent; (5) whether Lead Plaintiffs could establish loss causation for any misleading statements; (6) the appropriate economic model for determining the amount by which Ionatron securities were allegedly artificially inflated (if at all) during the Class Period; (7) the extent to which the various matters that Lead Plaintiffs alleged were materially false or misleading (if at all) influenced and artificially inflated (if at all) the trading price of Ionatron securities at various times during the Class Period; (8) the extent to which external factors influenced the trading price of Ionatron securities at various times during the Class Period; and (9) whether, and to what extent, factors other than the misrepresentations that Lead Plaintiffs alleged caused Ionatron's securities prices to drop at various instances.

Although Lead Plaintiffs' Counsel were prepared to defend against summary judgment and go to trial, and were confident in the merits of their case, Lead Plaintiffs' Counsel recognize that the claims may not have survived summary judgment and that trial is a risky proposition and Lead Plaintiffs and the Class may not have prevailed on all of their claims. In addition, Lead Plaintiffs' Counsel believe that this Settlement provides a substantial recovery to the Class Members and that the Class may not have obtained a greater recovery if the case had gone to trial.

Defendants continue to deny liability and deny that Lead Plaintiffs and the Class Members were damaged. These disputes regarding both the merits of the Action and the damages would be subject to expert testimony and, therefore, it would be impossible to predict with certainty which of the parties' arguments would find favor with the Court in a summary judgment consideration with the jury at trial. In a trial, Lead Plaintiffs could have recovered nothing or substantially less than the amount of the Settlement. Further, even assuming that Lead Plaintiffs could have won at trial, any verdict would inevitably be the subject of appeal and the recovery to Class Members would have remained uncertain and been further delayed.

#### **WHO IS IN THE SETTLEMENT?**

**5. How do I know if I am part of the Settlement?**

Everyone who fits the following description, and is not excluded by the definition of the Class, is a Class Member: All persons or entities who purchased Ionatron publicly traded securities between May 4, 2005 and May 10, 2006, inclusive (the "Class Period"). See Question 6 for more information.

**6. Are there exceptions to being included?**

You are not a Class Member if you are a Defendant in this lawsuit. The Class also excludes members of the immediate family of each of the Individual Defendants, any parent, subsidiary, affiliate, officer or director of Ionatron, any entity in which any excluded person had a controlling interest, the legal representatives, heirs, successors, spouses and assigns of any excluded person. See Question 5 for more information.

Also, if you exclude yourself from the Class, as described below, you are not a part of the Class. If one of your mutual funds owns Ionatron stock, that alone does not make you a Class Member. You are a Class Member only if you purchased or acquired Ionatron publicly traded securities during the Class Period. Contact your broker to see if you hold or held Ionatron securities during the Class Period.

To be a Member of the Class, you must have purchased or acquired Ionatron publicly traded securities during the Class Period. The U.S. Supreme Court has interpreted the federal law that forms the basis of the lawsuit as limiting damages to persons who sustained losses caused by the revelation of previously withheld information. As a practical matter, this means that only Members of the Class who acquired and held positions in Ionatron securities during the Class Period sustained damages.

**7. I'm still not sure if I am included.**

If you are still not sure whether you are included in the Class, you may ask for free help by calling 1-866-756-5177 for more information. Alternatively, you may fill out and return the claim form attached to this notice, described in Question 9, to see if you qualify.

**THE SETTLEMENT BENEFITS - WHAT YOU GET**

**8. What does the Settlement provide?**

The terms of the proposed Settlement are summarized below, and the full Settlement terms are contained in a Stipulation and Agreement of Settlement (the "Stipulation") dated July 28, 2009. You can obtain a copy of the Stipulation by writing to Lead Plaintiffs' Counsel: Arthur L. Shingler III, Esq., Scott+Scott LLP, 600 B Street, Suite 1500, San Diego, CA 92101 (619) 233-4565 or Jeffrey S. Nobel, Esq., Izard Nobel LLP, 29 South Main Street, Suite 215, Hartford, CT 06107 (860) 493-6292, or by visiting [www.ionatronincsecuritieslitigation.com](http://www.ionatronincsecuritieslitigation.com).

The proposed Settlement calls for Defendants to create a Settlement fund in the amount of \$6.5 million, consisting of \$5.3 million in cash and \$1.2 million worth of Applied Energetics common stock. Lead Plaintiffs estimate there were 14.63 million Ionatron common shares and common-share equivalents, inclusive, allegedly damaged during and held at the end of the Class Period, and that the average recovery per allegedly damaged share is \$0.44 before the accrual of interest, the payment of taxes on accrued interest, and the deduction of Court-awarded attorneys' fees and out-of-pocket expenses and costs of notice and claims administration. If you are a Class Member, you may receive more or less than this average amount depending on: 1) the number of valid claims submitted; 2) the price paid for the securities; 3) whether you sold your securities; and 4) the date and amount you received upon sale. For purposes of the Settlement, your distribution from the Net Settlement Fund (the Settlement Fund less taxes owed, costs of notice and claims administration, attorneys' fees and out-of-pocket expenses as awarded by the Court will be governed by the proposed Plan of Allocation described in this notice, or such other Plan of Allocation as may be approved by the Court.

**HOW YOU GET A PAYMENT - SUBMITTING A CLAIM FORM**

**9. How can I obtain a payment?**

To qualify for payment, you must submit a claim form ("Proof of Claim") to the Claims Administrator. A claim form is attached to this notice. You may also obtain a claim form on the Internet at [www.ionatronincsecuritieslitigation.com](http://www.ionatronincsecuritieslitigation.com). Read the instructions carefully, fill out the form, include all the required documents, sign it, and mail it to the address provided, postmarked no later than October 30, 2009 to the Claims Administrator as follows:

*Ionatron, Inc., Securities Litigation*  
Administar Services Group LLC  
P.O. Box 56380  
Jacksonville, FL 32241-6380

The Claims Administrator will process your claim and advise you if you are an "Authorized Claimant" – meaning that your claim satisfies the requirements approved by the Court.

10. **When could I receive my payment?**

The Court will hold a hearing on October 30, 2009 to decide whether to approve the Settlement. Even if Judge Jorgenson approves the Settlement, it may take more than a year before the Settlement Fund is distributed to the Class Members because there may be appeals that would delay the implementation of the Settlement and resolving the appeals can take time, which can exceed a year. The other reason that it may take more than a year for the Settlement Fund to be distributed is that once the Settlement has been approved, and any appeals are resolved, the Claims Administrator must process all of the Proof of Claim forms. The processing by itself is a very complicated process and will take many months. Please be patient.

11. **What am I giving up to receive a payment or stay in the Class?**

Unless you exclude yourself by following the procedures outlined below, you will remain in the Class. That means that, upon the Effective Date, you will release all Settled Claims, against all Released Parties (as defined below). It also means that all of the Court's orders will apply to you and legally bind you.

"Released Parties" Defendants and any and all of their past or present partners, principals, employees, predecessors, successors, affiliates, officers, directors, attorneys, agents, insurers, assigns, spouses and heirs.

"Settled Claims" means any and all claims, debts, demands, rights or causes of action or liabilities whatsoever (including, but not limited to, any claims for damages, interest, attorneys' fees, expert or consulting fees, and any other costs, expenses or liability whatsoever), whether based on United States federal, state, local, statutory or common law or any other law, rule or regulation, whether foreign or domestic, fixed or contingent, accrued or unaccrued, liquidated or unliquidated, at law or in equity, matured or unmatured, foreseen or unforeseen, whether class or individual in nature, including both known claims and Unknown Claims (as defined below) (i) that have been asserted in the Action by the Class Members or any of them against any of the Released Parties (whether pleaded in the Complaint or not), or (ii) that could have been asserted in the Action or in any forum by the Class Members or any of them against any of the Released Parties, which also arise out of, relate to, or are based on any of the claims allegations, activities, press releases or public statements set forth in the Complaint and relate to the purchase, sale, transfer or acquisition of the publicly traded securities of Ionatron during the Class Period, or any actions, representations or omissions that were alleged or might have been alleged to affect the price of any publicly traded securities of Ionatron during the Class Period.

"Unknown Claims" means any and all Settled Claims which any Lead Plaintiff or Class Member does not know or suspect to exist in his, her or its favor at the time of the release of the Released Parties, and any Settled Defendants' Claims which Defendants do not know or suspect to exist in their favor, which if known by him, her or it might have affected his, her or its decision(s) with respect to the Settlement. With respect to any and all Settled Claims and Settled Defendants' Claims, the Parties stipulate and agree that by operation of the Order and Final Judgment, upon the Effective Date, the Lead Plaintiffs and Defendants shall have expressly waived, and each Class Member shall be deemed to have waived, and by operation of the Final Judgment shall have expressly waived, any and all provisions, rights and benefits conferred by any law of any state or territory of the United States, or principle of common law, which is similar, comparable, or equivalent to Cal. Civ. Code § 1542, which provides:

**A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR.**

**EXCLUDING YOURSELF FROM THE SETTLEMENT**

If you do not want to receive a payment from this Settlement, and you want to keep the right to sue or continue to sue Defendants on your own about the legal issues in this case, then you must take steps to get out of the Settlement. This is called excluding yourself – or is sometimes referred to as opting out of the Class.

**12. How do I get out of the Settlement?**

To exclude yourself from the Settlement, you must send a letter by mail saying that you want to be excluded from the Settlement in *Wood v. Ionatron, Inc., et al.*, Case No. 4:06-cv-00354-CKJ (D. Ariz.). Be sure to include your name, address, telephone number, proof of the number of shares you purchased and sold during the Class Period, and your signature. Your exclusion request must be postmarked no later than September 9, 2009 and sent to the Claims Administrator as follows:

*Ionatron, Inc. Securities Litigation*  
Administar Services Group LLC  
P.O. Box 56380  
Jacksonville, FL 32241-6380

You cannot exclude yourself by phone or by e-mail. If you ask to be excluded, you will not receive a Settlement payment, and you cannot object to the Settlement. You will not be legally bound by anything that happens in this lawsuit. You may be able to sue (or continue to sue) Defendants in the future.

**13. If I don't exclude myself, can I sue the Defendants for the claims being released in this Settlement?**

No. Unless you exclude yourself, you give up any right to sue the Defendants or the Released Parties for the claims that this Settlement resolves. If you have a pending lawsuit, speak to your lawyer in that case immediately. You must exclude yourself from the Class to bring or to continue your own lawsuit. Remember, the exclusion deadline is September 9, 2009.

**14. If I exclude myself, can I obtain money from this Settlement?**

No. If you exclude yourself, do not send in a claim form to ask for any money. But, if you exclude yourself, you may sue, continue to sue, or be part of a different lawsuit against Defendants.

**THE LAWYERS REPRESENTING YOU**

**15. Do I have a lawyer in this case?**

The Court appointed the law firms of Scott+Scott LLP and Izard Nobel LLP to represent you and other Class Members. This law firm is called Lead Plaintiffs' Counsel or Class Counsel. You will not be charged for these lawyers. If you want to be represented by your own lawyer, you may hire one at your own expense.

**16. How will the lawyers be paid?**

Lead Plaintiffs' Counsel have expended considerable time and effort in the prosecution of this litigation on a contingent fee basis, and have advanced the expenses of the litigation, in the expectation that if they were successful in obtaining a recovery for the Class, they would be paid from such recovery. In this type of litigation, it is customary for counsel to be awarded a percentage of a recovery as their attorneys' fees and reimbursement of their out-of-pocket expenses. Therefore, Lead Plaintiffs' Counsel will file a motion asking the



Court at the Fairness Hearing (see Question 19, below) to make an award of attorneys' fees in an amount of not more than 33 1/3% of the Settlement Fund and reimbursement of litigation expenses, including expert fees, not to exceed \$235,000.00. The Court may award less than these amounts. These amounts will come out of the Settlement Fund. Defendants have stated that they take no position regarding these fees and expenses. If the Court awards 33 1/3% of the Settlement Fund as attorneys' fees and reimbursement of out-of-pocket expenses in the amount of \$235,000.00, it will affect the per damaged share recovery by an estimated amount of \$0.17 per share. Any fee awarded will be an in-kind award, consisting of cash and stock in the same ratio as recovered by the Class.

### **OBJECTING TO THE SETTLEMENT**

**17. How do I make any objections I may have to the Settlement?**

If you are a Class Member, you may object to the Settlement, any part of the Settlement, or the request for attorneys' fees and reimbursement of expenses. You may state why you think the Court should not approve any part of the Settlement. The Court will consider your views. To object, you must send a written objection stating that you object to the Settlement in *Wood v. Ionatron, Inc., et al.*, Case No. 4:06-cv-00354-CKJ (D. Ariz.). Be sure to include your name, address, telephone number, your signature, proof of the number of Ionatron common shares or other securities subject to this settlement that you purchased and sold during the Class Period, and the reasons why you object to the Settlement or any part of the Settlement. Be sure to mail the objection to each of the three places stated below, postmarked no later than September 9, 2009:

<b>COURT</b>	<b>LEAD PLAINTIFFS' COUNSEL</b>	<b>DEFENDANTS' COUNSEL</b>
Honorable Cindy K. Jorgenson United States District Court District of Arizona Evo A. DeConcini U.S. Courthouse 405 W. Congress Street, Suite 1500 Tucson, AZ 85701-5010	Arthur L. Shingler III, Esq. Scott+Scott LLP 600 B Street, Suite 1500 San Diego, CA 92101  Jeffrey S. Nobel Seth R. Klein Izard Nobel LLP 29 South Main Street, Suite 215 Hartford, CT 06107	Harris N. Cogan Blank Rome LLP 405 Lexington Ave The Chrysler Bldg New York, NY 10174

**18. What is the difference between objecting to the Settlement and requesting exclusion from the Settlement?**

Objecting is simply telling the Court that you don't like something about the Settlement. You may object only if you stay in the Class. By excluding yourself from the Settlement, you are stating that you don't want to be part of the Class. If you exclude yourself from the Settlement, you have no basis to object because the case no longer affects you.

### **THE COURT'S FAIRNESS HEARING**

The Court will hold a hearing to decide whether to approve the Settlement. You may attend and you may ask to speak.

**19. When and where will the Court decide whether to approve the Settlement?**

The Court will hold a hearing at 2:00 p.m. on September 24, 2009, at the United States District Court for the District of Arizona, Evo A. DeConcini U.S. Courthouse 405 W. Congress Street, Suite 1500 Tucson, AZ 85701-5010. At this hearing the Court will consider whether the Settlement is fair, reasonable, and adequate. If there are objections, the Court will consider them. Judge Jorgenson will listen to Class Members (or their counsel) who have submitted written objections and written indication(s) of their intention to appear and speak at the hearing, as long as they are postmarked no later than September 9, 2009 and mailed to the three different places listed in the chart following Question 17, above. The Court may also decide how much to award Lead Plaintiffs' Counsel for attorneys' fees and expenses. After the hearing, the Court will decide whether to approve the Settlement. We do not know how long these decisions will take.

20. **Do I have to come to the hearing?**

No. Lead Plaintiffs' Counsel will answer questions Judge Jorgenson may have. But, you are welcome to come at your own expense. If you send an objection, you don't have to come to Court to talk about it. As long as you mailed your written objection on time, the Court will consider it. You may also pay your own lawyer to attend to speak in support of any written objection that you mailed on time, but it is not necessary. You may do so as long as you have followed the instructions set forth in the answer to Question 21, below.

21. **May I speak at the hearing?**

If you are a Class Member and have submitted a written objection to the Settlement or the motion of Lead Plaintiffs' Counsel for attorneys' fees and expenses and follow the instructions set out in response to Questions 17 and 19 above, you (or your counsel) may speak at the Fairness Hearing in support of your objection. To do so, along with your written objection, you must send a letter stating that it is your "Notice of Intention to Appear in *Wood v. Ionatron, Inc., et al.*, Case No. 4:06-cv-00354-CKJ (D. Ariz.)." Be sure to include your name, address, telephone number, and your signature. Your Notice of Intention to Appear must be postmarked no later than September 9, 2009, and be sent to the Court, Lead Plaintiffs' Counsel, and Defendants' Counsel, at the addresses listed in Question 17. You cannot speak at the hearing if you exclude yourself.

**IF YOU DO NOTHING**

22. **What happens if I do nothing at all?**

If you do nothing, you will not receive any money from the Settlement. But if you are a Member of the Class, unless you exclude yourself from the Settlement, you won't be able to start a lawsuit, continue with a lawsuit, or be part of any other lawsuit against Defendants about the legal issues in this case, ever again.

**GETTING MORE INFORMATION**

23. **Are there more details about the Settlement?**

This notice summarizes the proposed Settlement. More details are in the Stipulation. You may obtain a copy of the Stipulation by visiting [www.ionatronincsecuritieslitigation.com](http://www.ionatronincsecuritieslitigation.com).

24. **How do I get more information?**

You may call 1-866-756-5177 toll free; write to the Claims Administrator, *Ionatron, Inc. Securities Litigation*, Administar Services Group LLC, P.O. Box 56380, Jacksonville, FL 32241-6380; or visit the website at [www.ionatronincsecuritieslitigation.com](http://www.ionatronincsecuritieslitigation.com) where you will find answers to common questions about the Settlement, a claim form, plus other information to help you determine whether you are a Class Member and whether you are eligible for a payment.

**UNDERSTANDING YOUR PAYMENT - THE PLAN OF ALLOCATION**

**(You do not need to make any of these calculations yourself. The Claims Administrator will make all of these calculations for you.)**

1. The \$6.5 million cash and stock Settlement amount and the interest earned on the cash portion shall be the "Gross Settlement Fund." The Gross Settlement Fund, less all taxes, approved costs, fees and expenses (the "Net Settlement Fund") shall be distributed to members of the Class who submit acceptable Proofs of Claim ("Authorized Claimants").

2. The Net Settlement Fund will be allocated among the Authorized Claimants in accordance with this "Plan of Allocation." The amount so allocated to each Authorized Claimant constitutes and is referred to herein as the Authorized Claimant's "Payable Claim." The Plan of Allocation is based upon Lead Plaintiffs' Counsel's assessment of the merits and relative strengths and weaknesses, including recoverable damages, of the claims of the members of the Class. In addition, the Plan of Allocation takes into consideration that under certain decisions of the United States Supreme Court and the relevant federal securities statutes, a Class Member may not

recover for any decline in the price of his stock that was not directly cause by the disclosures of previously withheld material information that should have been disclosed by the Defendants.

3. The Payable Claim will be calculated so that each Authorized Claimant shall receive, on a proportionate basis, that share of the Net Settlement Fund that the Authorized Claimant's Recognized Loss (as defined below) bears to the total Recognized Losses of all Authorized Claimants, subject to the further provisions of this Plan of Allocation set forth below.

4. An Authorized Claimant's Recognized Loss is determined by the date(s) the Authorized Claimant purchased and sold any Ionatron publicly traded securities as follows:

#### **Common Stock**

1. For Ionatron common stock purchased between May 4, 2005 and May 10, 2006:

a. No claim will be recognized for any shares of Ionatron common stock purchased between May 4, 2005 and May 10, 2006 which were not owned as of the close of trading on May 10, 2006.

b. For common stock purchased between May 4, 2005 and May 10, 2006 and owned as of the close of trading on May 10, 2006 an Authorized Claimant's Recognized Claim shall be the lesser of: (i) of the difference, if a loss, between the purchase price and \$9.43; or (ii) \$3.40 per share.

#### **6.5% Series A Redeemable Convertible Preferred Stock**

2. For Ionatron 6.5% Series A Redeemable Convertible Preferred Stock ("Preferred Stock") purchased between October 27, 2005 and May 10, 2006:

a. No claim will be recognized for any shares of Ionatron Preferred Stock purchased between October 27, 2005 and May 10, 2006 which were not owned as of the close of trading on May 10, 2006.

b. For Preferred Stock purchased between October 27, 2005 and May 10, 2006 and owned as of the close of trading on May 10, 2006 an Authorized Claimant's Recognized Claim shall be the lesser of: (i) of the difference, if a loss, between the purchase price and \$19.65; or (ii) \$7.08 per share.

#### **Put and Call Options**

The total recovery payable to Authorized Claimants from transactions in call or put options shall not exceed five percent (5%) of the Net Settlement Fund.

#### **Call Option Purchases**

For call options purchased between May 4, 2005 and May 10, 2006:

a. No claim will be recognized for any Ionatron call options purchased between May 4, 2005 and May 10, 2006 that were not owned as of the close of trading on May 10, 2006.

b. For call options purchased between May 4, 2005 and May 10, 2006 and owned as of the close of trading on May 10, 2006, an Authorized Claimant's Recognized Claim shall be the lesser of (a) 50%<sup>2</sup> of the difference, if a loss, between (x) the amount paid for the call options (including brokerage commissions and transaction charges) and (y) the sum for which said call options were subsequently sold at a loss (after brokerage commissions and transaction charges (or \$0.00 if the call option expired while still owned by the Authorized Claimant), or (b) \$1.70 per share covered by such call options (*i.e.*, 50% of the \$3.40 maximum per common share claim for this loss).

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<sup>2</sup> This discount reflects the fact that a purchase of a call option includes the payment of a time premium.

c. No loss shall be recognized based on a sale or writing of any call option that was subsequently repurchased.

d. Shares of Ionatron acquired during the Class Period through the exercise of a call option shall be treated as a purchase on the date of exercise for the exercise price plus the cost of the call option, and any Recognized Claim arising from such transaction shall be computed as provided for other purchases of common stock.

#### **Put Option Sales**

For Ionatron put options sold (written) during the Class Period that expired unexercised, an Authorized Claimant's Recognized Claim shall be \$0.00.

For put options sold (written) between May 4, 2005 and May 10, 2006:

a. No claim will be recognized for Ionatron put options sold (written) between May 4, 2005 and May 10, 2006 which were not the obligation of the Authorized Claimant as of the close of trading on May 10, 2006.

b. For Ionatron put options sold (written) between May 4, 2005 and May 10, 2006 that were the obligation of the Authorized Claimant at the close of trading on May 10, 2006, an Authorized Claimant's Recognized Claim shall be the lesser of (a) the difference, if a loss, between (x) the amount received for writing the put option (net of brokerage commissions and transaction charges) and (y) the sum for which said put options were repurchased at a loss after the close of trading on March 10, 2004 (including brokerage commissions and transaction charges) or (b) \$3.40 per share covered by such put options.

c. For Ionatron put options written between May 4, 2005 and May 10, 2006 that were "put" to the Authorized Claimant (*i.e.*, exercised), the Authorized Claimant's Recognized Claim shall be calculated as a purchase of common stock as shown above, and as if the sale of the put option were instead a purchase of Ionatron common stock on the date of the sale of the put option, and the "purchase price paid" shall be the strike price less the proceeds received on the sale of the put option.

d. No loss shall be recognized based on a sale of any put option that was previously purchased.

In the event a Class Member has more than one purchase or sale of Ionatron common stock, Preferred Stock and/or Ionatron common stock options, all purchases and sales shall be matched on a First In/First Out ("FIFO") basis, Class Period sales will be matched first against any Ionatron shares and/or options held at the beginning of the Class Period, and then against purchases in chronological order, beginning with the earliest purchase made during the Class Period. Purchases and sales of Ionatron common stock, Preferred Stock and options shall be deemed to have occurred on the "contract" or "trade" date as opposed to the "settlement" or "payment" date. The receipt or grant by gift, devise or operation of law of Ionatron common stock, Preferred Stock and/or options during the Class Period shall not be deemed a purchase or sale of these Ionatron securities for the calculation of an Authorized Claimant's Recognized Claim nor shall it be deemed an assignment of any claim relating to the purchase of such Ionatron securities unless specifically provided in the instrument of gift or assignment. The receipt of Ionatron common stock during the Class Period in exchange for securities of any other corporation or entity shall not be deemed a purchase or sale of Ionatron common stock.

Each Authorized Claimant shall be allocated *pro rata* shares of the cash and Settlement Shares in the Net Settlement Fund based on his, her or its Recognized Claim as compared to the total Recognized Claims of all Authorized Claimants. Each Authorized Claimant shall be paid an amount determined by multiplying the total cash in the Net Settlement Fund, by a fraction the numerator of which shall be his, her or its "Recognized Claim" and the denominator of which shall be the Total Recognized Claims of all Authorized Claimants. This computation weighs each Class Member's claim against every other Class Member's claim. Each Authorized Claimant will receive *pro rata* shares of the cash in the Net Settlement Fund based on his, her or its Recognized Claim.

The amount of a Class Member's Recognized Claim as computed above is not intended to be an estimate of what a Class Member might have been able to recover at trial, and it is not an estimate of the amount that will be paid pursuant to this Settlement. Instead, this computation is only a method to weight Class

Members' claims against one another. Each Authorized Claimant will receive *pro rata* shares of the cash in the Net Settlement Fund based on his, her or its Recognized Claim.

To the extent a Claimant had a gain from his, her or its overall transactions in Ionatron common stock, Preferred Stock and/or Ionatron put and call options during the Class Period, the value of the Recognized Claim will be zero. Such claimants will in any event be bound by the Settlement. To the extent that a Claimant suffered an overall loss on his, her or its overall transactions in Ionatron common stock, Preferred Stock and/or options during the Class Period, but that loss was less than the Recognized Claim calculated above, then the Recognized Claim shall be limited to the amount of the actual loss.

For purposes of determining whether a Claimant had a gain from his, her or its overall transactions in Ionatron common stock during the Class Period or suffered a loss, the Claims Administrator shall: (i) total the amount the Claimant paid for all Ionatron common stock, Preferred Stock and Ionatron options purchased during the Class Period, and the cost or amount paid to repurchase or close after the Class Period any Ionatron put options written by the Claimant during the Class Period that were open obligations of the Claimant at the end of the Class Period (the "Total Purchase Amount"); (ii) match any sales of Ionatron common stock, Preferred Stock or options during the Class Period first against the Claimant's opening position in the common stock and Preferred Stock (the proceeds of those sales will not be considered for purposes of calculating gains or losses); (iii) total the amount received for sales of the remaining shares of Ionatron common stock, Preferred Stock and any options sold during the Class Period (the "Sales Proceeds"); and (iv) ascribe a \$9.43 and a \$19.65 per share holding value for the number of shares of Ionatron common stock and Preferred Stock, respectively, purchased during the Class Period and still held at the end of the Class Period and add the value at the end of Class period of any call options still held by the Claimant at the end of the Class Period ("Holding Value"). The difference between (x) the Total Purchase Amount ((i) above) and (y) the sum of the Sales Proceeds ((iii) above) and the Holding Value ((iv) above) will be deemed a Claimant's gain or loss on his, her or its overall transactions in Ionatron securities during the Class Period.

5. General Provisions Applicable to the Plan of Allocation:

- (a) The price per share, paid or received, shall be exclusive of all commissions, taxes and fees.
- (b) In the interest of economy, no payment will be made on any claims where the Payable Claim from the Net Settlement Fund would be less than \$10, but the Authorized Claimant will otherwise be bound by the final judgment entered by the Court.
- (c) If you inherited or received a gift of Ionatron common stock during the Class Period, that inheritance or gift is not considered a purchase of Ionatron common stock unless your ancestor or donor was the actual purchaser of Ionatron common stock during the Class Period. You, as a recipient of a gift or inheritance, and the original purchaser may not both file a claim with regard to the same Ionatron common stock. If both you and the donor (or you and your ancestor's estate) make such a claim, only the claim filed by the recipient (or heir) will be honored.
- (f) Shares "transferred into," "delivered into" or "received into" the Authorized Claimant's account, will not be considered as a purchase of shares unless the Authorized Claimant submits documentation demonstrating that the original purchase of these shares occurred during the Class Period. Also, shares purchased and subsequently "transferred out" or "delivered out" of the Authorized Claimant's account will not be considered part of the Authorized Claimant's claim, as the right to file for those shares belongs to the person or party receiving the shares.
- (g) The restrictions on computing Recognized Losses set out in the three bullet points below apply to all claims. As a practical matter, however, they apply primarily to certain transactions engaged in by sophisticated traders or certain corporate or institutional Authorized Claimants:

- “Short” sales will not be recognized for any amount of loss on the cover or purchase transaction, and no Recognized Loss will be computed for any such covering purchase transaction.
  - No Recognized Loss will be computed for any transactions in Ionatron securities engaged in by market makers or specialists.
  - No Recognized Loss will be computed for any option premium paid or received where the Ionatron securities were purchased or sold by reason of having exercised or been assigned an option.
- (h) Nothing in the Stipulation or Plan of Allocation represents an admission by any of the Defendants that there is liability or damage of any kind as a result of the allegations in the Complaint or that the dollar amounts set forth in the Plan of Allocation reflect actual or potential damages to the Class.
- (i) Payment in the manner set forth above will be deemed conclusive compliance with the Stipulation as to all Authorized Claimants. All Members of the Class who fail to submit valid and timely Proofs of Claim will be barred from participating in the distribution of the Net Settlement Fund but otherwise will be bound by all of the terms of the Stipulation, including the terms of any final orders or judgments entered and the releases given to Defendants and others.
- (j) No Authorized Claimant shall have any claim against Plaintiffs, Plaintiffs’ Counsel or the Claims Administrator, or any other agent designated by Plaintiffs’ Counsel based on the distributions made substantially in accordance with the Stipulation, the Plan of Allocation, and further orders of Court. In addition, in the interest of achieving substantial justice, Lead Plaintiffs’ Counsel shall have the right, but not the obligation, to waive what they deem to be formal or technical defects in any Proofs of Claim filed.
- (k) Distributions will be made to Authorized Claimants after all claims have been processed and after the Court has finally approved the Settlement. If any funds remain in the Net Settlement Fund by reason of un-cashed distributions or otherwise, then, after the Claims Administrator has made reasonable and diligent efforts to have Class Members who are entitled to participate in the distribution of the Net Settlement Fund cash their distributions, any balance remaining in the Net Settlement Fund one (1) year after the initial distribution of such fund shall be re-distributed to Class Members who have cashed their initial distributions and who would receive at least \$10 from such re-distribution, after payment of any unpaid costs or fees incurred in administering the Net Settlement Fund for such re-distribution. If after six (6) months after such re-distribution any funds shall remain in the Net Settlement Fund, then such balance shall be contributed to non-sectarian, not-for-profit, 501(c)(3) organization(s) designated by Lead Plaintiffs’ Counsel.
- (l) Lead Plaintiffs, Defendants, their respective counsel and all other Released Parties shall have no responsibility for or liability whatsoever for the investment or distribution of the Settlement Fund, the Net Settlement Fund, the Plan of Allocation or the determination, administration, calculation, or payment of any Proof of Claim or non-performance of the Claim Administrator, the payment or withholding of taxes owed by the Settlement Fund or any losses incurred in connection therewith.

**SPECIAL NOTICE TO SECURITIES BROKERS AND OTHER NOMINEES**

If you purchased Ionatron securities during the Class Period as nominee for a beneficial owner, then within ten (10) days after you receive this Notice, you must either: (a) send a copy of this Notice and the accompanying Proof of Claim and Release by first-class mail to all such beneficial owners; or (b) provide a list of the names and addresses of such beneficial owners to the Claims Administrator as follows:

*Ionatron, Inc. Securities Litigation*  
Administar Services Group LLC  
P.O. Box 56380  
Jacksonville, FL 32241-6380

If you chose option (a) above, you may request enough forms from the Claims Administrator (at no charge) to complete your mailing. You may seek reimbursement of your reasonable expenses actually incurred in complying with these directives, subject to approval of Lead Plaintiffs' Counsel or the Court. All communications concerning this matter should be addressed to the Claims Administrator.

**INQUIRIES**

All inquiries concerning this Notice, the Proof of Claim form, or any other questions by Class Members should be directed to the Claims Administrator as follows:

*Ionatron, Inc. Securities Litigation*  
Administar Services Group LLC  
P.O. Box 56380  
Jacksonville, FL 32241-6380

**PLEASE DO NOT CONTACT THE COURT REGARDING THIS NOTICE**

Dated: August 6, 2009

By Order of the District Court:

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Cindy K. Jorgenson, U.S.D.J.