

IN THE CIRCUIT COURT OF COOK COUNTY, ILLINOIS
COUNTY DEPARTMENT, CHANCERY DIVISION

THE PENNSYLVANIA AVENUE FUNDS,)	Case No. 06CH12464
On Behalf of Itself and Others Similarly)	
Situated,)	<u>CLASS ACTION</u>
)	
Plaintiff,)	JUDGE THOMAS P. QUINN
)	
vs.)	STIPULATION OF SETTLEMENT
)	
CFC INTERNATIONAL, INC., et al.,)	
)	
Defendants.)	
)	
_____)	

This Stipulation of Settlement (the “Stipulation”) is made and entered into as of January __, 2007, by and among the following Settling Parties (as defined further in Section IV hereof) to the above-entitled Litigation: (i) Representative Plaintiff (on behalf of itself and each of the Settlement Class Members); and (ii) Defendants. The Stipulation is intended by the Settling Parties to fully, finally and forever resolve, discharge and settle the Released Claims (as defined in ¶1.13 hereof), upon and subject to the terms and conditions hereof. The Stipulation memorializes and effectuates the Settling Parties’ agreement-in-principle as set forth in a Memorandum of Understanding among the Settling Parties dated July 24, 2006.

I. THE LITIGATION

The captioned action was filed in the Circuit Court of Cook County, Illinois, Chancery Division (the “Court”) on June 22, 2006. The complaint alleges that the Individual Defendants breached their fiduciary duties to CFC stockholders in connection with the proposed acquisition of CFC by an affiliate of ITW. It sought injunctive and other relief against consummation of the Acquisition, including an award of attorneys’ fees and expenses. The complaint and the claims therein are referred to herein as the “Litigation.”

The complaint in the Litigation is similar in various respects to the complaint in a lawsuit filed in January 2006 captioned *The Pennsylvania Avenue Event Driven Fund v. CFC International, Inc.*, Circuit Court of Cook County, Illinois, Case No. 06 CH 780 (the “Previous Litigation”). The complaint in the Previous Litigation asserted claims related to a then-contemplated merger between CFC and an affiliate of an entity known as Quad-C Management, Inc. CFC moved to dismiss the complaint in the Previous Litigation, and while that motion to dismiss was pending, the parties to the Previous Litigation entered into settlement negotiations. During the course of those settlement negotiations, the Representative Plaintiff requested that CFC include in an information statement which was filed in connection with the Quad-C transaction certain disclosures in addition to those contemplated by CFC. No settlement of the Previous Litigation was consummated, and the Previous

Litigation was dismissed voluntarily following termination of the Quad-C transaction on March 30, 2006.

II. CLAIMS OF THE REPRESENTATIVE PLAINTIFF AND BENEFITS OF SETTLEMENT

The Representative Plaintiff and its counsel believe that the claims asserted in the Litigation have merit. However, the Representative Plaintiff and its counsel recognize and acknowledge the expense and length of continued proceedings necessary to prosecute the Litigation against Defendants through trial and through appeals. The Representative Plaintiff and its counsel also have taken into account the uncertain outcome and the risk of any litigation, especially in a complex action such as this Litigation, as well as the difficulties and delays inherent in such litigation. The Representative Plaintiff and its counsel also are mindful of the inherent problems of proof and possible defenses to the claims asserted in the Litigation and took into consideration the strengths and weaknesses of its claims, including the arguments posed by CFC in its motion to dismiss the complaint in the Previous Litigation. The Representative Plaintiff and its counsel believe that the settlement set forth in this Stipulation confers substantial benefits upon the Settlement Class. Based on their evaluation, the Representative Plaintiff and its counsel have determined that the settlement set forth in this Stipulation is in the best interests of the Representative Plaintiff and the Settlement Class.

III. DEFENDANTS' DENIALS OF WRONGDOING AND LIABILITY

Defendants have denied and continue to vigorously deny each and all of the claims and contentions alleged by the Representative Plaintiff in the Litigation and the Previous Litigation. Defendants expressly deny that they engaged in any wrongdoing or breached any duty they owed to CFC or its stockholders, and have denied and continue to deny all charges of wrongdoing or liability against them as alleged in the Litigation, including breach of any duty to CFC stockholders. Defendants also have denied and continue to deny, *inter alia*, the allegations that the Representative

Plaintiff or the Settlement Class have suffered damage or that the Representative Plaintiff or the Settlement Class were harmed by the conduct alleged in the Litigation.

Defendants specifically deny that the Enhanced Disclosures (as defined in ¶2.1(d) hereof) are or were required under any applicable rule, statute, regulation or law. Nonetheless, Defendants have concluded that it is desirable that the Litigation be fully and finally settled in the manner and upon the terms and conditions set forth in this Stipulation. Defendants also have taken into account the uncertainty and risks inherent in any litigation and the risk of delaying or otherwise imperiling the Acquisition. Defendants have, therefore, determined that it is desirable and beneficial to them, as well as to CFC stockholders, that the Litigation be settled in the manner and upon the terms and conditions set forth in this Stipulation.

IV. TERMS OF STIPULATION AND AGREEMENT OF SETTLEMENT

NOW, THEREFORE, IT IS HEREBY STIPULATED AND AGREED by and among the Representative Plaintiff (for itself and the Settlement Class Members) and Defendants by and through their respective counsel or attorneys of record, that, subject to the approval of the Court, the Litigation and the Released Claims shall be finally and fully compromised, settled and released, and the Litigation shall be dismissed with prejudice, as to all Settling Parties, upon and subject to the terms and conditions of the Stipulation, as follows.

1. Definitions

As used in the Stipulation the following terms have the meanings specified below:

- 1.1 “Acquisition” means the transaction described in the Agreement and Plan of Merger by and among CFC, ITW, and an affiliate of ITW (the “Merger Agreement”) that was announced publicly on June 20, 2006, whereby ITW agreed to pay \$16.75 for each share of CFC common stock.
- 1.2 “CFC” means CFC International, Inc.
- 1.3 “Defendants” means CFC and the Individual Defendants.

1.4 “Defendants’ Affiliates” means each of a Defendant’s past and present affiliated corporations, parent corporations, partnerships, subsidiaries, general partners, limited partnership partners and trusts; their respective present and former officers, directors, employees, agents, attorneys, legal counsel, advisors, insurers, accountants, trustees, members, managers, financial advisors, commercial bank lenders, persons who provided information or opinions relating to the Acquisition, investment bankers, associates, and representatives; and their respective heirs, executors, personal representatives, estates, administrators, successors and assigns (including ITW and GEM Acquisition Corp.).

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

1.6 “Effective Time of the Merger” means September 6, 2006, the date when the Certificate of Merger was duly filed with the Secretary of State of the State of Delaware.

1.7 “Final” means: (i) the date of final affirmance on an appeal of the Judgment (as defined in ¶1.10 hereof), the expiration of the time for a petition for leave to appeal such affirmance to the Illinois Supreme Court or a denial of such petition and, if leave to appeal to the Illinois Supreme Court is granted, the date of final affirmance of the Judgment following review pursuant to that grant; or (ii) the date of final dismissal of any appeal from the Judgment or the final dismissal of any proceeding on certiorari to review the Judgment; or (iii) if no appeal is filed, the expiration date of the time for the filing or noticing of any appeal from the Court’s Judgment approving the Stipulation substantially in the form of Exhibit B attached hereto.

1.8 “Individual Defendants” means Roger F. Hruby, William Gardner Brown, Robert B. Covalt, Gregory M. Jehlik, Dennis W. Lakomy, Richard Pierce and David D. Wesselink.

1.9 “ITW” means Illinois Tool Works Inc. and its affiliates, including but not limited to GEM Acquisition Corp.

1.10 “Judgment” means the judgment to be rendered by the Court, substantially in the form attached hereto as Exhibit B.

1.11 “Person” means an individual, corporation, partnership, limited partnership, association, joint stock company, estate, legal representative, trust, unincorporated association, government or any political subdivision or agency thereof, and any business or legal entity and their spouses, heirs, predecessors, successors, representatives, or assignees.

1.12 “Previous Litigation” means *The Pennsylvania Avenue Event Driven Fund v. CFC International, Inc.*, Case No. 06 CH 780, which asserted claims related to the contemplated merger between CFC and Quad-C Management, Inc.

1.13 “Released Claims” shall collectively mean all claims (including Unknown Claims), rights and causes of action (including any claims for damages, costs, attorneys’ fees or expenses, any claims arising under federal, state, local, statutory or common law, or any other law, rule or regulation, including the law of any jurisdiction outside of the United States and including claims under the Securities Act of 1933, the Securities Exchange Act of 1934, and any other provisions of the federal securities laws and/or of any rule or regulation issued pursuant thereto), whether legal, equitable or of any other type, which Representative Plaintiff or any Member of the Settlement Class ever had, now has or hereafter can, shall or may have, whether known or unknown, arising from acts, omissions or failures to act occurring prior to the execution of the Stipulation, whether directly, derivatively, representatively or in any other capacity, against any of the Defendants or the Defendants’ Affiliates by reason of, arising out of, relating to or connected with: (i) the facts, matters, transactions, actions or conduct actually alleged, or which could have been alleged, in the complaint, in the Litigation, or in the Previous Litigation, (ii) the Acquisition, (iii) the Merger Agreement, (iv) the Principal Stockholders’ Agreement, as defined in the recitals to the Merger Agreement, (v) any other agreements, contracts, actions or approvals relating to any of the

foregoing, and (vi) any communications made in connection with any of the foregoing, including the preliminary or final forms of the Information Statement. Released Claims shall not include any appraisal remedy that a Settlement Class Member possesses pursuant to Section 262 of the Delaware General Corporation Law.

1.14 “Released Persons” means each and all of the Defendants and Defendants’ Affiliates.

1.15 “Representative Plaintiff” means The Pennsylvania Avenue Funds.

1.16 “Representative Plaintiff’s Counsel” or “Settlement Class Counsel” mean Darren J. Robbins and Joy Ann Bull and their firm, Lerach Coughlin Stoia Geller Rudman & Robbins LLP, 655 West Broadway, Suite 1900, San Diego, California 92101.

1.17 “Settlement Class” means all Persons who were or became record or beneficial owners of CFC common stock at any time from June 20, 2006 through and including the Effective Time of the Merger, provided that, excluded from the Settlement Class are Defendants, ITW, and Defendants’ Affiliates. Also excluded from the Settlement Class are those Persons who timely and validly request exclusion from the Settlement Class pursuant to the Notice of Pendency and Settlement of Class Action.

1.18 “Settlement Class Member” or “Member of the Settlement Class” mean a Person who falls within the definition of the Settlement Class as set forth in ¶1.17 hereof.

1.19 “Settling Parties” means, collectively, each of the Defendants, and the Representative Plaintiff on behalf of itself and the Members of the Settlement Class.

1.20 “Unknown Claims” means Released Claims that the Representative Plaintiff or any Member of the Settlement Class, do not know or suspect to exist, which, if known by him, her or it, might affect his, her or its agreement to release the Released Persons and the Released Claims, or might affect his, her or its decision to object or not to object to the settlement. Upon the Effective Date, Representative Plaintiff and all Members of the Settlement Class, shall be deemed to have, and

shall have, expressly waived and relinquished, to the fullest extent permitted by law, the provisions, rights and benefits of §1542 of the California Civil Code, which provides as follows:

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.

Upon the Effective Date, Representative Plaintiff, any and all Members of the Settlement Class, and all other Persons or entities whose claims are being released also shall be deemed to have, and shall have, 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, or the law of any jurisdiction outside of the United States, which is similar, comparable or equivalent to §1542 of the California Civil Code. Representative Plaintiff, on behalf of the Settlement Class, acknowledges that Members of the Settlement Class may discover facts in addition to or different from those that they now know or believe to be true with respect to the subject matter of this release, but that it is Representative Plaintiff's intention, on behalf of all Members of the Settlement Class, fully, finally and forever to settle and release the Released Claims.

2. The Settlement

2.1 (a) In connection with the Merger Agreement with ITW, on June 30, 2006, CFC filed a Preliminary Information Statement Pursuant to Section 14(c) of the Securities Exchange Act of 1934 (the "Preliminary Information Statement"). The Preliminary Information Statement contained, among other things, certain disclosures requested by Representative Plaintiff's Counsel during the aforementioned negotiations to settle the Previous Litigation.

(b) Subsequent to the filing of the Litigation and at Representative Plaintiff's request, the Defendants provided Representative Plaintiff with certain information considered by the Individual Defendants in connection with their decision whether to enter into the Merger Agreement with ITW.

(c) On July 6, 2006, Representative Plaintiff's Counsel requested that certain additional disclosures be added to the final form of the Information Statement to be filed by CFC in connection with the Merger Agreement with ITW (the "Information Statement"). The requested additional disclosures included (among other things), clarification about specific information considered by the Individual Defendants in evaluating the proposed Acquisition by ITW.

(d) On July 19, 2006, counsel for the parties reached an agreement-in-principle to settle the Litigation pursuant to which Defendants would make certain supplemental disclosures in the final form of the Information Statement to be filed by CFC in connection with the Acquisition. These disclosures, together with the disclosures incorporated by CFC in the Preliminary Information Statement as a result of negotiations in the Previous Litigation, are referred to herein as the "Enhanced Disclosures."

2.2 In consideration of the settlement and dismissal with prejudice of the Litigation and in consideration of the releases provided herein, Defendants agreed to incorporate the Enhanced Disclosures in the final form of the Information Statement filed by CFC on August 8, 2006 in connection with the Acquisition. The parties agree that the Enhanced Disclosures were timely issued.

2.3 Defendants acknowledge that the pendency and prosecution of the Litigation and the negotiations between Representative Plaintiff's Counsel and Defendants' counsel resulted in Defendants' agreement to issue the Enhanced Disclosures and incorporate them in the final form of the Information Statement filed by CFC. The Defendants further acknowledge that certain of the disclosures contained in the Preliminary Information Statement filed by CFC on June 30, 2006, and which were incorporated in the final form of the Information Statement filed by CFC in connection with the Acquisition, are the result of requests initially made by Representative Plaintiff's Counsel during negotiations to settle the Previous Litigation.

2.4 Defendants have agreed to provide, and have provided, Representative Plaintiff with appropriate confirmatory discovery to support the contention that the terms of the settlement are fair and reasonable.

2.5 CFC has agreed, following the entry of the Judgment and subject to the terms of ¶5.2 hereof, to pay the sum of \$200,000 to Representative Plaintiff's Counsel for their attorneys' fees and expenses. These fees and expenses will not come out of money that otherwise would have been paid to the stockholders of CFC.

2.6 The Settling Parties agree, for purposes of this settlement only, to the certification of the Settlement Class under §735 ILCS 5/2-801, *et seq.* In the event the settlement is not approved, Defendants reserve the right to oppose certification of a class in any future proceedings.

3. Order of Preliminary Approval and Settlement Hearing

3.1 Within a reasonable period of time after execution of the Stipulation, the Settling Parties' counsel shall submit the Stipulation together with its Exhibits to the Court and shall apply for entry of an order (the "Order of Preliminary Approval"), substantially in the form of Exhibit A hereto, requesting, *inter alia*, certification of the Settlement Class pursuant to §735 ILCS 5/2-801, *et seq.*, preliminary approval for the mailing of the settlement set forth in the Stipulation, and approval of a settlement notice (the "Notice"), substantially in the form of Exhibit A-1 attached hereto, which shall include the general terms of the settlement set forth in the Stipulation and the date of the Settlement Hearing as defined below.

3.2 The Representative Plaintiff and Representative Plaintiff's Counsel shall assume administrative responsibility for providing the Notice to the Settlement Class, but will not bear any out-of-pocket expense in connection with giving notice to the Settlement Class. CFC or its successor shall bear all costs associated with providing the Notice to the Settlement Class in accordance with the Order of Preliminary Approval, including the expense of preparing and mailing

the Notice. Prior to the Settlement Hearing, Representative Plaintiff's Counsel shall file with the Court an appropriate affidavit or declaration with respect to preparation and mailing of the Notice to the Settlement Class.

3.3 The Settling Parties' counsel shall request that after notice is given, the Court hold a hearing (the "Settlement Hearing") and approve the settlement of the Litigation as set forth herein.

4. Releases

4.1 Upon the Effective Date, as defined in ¶1.5 hereof, the Representative Plaintiff and each of the Settlement Class Members shall be deemed to have, and by operation of the Judgment shall have, fully, finally, and forever remised, released, relinquished and discharged all Released Claims against the Released Persons.

4.2 Upon the Effective Date, as defined in ¶1.5 hereof, each of the Released Persons shall be deemed to have, and by operation of the Judgment shall have, fully, finally, and forever remised, released, relinquished and discharged each and all of the Settlement Class Members and counsel to the Representative Plaintiff from claims for attorneys' fees, expenses or other damages allegedly suffered by them as a result of the institution, prosecution, assertion, settlement or resolution of the Litigation or the Released Claims.

5. Representative Plaintiff's Counsel's Attorneys' Fees and Expenses

5.1 After Defendants agreed to make the disclosures described in ¶2.1, the Settling Parties negotiated the attorneys' fees and expenses that Defendants would pay to Representative Plaintiff's Counsel in the event that the Stipulation is approved by the Court.

5.2 Defendants agree that pursuant to ¶2.5 hereof, the sum of \$200,000 will be paid to Lerach Coughlin Stoia Geller Rudman & Robbins LLP, as receiving agent for Representative Plaintiff's Counsel, subject to Court approval. The sum approved by the Court up to the agreed upon amount will be paid pursuant to wire instructions provided separately by Lerach Coughlin Stoia Geller Rudman & Robbins LLP to CFC's counsel by or on behalf of CFC and/or its successors

within five (5) business days after entry of the Judgment, subject to Representative Plaintiff's Counsel's joint and several obligation to make repayment to CFC or its successor(s) in the event that the Court, an appellate court, or other court later vacates, or reverses the order approving the settlement or fee award or the fee award is otherwise modified.

6. Conditions of Settlement, Effect of Disapproval, Cancellation or Termination

6.1 The Effective Date of the settlement shall be conditioned on the occurrence of all of the following events:

- (a) The consummation of the Acquisition substantially in accordance with the terms and conditions set out in the Merger Agreement;
- (b) Representative Plaintiff's Counsel have completed confirmatory discovery to the extent deemed necessary by Representative Plaintiff's Counsel;
- (c) the Court has entered the Order of Preliminary Approval, as required by ¶3.1, hereof;
- (d) the Notice has been mailed pursuant to the Order of Preliminary Approval;
- (e) the Court has entered the Judgment, or a judgment substantially in the form of Exhibit B attached hereto; and
- (f) the Judgment has become Final, as defined in ¶1.7, hereof.

6.2 If all of the conditions specified in ¶6.1 hereof are not satisfied, then the Stipulation shall be canceled and terminated subject to ¶6.3 hereof unless Representative Plaintiff's Counsel and counsel for Defendants mutually agree in writing to proceed with the Stipulation and the settlement.

6.3 In the event that the Stipulation is not approved by the Court or the settlement set forth in the Stipulation is terminated in accordance with its terms, the Settling Parties shall be restored to their respective positions in the Litigation as of July 24, 2006. In such event, the terms and provisions of the Stipulation shall have no further force and effect with respect to the Settling

Parties and shall not be used in the Litigation or in any other proceeding for any purpose, and any judgment or order entered by the Court in accordance with the terms of the Stipulation shall be treated as vacated.

7. Miscellaneous Provisions

7.1 The Settling Parties: (a) acknowledge that it is their intent to consummate this Stipulation; and (b) agree to cooperate to the extent reasonably necessary to effectuate and implement all terms and conditions of the Stipulation and to exercise their best efforts to accomplish the foregoing terms and conditions of the Stipulation.

7.2 The Settling Parties intend this settlement to be a final and complete resolution of all disputes between them with respect to the Litigation. The settlement compromises claims which are contested and shall not be deemed an admission by any Settling Party as to the merits of any claim or defense. The Settling Parties agree that the settlement was negotiated in good faith by the Settling Parties and reflects a settlement that was reached voluntarily after consultation with competent legal counsel.

7.3 Neither the Stipulation nor the settlement contained herein, nor any act performed or document executed pursuant to or in furtherance of the Stipulation or the settlement: (a) is or may be deemed to be or may be used as an admission of, or evidence of, the validity or lack thereof of any Released Claim, or of any wrongdoing or liability of the Defendants; or (b) is or may be deemed to be or may be used as an admission of, or evidence of, any fault or omission of any of the Defendants in any civil, criminal or administrative proceeding in any court, administrative agency or other tribunal. Defendants may file the Stipulation and/or the Judgment in any action that may be brought against them in order to support a defense or counterclaim based on principles of *res judicata*, collateral estoppel, release, good faith settlement, judgment bar or reduction or any other theory of claim preclusion or issue preclusion or similar defense or counterclaim.

7.4 If any action that would be barred by the releases contemplated by this Stipulation is commenced against any of the Defendants in any court prior to this settlement being fully approved by the Court and, following a motion by the Defendants to dismiss or stay, such action is not dismissed or stayed in contemplation of dismissal pursuant to the settlement contemplated hereby, any Defendant may, at his, her or its sole option, withdraw from the settlement prior to the Settlement Hearing. The settlement shall remain binding as to the remaining parties thereto.

7.5 All agreements made and orders entered during the course of the Litigation relating to the confidentiality of information shall survive this Stipulation.

7.6 All of the Exhibits to this Stipulation are material and integral parts hereof and are fully incorporated herein by this reference.

7.7 This Stipulation may be amended or modified only by a written instrument signed by or on behalf of all Settling Parties or their respective successors-in-interest.

7.8 This Stipulation and the Exhibits attached hereto constitute the entire agreement among the parties hereto with regard to the subject matter thereof and no representations, warranties or inducements have been made to any party concerning the Stipulation or the Exhibits annexed hereto other than the representations, warranties and covenants contained and memorialized in such documents. Except as otherwise provided herein, each party shall bear its own costs.

7.9 Representative Plaintiff's Counsel, on behalf of the Settlement Class, are expressly authorized by the Representative Plaintiff to take all appropriate actions required or permitted to be taken by the Settlement Class pursuant to the Stipulation to effectuate its terms and also are expressly authorized to enter into any modifications or amendments to the Stipulation on behalf of the Settlement Class which they deem appropriate.

7.10 Each counsel or other Person executing the Stipulation or any of its Exhibits on behalf of any party hereto hereby warrants that such Person has the full authority to do so.

7.11 The Stipulation may be executed in one or more counterparts. All executed counterparts and each of them shall be deemed to be one and the same instrument. A complete set of original executed counterparts shall be filed with the Court.

7.12 The Stipulation shall be binding upon, and inure to the benefit of, the successors and assigns of the parties hereto.

7.13 The Court shall retain jurisdiction with respect to implementation and enforcement of the terms of the Stipulation, and all parties hereto submit to the jurisdiction of the Court for purposes of implementing and enforcing the settlement embodied in the Stipulation.

7.14 This Stipulation and the Exhibits annexed hereto and the rights and obligations of the parties to the Stipulation shall be construed and enforced in accordance with, and governed by, the laws of the State of Delaware without giving effect to that State's choice-of-law principles, except for court procedural requirements, which shall be governed by Illinois law.

IN WITNESS WHEREOF, the parties hereto have caused the Stipulation to be executed, by their duly authorized attorneys, dated as of January __, 2007.

THE PENNSYLVANIA AVENUE FUNDS

By: _____
Name: _____
Title: _____

Plaintiff

CFC INTERNATIONAL, INC.

By: _____
Name: _____
Title: _____

ROGER F. HRUBY

WILLIAM GARDNER BROWN

ROBERT B. COVALT

GREGORY M. JEHLIK

DENNIS W. LAKOMY

RICHARD PIERCE

DAVID D. WESSELINK

Defendants

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