

06/14/2017 at 03:36:00 PM

Clerk of the Superior Court
By Olga Lopez, Deputy Clerk

1 ROBBINS GELLER RUDMAN
& DOWD LLP
2 RANDALL J. BARON (150796)
A. RICK ATWOOD, JR. (156529)
3 JEFFREY D. LIGHT (159515)
DAVID T. WISSBROECKER (243867)
4 MAXWELL R. HUFFMAN (264687)
655 West Broadway, Suite 1900
5 San Diego, CA 92101
Telephone: 619/231-1058
6 619/231-7423 (fax)

7 FARUQI & FARUQI, LLP
BARBARA A. ROHR (273353)
8 10866 Wilshire Blvd., Suite 1470
Los Angeles, CA 90024
9 Telephone: 424/256-2884
424/256-2885 (fax)

10 Interim Class Counsel

11 [Additional counsel appear on signature page.]

12 SUPERIOR COURT OF THE STATE OF CALIFORNIA

13 COUNTY OF ORANGE

14 In re CERADYNE, INC. SHAREHOLDER) Lead Case No. 30-2012-00604001-CU-BT-CXC
15 LITIGATION) (Consolidated with
Case No. 30-2012-00604931-CU-SL-CXC)

16 _____)
17 This Document Relates To:) CLASS ACTION
18 ALL ACTIONS.) Assigned to: Judge Thierry P. Colaw

19 STIPULATION OF SETTLEMENT

20 DEPT: CX105
DATE ACTION FILED: 10/09/12

1 This Stipulation of Settlement dated June 14, 2017 (“Stipulation” or “Settlement”), is entered
2 into by and among the following Parties in the above-entitled consolidated action (the “Action”): (i)
3 plaintiffs Parmanand Kumar (“Kumar”), Adam Golovoy (“Golovoy”) and City of Hialeah Employees’
4 Retirement System (collectively, “Plaintiffs”), on their own behalf and on behalf of each of the Class
5 Members, and (ii) defendants Ceradyne, Inc. (“Ceradyne”), Joel P. Moskowitz, Richard A. Kertson,
6 Richard A. Alliegro, Frank Edelstein, Siegfried Müssig and Milton L. Lohr (collectively,
7 “Defendants”), by and through their respective undersigned counsel in the Action. Upon and subject to
8 the terms and conditions hereof, Plaintiffs, on behalf of themselves and the Class Members, on the one
9 hand, and each of the Defendants, on the other hand (collectively, “Parties”), intend this Settlement to
10 be a final and complete resolution of all disputes which were asserted or which could have been
11 asserted between the Parties with respect to the Action.

12 This Stipulation is subject to the approval of the Superior Court of the State of California,
13 County of Orange (the “Court”). All terms herein with initial capitalization shall, unless defined
14 elsewhere in this Stipulation, have the meanings ascribed to them in ¶1 below.

15 **I. PROCEDURAL HISTORY**

16 On October 1, 2012, Ceradyne and 3M Company announced the execution of an agreement and
17 plan of merger, pursuant to which, among other things, 3M Company, through its wholly-owned
18 subsidiary, Cyborg Acquisition Corporation (“Cyborg,” and together with 3M Company, “3M”), would
19 commence a tender offer to acquire all outstanding shares of Ceradyne stock at a price of \$35.00 per
20 share in cash (the “Tender Offer”) and consummate a second-step merger with Ceradyne (the “Merger,”
21 and together with the Tender Offer, the “Transaction”) in which the remaining holders of Ceradyne
22 common stock would receive the same price per share paid in the Tender Offer, also in cash, or those
23 remaining stockholders would be entitled to exercise their statutory appraisal rights pursuant to Section
24 262 of the Delaware General Corporation Law (“DGCL”).

25 On October 9 and October 12, 2012, respectively, Plaintiffs Golovoy and Kumar (together, the
26 “Individual Plaintiffs”), each on behalf of a proposed class of Ceradyne stockholders, filed actions in
27 this Court against Defendants challenging the Transaction, captioned *Golovoy v. Ceradyne, Inc., et al.*,
28

1 Case No. 30-2012-00604001-CU-BT-CXC, and *Kumar v. Ceradyne, Inc., et al.*, Case No. 30-2012-
2 00604931-CU-SL-CXC.

3 On October 15, 2012, Ceradyne filed a Schedule 14D-9 (the “Schedule 14D-9”) with the
4 Securities and Exchange Commission (the “SEC”) in connection with the Transaction. On the same
5 date, Plaintiff Kumar filed a consolidated amended complaint, adding, among other things, allegations
6 that the members of the Ceradyne Board of Directors (the “Board” or the “Individual Defendants”)
7 breached their fiduciary duties by failing to adequately disclose in the Schedule 14D-9 certain
8 information alleged to be material regarding the Transaction.

9 On October 16, 2012, counsel for Plaintiff Kumar sent a letter to counsel for Defendants and 3M
10 seeking to meet and confer regarding the Individual Plaintiffs’ request for expedited discovery. The
11 parties thereafter negotiated and agreed upon: (i) a scheduling stipulation for expedited discovery and
12 briefing related to a motion for preliminary injunction (the “Scheduling Stipulation”); and (ii) a
13 protective order (the “Protective Order”) to govern the Parties’ production of confidential, non-public
14 documents and information.

15 On October 22, 2012, Ceradyne and the Individual Defendants made an initial production of
16 documents consisting of meeting minutes of the Board and presentations by Ceradyne’s financial
17 advisor, Citigroup Global Markets, Inc. (“Citigroup Global Markets”) relating to the Transaction.

18 On October 27, 2012, Ceradyne and the Individual Defendants made a document production
19 consisting of approximately 66,000 pages of documents, consisting of emails and other documents upon
20 such categories and search terms agreed upon by the Parties. Ceradyne and the Individual Defendants
21 made a supplemental document production on November 1, 2012.

22 On October 29, 2012, this Court consolidated the separate actions of the Individual Plaintiffs
23 into this Action, Lead Case No. 30-2012-00604001, appointed as interim class counsel Robbins Geller
24 Rudman & Dowd LLP and Faruqi & Faruqi, LLP (together, “Class Counsel”), and approved the
25 schedule for discovery and the Individual Plaintiffs’ contemplated motion for preliminary injunction
26 and other filings pursuant to the Scheduling Stipulation. The Court also entered the Protective Order.

27 Between November 1 and November 7, 2012, the Individual Plaintiffs deposed: (i) Defendant
28 Richard A. Kertson (“Kertson”), a member of the Board; (ii) Defendant Joel P. Moskowitz, Chairman

1 of the Board and Ceradyne’s Chief Executive Officer; and (iii) Wesley C. Walraven, a managing
2 director of Citigroup Global Markets.

3 On November 9, 2012, the Individual Plaintiffs filed a motion for preliminary injunction with
4 supporting papers.

5 Prior to the closing of the Merger, the parties engaged in arm’s-length negotiations regarding a
6 potential non-monetary resolution of claims raised in this Action and reached an agreement-in-principle
7 concerning a proposed settlement (the “Non-Monetary Settlement”). That agreement-in-principle was
8 set forth in a Memorandum of Understanding dated November 15, 2012 (the “MOU”), which provided,
9 among other things, that Ceradyne would disclose certain supplemental information in an amendment to
10 the Schedule 14D-9 and that the Individual Plaintiffs would take certain confirmatory discovery. The
11 Parties immediately advised the Court of the MOU.

12 Pursuant to the MOU, Ceradyne disclosed certain supplemental information requested by Class
13 Counsel in an amendment to the Schedule 14D-9, which was filed with the SEC on November 16, 2012.

14 The Tender Offer closed on November 27, 2012, and the Merger closed on November 28, 2012.

15 Pursuant to the MOU, Class Counsel completed their confirmatory discovery by taking the
16 deposition of Jerrold Pellizzon (“Pellizzon”), Ceradyne’s Chief Financial Officer and Corporate
17 Secretary, on December 11, 2012.

18 On March 12, 2013, the Individual Plaintiffs filed a motion for preliminary approval of the Non-
19 Monetary Settlement, which was granted pursuant to an order entered by the Court on May 1, 2013.

20 On June 21, 2013, the Individual Plaintiffs filed a motion for final approval of the Non-
21 Monetary Settlement (the “Motion for Final Approval”). Following briefing and oral argument, the
22 Court denied the Motion for Final Approval pursuant to an order entered on August 14, 2013.

23 On August 23, 2013, the Individual Plaintiffs filed a motion for reconsideration in connection
24 with the Court’s denial of the Motion for Final Approval (the “Motion for Reconsideration”).
25 Following briefing and oral argument, the Court denied the Motion for Reconsideration pursuant to an
26 order entered on September 30, 2013.

27
28

1 On December 10, 2013, the Individual Plaintiffs filed a motion for leave to file a second
2 consolidated amended complaint (the “Motion for Leave”). Following briefing and oral argument, the
3 Court denied the Motion for Leave pursuant to an order entered on January 24, 2014.

4 On March 12, 2014, the Court entered a stipulated order dismissing 3M from this Action
5 pursuant to a stipulation between the Individual Plaintiffs and 3M regarding tolling and future
6 discovery.

7 On March 28, 2014, the Court entered a stipulated order that provided the Individual Plaintiffs
8 leave to file a second consolidated amended complaint (the “SCAC”) and a schedule for responsive
9 briefing thereto. On April 1, 2014, the Individual Plaintiffs filed the SCAC. On April 23, 2014, the
10 Defendants filed a demurrer to the SCAC and a motion to strike the class allegations contained in the
11 SCAC. Following briefing and oral argument, the Court sustained the demurrer and provided the
12 Individual Plaintiffs leave to amend the SCAC pursuant to an order entered on July 23, 2014.

13 On August 7, 2014, the Individual Plaintiffs filed a third consolidated amended complaint (the
14 “TCAC”). On September 8, 2014, the Individual Defendants filed a demurrer to the TCAC and a
15 motion to strike the class allegations contained in the TCAC. Following briefing and oral argument, the
16 Court overruled the demurrer and denied the motion to strike pursuant to an order entered on January
17 23, 2015 (the “January 23 Order”).

18 Following the entry of the January 23 Order, the Individual Plaintiffs served requests for the
19 production of documents (the “Document Requests”) and special interrogatories on Defendants.
20 Plaintiffs also served subpoenas on certain third parties, including Citigroup Global Markets and 3M.
21 Defendants served objections and responses to the Individual Plaintiffs’ special interrogatories on May
22 18, 2015.

23 On or about March 15, 2015, Joel P. Moskowitz passed away.

24 On June 10, 2015, the Defendants filed a motion for judgment on the pleadings with respect to
25 the TCAC (the “Motion for Judgment on the Pleadings”). Following briefing, the Court granted the
26 Motion for Judgment on the Pleadings and provided the Individual Plaintiffs leave to amend the TCAC
27 pursuant to an order entered on July 10, 2015.

28

1 On August 10, 2015, the Individual Plaintiffs filed a fourth consolidated amended complaint
2 (the “FCAC”). On September 10, 2015, the Defendants filed a demurrer to the FCAC. Following
3 briefing and oral argument, the Court overruled the demurrer pursuant to an order entered on November
4 6, 2015 (the “November 6 Order”). Defendants filed their answer to the FCAC on November 30, 2015.

5 Following a scheduling conference with the Court, a stipulated case management order (the
6 “Case Management Order”) was entered on April 26, 2016, which set forth a schedule of case events.
7 The Case Management Order was modified pursuant to a stipulated order entered on October 12, 2016.

8 Following the entry of the November 6 Order, the parties engaged in arm’s-length discussions
9 concerning fact discovery, including, but not limited to, the collection parameters for electronically-
10 stored documents to be produced in response to the Individual Plaintiffs’ Document Requests, the
11 timing and location of depositions of the Individual Defendants and third parties, and the parameters of
12 a revised Protective Order that would facilitate the production of documents subject to the Arms Export
13 Control Act, the Export Administration Act of 1979, and the International Transfer of Arms
14 Regulations, as Ceradyne was engaged in the production and sale of body armor, combat helmets and
15 other products for the Department of Defense.

16 Between May 9 and October 7, 2016, Defendants produced documents in response to the
17 Document Requests. In total, Defendants produced 12,751 individual documents totaling 121,856
18 pages as part of fact discovery in this Action. On July 11, 2016, in response to the Individual Plaintiffs’
19 subpoena, Citigroup Global Markets produced 5,791 documents totaling 15,217 pages. On July 21,
20 2016, in response to the Individual Plaintiffs’ subpoena, 3M produced 4,957 individual documents
21 totaling 21,622 pages.

22 On August 2, 2016, the Court entered an amended Protective Order concerning the production
23 of confidential, non-public documents and information.

24 Following the completion and review of document productions from Defendants and third
25 parties, the Individual Plaintiffs took the following additional depositions: (i) Kertson on September 16,
26 2016; (ii) Cary Okawa, Ceradyne’s former Corporate Controller, on October 6, 2016; (iii) Pellizzon on
27 October 11, 2016; and (iv) David Reed, Ceradyne’s former President of North American Operations, on
28

1 November 15, 2016. Additional depositions of fact witnesses were scheduled for January and February
2 2017.

3 On May 9, 2016, City of Hialeah Employees' Retirement System ("CHERS") filed a motion to
4 intervene (the "Motion to Intervene") to join this Action as a named Plaintiff. Following briefing and
5 oral argument, the Court granted the Motion to Intervene pursuant to an order entered on September 2,
6 2016. Plaintiff CHERS filed its complaint-in-intervention (the "CHERS Complaint") on September 13,
7 2016. Defendants filed their answer to the CHERS Complaint on October 11, 2016.

8 Also on May 9, 2016, Plaintiffs filed a motion for class certification (the "Motion for Class
9 Certification"), which identified a proposed class of former Ceradyne stockholders and requested that
10 Plaintiffs Golovoy, Kumar and CHERS be appointed as co-class representatives. Following the filing
11 of the Motion for Class Certification, Defendants undertook class discovery and the parties regularly
12 conferred regarding the scope thereof.

13 In response to requests for the production of documents served on May 20, 2016, which sought
14 documents concerning their investments in Ceradyne, the Merger and the Action, among other topics,
15 Plaintiffs produced responsive documents. On July 19, 2016, Defendants deposed Robert Williams, III
16 ("Chairman Williams"), Chairman of the Board of Trustees for CHERS (the "Board of Trustees"). On
17 July 22, 2016, Defendants deposed Plaintiff Kumar. On July 25, 2016, Defendants deposed Plaintiff
18 Golovoy.

19 On September 21, 2016, Defendants served notices of deposition for the remaining members of
20 the Board of Trustees (the "Remaining Trustees"). On September 28, 2016, Plaintiff CHERS served
21 objections and responses thereto. On October 12, 2016, Defendants moved to compel the depositions of
22 the Remaining Trustees. Following briefing and pursuant to an order of the Court entered on November
23 7, 2016, CHERS served declarations from the Remaining Trustees concerning the issue that Defendants
24 intended to address during these depositions, and Defendants deposed Chairman Williams again on
25 November 21, 2016.

26 On September 29, 2016, Defendants deposed a representative of Rhumblin Advisers, financial
27 adviser to CHERS in connection with its prior investment in Ceradyne.

28

1 On September 16, 2016, Plaintiff CHERS served objections and responses to Defendants' first
2 set of special interrogatories. Plaintiff CHERS served revised objections and responses thereto on
3 October 26, 2016.

4 On September 27, 2016, Plaintiffs served joint objections and responses to Defendants' first set
5 of requests for admission and form interrogatories. On October 12, 2016, Defendants moved to compel
6 further responses thereto. In response to this motion, Plaintiffs served revised objections and responses
7 on October 27, 2016.

8 On or about November 26, 2016, Richard A. Alliegro passed away.

9 On November 28, 2016, Plaintiff Golovoy served objections and responses to additional
10 requests for admission, requests for the production of documents and form interrogatories served by
11 Defendants.

12 On December 9, 2016, Defendants filed their opposition to the Motion for Class Certification.
13 On January 6, 2017, Plaintiffs filed their reply in further support of the Motion for Class Certification.

14 On January 9, 2017, Plaintiffs served joint objections and responses to the Individual
15 Defendants' first set of special interrogatories.

16 On January 11, 2017, after preparing and submitting materials to mediator Jill Sperber, Esq.,
17 Class Counsel and Defendants' counsel participated in an all-day mediation session (the "Mediation")
18 concerning a possible resolution of this Action. At the conclusion of the Mediation, the parties reached
19 an agreement concerning material terms regarding the Settlement.

20 **II. CLAIMS OF PLAINTIFFS AND BENEFITS OF SETTLEMENT**

21 Plaintiffs believe that the claims asserted in the Action have merit. However, Plaintiffs and their
22 counsel recognize and acknowledge the expense and length of continued proceedings necessary to
23 prosecute the Action against the Defendants through completion of fact and expert discovery, summary
24 judgment, trial, and appeals. Plaintiffs and their counsel also have taken into account the uncertain
25 outcome and the risk of any litigation, especially in complex actions such as this Action, as well as the
26 difficulties and delays inherent in such litigation. Plaintiffs and their counsel also are mindful of the
27 inherent problems of proof under and possible defenses to the violations asserted or which could have
28 been asserted, including following additional discovery, in the Action. Plaintiffs and their counsel

1 believe that the Settlement set forth in this Stipulation confers substantial benefits upon the Class and is
2 in the best interest of the Class.

3 **III. DEFENDANTS' DENIALS OF WRONGDOING AND LIABILITY**

4 Defendants have denied and continue to deny each and all of the claims and contentions alleged
5 by Plaintiffs in the Action. Defendants expressly have denied and continue to deny all charges of
6 wrongdoing or liability against them arising out of any of the conduct, statements, acts, or omissions
7 alleged, or that could have been alleged, in the Action. Defendants also have denied and continue to
8 deny, *inter alia*, the allegations that Plaintiffs or Class Members have suffered damage, or were
9 otherwise harmed by the conduct alleged in the Action. Defendants have asserted and continue to assert
10 that, at all times, they acted in good faith and in a manner they reasonably believed to be in accordance
11 with all applicable rules, regulations, and laws.

12 Nonetheless, Defendants have concluded that further conduct of the Action could be protracted
13 and expensive. Defendants have taken into account the uncertainty and risks inherent in any litigation,
14 especially in complex cases like this Action. Defendants have, therefore, determined that it is desirable
15 and beneficial to them that the Action be settled in the manner and upon the terms and conditions set
16 forth in this Stipulation.

17 **NOW, THEREFORE, IT IS HEREBY STIPULATED, CONSENTED TO AND AGREED,**
18 by Plaintiffs, for themselves and on behalf of the Class, and Defendants that, subject to the approval of
19 the Court and pursuant to Section 382 of the California Code of Civil Procedure and Rule 3.769 of the
20 California Rules of Court and the other conditions set forth below, for the good and valuable
21 consideration set forth herein and conferred on Plaintiffs and the Class, the Action against Defendants
22 shall be finally and fully settled and compromised, with entry of the Judgment as defined below in
23 ¶1.11, and that the Released Plaintiffs' Claims shall be finally and fully compromised, settled, released,
24 and discharged as against the Released Defendant Parties, and that the Released Defendant Parties'
25 Claims shall be finally and fully compromised, settled, released, and discharged as against the Released
26 Plaintiff Parties, in the manner set forth herein.

1 **1. Definitions**

2 In addition to the terms defined elsewhere in this Stipulation, the following capitalized terms as
3 used in this Stipulation shall have the meanings specified below:

4 1.1 “Administrative Costs” means all costs and expenses associated with providing notice of
5 the Settlement to the Class, soliciting claims, administering and distributing the Net Settlement Fund to
6 Settlement Payment Recipients, paying escrow costs and fees, if any, or otherwise administering or
7 carrying out the terms of the Settlement, and all Taxes and/or Tax Expenses.

8 1.2 “Claims Administrator” means the firm of Gilardi & Co. LLC.

9 1.3 “Class” means, for purposes of this Settlement only, all record and beneficial owners of
10 Ceradyne common stock who received consideration for their shares in the sale of Ceradyne to 3M
11 Company at the price of \$35.00 per share pursuant to either the Tender Offer or the second step Merger.
12 Excluded from the Class are the Defendants, their estates, Defendants’ respective successors, heirs and
13 assigns, Defendants’ immediate family members, and any company, trust, or other entity in which a
14 Defendant owned, or beneficially controlled or held, as of November 27, 2012, a fifty percent or more
15 interest. Also excluded from the Class is any Person who exercised their appraisal rights under Section
16 262 of the General Corporation Law of the State of Delaware or who validly requests exclusion from
17 the Class.

18 1.4 “Class Counsel” means Robbins Geller Rudman & Dowd LLP and Faruqi & Faruqi,
19 LLP.

20 1.5 “Class Member” means a person who falls within the definition of the Class as set forth
21 above in ¶1.3.

22 1.6 “Effective Date” means the first date by which all of the events and conditions specified
23 in ¶6.1 of the Stipulation have occurred or been met.

24 1.7 “Escrow Account” means the interest bearing escrow account which is to be maintained
25 by the Escrow Agent and into which the Settlement Amount shall be deposited, pursuant to ¶2.1.

26 1.8 “Escrow Agent” means Robbins Geller Rudman & Dowd LLP or its successor(s).

27 1.9 “Fee and Expense Award” means an award to Class Counsel of fees and expenses and
28 any awarded interest thereon to be paid from the Settlement Fund, approved by the Court and in full

1 satisfaction of any and all claims for attorneys' fees and expenses that have been, could be, or could
2 have been asserted by Class Counsel or any other counsel or any member of the Class.

3 1.10 "Final" means, with respect to any order of court, including, without limitation, the
4 Judgment, that such order represents a final and binding determination of all issues within its scope and
5 has not been reversed, vacated, or modified in any way and is no longer subject to appellate review,
6 either because of disposition on appeal and conclusion of the appellate process or because of passage,
7 without action, of time for seeking appellate review. An order becomes Final when either: (a) no
8 appeal has been filed and the time has passed for any notice of appeal to be timely filed; or (b) an
9 appeal has been filed and either (i) the court of appeals has/have either affirmed the judgment or
10 dismissed that appeal and the time for any reconsideration or further appellate review has passed, or (ii)
11 a higher court has granted further appellate review and that court has either affirmed the underlying
12 judgment or affirmed the court of appeals' decision affirming the judgment or dismissing the appeal.
13 For purposes of this paragraph, an "appeal" shall include appeals as of right, discretionary appeals,
14 interlocutory appeals, proceedings involving any petition for a writ of certiorari or other writ that may
15 be filed in connection with approval or disapproval of this Settlement. Any appeal or other proceeding
16 pertaining to any order concerning the issue of attorneys' fees and expenses, the distribution of the Net
17 Settlement Fund or the procedures for determining recognized claims shall not in any way delay or
18 preclude the Judgment from becoming Final.

19 1.11 "Judgment" means the Order and Final Judgment pursuant to California Rule of Court
20 3.769(h) to be entered in the Action in all material respects in the form attached as Exhibit B hereto.

21 1.12 "Net Settlement Fund" means the Settlement Fund as defined herein less any Fee and
22 Expense Award, Administrative Costs, and any award to Plaintiffs for their representation of the Class.

23 1.13 "Notice" has the meaning ascribed to it in ¶3.1.

24 1.14 "Party" means any one of, and "Parties" means all of, the parties to this Stipulation,
25 namely, the Defendants and Plaintiffs, on behalf of themselves and the Class.

26 1.15 "Person" means an individual, corporation, partnership, limited partnership, limited
27 liability partnership, association, joint stock company, joint venture, limited liability company,
28 professional corporation, estate, legal representative, trust, unincorporated association, government or

1 any political subdivision or agency thereof, and any business, legal or other entity, and their spouses,
2 heirs, predecessors, successors, representatives, or assignees.

3 1.16 “Preliminary Approval Order” has the meaning ascribed to it in ¶3.1.

4 1.17 “Released Defendant Parties” means Defendants, 3M, and Citigroup Global Markets,
5 individually and collectively, and any and all of their families, parent entities, subsidiaries, joint
6 ventures and joint venturers, related or affiliated entities, controlling or managing persons or entities,
7 associates, investors, affiliates or subsidiaries and each and all of their past, present, or future officers,
8 directors, managing directors, stockholders, employees, attorneys, financial or investment advisors,
9 principals, insurers, excess insurers and reinsurers, consultants, accountants and auditors, investment
10 banks and bankers, commercial banks and bankers, entities providing fairness opinions, brokers,
11 dealers, underwriters, analysts, engineers, advisors or agents, spouses, heirs, executors, assigns, trustees,
12 general or limited partners or partnerships, limited liability companies, members, personal or legal
13 representatives, estates, administrators, and each of their respective predecessors, successors, and
14 assigns, and investment funds that any of the Defendants managed or advised and such funds’
15 respective affiliates, predecessors, and successors, whether or not served with process and whether or
16 not such person appeared or was named as a defendant in the Action.

17 1.18 “Released Defendant Parties’ Claims” means all claims (including Unknown Claims),
18 demands, losses, rights, and causes of action of any nature whatsoever that have been or could be
19 asserted in the Action, or in any court, tribunal, forum or proceeding, by any Released Defendant Party
20 against any of the Released Plaintiff Parties, which arise out of or relate in any way to the institution,
21 prosecution, settlement or dismissal of the Action; provided, however, that the Released Defendant
22 Parties’ Claims shall not include claims to enforce this Stipulation.

23 1.19 “Released Plaintiff Parties” means Plaintiffs and their counsel, including Class Counsel
24 and all Class Members.

25 1.20 “Released Plaintiffs’ Claims” means any and all manner of claims (including Unknown
26 Claims), actions, demands, losses, rights, causes of action, liabilities, obligations, judgments, suits,
27 disputes, matters and issues of any kind or nature whatsoever (including, but not limited to, any claims
28 for damages (whether compensatory, special, incidental, consequential, punitive, exemplary or

1 otherwise), injunctive relief, declaratory relief, rescission or rescissionary damages, interest, attorneys'
2 fees, expert or consulting fees, costs, expenses, or any other form of legal or equitable relief
3 whatsoever), known or unknown, contingent or absolute, suspected or unsuspected, disclosed or
4 undisclosed, hidden or concealed, liquidated or unliquidated, matured or unmatured, accrued or
5 unaccrued, apparent or unapparent, that have been or could have been asserted in the Action or in any
6 court, tribunal, forum or proceeding (including, but not limited to, any claims arising under federal,
7 state or foreign law, common law, statute, rule, or regulation relating to alleged fraud, breach of any
8 duty, negligence, violations of the federal or state securities and disclosure laws, or otherwise, and any
9 claims relating to unjust enrichment or self-dealing including, but not limited to, claims relating to
10 compensation, and including all claims within the exclusive jurisdiction of the federal courts), by or on
11 behalf of Plaintiffs or by or on behalf of any other Class Member in his, her, or its capacity as a
12 shareholder of Ceradyne, whether individual, direct, class, derivative, representative, legal, equitable, or
13 any other type or in any other capacity, against the Released Defendant Parties, and that could have or
14 now do arise out of, relate to, concern, or are based upon the allegations, conduct, facts, events,
15 transactions, acts, occurrences, statements, representations, misrepresentations, omissions, or any other
16 matter, thing or cause whatsoever, or any series thereof embraced, involved, or set forth in or otherwise
17 related, directly or indirectly, to the Action or the subject matter of the Action. Released Plaintiffs'
18 Claims do not include any claims to enforce this Stipulation.

19 1.21 “Settlement” means the settlement and the terms thereof contemplated by this
20 Stipulation.

21 1.22 “Settlement Amount” means the sum of Eleven Million Three Hundred Thousand
22 Dollars (\$11,300,000) in cash, plus interest calculated as set forth in ¶2.1 below.

23 1.23 “Settlement Fund” means the Settlement Amount plus any interest earned as set forth in
24 ¶2.4 below.

25 1.24 “Settlement Hearing” means the hearing described more fully in ¶3.1 to be held by the
26 Court to determine whether the Settlement should be approved as fair, reasonable and adequate;
27 whether to enter the Judgment, in substantially the form attached as Exhibit B hereto; and whether to
28

1 approve the plan of distribution, the Fee and Expense Application (as defined in ¶7.1), and awards to
2 Plaintiffs for their representation of the Class.

3 1.25 “Settlement Payment Recipients” means all Class Members who submit a valid Proof of
4 Claim to the Claims Administrator.

5 1.26 “Summary Notice” has the meaning ascribed to it in ¶3.1.

6 1.27 “Unknown Claims” means:

7 (a) any and all Released Plaintiffs’ Claims which Plaintiffs or any other Class
8 Member does not know or suspect to exist in his, her, or its favor at the time of the release of the
9 Released Plaintiffs’ Claims against the Released Defendant Parties, including (without limitation)
10 claims which if known by him, her, or it, might have affected his, her, or its decision(s) with respect to
11 the Settlement; and

12 (b) any and all Released Defendant Parties’ Claims which any Defendant or any
13 other Released Defendant Party does not know or suspect to exist in his, her, or its favor at the time of
14 the release of the Released Defendant Parties’ Claims against the Released Plaintiff Parties, including
15 (without limitation) claims which if known by him, her, or it might have affected his, her, or its
16 decision(s) with respect to the Settlement.

17 **2. The Settlement**

18 **a. The Settlement Amount**

19 2.1 In consideration for the full settlement, satisfaction, compromise, and release of the
20 Released Plaintiffs’ Claims as to the Released Defendant Parties, Defendants shall cause to be paid the
21 sum of \$11,300,000, plus interest thereon at the rate of 0.04% per annum, which interest shall accrue
22 commencing upon the date the Court enters an order granting preliminary approval of the Settlement
23 and ending on the date the Settlement Amount is paid into the Escrow Account controlled by the
24 Escrow Agent. The Settlement Amount shall be paid, either by wire transfer or by check at Defendants’
25 election, into the Escrow Account within twenty (20) business days after a Court order granting final
26 approval of the Settlement; provided that, no more than five (5) business days after the Court order
27 granting final approval of the Settlement, Plaintiffs shall have provided Defendants’ counsel with wire
28 transfer instructions, mailing information, and a properly executed W-9. If the Settlement Amount is

1 not timely paid into the Escrow Account, Plaintiffs shall have the right to terminate the Settlement and
2 this Stipulation by providing written notice of termination to Defendants' counsel.

3 2.2 Apart from the payment of the Settlement Amount in accordance with ¶2.1, Defendants
4 shall have no further monetary obligation to Plaintiffs or the Class Members or Class Counsel under
5 this Settlement. All Administrative Costs and any Fee and Expense Award (including any interest
6 thereon), and any and all costs associated with the allocation and distribution of the Net Settlement
7 Fund will be paid solely out of the Settlement Fund without further order of the Court or Defendants,
8 and no Defendant shall have any obligation to pay or bear any amounts, expenses, costs, damages,
9 assessment or fees to or for the benefit of any Plaintiff, Class Member, or Plaintiffs' counsel in
10 connection with this Settlement other than the payment of the Settlement Amount.

11 2.3 Prior to the deposit of the Settlement Amount into the Escrow Account pursuant to ¶2.1,
12 and notwithstanding ¶¶2.1 and 2.2, Defendants agree to make advance payments up to a total of
13 \$175,000 to be used solely for Administrative Costs actually incurred, additional sums for this purpose
14 will be paid by Defendants upon agreement of the Parties or order of the Court. Plaintiffs agree that any
15 such advance payments of Administrative Costs shall be credited towards Defendants' obligation to pay
16 the Settlement Amount into the Escrow Account. If the Settlement is not approved by the Court or does
17 not become effective pursuant to the terms of this Stipulation, then Plaintiffs and their counsel,
18 including Class Counsel or any Class Member, shall have no obligation or responsibility to pay back
19 any Administrative Costs that have been advanced or incurred pursuant to this ¶2.3.

20 **b. The Escrow Agent**

21 2.4 The Escrow Agent may invest the Settlement Fund deposited pursuant to ¶2.1 in short
22 term United States Agency or Treasury Securities or other instruments backed by the Full Faith &
23 Credit of the United States Government or an agency thereof, or fully insured by the United States
24 Government or an agency thereof, and shall reinvest the proceeds of these instruments as they mature in
25 similar instruments at their then-current market rates. All risks related to the investment of the
26 Settlement Fund in accordance with the investment guidelines set forth in this paragraph shall be borne
27 by the Settlement Fund and the Defendants shall have no responsibility for, interest in, or liability
28 whatsoever with respect to investment decisions or the actions of the Escrow Agent, or any transactions

1 executed by the Escrow Agent, including disbursement or failure of disbursement, payment of fees,
2 costs, expenses or taxes, elections, or any other act, omission or obligation regarding the Settlement
3 Fund, including with respect to the Stipulation or further order(s) of the Court.

4 2.5 The Escrow Agent shall not disburse the Settlement Fund except as provided in the
5 Stipulation, by an order of the Court, or with the written agreement of counsel for Defendants.

6 2.6 All funds held by the Escrow Agent shall be deemed and considered to be in *custodia*
7 *legis* of the Court, and shall remain subject to the jurisdiction of the Court, until such time as such funds
8 shall be distributed pursuant to this Stipulation, and/or further order(s) of the Court.

9 2.7 After the Settlement Amount is deposited into the Escrow Account pursuant to ¶2.1, and
10 without further approval from the Defendants or order of the Court, Plaintiffs and their counsel may
11 expend up to \$300,000 from the Settlement Fund for Administrative Costs actually incurred, which
12 amount will be calculated inclusive of any amounts previously incurred pursuant to ¶2.3. Additional
13 sums for this purpose prior to the Effective Date may be paid from the Settlement Fund upon agreement
14 of the Parties or order of the Court. If the Settlement does not become effective pursuant to the terms of
15 the Stipulation, then any amounts paid or incurred for such expenses in this paragraph shall not be
16 returned to Defendants and/or their insurers and Plaintiffs and their counsel, including Class Counsel,
17 and/or any Class Member shall have no responsibility or obligation to pay back any such
18 Administrative Costs. After the Effective Date, and without approval of Defendants or further order of
19 the Court, Administrative Costs may be paid from the Settlement Fund as incurred.

20 **c. Taxes**

21 2.8 The Parties and the Escrow Agent agree to treat the Settlement Fund as being at all times
22 a “qualified settlement fund” within the meaning of Treas. Reg. §1.468B-1. In addition, the Escrow
23 Agent shall timely make such elections as necessary or advisable to carry out the provisions of this
24 Section, including, if necessary, the “relation-back election” (as defined in Treas. Reg. §1.468B-1(j)(2))
25 back to the earliest permitted date. Such elections shall be made in compliance with the procedures and
26 requirements contained in such Treasury regulations promulgated under §1.468B of the Internal
27 Revenue Code of 1986, as amended (the “Code”). It shall be the responsibility of the Escrow Agent to
28

1 timely and properly prepare and deliver the necessary documentation for signature by all necessary
2 parties, and thereafter to cause the appropriate filing to occur.

3 2.9 For the purpose of §1.468B of the Code and the Treasury regulations thereunder, the
4 Escrow Agent shall be designated as the “administrator” of the Settlement Fund. The Escrow Agent
5 shall timely and properly file all informational and other tax returns necessary or advisable with respect
6 to the Settlement Fund (including, without limitation, the returns described in Treas. Reg. §1.468B-
7 2(k)). Such returns (as well as the election described in ¶2.8 hereof) shall be consistent with this
8 Section and in all events shall reflect that all Taxes (including any estimated Taxes, interest or
9 penalties) on the income earned by the Settlement Fund shall be paid out of the Settlement Fund as
10 provided in ¶2.10 hereof.

11 2.10 All: (a) Taxes (including any estimated Taxes, interest or penalties) arising with respect
12 to the income earned by the Settlement Fund, including any Taxes or tax detriments that may be
13 imposed upon Defendants or the Released Defendant Parties with respect to any income earned by the
14 Settlement Fund for any period during which the Settlement Fund does not qualify as a “qualified
15 settlement fund” for federal or state income tax purposes (“Taxes”); and (b) expenses and costs incurred
16 in connection with the operation and implementation of this Section (including, without limitation,
17 expenses of tax attorneys and/or accountants and mailing and distribution costs and expenses relating to
18 filing (or failing to file) the returns described in this Section) (“Tax Expenses”), shall be paid out of the
19 Settlement Fund. In no event shall Defendants or the Released Defendant Parties have any
20 responsibility for or liability with respect to the Taxes or the Tax Expenses. The Settlement Fund shall
21 indemnify and hold each of the Defendants and the Released Defendant Parties harmless for Taxes and
22 Tax Expenses (including, without limitation, Taxes payable by reason of any such indemnification).
23 Further, Taxes and Tax Expenses shall be treated as, and considered to be, a cost of administration of
24 the Settlement Fund and shall be timely paid by the Escrow Agent out of the Settlement Fund without
25 further consent of Defendants, or prior order from the Court, and the Escrow Agent shall be obligated
26 (notwithstanding anything herein to the contrary) to withhold from distribution to Settlement Payment
27 Recipients any funds necessary to pay such amounts, including the establishment of adequate reserves
28 for any Taxes and Tax Expenses (as well as any amounts that may be required to be withheld under

1 Treas. Reg. §1.468B-2(1)(2)); neither Defendants nor the Released Defendant Parties are responsible
2 therefor nor shall they have any liability with respect thereto. The Parties hereto agree to cooperate
3 with the Escrow Agent, each other, and their tax attorneys and accountants to the extent reasonably
4 necessary to carry out the provisions of this ¶2.10.

5 **3. Submission of the Settlement to the Court for Approval**

6 3.1 As soon as practicable after this Stipulation has been executed, Plaintiffs and Defendants
7 shall: (1) take all steps necessary to stay the Action pending further order of the Court; and (2) jointly
8 apply to the Court for entry of an Order in the form attached hereto as Exhibit A (the “Preliminary
9 Approval Order”), providing for, among other things: (a) preliminary approval of the Settlement of the
10 Action embodied in the Stipulation; (b) the dissemination of the Notice of Pendency and Proposed
11 Settlement of Class Action (the “Notice”), substantially in the form attached hereto as Exhibit A-1,
12 together with a Proof of Claim form, substantially in the form attached hereto as Exhibit A-2; (c) the
13 publication of the Summary Notice of Proposed Settlement of Class Action (the “Summary Notice”),
14 substantially in the form attached hereto as Exhibit A-3; and (d) the scheduling of the Settlement
15 Hearing to consider: (i) whether the Settlement is fair, reasonable and adequate, and directing
16 consummation pursuant to its terms, (ii) the joint request of the Parties that the Judgment be entered in
17 all material respects, substantially in the form attached hereto as Exhibit B, (iii) Class Counsel’s
18 application for an award of attorneys’ fees and expenses, and awards to Plaintiffs for their
19 representation of the Class, and (iv) any objections to any of the foregoing. The Parties shall jointly
20 request at the Settlement Hearing that the Judgment be entered, and shall take all reasonable and
21 appropriate steps to obtain final entry of the Judgment in all material respects, substantially in the form
22 attached hereto as Exhibit B.

23 3.2 Defendants’ counsel shall provide Class Counsel and/or the Claims Administrator the
24 stockholder list and other information at no cost, in an electronically-readable format, that was used as
25 the basis for distributing the consideration paid in the Transaction to Ceradyne’s shareholders. This
26 stockholder list and related information shall be used solely to effectuate this Settlement and shall in all
27 events be kept confidential.

28

1 **4. Releases**

2 4.1 Upon the Effective Date, Plaintiffs and each and every Class Member, and anyone acting
3 on their behalf, including their heirs, representatives, attorneys, affiliates, executors, trustees,
4 administrators, predecessors, successors, and assigns of each of them, in their capacity as such, shall be
5 deemed to have, and by operation of the Judgment shall have, fully, finally, and forever waived,
6 released, relinquished, and discharged against the Released Defendant Parties all of the Released
7 Plaintiffs' Claims, whether or not such Class Member executes and delivers a Proof of Claim form, and
8 whether or not such Class Member shares or seeks to share in the Net Settlement Fund.

9 4.2 Upon the Effective Date, Plaintiffs and each and every Class Member, and anyone acting
10 on their behalf, including their heirs, representatives, attorneys, affiliates, executors, trustees,
11 administrators, predecessors, successors, and assigns of each of them, in their capacity as such, shall be
12 permanently barred and enjoined from maintaining, initiating, asserting, prosecuting or enforcing
13 against each and every one of the Released Defendant Parties, in any court or forum, either directly or
14 indirectly, on their own behalf or on behalf of any class or other person, any and all of the Released
15 Plaintiffs' Claims, whether or not such Class Member executes and delivers a Proof of Claim form, and
16 whether or not such Class Member shares or seeks to share in the Net Settlement Fund.

17 4.3 Upon the Effective Date, each of the Released Defendant Parties shall be deemed to
18 have, and by operation of the Judgment shall have, fully, finally, and forever released, relinquished, and
19 discharged Released Plaintiff Parties from the Released Defendant Parties' Claims.

20 4.4 With respect to any and all Released Plaintiffs' Claims and Released Defendant Parties'
21 Claims, the Parties stipulate and agree that upon the Effective Date, Plaintiffs and Defendants shall
22 expressly waive, and each of the Class Members shall be deemed to have, and by operation of the
23 Judgment shall have expressly, waived, relinquished and released any and all provisions, rights and
24 benefits conferred by any law of any state or territory of the United States or other jurisdiction, or
25 principle of common law or foreign law, which is similar, comparable, or equivalent to Cal. Civ. Code
26 §1542, which provides:

27 **A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE**
28 **CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER**
 FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN

1 **BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER**
2 **SETTLEMENT WITH THE DEBTOR.**

3 Plaintiffs and Defendants acknowledge, and the other Class Members and the Released Defendant
4 Parties by operation of law to the maximum extent permitted by law shall be deemed to have
5 acknowledged, that they may discover facts in addition to or different from those now known or
6 believed to be true with respect to the Released Plaintiffs' Claims and the Released Defendant Parties'
7 Claims, but that it is the intention of Plaintiffs and Defendants, and by operation of law the other Class
8 Members and the Released Defendant Parties, to completely, fully, finally and forever extinguish any
9 and all Released Plaintiffs' Claims and Released Defendant Parties' Claims, known or unknown,
10 suspected or unsuspected, contingent or non-contingent, whether or not concealed or hidden, which now
11 exist, or heretofore existed, or may hereafter exist, upon any theory of law or equity now existing or
12 coming into existence in the future, including, but not limited to, conduct which is negligent, reckless,
13 intentional, with or without malice, or a breach of any duty, law or rule, and without regard to the
14 subsequent discovery of additional or different facts. Plaintiffs and Defendants acknowledge, and the
15 other Class Members and the Released Defendant Parties by operation of law shall be deemed to have
16 acknowledged, that the inclusion of "Unknown Claims" in the definition of Released Plaintiffs' Claims
17 and Released Defendant Parties' Claims was separately bargained for and was a key element of the
18 Settlement of which this release is a part.

19 **5. Administration and Calculation of Claims, Distribution and Supervision**
20 **of the Settlement Fund**

21 5.1 The Claims Administrator, subject to such supervision and direction of Class Counsel or
22 the Court, as may be necessary or as circumstances may require, shall administer and calculate the
23 claims submitted by Class Members and shall oversee distribution of the Net Settlement Fund (defined
24 below) to the Settlement Payment Recipients. The Released Defendant Parties shall have no
25 responsibility for, interest in, or liability whatsoever with respect to the administration, allocation, or
26 distribution of the Settlement Fund or Net Settlement Fund, or the actions or decisions of the Claims
27 Administrator, and shall have no liability to Class Members in connection therewith. The Settlement
28 Fund shall be applied as follows:

- (a) to pay Administrative Costs;

- 1 (b) to pay the Taxes and Tax Expenses described in ¶2.10 above;
- 2 (c) to pay the Fee and Expense Award and awards to Plaintiffs, if and to the extent
- 3 allowed by the Court; and
- 4 (d) to distribute the balance of the Net Settlement Fund to Settlement Payment
- 5 Recipients as allowed by the Stipulation or the Court.

6 5.2 Following the Effective Date, the Net Settlement Fund will be disbursed by the Claims

7 Administrator to the Settlement Payment Recipients and will be allocated on a per-share basis among

8 the Settlement Payment Recipients who have submitted to the Claims Administrator a valid Proof of

9 Claim, signed under penalty of perjury, within ninety (90) days after mailing of the Notice or such other

10 time as may be set by the Court.

11 5.3 Except as otherwise ordered by the Court, all Class Members who fail to timely submit a

12 valid Proof of Claim within such period, or such other period as may be ordered by the Court, or

13 otherwise allowed, shall be forever barred from receiving any payments pursuant to this Stipulation and

14 the Settlement set forth herein, but will in all other respects be subject to and bound by the provisions of

15 this Settlement and Stipulation, including the terms of the Judgment and all releases contained herein.

16 Notwithstanding the foregoing, Class Counsel shall have the discretion (but not the obligation) to accept

17 for processing late submitted claims so long as the distribution of the Net Settlement Fund to Settlement

18 Payment Recipients is not materially delayed. No Person shall have any claim against Plaintiffs, Class

19 Counsel, or the Claims Administrator by reason of the decision to exercise such discretion whether to

20 accept late submitted claims.

21 5.4 If there is any balance remaining in the Net Settlement Fund after six (6) months from

22 the date of distribution of the Net Settlement Fund (whether by reason of tax refunds, uncashed checks,

23 or otherwise), then, after the Claims Administrator has made reasonable and diligent efforts to have

24 Class Members who are entitled to participate in the distribution of the Net Settlement Fund cash their

25 distributions, Class Counsel shall, if feasible, reallocate such balance among Settlement Payment

26 Recipients in an equitable and economic fashion. These redistributions shall be repeated until the

27 balance remaining in the Net Settlement Fund is no longer practicable to distribute to Class Members.

28

1 Thereafter, any balance which still remains in the Net Settlement Fund shall be donated to Orange
2 County Public Law Center.

3 5.5 No Person shall have any claim against Plaintiffs and their counsel, including Class
4 Counsel, any Claims Administrator, or any other Person designated by Plaintiffs' counsel, based on the
5 distributions made substantially in accordance with this Stipulation and the Settlement contained herein,
6 or further order(s) of the Court.

7 5.6 It is understood and agreed by the Parties that the distribution of the Net Settlement
8 Fund, including, but not limited to, any adjustments to a claim set forth therein, is not a part of the
9 Stipulation and is to be considered by the Court separately from the Court's consideration of the
10 fairness, reasonableness, and adequacy of the Settlement set forth in the Stipulation, and any order or
11 proceeding relating to distribution of the Net Settlement Fund shall not operate to terminate or cancel
12 the Stipulation or affect the finality of the Court's Judgment approving the Stipulation and the
13 Settlement set forth therein, or any other orders entered pursuant to the Stipulation. The time to appeal
14 from approval of the Settlement shall commence upon the Court's entry of the Judgment regardless of
15 whether a distribution plan has been approved.

16 **6. Conditions of Settlement**

17 6.1 The Effective Date of the Settlement shall be subject to the following conditions, which
18 the Parties shall use their best efforts to achieve:

19 (a) the Court enters the Preliminary Approval Order in all material respects in the
20 form attached hereto as Exhibit A;

21 (b) the Court has approved the Settlement described herein, following notice to the
22 Class and a hearing, as prescribed herein;

23 (c) the Court enters the Judgment in all material respects in the form attached hereto
24 as Exhibit B, or a judgment in a form other than that provided in Exhibit B that is acceptable to all of
25 the Parties;

26 (d) no Party has exercised its right to terminate the Settlement;

27 (e) the Judgment has become Final as defined in ¶1.10;

28

1 (f) the Settlement Amount shall have been deposited in the Escrow Account as
2 required by the Stipulation; and

3 (g) the Parties have complied with their obligations set forth herein in all material
4 respects.

5 6.2 Upon the Effective Date, any and all remaining interest or right of any Defendant or any
6 Released Defendant Party in or to the Settlement Fund, if any, shall be forever extinguished.

7 6.3 If all the conditions specified in ¶6.1 are not met, then the Stipulation shall be null and
8 void and of no force and effect subject to ¶¶9.4 and 9.5, unless Class Counsel and counsel for
9 Defendants mutually agree in writing to proceed with the Stipulation.

10 **7. Attorneys' Fees and Expenses and Service Awards**

11 7.1 Class Counsel may apply for an award of attorneys' fees and expenses from the entire
12 Settlement Amount (the "Fee and Expense Application"), without deduction for any Administrative
13 Costs paid by Defendants pursuant to ¶2.3, including any interest on such attorneys' fees and expenses
14 at the same rate and for the same period of time as earned on the Settlement Amount after it is paid into
15 the Escrow Account, and until such attorneys' fees and expenses are paid to Class Counsel. Class
16 Counsel may also apply for service awards of up to \$5,000 for each Plaintiff, for their time and effort in
17 prosecuting this Action for the benefit of the Class. The Parties acknowledge and agree that any Fee
18 and Expense Award, and any service award, shall be paid solely from the Settlement Fund.

19 7.2 Any attorneys' fees and expenses awarded to Class Counsel by the Court shall be paid to
20 Class Counsel immediately upon an order awarding such fees and expenses, after the Settlement
21 Amount has been paid into the Escrow Account, notwithstanding the existence of any timely filed
22 objections thereto, or potential for appeal therefrom, or collateral attack on the Settlement or any part
23 thereof, subject to Class Counsel's several obligation to make appropriate refunds or repayments to the
24 Settlement Fund plus interest earned at the same rate of the Settlement Fund thereon, if and when, as a
25 result of any appeal and/or further proceedings on remand, or successful collateral attack, the fee or
26 expense award is lowered or extinguished, or the Settlement fails to become Final for any reason. The
27 procedure for and the allowance or disallowance by the Court of any applications for attorneys' fees and
28 expenses, or for service awards, to be paid out of the Settlement Fund, are not part of the Settlement set

1 forth in the Stipulation, and are to be considered by the Court separately from the Court's consideration
2 of the fairness, reasonableness, and adequacy of the Settlement set forth in the Stipulation, and any
3 order or proceeding relating to the Fee and Expense Application, or any appeal from any order relating
4 thereto or reversal or modification thereof, shall not operate to terminate or cancel the Stipulation, or
5 affect or delay the finality of the Judgment approving the Stipulation and the Settlement set forth
6 therein.

7 7.3 Class Counsel shall allocate the Fee and Expense Award amongst counsel for Plaintiffs
8 in a manner which they, in good faith, believe reflects the contributions of such counsel to the
9 prosecution and settlement of the Action.

10 7.4 The Released Defendant Parties shall have no input into or responsibility or liability
11 regarding the fairness, reasonableness, or adequacy of the Fee and Expense Award or any service award
12 for any Plaintiff, or the allocation by Class Counsel of the Fee and Expense Award.

13 **8. Stay Pending Court Approval**

14 8.1 Plaintiffs and Defendants agree that all outstanding discovery and other obligations will
15 be stayed without date and to stay all further proceedings in the Action and not to initiate any other
16 proceedings other than those incident to the Settlement itself pending the occurrence of the Effective
17 Date or after this Stipulation has been terminated pursuant to its terms.

18 **9. Termination of Settlement; Effect of Termination**

19 9.1 Plaintiffs and Defendants shall each have the right to terminate the Settlement and this
20 Stipulation by providing written notice of their election to do so to each other within ten (10) business
21 days of: (a) the Court's declining to enter the Preliminary Approval Order in any material respect,
22 substantially in the form attached hereto as Exhibit A; (b) the Court's declining to enter the Judgment in
23 any material respect, substantially in the form attached hereto as Exhibit B; or (c) the Court's entry of
24 the Judgment but on or following appellate review, remand, collateral attack or other proceedings, the
25 Judgment is modified or reversed in any material respect. Neither a modification nor a reversal on
26 appeal of the amount of the Fee and Expense Award shall be deemed a material modification of the
27 Judgment or this Stipulation.

28

1 9.2 In addition to the foregoing, Defendants shall also have the option (which must be
2 exercised unanimously by all Defendants with capacity to do so), but not the obligation, to terminate the
3 Settlement and render this Stipulation null and void in the event that the aggregate number of shares of
4 Ceradyne common stock held by Persons who would otherwise be eligible to participate as Class
5 Members but who timely and validly request exclusion from the Settlement, exceeds the level (the
6 “Opt-Out Threshold”) as set forth in a separate agreement (the “Supplemental Agreement”) executed
7 between Class Counsel and Defendants’ counsel. The Opt-Out Threshold may be disclosed to the Court
8 for purposes of approval of the Settlement set forth in this Stipulation, as may be required by the Court,
9 but such disclosure shall be carried out to the fullest extent possible in accordance with the practices of
10 the Court so as to maintain the confidentiality of the Supplemental Agreement.

11 9.3 The Preliminary Approval Order shall provide that requests for exclusion shall be
12 received by the Claims Administrator no later than sixty (60) calendar days after the initial date for
13 Notices to be sent to Class Members and their nominees as provided in the Preliminary Approval Order.
14 Upon receiving any request for exclusion, Class Counsel or the Claims Administrator shall promptly,
15 and in no case later than fifteen (15) calendar days prior to the Settlement Hearing, notify Defendants’
16 counsel of such request for exclusion and provide copies of such request for exclusion and any
17 documentation accompanying it by email.

18 9.4 Notwithstanding anything to the contrary set forth herein, in the event that the Court
19 approves the Stipulation and enters the Judgment, but Defendants fail to cause the Settlement Amount
20 to be deposited in accordance with this Stipulation and Plaintiffs have not terminated the Stipulation in
21 accordance with ¶2.1, nothing herein shall be construed to limit or prejudice in any way any of
22 Plaintiffs’ rights to seek enforcement of the terms of the Settlement, including specifically, rights to sue
23 for breach of contract and for specific performance and/or to seek appropriate legal and/or equitable
24 relief from the Court to enforce the Settlement.

25 9.5 Unless otherwise ordered by the Court, in the event the Stipulation shall terminate, or be
26 canceled, or shall not become effective for any reason, within ten (10) business days after written
27 notification of such event is sent by counsel for Defendants or Class Counsel to the Escrow Agent, the
28 Settlement Fund, less expenses which have either been disbursed pursuant to ¶¶2.2 or 2.10 hereof, or

1 are determined to be chargeable to the Settlement Fund, shall be refunded. The Escrow Agent or its
2 designee shall apply for any tax refund owed on the Settlement Fund and pay the proceeds, after
3 deduction of any fees or expenses incurred in connection with such application(s) for refund, pursuant
4 to written instructions from Defendants' counsel.

5 9.6 If the Effective Date does not occur, or if this Stipulation is disapproved, canceled or
6 terminated pursuant to its terms, or the Settlement otherwise does not become Final for any reason,
7 then: (a) this Stipulation shall be deemed null and void with the exception of ¶¶6.3, 7.2, 9.2, 9.3, 10.6,
8 10.9 hereto, which shall remain in full force and effect, and Plaintiffs and Defendants shall be deemed
9 to have reverted to their respective litigation status as of the date and time immediately prior to January
10 11, 2017, they shall proceed in all respects as if the Stipulation had not been executed and the related
11 orders had not been entered, and in that event all of their respective claims and defenses as to any issue
12 in the Action shall be preserved without prejudice, and neither the Stipulation, the Exhibits hereto
13 (which include the Supplemental Agreement), nor the settlement negotiations shall be used or referred
14 to in any action or proceeding for any purpose (other than to enforce the terms remaining in effect); and
15 (b) if the Settlement Amount has been paid into the Escrow Account, the Escrow Agent shall return and
16 refund the Settlement Amount (including accrued interest) and all payments disbursed, less
17 Administrative Costs which have been disbursed as provided in ¶2.7.

18 9.7 If the Court does not enter the Judgment in substantially the form of Exhibit B hereto, or
19 if the Court enters the Judgment and appellate review is sought and, on such review, the Judgment is
20 vacated, modified, or reversed, then this Stipulation and the Settlement incorporated herein shall be
21 cancelled and terminated, unless all parties who are adversely affected thereby, in their sole discretion
22 within thirty (30) days from the date of the mailing of such ruling to such parties, provide written notice
23 to all other parties hereto of their intent to proceed with the Settlement under the terms of Judgment as
24 modified by the Court or on appeal. Such notice may be provided on behalf of Plaintiffs and the Class
25 Members by Class Counsel. No Party shall have any obligation whatsoever to proceed under any terms
26 other than in the form provided and agreed to herein; provided, however, that no order of the Court
27 concerning any fee and expense application, or any modification or reversal on appeal of such order,
28 shall constitute grounds for cancellation or termination of this Stipulation by any Party.

1 9.8 If any Party seeks to enforce this Stipulation in any action or by motion practice in this
2 Court, the prevailing party in such action or motion practice shall be entitled to seek an award of
3 attorneys' fees and expenses.

4 **10. Miscellaneous Provisions**

5 10.1 The Settlement compromises claims which are contested and shall not be deemed an
6 admission by any Party as to the merits of any claim or defense.

7 10.2 All of the Exhibits attached hereto are material and integral parts hereof and shall be
8 incorporated by reference as though fully set forth herein.

9 10.3 This Stipulation may not be amended or modified, nor may any of its provisions be
10 waived, except by a written instrument signed by counsel for Plaintiffs and Defendants or their
11 successors-in-interest.

12 10.4 The headings herein are used for the purpose of convenience only and are not meant to
13 have legal effect.

14 10.5 Plaintiffs, on behalf of themselves and the other Released Plaintiff Parties, and
15 Defendants, on behalf of themselves and the other Released Defendant Parties, agree not to assert,
16 whether or not for attribution, that the Action was brought or prosecuted by Plaintiffs or defended by
17 Defendants in bad faith or without a reasonable basis. Plaintiffs and Defendants represent and agree
18 that the terms of the Settlement were negotiated at arm's length and in good faith by Plaintiffs and
19 Defendants, and reflect a settlement that was reached voluntarily based upon adequate information and
20 sufficient discovery and after consultation with experienced legal counsel. Defendants and Plaintiffs
21 agree that, during the course of this litigation, the litigants and their respective counsel at all times
22 complied with the requirements of California Code of Civil Procedure §128.7. The Parties reserve their
23 right to rebut, in a manner that such party determines to be appropriate, any contention made in any
24 public forum that the Action was brought or defended in bad faith or without a reasonable basis.

25 10.6 Defendants deny any and all allegations of wrongdoing, fault, liability or damage in the
26 Action. Plaintiffs and Defendants covenant and agree that neither this Stipulation, nor the fact or any
27 terms of the Settlement, or any communications relating thereto, is evidence, or an admission or
28 concession by Plaintiffs or Defendants or their counsel, any Class Member, or any other Released

1 Defendant Party or Released Plaintiff Party, of any fault, liability or wrongdoing whatsoever, as to any
2 facts or claims alleged or asserted in the Action, or any other actions or proceedings, or as to the
3 validity or merit of any of the claims or defenses alleged or asserted in any such action or proceeding.
4 This Stipulation is not a finding or evidence of the validity or invalidity of any claims or defenses in the
5 Action, any wrongdoing by Plaintiffs, Defendants, any Class Member or other Released Defendant
6 Party or Released Plaintiff Party, or any damages or injury to Plaintiffs, Defendants, any Class Member
7 or other Released Defendant Party or Released Plaintiff Party. Neither the Stipulation nor the
8 Settlement, nor any act performed or document executed pursuant to or in furtherance of the Stipulation
9 or the Settlement: (a) is or may be deemed to be, or may be used as, a presumption, concession, or
10 admission of, or evidence of, the validity of any Released Plaintiffs' Claim or of any wrongdoing or
11 liability of the Released Defendant Parties; or (b) is or may be deemed to be, or may be used as, a
12 presumption, concession, or admission of, or evidence of, any fault or omission of any of the Released
13 Defendant Parties in any civil, criminal, or administrative proceeding in any court, administrative
14 agency, or other tribunal; or (c) is or may be deemed to be an admission or evidence that any claims
15 asserted by Plaintiffs or their counsel were not valid in any civil, criminal, or administrative proceeding.
16 The Released Defendant Parties may file the Stipulation and/or the Judgment in any action that may be
17 brought against them in order to support a defense or counterclaim based on principles of *res judicata*,
18 collateral estoppel, release, good faith settlement, judgment bar or reduction, or any other theory of
19 claim preclusion or issue preclusion or similar defense or counterclaim.

20 10.7 The consummation of the Settlement as embodied in this Stipulation shall be under the
21 authority of the Court, and the Court shall retain jurisdiction for the purpose of enforcement or
22 implementation of the terms of this Stipulation.

23 10.8 Without further Order of the Court, Plaintiffs and Defendants may agree to reasonable
24 extensions of time to carry out any of the provisions of this Stipulation.

25 10.9 To the extent permitted by law, all agreements made and orders entered during the
26 course of the Action relating to the confidentiality of documents or information shall survive this
27 Stipulation.

28

1 10.10 The waiver by Plaintiffs or Defendants of any breach of this Stipulation shall not be
2 deemed a waiver of any other prior or subsequent breach of any provision of this Stipulation.

3 10.11 This Stipulation and the Exhibits constitute the entire agreement between Plaintiffs, on
4 the one hand, and Defendants, on the other hand, and supersede any prior agreements among Plaintiffs,
5 on the one hand, and Defendants, on the other hand, with respect to the Settlement. No representations,
6 warranties or inducements have been made to or relied upon by any Party concerning this Stipulation or
7 its Exhibits, other than the representations, warranties and covenants expressly set forth in such
8 documents. It is understood by the Parties that, except for the matters expressly represented herein, the
9 facts or law with respect to which this Stipulation is entered into may turn out to be other than or
10 different from the facts now known to each party or believed by such party to be true; each party
11 therefore expressly assumes the risk of the facts or law turning out to be so different, and agrees that
12 this Stipulation shall be in all respects effective and not subject to termination by reason of any such
13 different facts or law.

14 10.12 This Stipulation may be executed in one or more counterparts, including by facsimile
15 and electronic mail. All executed counterparts and each of them shall be deemed to be one and the
16 same instrument. A complete set of executed counterparts shall be filed with the Court.

17 10.13 The Parties and their respective counsel of record agree that they will use their
18 reasonable best efforts to obtain all necessary approvals of the Court required by this Stipulation
19 (including, but not limited to, using their reasonable best efforts to resolve any objections raised to the
20 Settlement), and to promptly agree upon and execute all such other documentation as may be
21 reasonably required to obtain final approval by the Court of the Settlement.

22 10.14 Each counsel signing this Stipulation represents and warrants that such counsel has been
23 duly empowered and authorized to sign this Stipulation on behalf of his or her clients.

24 10.15 This Stipulation shall not be construed more strictly against one Party than another
25 merely by virtue of the fact that it, or any part of it, may have been prepared by counsel for one of the
26 Parties, it being recognized that it is the result of arm's-length negotiations between the Parties, and all
27 Parties have contributed substantially and materially to the preparation of this Stipulation.

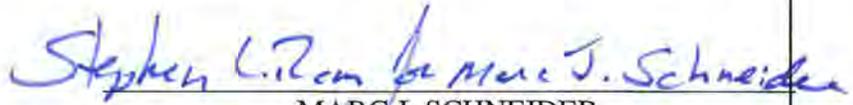
28

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

FARUQI & FARUQI, LLP
BARBARA A. ROHR
10866 Wilshire Blvd., Suite 1470
Los Angeles, CA 90024
Telephone: 424/256-2884
424/256-2885 (fax)

Class Counsel

STRADLING YOCCA CARLSON
& RAUTH
a Professional Corporation
MARC J. SCHNEIDER


MARC J. SCHNEIDER

660 Newport Center Drive
Suite 1600
Newport Beach, CA 92660
Telephone: 949/725-4000
949/725-4100 (fax)

Attorneys for Defendants Ceradyne, Inc., Joel P.
Moskowitz, Richard A. Alliegro, Frank Edelstein,
Richard A. Kertson, Siegfried Müssig, Milton L.
Lohr

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

DECLARATION OF SERVICE BY MAIL

I, the undersigned, declare:

1. That declarant is and was, at all times herein mentioned, a citizen of the United States and a resident of the County of San Diego, over the age of 18 years, and not a party to or interested party in the within action; that declarant's business address is 655 West Broadway, Suite 1900, San Diego, California 92101.

2. That on June 14, 2017, declarant served the **STIPULATION OF SETTLEMENT** by depositing a true copy thereof in a United States mailbox at San Diego, California in a sealed envelope with postage thereon fully prepaid and addressed to the parties listed on the attached Service List.

3. That there is a regular communication by mail between the place of mailing and the places so addressed.

I declare under penalty of perjury that the foregoing is true and correct. Executed on June 14, 2017, at San Diego, California.



DONNA SCOTT

CERADYNE

Service List - 6/14/2017 (12-0157)

Page 1 of 1

Counsel for Defendant(s)

Marc J. Schneider

Stephen L. Ram

Justin N. Owens

Stradling, Yocca, Carlson & Rauth

660 Newport Center Drive

Suite 1600

Newport Beach, CA 92660

949/725-4000

949/725-4100 (Fax)

Counsel for Plaintiff(s)

Barbara A. Rohr

Faruqi & Faruqi, LLP

10866 Wilshire Boulevard, Suite 1470

Los Angeles, CA 90024

424/256-2884

424/256-2885 (Fax)

Randall J. Baron

A. Rick Atwood

David T. Wissbroecker

Robbins Geller Rudman & Dowd LLP

655 West Broadway, Suite 1900

San Diego, CA 92101

619/231-1058

619/231-7423 (Fax)