--SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

(X) Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended December 31, 1996

or

( ) Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 For the transition period from _____to_____

Commission file number 1-10596

ESCO ELECTRONICS CORPORATION

(Exact name of registrant as specified in its charter)

| Missouri | 43-1554045 |
|---|---|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) |
| 8888 Ladue Road, Suite 200<br>St. Louis, Missouri<br>(Address of principal executive offices) | 63124-2090<br>(Zip Code) |

Registrant's telephone number, including area code: (314) 213-7200

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X No

Number of common stock trust receipts outstanding at January 31, 1997: 11,806,997 receipts.

## PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Unaudited)
(Dollars in thousands, except per share amounts)

| | Three Months Ended December 31, | |
|---|---|---|
| | 1996 | 1995 |
| Net sales | $ 68,899 | 112,610 |
| Costs and expenses: | | |
| Cost of sales | 51,939 | 89,190 |
| Selling, general and administrative expenses | 12,951 | 16,891 |
| Interest expense | 277 | 1,389 |
| Other, net | 730 | 1,756 |
| Total costs and expenses | 65,897 | 109,226 |
| Earnings before income taxes | 3,002 | 3,384 |

| | | |
|---|---|---|
| Income tax expense | 820 | 1,462 |
| Net earnings | $ 2,182 | 1,922 |
| Earnings per share, primary and fully diluted | $ .18 | .17 |

See accompanying notes to condensed consolidated financial statements.

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Dollars in thousands)

| | December 31, 1996 | September 30, 1996 |
|---|---|---|
| Assets(Unaudited) | | |
| Current assets: | | |
| Cash and cash equivalents | $ 18,877 | 22,209 |
| Accounts receivable, less allowance for doubtful accounts of $320 and $273, respectively | 27,228 | 34,664 |
| Costs and estimated earnings on long-term contracts, less progress billings of $68,646 and $70,671, respectively | 52,987 | 51,585 |
| Inventories | 45,848 | 51,187 |
| Other current assets | 2,874 | 3,005 |
| Total current assets | 147,814 | 162,650 |
| Property, plant and equipment, at cost | 82,460 | 80,351 |
| Less accumulated depreciation and amortization | 28,747 | 26,325 |
| Net property, plant and equipment | 53,713 | 54,026 |
| Excess of cost over net assets of purchased businesses, less accumulated amortization of $1,736 and $1,597 respectively | 20,256 | 20,395 |
| Deferred tax asset | 53,147 | 53,326 |
| Other assets | 16,898 | 17,435 |
| | $291,828 | 307,832 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Short-term borrowings and current maturities of long-term debt | $ 1,300 | 1,300 |
| Accounts payable | 27,347 | 40,057 |
| Advance payments on long-term contracts, less costs incurred of $15,333 and $5,478, respectively | 7,057 | 8,336 |
| Accrued expenses and other current liabilities | 22,882 | 26,771 |
| Total current liabilities | 58,586 | 76,464 |
| Other liabilities | 28,793 | 28,860 |
| Long-term debt | 11,050 | 11,375 |
| Total liabilities | 98,429 | 116,699 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Preferred stock, par value $.01 per share, authorized 10,000,000 shares | | |
| Common stock, par value $.01 per share, authorized 50,000,000 shares; issued 12,416,216 and 12,415,346 shares, respectively | 124 | 124 |
| Additional paid-in capital | 193,147 | 192,967 |
| Retained earnings since elimination of deficit of $60,798 at September 30, 1993 | 6,366 | 4,184 |
| Cumulative foreign currency translation adjustment | 516 | 107 |
| Minimum pension liability | (1,869) | (1,869) |
| | 198,284 | 195,513 |
| Less treasury stock, at cost; 617,045 and 566,622 common shares, respectively | (4,885) | (4,380) |
| Total shareholders' equity | 193,399 | 191,133 |
| | $ 291,828 | 307,832 |

See accompanying notes to condensed consolidated financial statements.

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Unaudited)
(Dollars in thousands)

[CAPTION]

| | Three Months Ended December 31, | |
|---|---|---|
| | 1996 | 1995 |
| Cash flows from operating activities: | | |
| Net earnings | $ 2,182 | 1,922 |
| Adjustments to reconcile net earnings to net cash used by operating activities: | | |
| Depreciation and amortization | 2,558 | 3,545 |
| Changes in operating working capital | (6,374) | (13,135) |
| Other | 365 | 1,093 |
| Net cash used by operating activities | (1,269) | (6,575) |
| Cash flows from investing activities: | | |
| Capital expenditures | (1,753) | (2,176) |
| Cash flows from financing activities: | | |
| Net increase in short-term borrowings | | 12,500 |
| Principal payments on long-term debt | (325) | (518) |
| Other | 15 | 25 |
| Net cash provided (used) by financing activities | (310) | 12,007 |
| Net increase (decrease) in cash and cash equivalents | (3,332) | 3,256 |
| Cash and cash equivalents at beginning of period | 22,209 | 320 |
| Cash and cash equivalents at end of period | $ 18,877 | 3,576 |

See accompanying notes to condensed consolidated financial statements.

ESCO ELECTRONICS CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Basis of Presentation

The accompanying condensed consolidated financial statements, in the opinion of management, include all adjustments, consisting only of normal recurring accruals, necessary for a fair presentation of the results for the interim periods presented. The condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all the disclosures required by generally accepted accounting principles. For further information refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended September 30, 1996. Certain prior year amounts have been reclassified to conform with the fiscal 1997 presentation.

The results for the three month period ended December 31, 1996 are not necessarily indicative of the results for the entire 1997 fiscal year.

2. Earnings Per Share

Earnings per share are based on the weighted average number of common shares outstanding plus shares issuable upon the assumed exercise of dilutive common share options and performance shares by using the treasury stock method. For the three month period ended December 31, 1996, primary and fully diluted earnings per share are computed using 12,044,760 and 12,055,254 common shares and common share equivalents outstanding, respectively. For the quarter ended December 31, 1995, primary and fully diluted earnings per share are computed using 11,450,808 and 11,519,743 common shares and common share equivalents outstanding, respectively.

3. Inventories

Inventories consist of the following (dollars in thousands):

| | December 31, 1996 | September 30, 1996 |
|---|---|---|

| | | |
|---|---|---|
| Finished Goods | $ 5,669 | 5,927 |
| Work in process, including long-term contracts | 26,857 | 32,071 |
| Raw materials | 13,322 | 13,189 |
| Total inventories | $ 45,848 | 51,187 |

Under the contractual arrangements by which progress payments are received, the U.S. Government has a security interest in the inventories associated with specific contracts. Inventories are net of progress payment receipts of $5.3 million and $1.2 million at December 31, 1996 and September 30, 1996, respectively.

Hazeltine Divestiture 1996

On July 22, 1996, the Company completed the sale of its Hazeltine subsidiary to GEC-Marconi Electronic Systems Corporation (GEC). The Company sold 100% of the common stock of Hazeltine for $110 million in cash. Certain assets and liabilities of Hazeltine were retained by the Company.

Included in the condensed consolidated statement of operations for the three months ended December 31, 1995 are the operating results of Hazeltine prior to its divestiture as follows (dollars in thousands):

| | |
|---|---|
| Net sales | $ 27,493 |
| Cost of sales | 21,953 |
| Selling, general and administrative expenses | 3,730 |
| Other costs and expenses, net | 203 |
| Earnings before income taxes | $ 1,607 |

## Item 2. Management's Discussion and Analysis of Results of Operations and Financial Condition

Results of Operations - Three months ended December 31, 1996 compared with three months ended December 31, 1995.

Net sales of $68.9 million for the first quarter of fiscal 1997 decreased $43.7 million (38.8%) from net sales of $112.6 million for the first quarter of fiscal 1996. The decrease was primarily due to the sale of Hazeltine in July 1996. Net sales at the remainder of the Company s operating units decreased approximately $16 million due to lower defense sales at Systems & Electronics Inc. (SEI) in the current period. Defense sales were $42.4 million and commercial sales were $26.5 million for the first quarter of fiscal 1997, compared with defense and commercial sales of $83 million and $29.6 million, respectively, in the first quarter of fiscal 1996. Hazeltine s defense and commercial sales were $24.3 million and $3.2 million, respectively in the first quarter of fiscal 1996. Adjusted for the sale of Hazeltine, prior year first quarter defense and commercial sales were $58.7 million and $26.4 million, respectively.

The backlog of firm orders at December 31, 1996 was $234.9 million, compared with $246.7 million at September 30, 1996. During the first quarter of fiscal 1997, new orders aggregating $57.1 million were received, compared with $71.5 million in the first quarter of fiscal 1996, excluding Hazeltine. First quarter fiscal 1996 orders, as reported including Hazeltine, were $108.5 million. The most significant orders in the current period were for filtration/fluid flow products, airborne radar systems, and integrated mail handling and sorting systems.

The gross profit percentage was 24.6% in the first quarter of fiscal 1997 and 20.8% in the first quarter of fiscal 1996. The gross profit percentage in the first quarter fiscal 1996 excluding Hazeltine was 21%. The fiscal 1997 first quarter gross profit percentage increased from fiscal 1996 due to an improved sales mix in both the defense and commercial segments.

Selling, general and administrative expenses for the first quarter of fiscal 1997 were $13 million, or 18.8% of net sales, compared with $16.9 million, or 15% of net sales, for the same period a year ago. Excluding Hazeltine, prior year first quarter selling, general and administrative expense was $13.2 million or 15.5% of adjusted sales. The fiscal 1997 first quarter selling, general and administrative expenses increased as a percentage of adjusted sales due to the reduced sales volume in first quarter fiscal 1997.

Interest expense decreased to $.3 million from $1.4 million as a result of significantly lower borrowings in the first quarter of fiscal 1997 as compared to the first quarter of fiscal 1996. A significant amount of fiscal
1996 borrowings was repaid in July 1996 with a portion of the proceeds from the sale of Hazeltine.

Other costs and expenses, net, were $.7 million in the first quarter of fiscal 1997 compared to $1.8 million in the same period of fiscal 1996. The decrease in fiscal 1997 partially reflects the absence of amortization of a contract guarantee fee previously paid to Emerson Electric Co.

The effective income tax rate in the first quarter of fiscal 1997 was 27.3% compared with 43.2% for the first quarter of fiscal 1996. The effective income tax rate in the first quarter of fiscal 1997 was favorably impacted by the settlement of a state tax liability assumed by the Company upon the fiscal 1996 divestiture of Hazeltine. Management estimates the annual effective tax rate for fiscal year 1997 to be approximately 40%.The tax provision for the first quarter of fiscal 1996 was impacted by the Corporate Readjustment implemented in fiscal 1993. Consistent with the policy implemented during fiscal 1995, the Company decreased its deferred tax valuation allowance by $.8 million during the quarter ended December 31, 1995. The impact of the Federal tax provision and the reduction in the deferred tax valuation allowance were accounted for as credits to additional paid-in capital for the first quarter of fiscal 1996.

Financial Condition

Working capital increased to $89.2 million at December 31, 1996 from $86.2 million at September 30, 1996. During the first three months of fiscal 1997, accounts receivable decreased by $7.4 million as a result of cash collections, and costs and estimated earnings on long-term contracts
and inventories decreased in the aggregate by $3.9 million as a result of near-term delivery requirements. Accounts payable and accrued expenses were reduced by $16.6 million during the first quarter of fiscal 1997 through payments necessary to satisfy commitments outstanding at September 30, 1996.

Net cash used by operating activities was $1.3 million in the first three months of fiscal 1997 and $6.6 million in the same period of fiscal 1996, primarily due to the changes in operating working capital mentioned above.

Capital expenditures were $1.8 million in the first three months of fiscal 1997 compared with $2.2 million in the first three months of fiscal 1996. Major expenditures in the current period include routine capitalized facility costs at SEI.

In December 1996, the Company entered into a definitive agreement to acquire the Filtertek business of Schawk, Inc. for $92 million in cash plus working capital adjustments. On February 7, 1997, the Company completed the purchase of Filtertek. The purchase was financed with cash and borrowings from the Company s bank credit facility. The existing bank credit facility was amended and restructured dated February 7, 1997, to increase the available credit facility to $140 million. The maturity of the amended bank credit facility was extended to September 30, 2000.

PART II. OTHER INFORMATION

Item 5.  Other Information.

The Company, on February 7, 1997, completed its acquisition of the

Filtertek and the thermoform packaging businesses of Schawk, Inc. ( Schawk ). Filtertek is a leader in the manufacture of plastic insert injection molded filter assemblies. The transaction involved the purchase of assets and stock of subsidiary corporations of Schawk. The assets included manufacturing and office facilities, equipment, inventories and accounts receivable, and the Company intends to continue the use of these assets in the on-going operation of the above-mentioned businesses. The consideration paid was $92 million in cash plus working capital adjustments, which was funded by cash and borrowings from the Company s bank credit facility. The banks involved are listed in Exhibit 4 to this Form 10-Q. The consideration was arrived at through arms-length negotiations between the parties.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits

| Exhibit Number | Description | Filed Herewith or Incorporated by Reference |
|---|---|---|
| 2(a) | Acquisition Agreement dated December 18, 1996 between the Company and Schawk, Inc.<br><br>Certain schedules and attachments have been omitted due to immateriality. The Registrant agrees to furnish supplementally a copy of any omitted schedule or attachment to the Commission upon request. | |
| 2(b) | First Amendment dated as of February 7, 1997 to Acquisition Agreement listed as Exhibit 2(a) above | |
| 4 | Credit Agreement dated as of September 23, 1990 (as most recently amended and restated as of February 7, 1997) among the Company, Defense Holding Corp., the Banks listed therein and Morgan Guaranty Trust Company of New York, as agent | |

(b) Reports on Form 8-K. There were no reports on Form 8-K filed during the quarter ended December 31, 1996.

The information reported in Item 5 above satisfies the requirements of Item 2 of Form 8-K. The Company will file a Form 8-K not later than 60 days after February 22, 1997 containing the financial statement and pro forma financial information required by Item 7 of Form 8-K.

SIGNATURE

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

ESCO ELECTRONICS CORPORATION

/s/ Philip M. Ford

Philip M. Ford
Senior Vice President
and Chief Financial
Officer

(as duly authorized
officer and principal
financial officer of
the registrant)

Dated: February 13, 1997

ACQUISITION AGREEMENT

by and between

ESCO ELECTRONICS CORPORATION.
Buyer,

and

SCHAWK, INC.

Seller.

Dated December 18, 1996

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ACQUISITION AGREEMENT

THIS ACQUISITION AGREEMENT (the Agreement ) is made this 18th day of December, 1996, by and between ESCO Electronics Corporation, a Missouri corporation ( Buyer ), and Schawk, Inc., a Delaware corporation ( Seller ). Defined terms are set forth in Article I.

RECITALS

A. The Buyer Companies desire to purchase from Seller and the other Seller Group Persons the Purchased Assets and to assume the Assumed Liabilities, on the following terms and conditions.

B. Seller and the other Seller Group Persons desire to sell to the Buyer Companies the Purchased Assets and to assign to the Buyer Companies the Assumed Liabilities, on the following terms and conditions.

NOW, THEREFORE, in consideration of the foregoing recitals and the mutual covenants, representations, warranties, conditions, and agreement hereinafter expressed, the Parties agree as follows:

ARTICLE I

DEFINITIONS

Affiliate means a Person that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with, the Person referred to. In this definition, control means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through ownership of securities, by contract, or otherwise.

Affiliated Group has the meaning set forth in Section 1504 of the Code.

Arbiter means the individual appointed under Section 2.8(b).

Assets means all assets and property and associated rights and interests, real, personal, and mixed, tangible and intangible, of whatever kind, owned or used by a Seller Group Person in connection with the Business. Without limiting the generality of the foregoing, the Assets include the following items:

(a) All assets reflected and/or described on the Balance Sheet, except any such assets which have been disposed of in the Ordinary Course of the Business since the Balance Sheet Date;

(b) all assets owned or used by a Seller Group Person in connection with the Business which have been fully depreciated or written off;

(c) all assets acquired by a Seller Group Person in connection with the Business since the Balance Sheet Date;

(d) all accounts receivable of a Seller Group Person in connection with the Business;

(e) all inventories of a Seller Group Person in connection with the Business, including but not limited to all raw materials, finished goods, component parts and work in process;

(f) all Contracts of a Seller Group Person with suppliers or customers in connection with the Business;

(g) all machinery, equipment, supplies and tools of a Seller Group Person used in connection with the Business;

(h) all vehicles of a Seller Group Person used in connection with the Business; (including without limitation any helicopters or other aircrafts);

(i) all parcels of real property of a Seller Group Person used in connection with the Business, including without limitation all buildings, plants, warehouses, facilities and other improvements and fixtures thereon and appurtenances thereto;

(j) all permits, approvals, licenses and certifications issued to a Seller Group Person by a Government or by a private testing or certifying authority in connection with the Business, to the extent assignable under the terms thereof and applicable Law;

(k) all transferable rights of Seller or its Affiliates to tax exemptions in connection with the Business, including without limitation the Puerto Rico Grant;

(l) all Intellectual Property and documentation thereof and the right and power to assert, defend and recover title thereto in the same manner and to the same extent as a Seller Group Person could or could cause to be done if the transactions contemplated hereby did not occur, and the right to recover for past damages on account of the infringement, misuse, or theft thereof;

(m) all records, including business, computer,

engineering, and other records, and all associated documents, discs, tapes, and other storage or record keeping media of any Seller Group Person prepared or held in connection with the Business, including but not limited to all sales data, customer lists, accounts, bids, contracts, supplier records, and other data and information of the Business, excluding corporate minute books of the Seller Companies;

(n) all rights and claims against others under Contracts;

(o) all interests in any capital stock of the Purchased Entities; and

(p) all other claims against others, rights, and choses in action, liquidated or unliquidated, of a Seller Group Person arising from the Business, including those arising under insurance policies.

Assignment and Assumption Agreement means the form of instrument attached as Exhibit A.

Assumed Executory and Other Agreements means (i) the Contracts described in the Schedules hereto, subject to Buyer s right of review and approval under Section 5.11 of such Schedules; (ii) executory contracts, agreements or other commitments existing on the date hereof and not required to be disclosed in said Schedules; (iii) executory contracts, agreements or other commitments between the date hereof and the Closing, in accordance with the provisions hereof; (iv) executory warranties, agreements and commitments in respect to product liability and product support arising out of the sale of goods and inventory or the rendition of services by the Business; provided, however, Assumed Executory and Other Agreements shall not include that certain Consulting Agreement between Seller and Plastic Molded Concepts, Inc. involving consulting services from Bert Bodnar.

Assumed Liabilities means Liabilities of a Non-Purchased Entity, to the extent the Liabilities are:

(a) incurred in the Ordinary Course of the Business and to the extent they are:

(i) Liabilities that are (A) quantified on the Closing Balance Sheet, and if incurred on or before the Balance Sheet Date, quantified on the Balance Sheet, and (B) if incurred after the date of this Agreement, incurred in compliance with this Agreement; provided, however, that Liabilities quantified on the Closing Balance Sheet shall not include Liabilities owed by Seller to Plastic Molded Concepts, Inc.; or

(ii) Liabilities which exist at or accrue following the Closing Date under Assumed Executory and Other Agreements; or

(b) specifically identified on Exhibit I to the Assignment and Assumption Agreement.

Balance Sheet means the unaudited, consolidated, and consolidating balance sheet of the Business as of September 30, 1996, and all notes and schedules thereto, attached on Schedule 3.3.

Balance Sheet Date means the date of the Balance Sheet.

Bill of Sale means the form of instrument attached as Exhibit B.

Business means the business and operations of any and all Seller Group Persons reflected in the Confidential Memorandum and referred to therein as The Plastics Group of Seller.

Business Condition of a Person or business means the business, assets, results of operations, or condition (financial or otherwise) of such Person or business.

Buyer has the meaning set forth in the Preamble.

Buyer Company means one of the corporations identified on Schedule 2.1 or a corporation to which Buyer has assigned certain of its rights pursuant to Section 11.6.

Buyer Companies means all of the corporations identified on Schedule 2.1.

Cash and Cash Equivalents means, at any time, any assets which are in the form of, or are readily convertible into money, including, without limitation, cash, checks and other negotiable instruments, deposits with any bank or financial institution (whether as demand deposits or time deposits and whether or not evidenced by certificates of deposit), and readily marketable securities of any type.

Closing means the consummation of the transactions contemplated by this Agreement.

Closing Audit has the meaning specified in Section 2.8(a) hereof.

Closing Balance Sheet means the balance sheet prepared pursuant to Section 2.8(a).

Closing Date means January 31, 1997 or, if the conditions to Closing are not by then satisfied, on such date following

satisfaction of such conditions (other than conditions to be satisfied at Closing according to the terms hereof) as the Parties may agree in writing but not later than February 15, 1997 or, if any conditions are not satisfied as a result of factors beyond the control of either Party, not later than March 31, 1997.

COBRA means the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

Code means the Internal Revenue Code of 1986, as from time to time amended.

Confidential Memorandum means the confidential memorandum relating to the Plastics Group of Seller dated September, 1996.

Consideration has the meaning set forth in Section 2.3 hereof.

Contract means any contract, agreement, arrangement, understanding, lease, indenture, evidence of indebtedness, binding commitment or instrument, purchase order, or offer, written or oral, entered into or made by or on behalf of any Seller Group Person, or to which any Seller Group Person is a party, or by which it or its property is bound, in connection with the Business.

Court means any court, grand jury, administrative or regulatory body, Government agency, arbitration or mediation panel or similar body.

Covenant Not to Compete means the obligations of the Non-Purchased Entities under Article VI.

Dollars or $ means United States Dollars.

Effective Time means the effective time of the Closing, which shall be as of the close of business on the Closing Date.

Employee means any employee of any Seller Group Person in connection with the Business, including any retired, laid-off, on-leave, former or terminated employee.

Employee Plan/Agreement has the meaning set forth in Section 3.26 hereof.

Environmental Law means any current or past Law relating to the protection of health or the environment, including without limitation: the Clean Air Act, the Federal Water Pollution Control Act, the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, the Toxic Substance Control Act, any comparable state or foreign Law, and the common law, including the law of nuisance and strict liability.

Environmental Permits means all permits, registrations, approvals and licenses, and all filings with and submissions to any Government or other authority, required by any Environmental Law.

Environmental Property means all assets and property currently or previously owned, leased, operated or used by any Seller Group Person or any entity previously owned by a Seller Group Person for which Successor liability may exist.

ERISA means the Employee Retirement Income Security Act of 1974, as amended.

Escrow Agreement means the form of agreement attached as Exhibit C.

Excluded Assets means (i) the PMC Note, (ii) Cash and Cash Equivalents, (iii) any office equipment, computers or similar items which are located at Seller s headquarters at 1695 River Road, Des Plaines, Illinois and neither necessary for the operation of the Business nor included on the Balance Sheet or in the Confidential Memorandum, (iv) any computer software relating to Seller s option program or dividend program that is neither necessary for payment of compensation to Employees in Puerto Rico or the operation of the Business nor included on the Balance Sheet or in the Confidential Memorandum, and (v) computer software and hardware relating to Seller s Tek Pak Division on PIC-based computer software on General Automation hardware (the Tek Pak Software and Hardware ), provided, that Seller shall upon Closing license to Buyer, at no cost to Buyer, the Tek Pak Software and Hardware for so long as such Tek Pak Software and Hardware is required to operate the Business in an efficient manner, and such license shall be included in the Intellectual Property.

Excluded Liabilities means all Liabilities of any Seller Group Person other than the Assumed Liabilities.

Existing Names has the meaning set forth in Section 5.9 hereof.

Final Purchase Price means the Purchase Price following adjustment pursuant to Section 2.9.

Financial Statements means the Balance Sheet, the Other Statements, and the Other Financial Statements.

GAAP means U.S. generally accepted accounting principles applied on a consistent basis.

Government means the United States of America, any other nation or sovereign state, the European Union, any federal, bilateral or multilateral governmental authority, the Commonwealth

of Puerto Rico, any state, possession, territory, county, district, city or other governmental unit or subdivision, and any branch, agency, or judicial body of any of the foregoing.

Government Contract means any prime contract, subcontract, teaming agreement or arrangement, joint venture, basic ordering agreement, letter contract, purchase order, delivery order, change order, or other arrangement of any kind in writing, (A) between a Seller Group Person, in connection with the Business, and (i) a Government, (ii) any prime contractor of a Government, (iii) any subcontractor with respect to any contract described in clauses (i) or (ii) above, or (B) to which a Seller Group Person, in connection with the Business, is a party, or by which it is bound and which is financed by a Government and subject to the rules and regulations of such Government concerning procurement.

Hazardous Materials means any pollutants, contaminants, hazardous substances, hazardous chemicals, toxic substances, hazardous wastes, infectious wastes, radioactive materials, petroleum including crude oil or any fraction thereof, asbestos fibers, or solid wastes or other hazardous materials.

HSR Act means the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (incorporated as Section 7A of the Clayton Act), as amended.

Intellectual Property means all of the following (in whatever form or medium) which are owned by or licensed to any Seller Group Person in connection with the Business: patents, trademarks, service marks, trade names, corporate names, copyrights, and copyrighted works; registrations thereof and applications therefor; trade secrets, software (whether in source code or object code), firmware, mask works, programs, inventions, discoveries, proprietary processes, and items of proprietary know-how, information, data or intellectual property; proprietary prospect lists, customer lists, projections, analyses, and market studies; and licenses, sublicenses, assignments, and agreements in respect of any of the foregoing; provided, however, that Intellectual Property shall not include trademarks, service marks, trade names or corporate names for Schawk, Inc. or Schawk Graphics.

Law means any statute, law, treaty, ordinance, rule, regulation, instrument, directive, decree, order, or injunction of any Government, quasi-governmental authority, or Court, and includes any rule or regulation of any regulatory or self-regulatory authority compliance with which is required by law.

Liability means any liability and/or obligation, whether or not required to be reflected on the financial statements of a business.

Lien means any lien, security interest, mortgage, option, lease, tenancy, occupancy, covenant, condition, easement, agreement, pledge, hypothecation, charge, claim, restriction, or other encumbrance of every kind and nature.

Non-Purchased Entities means all Seller Group Persons which are not a Purchased Entity.

Notice of Dispute means a notice to Buyer delivered pursuant to Section 2.8(b), specifying in reasonable detail all points of disagreement with the computation of Working Capital set forth on the Closing Balance Sheet.

Order means an order, judgment, writ, injunction, award or decree of any Court or Government.

Ordinary Course means, with respect to the Business, only the ordinary course of commercial operations customarily engaged in by such Business consistent with past practices, and specifically does not include (a) activity (i) involving the purchase or sale of such business or of any product line or business unit, (ii) involving modification or adoption of any Employee Plan/Agreement or (iii) which requires approval by the board of directors or shareholders of a corporation engaged in such business, or (b) the incurrence of any liability for any tort or any breach or violation of or default under any Contract or Law.

Other Financial Statements means the unaudited consolidated, and consolidating balance sheets of the Seller as of September 30, 1996, and the audited consolidated, and consolidating balance sheets of the Seller as of December 31, 1995, 1994, and 1993 and the related statements of earnings, stockholders' equity and cash flows for the periods then ended, together with all notes or schedules thereto, attached on Schedule 3.3.

Other Statements means the balance sheets, statements of earnings and cash flows of the Business, other than the Balance Sheet, as of September 30, 1996, and December 31, 1995, 1994, and 1993, and all notes and schedules thereto, attached on Schedule 3.3.

Party means either Buyer or Seller, and Parties means both of them but does not include a Buyer Company other than Buyer

or a Seller Group Person other than Seller.

PBGC means the Pension Benefit Guaranty Corporation.

Permitted Liens has the meaning specified in Section 3.9(a) hereof.

Person means any natural person, any domestic or foreign corporation, partnership, limited liability company, limited liability partnership, joint venture, association, company, or other legal entity, and any Government.

PMC Note means the note in the amount of $2,437,000 identified on the Balance Sheet and any account receivable from Plastic Molded Concepts, Inc., not arising from the sale of goods and inventory.

Puerto Rico Grant means the Grant of Industrial Tax Exemption applicable to the Business issued by the Commonwealth of Puerto Rico.

Purchased Assets means all of the Assets other than the Excluded Assets.

Purchased Entity means any corporation that any Buyer Company is purchasing an equity interest in pursuant to this Agreement which is set forth on Schedule 1.1(b).

Purchased Entity Purchase Agreement means the form of agreement attached as Exhibit D.

Purchase Price shall mean the amount set forth in Section 2.7(b).

Real Property means each parcel of real property included in the Purchased Assets, including without limitation all buildings, plants, warehouses, facilities and other improvements and fixtures thereon and appurtenances thereto.

Returns means returns, reports, estimated tax and informational statements and returns relating to Taxes which are, were or will be required by Law to be filed by any Seller Group Person or other Tax Affiliate of Seller in connection with the Business, and all information returns (e.g., Form W-2, Form 1099) and reports relating to Taxes or Employee Plan/Agreement. Any one of the foregoing Returns may be referred to sometimes as a Return .

Seller has the meaning set forth in the Preamble.

Seller Company means any Seller Group Person which is a corporation.

Seller Group means Seller and all Affiliates of Seller.

Seller Group Person means a Person included in the Seller Group.

Seller Group Persons means all of the persons included in the Seller Group.

Shares has the meaning specified in Section 3.10(b) hereof.

Tax Affiliate means any member of an Affiliated Group of which Seller is or was a member, or any member of a combined or unitary group of which Seller is or was a member.

Taxes means all taxes, charges, fees, levies or other like assessments imposed or assessed by any Government, including without limitation income, profits, windfall profit, employment (including Social Security, state pension plans, and unemployment, workmen s, and occupational and non-occupational disability insurance required by Law), withholding, payroll, franchise, gross receipts, sales, use, transfer, stamp, occupation, real or personal property, ad valorem, value added, premium, and excise taxes; Pension Benefit Guaranty Corporation premiums and any other like Government charges; and shall include all penalties, fines, assessments, additions to tax, and interest resulting from, attributable to, or incurred in connection with such Taxes or any contest or despite thereof. Any one of the foregoing Taxes may be referred to sometimes as a Tax.

Title Commitment has the meaning specified in Section 7.13(a) hereof.

Title Company has the meaning specified in Section 7.13(a) hereof.

WARN Act means the Worker Adjustment and Retraining Notification Act, as amended.

Working Capital means (x) current assets (as identified on the Balance Sheet) excluding Cash and Cash Equivalents, and the PMC Note, minus (y) current liabilities (as identified on the Balance Sheet, all determined in accordance with GAAP; for purposes of the Closing Balance Sheet, current assets shall be included to the extent included in the Purchased Assets, and current liabilities shall be included to the extent arising from Assumed Liabilities or Liabilities of a Purchased Entity, or a reserve or accrual relating thereto.

## ARTICLE II

## PURCHASE AND SALE OF PURCHASED ASSETS

2.1 Assets to be Purchased. Subject to the terms and conditions hereof, on the Closing Date and as of the Effective Time, a Seller Group Person shall sell to a Buyer Company, as identified on Schedule 2.1, free and clear of all Liens, all right, title and interest in and to, collectively, all of the Purchased Assets, except for Purchased Assets to the extent owned by Purchased Entities.

2.2 Assumed Liabilities.

(a) Subject to the terms and conditions hereof, on the Closing Date and as of the Effective Time, a Seller Group Person shall assign and transfer to a Buyer Company, as identified on Schedule 2.1, and a Buyer Company shall assume, only the Assumed Liabilities.

(b) Notwithstanding the foregoing, if the assignment or transfer of any obligation or instrument would cause a breach thereof and if no required consent to such assignment or transfer has been obtained, then, at the Buyer s election and in its sole discretion, and subject to the Buyer's right to require strict compliance with Section 7.10 hereof, such obligation or instrument shall not be assigned or transferred, but a Buyer Company shall act as agent for the applicable Seller Group Person in order to obtain for the applicable Buyer Company the benefits under such obligation or instrument.

(c) EXCEPT AS EXPRESSLY AND UNAMBIGUOUSLY PROVIDED IN THIS SECTION 2.2, NEITHER BUYER, NOR ANY BUYER COMPANY, NOR ANY AFFILIATE OF ANY BUYER COMPANY ASSUMES OR AGREES TO BECOME LIABLE FOR OR SUCCESSOR TO ANY LIABILITIES OR OBLIGATIONS WHATSOEVER, LIQUIDATED OR UNLIQUIDATED, KNOWN OR UNKNOWN, CONTINGENT OR OTHERWISE, WHETHER OF SELLER, ANY SELLER GROUP PERSON, ANY PREDECESSOR THEREOF, OR ANY OTHER PERSON, OR OF THE BUSINESS. NO OTHER STATEMENT IN OR PROVISION OF THIS AGREEMENT AND NO OTHER STATEMENT, WRITTEN OR ORAL, ACTION, OR FAILURE TO ACT INCLUDES OR CONSTITUTES ANY SUCH ASSUMPTION OR AGREEMENT, AND ANY STATEMENT TO THE CONTRARY BY ANY PERSON IS UNAUTHORIZED AND HEREBY DISCLAIMED.

2.3 Consideration. The Consideration shall be the aggregate of (a) the Final Purchase Price, plus (b) the amount of the Assumed Liabilities.

2.4 Allocation of Consideration. The Consideration provided for in Section 2.3 shall be allocated among the Purchased Assets, Assumed Liabilities and Covenant Not to Compete, and among foreign jurisdictions, as provided in Schedule 2.4 hereto.

2.5 Closing. The Closing shall take place at 9:00 a.m. local time at the offices of Vedder, Price, Kaufman & Kammholz located at 222 North LaSalle Street, Chicago, Illinois, 60601-1003.

2.6 Deliveries of Seller at Closing. At Closing, subject to the conditions to Seller's obligations in Article VIII, Seller shall execute and deliver or cause to be delivered the documents identified in Article VII.

Deliveries of Buyer at Closing. At Closing, subject to the conditions to Buyer's obligations in Article VII, Buyer shall (a) execute and deliver or cause to be delivered the documents identified in Article VIII and (b) transfer by wire transfer, to an account designated by Seller not less than two business days before the Closing Date, the sum (the Purchase Price ) of (i) Ninety Two Million Dollars ($92,000,000) plus (ii) the amount of Cash and Cash Equivalents of the Purchased Entities as of the Closing Date (based on an estimate as of December 31, 1996 (the December Cash Estimate )).

Determination of Closing Working Capital.

(a) As of the Closing Date, Buyer shall conduct an audit and examination of the Purchased Assets and the Assumed Liabilities (the Closing Audit ) at Buyer's sole cost and expense. The Seller, at its sole cost and expense, may have a representative participate in the taking of the physical inventory in connection with the Closing Audit. On the basis of such Closing Audit, Buyer shall prepare with the assistance of Seller personnel as requested by Buyer a balance sheet as of the Closing Date (the Closing Balance Sheet ) including a computation of Working Capital, as of the Closing Date, of the Business, in accordance with GAAP except as set forth in Schedule 2.8 applied consistently with the accounting policies and procedures followed, and utilizing similar classifications used, in preparing the Balance Sheet, provided such policies and procedures are in accordance with GAAP except as set forth in Schedule 2.8. Buyer shall deliver the Closing Balance Sheet to the Seller not later than 45 days after the Closing Date. Each Party (the Reviewed Party ) shall, upon the request of the other party (the Requesting Party ), provide the Requesting Party s representatives with reasonable access to the Reviewed Party s accountants and, to the extent permitted by internal rules and procedures of the Reviewed Party s accountants, use its reasonable best efforts to provide equal access to such

accountant s work papers at such accountant s place of business and in such accountant s presence, in order to facilitate the Requesting Party s review of such Closing Balance Sheet. In preparing such Closing Balance Sheet, inventory shall be valued on a basis consistent with the inventory valuation in the Balance Sheet.

(b) If the Seller disputes the computation of Working Capital set forth on the Closing Balance Sheet as delivered by Buyer, then not more than 20 days after the date the Seller receives the Closing Balance Sheet the Seller shall provide to Buyer a Notice of Dispute. Upon receipt of the Notice of Dispute, Buyer shall promptly consult with the Seller with respect to its specified points of disagreement in an effort to resolve the dispute. If any such dispute cannot be resolved by Buyer and the Seller within 20 days after Buyer receives the Notice of Dispute, or any mutually agreed upon extension to such period, they shall refer the dispute to a partner in and designated by Arthur Andersen LLP, certified public accountants (the Arbiter ), as an arbitrator to finally determine, as soon as practicable, and in any event within 30 days after such referral, all points of disagreement with respect to the computation of Working Capital set forth on the Closing Balance Sheet. The Parties represent and warrant that neither of them has a material pre-existing relationship with the Arbiter. For purposes of such arbitration each Party shall submit a proposed computation of Working Capital; Buyer's proposals need not be identical to the computation of Working Capital set forth on the Closing Balance Sheet and delivered pursuant to Section 2.8(a). Any items included in Buyer s computation of Working Capital not specifically disputed by Seller shall be deemed accepted and not subject to arbitration. The Arbiter shall apply the terms of this Section 2.8 and the other relevant provisions of this Agreement, and shall otherwise conduct the arbitration under such procedures as the Parties may agree or, failing such agreement, under the Commercial Arbitration Rules of the American Arbitration Association. Upon the conclusion of the arbitration proceeding, the Arbiter shall choose either Buyer s computation of Working Capital or Seller s computation. The Arbiter shall not independently calculate Working Capital. The fees and expenses of the arbitration and the Arbiter incurred in connection with the arbitration of the computation of Working Capital shall be paid by the non-prevailing party; provided, that such fees and expenses shall not include, so long as a Party complies with the procedures of this Section 2.8, the other Party's outside counsel or accounting fees. All determinations by the Arbiter shall be final, conclusive, binding and not subject to judicial review or appeal with respect to the computation of Working Capital and the allocation of arbitration fees and expenses.

2.9 Post-Closing Adjustment. The Purchase Price shall be adjusted as follows, based on the computation of Working Capital set forth in the Closing Balance Sheet determined under Section 2.8(a) or if necessary, 2.8(b):

(a) If such Working Capital is less than $13,895,000 Seller shall pay to Buyer such difference;

(b) If such Working Capital is greater than $13,895,000 Buyer shall pay to Seller such difference;

(c) If the December Cash Estimate is greater than the Cash and Cash Equivalents of the Purchased Entities as of the Closing Date as listed on the Closing Balance Sheet, Seller shall pay to Buyer such difference;

(d) If the December Cash Estimate is less than the Cash and Cash Equivalents of the Purchased Entities as of the Closing Date as listed on the Closing Balance Sheet, Buyer shall pay to Seller such difference; and

(e) Any payment required to be made by Buyer or Seller pursuant to paragraphs (a), (b), (c), or (d) above shall be by wire transfer of funds not more than three days after final determination thereof.

## ARTICLE III

## REPRESENTATI ONS AND WARRANTIES OF SELLER

The Seller hereby makes the following representations and warranties, each of which is true and correct on the date hereof and each of which shall survive the Closing Date and the transactions contemplated hereby. With respect to any representation or warranty of the Seller in this Article III which is qualified by or to the Seller s or any Seller Group Person s knowledge, such knowledge shall be deemed to exist only if the persons listed on Schedule 3.0 have knowledge of the matter to which such qualification applies.

3.1 Corporate Existence and Power of Seller.

(a) True and complete copies of the articles or certificate of incorporation and bylaws and all amendments thereto of each Seller Company, certified by its secretary, are attached as Schedule 3.1. Each Seller Company is a corporation duly organized, validly existing and in good standing under the Laws of the jurisdictions indicated therein.

(b) Each Seller Company has the corporate power and authority, and each other Seller Group Person has the legal power and authority, to own and use its Assets and to transact the business in which it is engaged, holds all franchises, licenses and permits necessary and required therefor. Further, each Seller Company is duly licensed or qualified to do business as a foreign corporation and is in good standing in each jurisdiction where such license or qualification is required, except where the failure to be so qualified could not be reasonably expected to have a material adverse effect on such Seller Company. Each Seller Company has the corporate power, and each other Seller Group Person has the legal power, to enter into this Agreement, to perform its obligations hereunder, and to consummate the transactions contemplated hereby.

3.2 Approval and Enforceability of Agreement.

(a) The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized, approved and ratified by all necessary action on the part of each Seller Group Person. Pursuant to such resolutions, authorizations, consents, approvals and/or ratifications, the Seller has full authority to enter into and deliver this Agreement, to perform its obligations hereunder and to cause each other Seller Group Person to perform their respective obligations hereunder, and to consummate, and to cause each other Seller Group Person to consummate, the transactions contemplated hereby.

(b) Assuming the due execution and delivery hereof by Buyer, this Agreement is a legal, valid and binding obligation of Seller, enforceable against Seller according to its terms.

3.3 Financial Statements.

(a) Attached as Schedule 3.3 hereto are the Financial Statements.

(b) The Financial Statements were derived from the books and records of the Seller and (i) are true, complete, and correct, (ii) present fairly the financial position, results of operations, and cash flows of the Business and the Seller, as indicated, at the dates and for the periods indicated, (iii) have been prepared in accordance with GAAP applied on a basis consistent with previous periods, and (iv) do not include any untrue statement of a material fact required to be stated or reflected therein or omit to state or reflect any material fact necessary to make any statements therein not misleading.

(c) The Balance Sheet and the Other Statements have been prepared on a basis consistent with the Reports on Form 10-Q of Seller filed with the Securities and Exchange Commission.

3.4 Events Subsequent to September 30, 1996. Since September 30, 1996, except as set forth on Schedule 3.4, there has been no:

(a) change in the Business Condition of the Business other than changes in the Ordinary Course, none of which have been materially adverse and, to the knowledge of each Seller Group Person, no such change will arise from the consummation of the transactions contemplated hereby;

(b) loss or, to the knowledge of each Seller Group Person, threatened loss of a customer account;

(c) damage, destruction or loss, other than reasonable wear and tear, involving Assets with a fair market value or book value of $10,000 or more, whether covered by insurance or not, affecting the Purchased Assets;

(d) declaration, setting aside, or payment of any dividend or any distribution (in cash or in kind) with respect to any securities of any Purchased Entities;

(e) payment of fees or expenses of counsel, accountants and other experts incurred by any Purchased Entities incident to the negotiation, preparation or execution of this Agreement or the Closing;

(f) increase in or commitment to increase compensation, benefits, or other remuneration to or for the benefit of any shareholder, member, partner, director, officer, Employee or agent in respect of the Business, any other Person, or any benefits granted under any Employee Plan/Agreement with or for the benefit of any such shareholder, member, partner, director, officer, Employee, agent or Person;

(g) transaction entered into or carried out by any Seller Group Person in respect of the Business other than in the Ordinary Course of the Business;

(h) borrowing or incurrence of any indebtedness (including letters of credit and foreign exchange contracts), contingent or other, by or on behalf of any Seller Group Person or any endorsement, assumption, or guarantee of payment or performance of any Indebtedness or Liability of any other Person or entity by any Seller Group Person in respect of the Business, except as provided under the credit facilities listed as Exhibit 10.18, 10.19 and 10.20 of the Seller s Form 10-K for the period ended December 31, 1995 as filed with the Securities and Exchange Commission;

(i) change made by any Seller Group Person in its Tax or financial accounting or any Tax election;

(j) grant of any Lien with respect to the Purchased Assets;

(k) transfer or reclassification for accounting purposes of any Assets other than arm's-length sales, leases, or dispositions in the Ordinary Course of the Business;

(l) material modification or termination of any Contract with an aggregate contract value of $50,000 or any material term thereof;

(m) lease or acquisition of any capital assets included in the Purchased Assets with a value greater than $10,000 per item, unless Buyer has consented to such lease or acquisition;

(n) in connection with the Business, loan or advance to any Person except for advances not material in amount made in the Ordinary Course of the Business to Employees;

(o) management of current assets and current liabilities constituting Working Capital (and the level thereof) in a manner inconsistent with current practices or the preparation of the Balance Sheet; or

(p) commitment or agreement by any Seller Group Person to do any of the foregoing items (d) through (o).

3.5 Inventories. All finished goods held by any Seller Group Person at any location are merchantable in the Ordinary Course of the Business, except to the extent of any reserve therefor on the Balance Sheet, and all inventories held by any Seller Group Person at any location are (i) valued at the lower of cost or market (cost being determined by the FIFO accounting method) in the same manner as recorded on the Balance Sheet and (ii) written off to the extent physically damaged, previously used, obsolete, discontinued, excess or old. Excess inventory shall mean (i) with respect to products in existence more than 12 months, the amount of inventory in excess of a 12 month supply based on actual sales of such products over the last 12 months, and (ii) with respect to products introduced within the last 12 months, the amount of such inventory in excess of a 24 month supply based upon forecasted sales, which forecast has been prepared by the Seller in a commercially reasonable manner. Old inventory shall mean any item of inventory which has been held by Seller for more than 24 months. Except as set forth on Schedule 3.5, no Seller Group Person holds in connection with the Business any Purchased Assets on consignment or has title to or ownership of any Purchased Assets in the possession of others.

3.6 Accounts and Notes Receivable. Set forth on Schedule 3.6(a) hereto are all accounts and notes receivable of all Seller Group Persons and an aging schedule related thereto, each as of September 30, 1996, June 30, 1996 and December 31, 1995. Such accounts and notes receivable are, and any accounts and notes receivable arising between such date and the Closing Date shall be, valid, genuine and subsisting, and except as set forth on Schedule 3.6(b), all such accounts and notes receivable arose or will have arisen in the Ordinary Course of the Business. Such accounts and notes receivable are not, and will not be on the Closing Date, subject to any defense, set-off, counterclaims or Lien, except for customer disputes in the Ordinary Course of the Business in respect to which adequate reserves are maintained on the Business books and records. Except to the extent of any reserve therefor on the Financial Statements or paid in full prior to Closing, all accounts and notes receivable are and will be current and accounted for in accordance with GAAP.

3.7 Undisclosed Liabilities. To the knowledge of each Seller Group Person, no Seller Group Person has, in connection with the Business, any Liabilities whatsoever, asserted or unasserted, liquidated or unliquidated, accrued, absolute, contingent, or otherwise, and there is no basis for any claim against any Seller Group Person in connection with the Business for any such Liability except (a) to the extent set forth and used in determining the consolidated net worth of the Business on the Balance Sheet, (b) to the extent set forth on Schedule 3.7, or (c) Liabilities incurred in the Ordinary Course of the Business since the Balance Sheet Date, none of which will, or could, have an adverse effect upon the Business Condition of the Business.

3.8 Taxes.

(a) All Returns required to be filed by any Seller Group Person in connection with the Business or by any Purchased Entity on or prior to the Closing Date with respect to Taxes have been or will be timely filed.

(b) All amounts shown on each of such Returns have been paid or will be paid when due.

(c) Any Taxes which are to be assumed by Buyer in respect of the Purchased Assets which are attributable to the Seller Group for either its operations on or before the Closing Date, or attributable to the Agreement, which are not yet due and owing, but which will be due within 12 months of the Closing Date, will be adequately reflected on the Closing Balance Sheet as a Current Liability for Taxes, other than increases after the Closing Date in ad valorem real estate taxes assessed against the Real Property in accordance with past practice. All other liabilities for Taxes (non-current in nature) will be adequately reflected on the Closing Balance Sheet as a reserve for Taxes.

(d) There are no grounds for the assertion or assessment of any Taxes against the Purchased Assets or the Business other than those reflected or reserved against on the Closing Balance Sheet.

(e) Neither the Purchased Assets nor the Business or will be encumbered by any Liens arising out of any unpaid Taxes and there are no grounds for the assertion or assessment of any Liens against the Purchased Assets or the Business in respect of any Taxes (other than Liens for Taxes if payment thereof is not yet required, and which are set forth on Schedule 3.8(e) hereto).

(f) The transactions contemplated by this Agreement will not give rise to (i) the creation of any Liens against the Purchased Assets or the Business in respect of any Taxes or (ii) the assertion of any additional Taxes against the Purchased Assets or the Business.

(g) Except as set forth on Schedule 3.8(g), there is no action or proceeding or unresolved claim for assessment or collection, pending or threatened, by, or present or expected dispute with, any Government authority for assessment or collection from any Seller Group Person of any Taxes of any nature affecting the Purchased Assets or the Business.

(h) There is no extension or waiver of the period for assertion of any Taxes against any Seller Group Person affecting the Purchased Assets or the Business.

(i) Except as set forth on Schedule 3.8(i), no Seller Group Person is a foreign person within the meaning of Section 1445(f)(3) of the Code.

(j) None of the Purchased Assets or Assumed Liabilities is subject to, or constitute, a safe harbor lease within the meaning of Section 168(f)(8) of the Code.

(k) None of the Purchased Assets have been financed with, or directly or indirectly secures, any industrial revenue bonds or debt, the interest on which is tax exempt under Section 103(a) of the Code.

(l) Except as set forth on Schedule 3.8(l), none of the Purchased Assets, Contracts, or Assumed Liabilities will constitute a partnership, joint venture, or other arrangement or contract that could be treated as a partnership for federal income tax purposes.

(m) Except as set forth on Schedule 3.8(m), none of the Purchased Assets consist of stock in a subsidiary of any Seller Group Person.

(n) None of the Purchased Assets is tax-exempt use property within the meaning of Section 168(h) of the Code.

None of the Purchased Assets is subject to a tax indemnification agreement.

None of the exemptions, grants or tax holidays with respect to Taxes or tax credits, as disclosed in the Confidential Memorandum, have expired or have been made null and void or otherwise invalid by any action or lack of action on the part of the Seller Group. The Seller Group will take no action nor make any election which by so doing would alter the status of such exemption, grant, or tax holiday, other than the transfer of the Puerto Rico Grant. To the knowledge of any Seller Group Person, the consummation of the transactions will not result in the alteration of the status of such exemption, grant, or tax holiday, other than the transfer of the Puerto Rico Grant. Seller further agrees to perform any reasonable act or acts necessary to preserve such exemptions, grants and tax holidays so that said benefits will survive the Closing.

None of the Purchased Assets includes any deferred tax asset.

3.9 Real Property Owned.

(a) Set forth on Schedule 3.9(a) hereto is a legal description of each parcel of Real Property, a description of the title insurance policy or other evidence of title issued with respect thereto and a description of the type of use of each such parcel. Except for (i) current Taxes or assessments due but not yet payable and (ii) Liens of record set forth on Schedule 3.9(a), none of which is substantial in character or amount and none of which interferes with the present use of the Real Property in any material way ( Permitted Liens ), a Seller Group Person has good and marketable title to the Real Property free and clear of all Liens and there exists no restriction on the use or transfer of the Real Property. No Seller Group Person has in connection with the Business any interest in or any right or obligation to acquire any interest in any parcel of real property other than those described on Schedule 3.9(a).

(b) All improvements located on, and the use presently being made of, the Real Property comply, in all material respects, with all applicable zoning and building codes, ordinances and regulations and all applicable fire, environmental, occupational safety and health standards and similar standards established by Law and, to the knowledge of each Seller Group Person, the same use thereof by Buyer will not result in any violation of any such code, ordinance, regulation or standard. The present use and operation of the Real Property does not constitute a non-conforming use and is not subject to a variance. Except as set forth on Schedule 3.9(b), to the knowledge of each Seller Group Person, there is no proposed, pending or threatened change in any such code, ordinance, regulation or standard which would adversely affect the Business of the use of the Purchased Assets.

(c) At and after the Closing, a Buyer Company or a Purchased Entity shall have the right to maintain or use such space, facilities or appurtenances outside the building lines, whether on, over or under the ground, and to conduct such activities thereon as maintained, used or conducted by any Seller Group Person in connection with the Business on the date hereof and the Closing Date and such right is not subject to revocation. At and after the Closing, a Buyer Company or a Purchased Entity shall have all rights, easements and agreements necessary for the use and maintenance of water, gas, electric, telephone, sewer or other utility pipelines, poles, wires, conduits or other like facilities, and appurtenances thereto, over, across and under the Real Property. No proceeding is pending or, to the knowledge of each Seller Group Persons, threatened which could adversely affect the zoning classification of the Real Property.

(d) There is no unpaid property Tax, levy or assessment against the Real Property not reflected on the Balance Sheet, nor is there pending or, to the knowledge of each Seller Group Person, threatened any condemnation proceeding against the Real Property or any portion thereof, other than increases on or after the Closing in ad valorem taxes in accordance with past practice. The Real Property consists of one or more legally subdivided parcels, and the sale thereof as contemplated herein conforms to and complies with all subdivision, land use and Environmental Laws. No part of any improvements on the Real Property encroaches upon any property adjacent thereto or upon any easement, nor is there any encroachment or overlap on to the Real Property. Except as set forth as Schedule 3.9(d), to the knowledge of each Seller Group Person, the Real Property is not located within an area of special risk or hazard with respect to earthquake, flood or other natural disaster, and the Real Property is not located within any flood plain or subject to any similar type of restrictions for which permits or licenses are necessary to the use thereof. Other than as described in Schedule 3.38, no Seller Group Person has dealt with any broker, finder or other person in connection with the sale of the Real Property in any manner that might give rise to any claim for commissions against any Buyer Company or Purchased Entity or any Lien against the Real Property.

(e) Except as set forth on Schedule 3.9(e), to the knowledge of each Seller Group Person, there is no condition affecting the Real Property or the improvements located thereon which requires repair or correction to restore the same to reasonable operating condition. Set forth on Schedule 3.9(e) are copies of documents, reports and agreements relating to any such conditions. No assessments for public improvements have been made in respect of the Real Property which are unpaid. Except as otherwise described on Schedule 3.9(e): (i) there is no pending or, to the knowledge of each Seller Group Person, threatened condemnation proceeding, administrative action or judicial proceeding of any type relating to the Real Property or other

matters affecting adversely the current use, occupancy or value of the Real Property; (ii) the Real Property does not serve any adjoining property for any purpose inconsistent with the use of the Real Property; (iii) there are no leases, subleases, licenses, concessions or other agreements, written or oral, granting to any person or entity the right to use or occupy any portion of the Real Property; (iv) all water, gas, electrical, steam, compressed air, telecommunication, sanitary and storm sewage lines and other utilities and systems serving the Real Property are sufficient to enable the continued operation of the Real Property as currently operated and as proposed to be operated; (v) all certificates of occupancy, permits, licenses, approvals and other authorizations required in connection with the past, present and proposed operation of its business on the Real Property have been lawfully issued to a Seller Group Person and are, as of the date hereof, and will be following the consummation of the transactions contemplated hereby, in full force and effect; and (vi) all Real Property has access to public roads and utilities necessary to conduct the Business at such Real Property.

3.10 Personal Property and Capital Stock Owned

(a) Except as set forth on Schedule 3.10(a) hereto, the Seller Group Persons collectively have good and marketable title to all personal property included in the Purchased Assets, including in each case all personal property reflected on the Balance Sheet or acquired after the date thereof (except any personal property subsequently sold in the Ordinary Course of the Business), free and clear of all Liens, and there exists no restriction on the use or transfer of such property.

(b) The Seller Group Persons collectively are the sole owners of record and beneficial owners of shares of capital stock of the Purchased Entities (the Shares ). The number, type and record and beneficial owners of the Shares are more fully described on Schedule 3.10(b) and such Shares are owned by the Seller Group Persons free and clear of all security interests, claims and restrictions. The Shares constitute 100 percent of the issued and outstanding capital stock of the Purchased Entities, and are all validly issued, fully paid and non-assessable.

3.11 Real and Personal Property Leased from Seller Group Persons. Set forth on Schedule 3.11 hereto is a description of each lease under which a Seller Group Person is the lessor of any real or personal property in connection with the Business. Seller has delivered to Buyer a true, correct and complete copy of each lease identified on Schedule 3.11. The premises or property described in such leases are presently occupied or used by the respective lessees under the terms of such leases. All rentals or other payments due under such leases have been paid and there exists no default under the terms of any of such leases and no event has occurred which, upon passage of time or the giving of notice, or both, would result in any event of default or prevent such Seller Group Person from exercising and obtaining the benefits of any rights contained therein. Except as set forth on Schedule 3.11, no consent is necessary for the assignment or conveyance of such leases to the Buyer Companies, and upon the Closing a Buyer Company or a Purchased Entity will have all right, title and interest of the lessor under the terms of such leases, free of all Liens.

3.12 Real and Personal Property Leased to a Seller Group Person. Set forth on Schedule 3.12(a) hereto is a description of each lease involving annual rental payments of $10,000 or more under which a Seller Group Person is the lessee of any real property in connection with the Business, and on Schedule 3.12(b) hereto is a description of each lease under which a Seller Group Person is the lessee of any personal property in connection with the Business. Seller has delivered to Buyer a true, correct and complete copy of each lease identified on Schedules 3.12(a) and 3.12(b). The premises or property described in said leases are presently occupied or used by a Seller Group Person as lessee under the terms of such leases. Except as set forth on Schedules 3.12(a) and 3.12(b), all rentals due under such leases have been paid and there exists no default under the terms of any such leases and no event has occurred which, upon passage of time or the giving of notice, or both, would result in any event of default or prevent such Seller Group Person from exercising and obtaining the benefits of any rights or options contained therein. The Seller Group Persons collectively have all right, title and interest of the lessee under the terms of said leases, free of all Liens and all such leases are valid and in full force and effect. Except as set forth on Schedules 3.12(a) and 3.12(b), no consent is necessary for the assignment to the Buyer Companies of such leases under which a Seller Group Person is lessee. Upon the Closing, a Buyer Company or a Purchased Entity will have all right,

title and interest of the lessee under the terms of such leases, free of all Liens. There is no default or basis for acceleration or termination under, nor has any event occurred nor does any condition exist which, with the passage of time or the giving of notice, or both, would constitute a default or basis for acceleration under any underlying lease, agreement, mortgage or deed of trust which default or basis for acceleration would adversely affect any lease described on Schedules 3.12(a) or 3.12(b) or the property or use of the property covered by such lease. Subject to any consent required of a lessor as set forth on Schedules 3.12(a) and 3.12(b), there will be no default or basis for acceleration under any such underlying lease, agreement, mortgage or deed of trust as a result of the transactions provided for in this Agreement.

3.13 Intellectual Property.

(a) Schedule 3.13(a) contains a true, complete and accurate list of all the Intellectual Property. Schedule 3.13(a) accurately identifies, where appropriate, one or more of the following, by country, for each item of the Intellectual Property: filing date, issue date, classification of invention or goods covered, licensor, license date and licensed subject matter. Schedule 3.13(a) contains a complete and accurate list of all licenses and other rights granted by any Seller Group Person to any third party with respect to any item of the Intellectual Property. True, complete and correct copies of the forms of such customer licenses are included as part of Schedule 3.13(a).

(b) Seller represents and warrants as follows: (i) the Intellectual Property was validly issued and, except as set forth on Schedule 3.13(b), no Seller Group Person has received notice of the invalidity or unenforceability of any Intellectual Property; (ii) there was no inequitable conduct in obtaining any patent owned by a Seller Group Company and included in the Intellectual Property; (iii) the Intellectual Property encompasses all proprietary rights necessary for the conduct of the Business as presently conducted or proposed to be conducted (in each case free and clear of all Liens); (iv) each Seller Group Person has taken all commercially reasonable actions necessary to maintain and protect the Intellectual Property; (v) to the knowledge of each Seller Group Person, the owners of the Intellectual Property licensed to any Seller Group Person have taken all actions necessary to maintain and protect the Intellectual Property subject to such licenses; (vi) there has been no claim made against any Seller Group Person asserting the invalidity, misuse or unenforceability of any of the Intellectual Property or challenging such Seller Group Person's right to use or ownership of any of the Intellectual Property, and, to the knowledge of each Seller Group Person, there are no grounds for any such claim or challenge; (vii) to the knowledge of each Seller Group Person, there is and has been no infringement or misappropriation of any of the Intellectual Property; (viii) the conduct of the Business has not infringed or misappropriated, and does not infringe or misappropriate, any intellectual property or proprietary right of any other entity; (ix) no loss of any of the Intellectual Property is presently threatened or pending; and (x) the consummation of the transactions contemplated by this Agreement will not alter, impair or extinguish any of the Intellectual Property.

3.14 Necessary Property and Transfer of Purchased Assets. The Purchased Assets and the Assumed Liabilities constitute all of the Seller Group Persons' property and property rights now necessary for the conduct of the Business in the manner and to the extent presently conducted by the Seller Group Persons. The Assets constitute all of the Seller Group Persons' property and property rights now used for the conduct of the Business in the manner and to the extent presently conducted by the Seller Group Persons. No such assets or property are in the possession of others and, in connection with the Business, the Seller Group Persons hold no property on consignment. Except as set forth on Schedule 3.14 hereto, no consent is necessary to, and there exists no restriction on, the transfer of any of the Purchased Assets or the assignment of the Assumed Liabilities to the Buyer Companies. There exists no condition, restriction or reservation affecting the title to or utility of the Purchased Assets or Assumed Liabilities which would prevent the Buyer Companies from occupying or utilizing the Purchased Assets or enforcing the rights under the Assumed Liabilities, or any part thereof, to the same full extent that a Seller Group Person might continue to do so if the sale and transfer contemplated hereby did not take place. Upon the Closing, good and marketable title to the Purchased Assets attributable to the Non-Purchased Entities and the rights under the Assumed Liabilities shall be vested in the Buyer Companies, and good and marketable title to the Purchased Assets attributable to the

Purchased Entities shall remain vested in the Purchased Entities, in all cases free and clear of all Liens.

3.15 Use and Condition of Property. The Purchased Assets include sufficient Assets in good operating condition and repair as are required for the operation of the Business as presently conducted, and conform, in all material respects, to all applicable Laws, and no notice of any violation of any Law relating to any of the Purchased Assets has been received by Seller or any other Seller Group Person except such as have been fully complied with. There is no pending or, to the knowledge of each Seller Group Person, threatened condemnation proceeding or similar action affecting the Purchased Assets or with respect to any streets or public amenities appurtenant thereto or in the vicinity thereof which would adversely affect the Business or the use of the Purchased Assets.

3.16 Licenses and Permits. Set forth on Schedule 3.16 hereto is a description of each license or permit required for the conduct of the Business together with the name of the Government agency or entity issuing such license or permit. Such licenses and permits are valid and in full force and effect. Except as noted on Schedule 3.16, such licenses and permits are freely transferable by the applicable Seller Group Person, and upon Closing the Buyer Companies will have all right, title and interest of the holder thereof.

3.17 Contracts--Disclosure. Except as set forth in Schedule 3.17 there is not outstanding:

(a) any single Contract providing for an expenditure by any Seller Group Person in excess of $25,000, Contracts with the same or affiliated vendor(s) providing for an expenditure by any Seller Group Person in excess of $25,000 or any Contracts in the aggregate providing for expenditures by any Seller Group Persons in excess of $50,000, for the purchase of any real property, machinery, equipment or other items which are in the nature of capital investment;

(b) any single Contract providing for an expenditure by any Seller Group Person in excess of $50,000, Contracts with the same or affiliated vendor(s) providing for an expenditure by any Seller Group Person in excess of $50,000, or Contracts in the aggregate providing for expenditures by any Seller Group Persons in excess of $100,000, for the purchase of raw materials, supplies, component parts or any other items or services;

(c) any Contract to sell products or to provide services to third Persons which (i) is at a price which would result in a loss at the gross profit line on the sale of such products or providing of such services, (ii) is pursuant to terms or conditions which a Seller Group Person cannot reasonably expect to satisfy or fulfill in their entirety, or (iii) involves more than $50,000 or which, together with all other Contracts to or with the same party or affiliated parties involves more than $50,000;

(d) any Contract for materials, supplies, component parts or other items or services in excess of the normal, ordinary, usual and current requirements of the Business or at a price in excess of the current reasonable market price;

(e) in connection with the Business, any revocable or irrevocable guaranty, indemnity, or power of attorney;

(f) in connection with the Business, any evidence of indebtedness, loan agreement, indenture, promissory note, letter of credit, foreign exchange contract, conditional sales agreement or other similar type of agreement except as provided under the credit facilities listed as Exhibit 10.18, 10.19 and 10.20 of the Seller s Form 10-K for the period ended December 31, 1995 as filed with the Securities and Exchange Commission;

(g) any Contract which involves (i) a sharing of profits, (ii) future payments of $25,000 or more per annum to other Persons, or (iii) any joint venture, partnership or similar arrangement;

(h) any Contract involving any sales agency, sales representation, distributorship or franchise;

(i) any Contract containing covenants limiting the freedom of any Seller Group Person, in connection with the Business, to compete in any line of business or with any Person or in any area;

(j) any Contract not made in the Ordinary Course of the Business; or

any Government Contract;

any Contract between any Seller Group Persons;

any other Contract which is material to the Business which is not cancelable without penalty on thirty (30) days notice or less and which is not set forth on another Schedule.

3.18 Contracts--Validity, Etc.

(a) Except as otherwise disclosed on Schedule 3.17,

each Contract on Schedule 3.17 and any other Contract which is material to the Business is a valid and binding obligation of the parties thereto, enforceable in accordance with its terms, and in full force and effect.

(b) No Seller Group Person and, to the knowledge of each Seller Group Person, no other Person which is party to any Contract is in breach or violation thereof or default thereunder. To the knowledge of each Seller Group Person, no event has occurred which, through the passage of time or the giving of notice, or both, would constitute, and neither the execution of this Agreement nor the Closing do or will constitute or result in, a breach or violation of or default under any Contract, or would cause the acceleration of any obligation of any party thereto or the creation of a Lien upon any Purchased Asset.

Each Contract of a Non-Purchased Entity relating to the Business will be duly assigned to Buyer on the Closing Date and upon such assignment, Buyer will acquire all right, title and interest of the Seller Group Person in and to such Contract and will be substituted for such Seller Group Person under the terms of such Contract. Except as set forth on Schedule 3.14, no consent is required for such assignment.

Except as set forth on Schedule 3.18(d), no Contract with any Purchased Entity contains any change of control provisions.

3.19 No Breach of Law or Governing Documents. To the knowledge of each Seller Group Person, each such Person, in connection with the Business, and each Purchased Entity has complied with and is not in default under or in breach or violation of any applicable Law, or the provisions of any franchise or license. No Seller Group Person is in default under or in breach or violation of any provision of its articles or certificate of incorporation or association or its bylaws. No Seller Group Person has received notice alleging, and neither the execution of this Agreement nor the Closing do or will constitute or result in, any default, breach or violation identified in this Section 3.19. Except as required under the HSR Act and except with respect to the Puerto Rico Grant, no Government permits or consents are necessary to effect the transactions contemplated hereby.

3.20 Litigation and Arbitration. Except as set forth on Schedule 3.20(a) hereto, there is no suit, claim, action or proceeding now pending or, to the knowledge of each Seller Group Person, threatened before any court, grand jury, administrative or regulatory body, Government agency, arbitration or mediation panel or similar body, nor, to the knowledge or each Seller Group Person, are there any grounds therefor, to which a Seller Group Person, in connection with the Business, or a Purchased Entity is a party or which may result in any judgment, order, decree, liability, award or other determination which will, or could, have any material adverse effect upon any Purchased Asset or the assets of any Purchased Entity or upon the Business Condition of the Business. Except as set forth on Schedule 3.20(b) hereto, no such judgment, order, decree or award has been entered against any Seller Group Person nor has any such liability been incurred which has, or could have, such effect. There is no claim, action or proceeding now pending or, to the knowledge of each Seller Group Person, threatened before any court, grand jury, administrative or regulatory body, Government agency, arbitration or mediation panel or similar body which will, or could, prevent or hamper the consummation of the transactions contemplated by this Agreement, and none of the Seller Group Persons has been, nor, to the knowledge or each Seller Group Person, been threatened to be subject to, and, to the knowledge of each Seller Group Person, there are no grounds for, any suit, claim, litigation, proceeding (administrative, judicial, or in arbitration, mediation or alternative dispute resolution), Government or grand jury investigation, or other action or order, writ, injunction, or decree of any court or other Government entity relating to personal injury, death, or property or economic damage arising from products of the Business entity.

3.21 Officers, Directors, Employees and Consultants. Set forth on Schedule 3.21 hereto is a complete list of

(a) all directors of each Purchased Entity;

(b) all officers (with office held) of each Purchased Entity;

(c) all Employees of each Seller Group Person in connection with the Business and of each Purchased Entity who earn total compensation $50,000 or more per year; and

(d) all consultants to each Seller Group Person in connection with the Business and of each Purchased Entity; together, in each case, with the current rate of compensation payable to each.

3.22 Indebtedness to and from Officers, Directors and Others. Except as set forth on Schedule 3.22, (a) no Seller Group Person is indebted to any shareholder, director or officer of any Seller Company, or any Employee or agent of any Seller Group Person, except for amounts due as normal salaries, wages and bonuses and in reimbursement of ordinary expenses on a current basis and (b) no shareholder, director or officer of any Seller Company, or Employee or agent of any Seller Group Person, is indebted to any Seller Group Person in connection with the Business, except for advancements for ordinary business expenses in a normal amount.

3.23 Outside Financial Interests. Except as identified on Schedule 3.23 hereto, no officer or director of any Seller Company nor the owner of more than 5% of the capital stock of any Seller Company has any direct or indirect financial interest in any competitor with or supplier or customer of the Business; provided, however, that for this purpose ownership of corporate securities having no more than 2% of the outstanding voting power of any competitor, supplier or customer which securities are listed on any national securities exchange or authorized for quotation on the Automated Quotations System of the National Association of Securities Dealers, Inc. shall not be deemed to be such a financial interest provided such Person has no other connection or relationship with such competitor, supplier or customer.

3.24 Payments, Compensation and Perquisites of Agents and Employees. All payments to agents, consultants and others made by any Seller Group Person in connection with the Business have been in payment of bona fide fees and commissions and not as bribes, illegal or improper payments. Each of the Seller Group Persons have properly and accurately reflected on its books and records all compensation paid to and perquisites provided to or on behalf of its consultants, agents and Employees. Such compensation and perquisites have been properly and accurately disclosed in the financial statements, proxy statements and other public or private reports, records or filings of any Seller Group Person to the extent required by Law.

3.25 Labor Agreements and Employment Agreements. Except as set forth on Schedule 3.25, no Seller Group Person is, in connection with the Business, a party to (a) any union collective bargaining, works council, or similar agreement or arrangement, (b) any retainer, consulting, or employment agreement or (c) any other agreement with an Employee not otherwise required to be set forth on Schedule 3.25 or 3.26. True, correct and complete copies of all documents creating or evidencing any agreement or arrangement listed on Schedule 3.25 have been furnished to Buyer. There are no negotiations, written demands or proposals which are pending which concern matters now covered, or that would be covered, by the type of agreements or arrangements listed in this Section or which relate to Employee Plan/Agreements. The Seller Group Persons have at all times, in all material respects, operated the Business and conducted their respective employment practices in accordance with the terms of the agreements and arrangements listed on Schedule 3.25.

3.26 Employee Benefit Plans.

(a) Disclosure. Schedule 3.26 describes all pension, thrift, savings, profit sharing, retirement, incentive bonus or other bonus, medical, dental, life, accident insurance, benefit, employee welfare, disability, group or other insurance, stock appreciation, stock option, executive or deferred compensation, health, hospitalization and other similar fringe or employee benefit plans, programs and arrangements, whether or not written, and any, whether written or unwritten, golden parachute agreements, severance agreements or plans, vacation and sick leave plans, programs, arrangements and policies, including, without limitation, all employee benefit plans (as defined in Section 3(3) of ERISA), all employee manuals, and all written statements of policies relating to employment, which are provided to, for the benefit of, or relate to, any Employees. The items described in the foregoing sentence are hereinafter sometimes referred to collectively as Employee Plan/Agreements, and each individually as an Employee Plan/Agreement. True, correct and complete copies of all documents creating or evidencing each of the Employee Plan/Agreements have been furnished to Buyer. No Employee Plan/Agreement is a multiemployer plan (as defined in Section 4001 of ERISA), and none of the Seller Group Persons have contributed nor been obligated to contribute to any such multiemployer plan. Seller has furnished Buyer with respect to each Employee Plan/Agreement the three most recent annual reports prepared in connection therewith (Form 5500 including all schedules thereto) or, if an Employee Plan/Agreement has been in existence for less than three years, the annual report prepared for each year such

Employee Plan/Agreement has been in existence.

(b) Prohibited Transactions and Reportable Events. There have been no prohibited transactions within the meaning of Section 406 or 407 of ERISA or Section 4975 of the Code for which a statutory or administrative exemption does not exist with respect to any Employee Plan/Agreement. No reportable event within the meaning of Section 4043 of ERISA (other than those for which reporting is waived) has occurred with respect to any Employee Plan/Agreement.

(c) Payments and Compliance. With respect to each Employee Plan/Agreement (A) all payments due from any Seller Group Person to date have been made and all amounts properly accrued to date as liabilities of Seller which have not been paid have been properly recorded on the books of Seller and are reflected in Seller's most recent balance sheet; (B) all reports and information relating to each such Employee Plan/Agreement required to be disclosed or provided to participants or their beneficiaries have been timely disclosed or provided; and (C) each such Employee Plan/Agreement which is intended to qualify under Section 401 of the Code has received a favorable determination letter from the Internal Revenue Service with respect to such qualification, its related trust has been determined to be exempt from taxation under Section 501(a) of the Code, and, to the knowledge of each Seller Group Person, nothing has occurred since the date of such letter that would adversely affect such qualification or exemption. Each trust created under any such Employee Plan/Arrangement is exempt from tax under Section 501(a) of the Code and has been so exempt during the period from creation to date. Seller has furnished Buyer with the most recent determination letters of the Internal Revenue Service relating to each such Employee Plan/Arrangement. Each Employee Plan/Arrangement has been maintained in compliance with its terms and with the requirements prescribed by any and all applicable Laws, including but not limited to ERISA and the Code.

(d) Post-Retirement Benefits. Except as specified on Schedule 3.26, no Employee Plan/Agreement provides benefits, including, without limitation, death or medical benefits (whether or not insured) with respect to current or former employees of any Seller Group Person beyond their retirement or other termination of service other than (A) continuation coverage mandated by Section 4980B(f) of the Code ( Continuation Coverage ), (B) death or pension benefits under any Employee Plan/Agreement that is an employee pension benefit plan, (C) deferred compensation benefits accrued as liabilities on the books of Seller (including Seller's most recent balance sheet), (D) disability benefits under any Employee Plan/Agreement that is an employee welfare benefit plan and which have been fully provided for by insurance or otherwise, or (E) benefits in the nature of severance pay. No tax under Section 4980B of the Code has been incurred in respect of an Employee Plan/Agreement that is a group health plan, as defined in Section 5000(b)(1) of the Code.

(e) No Triggering of Obligations. Except as specified on Schedule 3.26 other than by reason of actions taken by Buyer following the Closing, the consummation of the transaction contemplated by this Agreement will not (A) entitle any current or former employee of any Seller Group Person to severance pay, unemployment compensation or any other payment, except as expressly provided in this Agreement, (B) accelerate the time of payment or vesting, or increase the amount of compensation due to any such employee or former employee, (C) result in any prohibited transaction described in Section 406 of ERISA or Section 4975 of the Code for which an exemption is not available, (D) give rise to the payment of any amount that would not be deductible pursuant to the terms of Section 280G of the Code or (E) give rise to a reportable event described in Section 4043 of ERISA.

(f) International Plans. Except as specified on Schedule 3.26 no Seller Group Person maintains any Employee Plan/Agreement covering any Employee outside of the United States and no Seller Group Person has ever contributed to or been obligated to contribute to any such Employee Plan/Agreement. Each such Employee Plan/Agreement is fully funded to the extent required by all applicable Law and has obtained all appropriate tax qualifications.

3.27 Terminated Plans. Set forth on Schedule 3.27 hereto are all employee benefit plans related to the Business which any Seller Group Person has terminated or taken action to terminate since January 1, 1992. Such terminations have been carried out in all material respects in accordance with all provisions of Law, including without limitation all applicable provisions of the Code and ERISA and all required disclosure to the PBGC. Except as described on Schedule 3.27 hereto, no Seller Group Person has any liability to any Person or entity, including without limitation

the PBGC, any other Government agency or any participant in or beneficiary of any such plan, nor is any Seller Group Person liable for any excise, income or other tax or penalty as a result of such termination. Seller has obtained a favorable determination letter from the IRS with respect to the termination of each of such plans in the United States (complete and correct copies of which have been delivered to Buyer). The notices of sufficiency and favorable determination letters were received after full and accurate disclosure of all material facts to the IRS.

3.28 Overtime, Back Wages, Vacation and Minimum Wages. No Employee of any Seller Group Person in connection with the Business has any claim against such Seller Group Person (whether under any Law, Contract, or otherwise) on account of or for (a) overtime pay, other than overtime pay for the current payroll period, (b) wages or salary (excluding current bonus, accruals and amounts accruing under pension and profit-sharing Plans) for any period other than the current payroll period, (c) vacation, time off or pay in lieu of vacation or time off, other than that earned in respect of the current fiscal year, (d) any violation of any Law relating to minimum wages, child labor or maximum hours of work.

3.29 Discrimination, Workers Compensation and Occupational Safety and Health. Except as set forth on Schedule 3.29(a), no Person or party (including, but not limited to, Government agencies of any kind) has any claim, notice of claim, charge, lawsuit or basis for any thereof, against any Seller Group Person in connection with the Business arising out of any Law relating to discrimination in employment, employment practices (including wrongful termination), or occupational safety and health standards, and no such claim, notice of claim, charge or lawsuit is pending or, to the knowledge of each Seller Group Person, threatened against any Seller Group Person. Since January 1, 1993, no Seller Group Person has received any notice in connection with the Business from any Person alleging a violation of any such Law or occupational safety or health standards. No Seller Group Person has any outstanding Contracts or obligations to indemnify any person for violation of the Laws and standards set forth in this Section. No Seller Group Person has failed to file any required EEO-1 Reports and the Seller Group Persons are in compliance with Executive Order 11246. Except as set forth on Schedule 3.29(b), there are no pending workers compensation claims involving any Seller Group Person and there have never been any workers compensation claims against any Seller Group Person relating to the use or existence of asbestos in any of such Seller Group Person's products. Seller has deliver to Buyer a true, correct and complete list of all workers compensation claims made over the three years preceding the date hereof.

3.30 Alien Employment Eligibility. To the knowledge of each Seller Group Person, with respect to each Person employed by any Seller Group Person in the Business on or after May 1, 1987, and who actually commenced such employment on or after November 6, 1986, (a) such Seller Group Person hired such Person in compliance with the Immigration Reform and Control Act of 1986 and the rules and regulations thereunder ( IRCA ) and (b) such Seller Group Person and each Affiliate to such Seller Group Person has complied with all recordkeeping and other regulatory requirements under IRCA.

3.31 Labor Disputes; Unfair Labor Practices. Except as set forth on Schedule 3.31, there is neither pending nor, to the knowledge of each Seller Group Person, threatened any labor dispute, strike or work stoppage which affects or which reasonably may be expected to affect the Business Condition of the Business. Except as set forth on Schedule 3.31, to the knowledge of each Seller Group Person, since January 1, 1993, no Seller Group Person nor any of their respective agents, representatives or employees has committed any unfair labor practice, as defined in the National Labor Relations Act of 1947, as amended. There is not now pending or threatened any charge or complaint against any Seller Group Person by the National Labor Relations Board, any state or local labor or employment agency or any representative thereof, and the execution of this Agreement and the consummation of the transaction contemplated by this Agreement will not result in any such charge or complaint. Since January 1, 1993, there have been no union organizing attempts with respect to the Business.

3.32 Insurance Policies. Set forth on Schedule 3.32 hereto is a list of all insurance policies and bonds in force covering or relating to the Purchased Assets or the Business, including without limitation all properties, operations or personnel of the Seller Group Persons related to the Business and brokers used in the placement of such policies and bonds. The Seller maintains occurrence-based product liability insurance with respect to the Business with not less than $5,000,000.00 of coverage (the Product

Liability Insurance ) and the premiums on the Product Liability Insurance have been paid to date and will be paid by the Seller, and such insurance is and will be effective for all periods up to and including the Closing Date.

3.33 Guarantees. Except as set forth on Schedule 3.33 hereto, no Seller Group Person in connection with the Business is a guarantor, indemnitor, surety or accommodation party or otherwise liable for any indebtedness of any other Person, firm or corporation except as endorser of checks received and deposited in the Ordinary Course of the Business.

3.34 Product Warranties. Set forth on Schedule 3.34 hereto are the standard forms of product warranties and guarantees used in the Business, and copies of all other material product warranties and guarantees, and a summary of all oral product warranties used by any of the Seller Group Persons if different from the foregoing. Except as described on Schedules 3.34 and/or 3.35 since January 1, 1992 no product warranty or similar claims have been made against any Seller Group Person in connection with the Business except routine claims as to which, in the aggregate, losses and expenses in respect of repair or replacement of merchandise do not and will not exceed the warranty expenses and warranty reserves reflected in the Other Financial Statements or the Closing Balance Sheet. No Person or party (including, but not limited to, Government agencies of any kind) has any claim, or basis for any action or proceeding, against any Seller Group Person under any Laws relating to unfair competition, false advertising or other similar claims arising out of product warranties, guarantees, specifications, manuals or brochures used in the Business.

3.35 Product Liability Claims. Except as described on Schedule 3.35, since January 1, 1992, Seller has not received notice or information as to any claim or allegation of injury, death, or property or economic damages, any claim for punitive or exemplary damages, any claim for contribution or indemnification, or any claim for injunctive relief in connection with any product manufactured, sold, distributed or otherwise put in commerce by or in connection with any service provided by any Seller Group Person in connection with the Business.

3.36 Product Safety Authorities. Except as set forth on Schedule 3.36 hereto, no Person has been required to file any notification or other report with or provide information to any Government agency or product safety standards group concerning actual or potential defects or hazards with respect to any product manufactured, sold, distributed or otherwise put in commerce in connection with the Business, and there exist no grounds for the recall of any such product.

3.37 Environmental Matters.

(a) Except as set forth on Schedule 3.37(a), all assets and property currently or previously owned, leased, operated, or used by any Seller Group Person, all current or previous conditions on and uses of the Environmental Property, and all current or previous ownership or operation of the Seller or the Environmental Property (including without limitation transportation and disposal of Hazardous Materials by or for any Seller Group Person) comply and have at all times complied with, in all material respects, and do not cause, have not caused, and will not cause liability to be incurred by any Seller Group Person under any Environmental Law. Except as set forth on Schedule 3.37(a), no Seller Group Person is in violation of and nor has violated any Environmental Law.

(b) Except as set forth on Schedule 3.37(b), the Seller Group Persons have properly obtained and are in compliance with all Environmental Permits. No deficiencies have been asserted by any such Government or authority with respect to such items.

(c) Except as set forth on Schedule 3.37(c), there has been no spill, discharge, leak, leaching, emission, migration, injection, disposal, escape, dumping, or release of any kind on, beneath, above, or into the Environmental Property or into the environment surrounding the Environmental Property of any Hazardous Materials.

(d) Except as set forth on Schedule 3.37(d), there are and have been no (i) Hazardous Materials stored, disposed of, generated, manufactured, refined, transported, produced, or treated at, upon, or from the Environmental Property; (ii) asbestos fibers or materials or polychlorinated biphenyls on or beneath the Environmental Property, or (iii) underground storage tanks or underground injection control facilities on or beneath the Environmental Property.

(e) The Seller has delivered to Buyer, prior to the execution and delivery of this Agreement, complete copies of any and all (i) documents received by any Seller Group Person from, or

submitted by any Seller Group Person to, the U.S. Environmental Protection Agency (the EPA ) and/or any state, county or municipal environmental or health agency or Government agency or department concerning the environmental condition of the Environmental Property or the effect of any Seller Group Person's operations on the environmental condition of the Environmental Property; and (ii) reviews, audits, reports, or other analyses concerning the Environmental Property.

(f) To the knowledge of each Seller Group Person, no expenditure will be required (other than maintenance and similar expenses in the Ordinary Course of the Business) in order for any Seller Group Person to comply with any Environmental Laws in effect at the time of the Closing in connection with the operation or continued operation of the Business or the Environmental Property in a manner consistent with the current operation thereof of the Seller Group Persons.

(g) Except as set forth in Schedule 3.37(g), there never has been pending or, to the knowledge of the Seller Group Persons, threatened against the Seller or any other person or entity to the extent that such other person or entity from time to time has owned, leased, occupied or conducted operations on the Environmental Property, any civil, criminal or administrative action, suit, summons, citation, complaint, claim, notice, demand, request, judgment, order, Lien, proceeding, hearing, study, inquiry or investigation based on or related to an Environmental Permit or an Environmental Law.

(h) Except as set forth in Schedule 3.37(h), none of the Seller Group Persons, nor any other Person or entity to the extent that such other Person or entity from time to time has owned, leased, occupied or conducted operations on the Environmental Property, has ever received from any Person any notice of, or has any knowledge of, any past, present or anticipated future events, conditions, circumstances, activities, practices, incidents, actions, agreements or plans that could: (i) interfere with, prevent, or increase the costs of compliance or continued compliance with any Environmental Permits or any renewal or transfer thereof or any Environmental Law; (ii) make more stringent any restriction, limitation, requirement or condition under any Environmental Law or any Environmental Permit in connection with the operations on the Environmental Property; or (iii) give rise to any liability, loss or expense, or form the basis of any civil, criminal or administrative action, suit, summons, citation, complaint, claim, notice, demand, request, judgment, order, Lien, proceeding, hearing, study, inquiry or investigation involving the Environmental Property or any Seller Group Person, based on or related to an Environmental Permit or an Environmental Law or to the presence, manufacture, generation, refining, processing, distribution, use, sale, treatment, recycling, receipt, storage, disposal, transport, handling, emission, discharge, release or threatened release of any Hazardous Materials.

(i) None of the Seller Group Persons in respect to the Business has transported or arranged for the transportation of any Hazardous Materials to any location which is: (i) listed on, or proposed for listing on, the EPA's National Priorities List published at 40 CFR Part 300 or on any similar state list; or (ii) the subject of any regulatory action which may lead to claims against any of the Seller Group Persons for damages to natural resources, personal injury, clean-up costs or clean-up work.

(j) Schedule 3.37(j) contains a list of all sites where the Seller Group Persons Hazardous Materials relating to the Business may have been sent in the past, or are currently being sent for disposal, treatment, recycling or storage, including the address of each such site, and a description and estimate of the amount of the Hazardous Materials disposed of, treated, recycled or stored at each such site.

(k) Schedule 3.37(k) contains a list containing the name and address of each person, firm, corporation or other entity engaged in the handling, transportation or disposal of the Seller Group Persons Hazardous Materials in respect to the Business, a description of such Hazardous Materials, and an estimate of the amount of such Hazardous Materials.

3.38 Broker's Fees. Except as described on Schedule 3.38, no Seller Group Person has retained any broker, finder or agent or agreed to pay any brokerage fees, finder's fees or commissions with respect to the transactions contemplated by this Agreement.

3.39 Foreign Assets. Except with respect to operations of the Purchased Entities in France, Germany, the Netherlands and Ireland, or as set forth on Schedule 3.39, no Seller Group Person has in connection with the Business any interest in any real property or tangible or intangible property located outside of

the United States, including any stock, securities or investments in, claims against, or receivables from any entities or Persons with substantially all their property or business so located.

3.40 Absence of Sensitive Payments; Anti-Boycott. No Seller Group Person and no officer, director, manager of any Seller Company nor agent or employee of any Seller Group Person, in connection with the Business:

(a) has made or authorized any contributions, payments or gifts of funds or property to any Government official, employee or agent where either the payment or the purpose of such contribution, payment or gift was or is illegal under (i) the Foreign Corrupt Practices Act of 1977 and the regulations adopted thereto, or (ii) applicable local Laws;

(b) has directly or indirectly made any contribution to candidates for public office which would be a violation of (i) the Foreign Corrupt Practices Act and the regulations adopted thereto, or (ii) applicable local Laws;

(c) maintains any unrecorded fund or asset for any purpose; or

(d) received any notice of violation and/or is or has been not in compliance with relevant anti-boycott legislation, including without limitation the Tax Reform Act of 1976, the Export Administration Act of 1979, and the regulations thereunder.

3.41 Trade Regulation Law. No material anti-dumping duty or other sanction under any trade regulation is in force or has been in force since January 1, 1993 in relation to any Seller Group Person in relation to the Business in respect of the products produced by any Seller Group Person.

3.42 Truthfulness. To the knowledge of each Seller Group Person, no representation or warranty of the Seller herein and no statement, information or certificate furnished or to be furnished by or on behalf of the Seller or its counsel, accountants or other agents pursuant hereto or in connection with the transactions contemplated hereby contains or will contain any untrue statement of a material fact or omits or will omit to state a material fact necessary in order to make the statements contained herein or therein not misleading. To the knowledge of each Seller Group Person, there is no fact or development, actual or prospective, other than general economic conditions, which adversely affects or in the future might reasonably be expected adversely to affect the Business, the Purchased Assets or the rights under the Assumed Liabilities in any material respect which has not been set forth or described in this Agreement or in the Schedules hereto.

3.43 Bank Accounts of Purchased Entities. Set forth on Schedule 3.43 hereto is a list of all bank accounts and safe deposit boxes maintained by each Purchased Entity, together with the names of all Persons who are authorized signatories or have access thereto.

3.44 Books and Records. The books of account, stock record books and minute books and other corporate records of Seller which relate to the Business and of each Purchased Entity are in all material respects complete and correct, have been maintained in accordance with good business practices and the matters contained therein are accurately reflected on the Financial Statements. The minute books and stock books of Seller which relate to the Business and of each Purchased Entity have been made available to Buyer and are correct and complete to the date hereof.

3.45 Affiliates. Except as set forth on Schedule 3.45, the Seller has no Affiliates.

3.46 Ownership of Assets. No Purchased Entity owns any Assets, has any Liabilities, or otherwise engages in any activity which is not included in and in connection with the Business.

3.47 No Marks on Equipment or Inventory. The name and mark Schawk and any variants thereof do not appear on any existing molds, dies, or other equipment of the Business nor on any stock of inventory, packaging, shipping materials, or the like of the Business.

## ARTICLE IV

## REPRESENTATIO NS AND WARRANTIES OF BUYER

Buyer hereby makes the following representations and warranties, each of which is true and correct on the date hereof and each of which shall survive the Closing Date and the sale contemplated hereby.

4.1 Corporate Existence of Buyer. Each of the Buyer Companies is or will prior to Closing be a corporation duly organized, validly existing and in good standing under Law. Each of the Buyer Companies or will prior to Closing have the corporate power and authority to own and use its properties and to transact the business in which it is engaged. In the event any Buyer

Company assigns its rights and obligations hereunder to a subsidiary or affiliate, as provided in Section 11.6 hereof, such subsidiary or affiliate will be a corporation duly organized, validly existing and in good standing under the Laws of its state of incorporation; and such subsidiary or affiliate will have the corporate power and authority to own and use its property and to transact the business in which it is engaged.

4.2 Approval of Agreement. The execution and delivery of this Agreement and the consummation of the transactions contemplated hereby have been duly authorized, approved and ratified by all necessary action on the part of Buyer. Pursuant to such resolutions, authorizations, consents, approvals and/or ratifications, Buyer has full authority to enter into and deliver this Agreement, to perform its obligations hereunder and to cause each other Buyer Company to perform their respective obligations hereunder, and to consummate, and to cause each other Buyer Company to consummate, the transactions contemplated hereby. In the event any Buyer Company assigns its rights and obligations hereunder to a wholly-owned subsidiary or affiliate, as provided in Section 11.6 hereof, such assignment will have been approved by all necessary corporate action of such subsidiary or affiliate, and such subsidiary or affiliate will have full power and authority to perform its obligations hereunder.

4.3 No Breach of Articles or Indentures. The execution of this Agreement and the consummation of the transactions contemplated hereby has not and will not constitute or result in the breach of any of the provisions of, or constitute a default under, the articles or certificate of incorporation or association or bylaws of any Buyer Company, or any material indenture, evidence of indebtedness or other commitment to which any Buyer Company (or any subsidiary or affiliate to which any Buyer Company assigns its rights and obligations hereunder, as provided in Section 11.6 hereof) is a party or by which it is bound, which breach or default would have a material adverse effect on the Buyer Companies, taken as a whole.

## ARTICLE V

## CERTAIN COVE NANTS

5.1 Operation of the Business. Seller covenants that until the Closing, without the prior written consent of Buyer, no Seller Group Person will, in connection with the Business, and the Seller will not permit any Purchased Entity to:

(a) grant any increase in the rate of pay of any of its Employees, grant any increase in the salaries of any officer, employee or agent, enter into or increase the benefits provided under any bonus, profit-sharing, incentive compensation, pension, retirement, medical, hospitalization, life insurance or other insurance plan or plans, or other contracts or commitments, or in any other way increase in any amount the benefits or compensation of any such officer, Employee or agent except, however, ordinary merit increases not unusual in character or amount made in the Ordinary Course of the Business to Employees who are not officers, directors or stockholders;

(b) enter into any employment contract or collective bargaining agreement;

(c) enter into any Contract or commitment or engage in any transaction which is not in the Ordinary Course of the Business or which is inconsistent with past practices;

(d) sell or dispose of or encumber any material amount of Assets;

(e) make, or enter into any Contract for, any material capital expenditure or enter into any material lease of capital equipment or real estate;

(f) enter into any Contract, whether for the purchase or sale of inventory, supplies, other products or services or otherwise, and whether in the Ordinary Course of the Business or otherwise, involving more than $50,000 or enter into any series of such Contracts with one party or affiliated group of parties involving more than $100,000 in the aggregate, except for purchases of materials and sales of inventory in the Ordinary Course of the Business;

(g) create, assume, incur or guarantee any indebtedness other than that incurred pursuant to existing Contracts disclosed in the Schedules delivered pursuant hereto;

(h) declare or pay any dividend or make any sale of, or distribution in respect of, its capital stock or directly or indirectly redeem, purchase or otherwise acquire any of its capital stock or issue any of its capital stock or other securities other than the payment of management fees to Affiliates identified on Schedule 3.17;

(i) make or institute any unusual or novel method of transacting business or change any accounting procedures or practices or its financial structure;

(j) make any amendments to or changes in its articles or certificate of incorporation or association or bylaws;

(k) perform any act, or attempt to do any act, or permit any act or omission to act, which will cause a breach of any material Contract, commitment or obligation to which any Seller Group Person is a party relating to the Business or to the ability of any Seller Group Person to perform its obligations under this Agreement; or

(l) manage current assets and current liabilities constituting Working Capital (and the level thereof) in a manner inconsistent with current practices or the preparation of the Balance Sheet.

5.2 Preservation of Business. Seller covenants that, until the Closing, the Seller Group Persons shall carry on the Business diligently and substantially in the same manner as heretofore conducted and shall make commercially reasonable efforts to keep their respective business organizations intact, including their respective present Employees and present relationships with suppliers and customers and others having business relations with such Seller Group Persons. The Seller Group Persons will at all times maintain in inventory quantities of raw materials, component parts, work in process, finished goods and other supplies and materials sufficient to allow the Buyer Companies to continue to operate the Business, after the Closing Date, free from any shortage of such items and, as necessary, to timely complete, consistent with past practice, all Contracts.

5.3 Insurance and Maintenance of Property. Until the Closing, Seller shall cause all the Purchased Assets and all property owned or leased pursuant to the Assumed Liabilities to be insured against all ordinary and insurable risks (except in respect of any leased property where the terms of the lease do not impose on lessee the obligation to maintain insurance and where the loss of such property would not materially adversely affect the conduct of the Business) and will operate, maintain and repair all of such property in a careful, prudent and efficient manner all in conformity with the insurance policies set forth in Schedule 3.32.

5.4 Full Access. Seller covenants that, until the Closing, representatives of Buyer shall have full access at all reasonable times to all premises, properties, books, records, contracts, tax records and documents of each Seller Group Person relating to the Business, and Seller will furnish to Buyer any information in respect of the Business as Buyer may from time to time request. Such examination and investigation by Buyer, and any discovery of facts resulting therefrom, shall not affect the warranties and representations of Seller contained in this Agreement. Buyer shall use reasonable efforts to promptly inform Seller of any matters of which Buyer becomes aware that constitute a breach of the representations and warranties pursuant to Article III hereof; provided that Buyer's failure to so inform Seller of such matters shall in no way adversely impact Buyer's right to indemnification as provided for in Article IX hereof.

5.5 Books, Records and Financial Statements. Seller covenants that, until the Closing, each Seller Group Person shall maintain its books and financial records in connection with the Business in accordance with GAAP consistently applied, and on a basis consistent with the past practices of such Seller Group Person. Such books and financial records shall fairly and accurately reflect the operations of the Business. Seller shall furnish to Buyer promptly, as available, monthly financial statements and operating reports applicable to the Business, all of which shall be prepared in accordance with GAAP consistently applied and shall present fairly the financial position and results of operations of the Business at the dates and for the periods indicated.

5.6 WARN Act. The Seller Group Persons shall give all necessary or appropriate notice under the WARN Act, and shall be responsible for any and all liabilities and penalties under the WARN Act.

5.7 Other Government Filings. The Parties shall cooperate in making, as soon as practicable following the execution hereof, all filings required by any Government agency (including without limitation pre-merger notifications required to be filed with the Federal Trade Commission and the United States Department of Justice) in connection with the transactions contemplated by this Agreement or necessary for their consummation (including without limitation a request for approval of transfer of the Puerto Rico Grant). Buyer and Seller covenant with each other that all information each provides in connection with such filings will be

true, accurate and complete and will comply with all applicable Laws.

5.8 Tax Matters.

(a) Seller shall pay all applicable sales, use or other similar transfer Taxes that are, or become, due or payable as a result of the sale, conveyance, assignment, transfer or delivery of the Purchased Assets hereunder, whether levied on any Buyer Company, the Purchased Assets or any Seller Group Person. Seller, in the case of the Purchased Assets, shall prepare, subject to Buyer's reasonable approval, and file any Returns required in respect of such Taxes.

(b) All real estate, personal property, ad valorem and any other local or state Taxes relating to the Purchased Assets or the Business which shall be accrued but unpaid as of the Closing Date, or which shall be paid as of the Closing Date but relate in whole or in part to periods after the Closing Date, shall be prorated to the Closing Date and shall be reflected on the Closing Balance Sheet. Any such prorated Taxes which may be ultimately assessed after the Closing Date shall be paid by Seller to Buyer or Buyer to Seller, as the case may be, within thirty (30) days of such determination.

(c) The Parties shall report Buyer's purchase of the Purchased Assets pursuant to Section 1060 of the Code and other applicable Laws in a consistent manner and shall take no position contrary thereto. Such allocation shall be agreed upon in writing by Buyer and Seller within thirty (30) days of the final purchase price determination, as adjusted (if necessary) pursuant to Section 2.8 of the Agreement. Buyer and Seller each shall be responsible for the preparation of any statements and forms to be filed pursuant to Section 1060 of the Code or in accordance with other applicable Law.

(d) The Parties agree to furnish or cause to be furnished, upon request, as promptly as practicable, such information and assistance (including access to books and records) relating to the Purchased Assets as is reasonably necessary for the preparation of any Return for Taxes, claims for refund or audit or prosecution or defense of any claim, suit or proceeding relating to any proposed adjustment of Taxes paid.

(e) The Parties shall use reasonable efforts to provide or obtain from any taxing authority any certificate or other document necessary to mitigate, reduce or eliminate any Taxes (including additions thereto or interest and penalties thereon) that otherwise would be imposed with respect to the transactions contemplated in this Agreement.

Seller shall furnish to Buyer, as provided in Section 1445(b)(2) of the Code, an affidavit pursuant to Section 1445(a), stating under penalties of perjury, transferor's United States taxpayer identification number and that the transferor is not a foreign person.

All gains on the sale of stock in any Controlled Foreign Corporation (CFC) will be reported, as necessary, under the provisions of IRC Section 1248, Subpart F or any other governing statutory authority, on the Returns of the appropriate Seller Group Person. The Seller Group will indicate the amount of gain to be reported, for each respective CFC within 40 days of the final determination of the purchase price as adjusted, if necessary, under the provisions of Section 2.8 of the Agreement.

5.9 Change of Name. Immediately after the Closing Date, FilterTek U.S.A., Inc, and any other Seller Group Person not included in the Purchased Entities which has FilterTek or some variant thereof in its name, in such manner as is reasonably requested by Buyer, shall each change its name to some name other than its name immediately prior to the Closing Date (the Existing Name ) or any variation or abbreviation thereof and file appropriate notification of change of name in all jurisdictions where such notification is required, and Seller will take all steps as may be appropriate to ensure to the Buyer Companies the continued right to use the Existing Names and all variants thereof in connection with Buyer's operation of the Business.

5.10 Escrow. In the event Seller shall, after the Closing, sell all or substantially all of its assets or initiate procedures leading to its complete or partial liquidation, dissolution, or enter into any other transaction which could reasonably be expected to result in a distribution or other payment to Seller s stockholders that would leave the Seller with insufficient assets to meet its obligations to Buyer hereunder, Seller shall prior to such event deposit an amount reasonably adequate to support the obligations of Seller to Buyer hereunder, but not less than $15,000,000, pursuant to the Escrow Agreement.

5.11 Supplements to Schedules. Seller covenants and agrees that it has submitted the text of this Agreement, as of

the date hereof, for review to all of the persons listed on Schedule 3.0. The Parties have agreed on the texts of Schedules 1.1(b) and 2.1 (subject to Section 11.1), Schedule 3.0, and the Exhibits A, E, and F. As to the balance of the Schedules, Seller shall use reasonable best efforts to complete them and submit them promptly, and in no event later than January 15, 1997, to Buyer for Buyer s review and approval. The condition in Section 7.1 shall not be deemed unsatisfied solely as a result of items proposed to be disclosed in such Schedules unless:

(a) the proposed items are not true and correct on the Closing Date;

(b) Assumed Liabilities and Liabilities of the Purchased Entities reflected in such proposed items will have the effect, in the aggregate, under GAAP of reflecting an adverse change in the Business by $250,000 or more from the Business as reflected in the Confidential Memorandum; as modified by item 1 on proposed Schedule 3.4; or

(c) any such proposed item involves (i) a material violation of Law by the Business or in connection with the Business, any Seller Group Person or Employee, (ii) a pattern of unethical or unlawful conduct by the Business; or (iii) fraud by any Seller Group Person in connection with the Business.

5.12 Adverse Changes. Buyer shall promptly inform Seller of the occurrence of any event or change in circumstances which materially and adversely affects Buyer s ability to perform its obligations hereunder or to operate the Business after Closing, including, without limitation, any materially adverse amendments or modifications to Borrower s financing commitments.

ARTICLE VI

COVENANT NOT TO COMPETE

6.1 Covenant Not to Compete.

(a) Seller acknowledges and agrees that the value to Buyer of the transactions provided for herein would be substantially diminished if any Non-Purchased Entity (or its successors or assigns) were to enter into business activities competitive with those sold to the Buyer Companies hereunder for a reasonable period following the Closing Date. Consequently, as an inducement for the Buyer Companies to enter into this Agreement, and in consideration of the promises and representations of the Buyer Companies under this Agreement, Seller covenants and agrees on its behalf and on behalf of the other Non-Purchased Entities that for a period of three (3) years following the Closing Date (the Restricted Period ), none of the Non-Purchased Entities nor their respective successors or assigns will engage in, or have any interest in, directly or indirectly, any other Person, firm, corporation or other entity engaged in any business activities competitive with the Business (as conducted up to the Closing Date). This restriction shall be applicable only with respect to the geographic areas in which any Seller Group Person has heretofore or is now conducting or plans to conduct business operations. Seller covenants and agrees, on its behalf and on behalf of the other Non-Purchased Entities, not to solicit or accept business from, or provide competitive products or services to, any customers (whether or not such Persons have done business with any Seller Group Persons once or more than once) or accounts of any Seller Group Persons (prior to the Closing Date) or any Buyer Companies (after the Closing Date).

(b) Seller specifically acknowledges and agrees that the foregoing covenants are commercially reasonable and reasonably necessary to protect the interests Buyer will acquire in the Business hereunder.

(c) The covenants contained in this Article VI shall be deemed to be a series of separate covenants, one for each product line in each county and each city of every state in which any Seller Group Person has heretofore conducted or now conducts the Business. Each separate covenant shall hereinafter be referred to as a Separate Covenant.

(d) If any court or tribunal of competent jurisdiction shall refuse to enforce one or more of the Separate Covenants because the time limit applicable thereto is deemed unreasonable, it is expressly understood and agreed that such Separate Covenant or Separate Covenants shall not be void but that for the purpose of such proceedings such time limitation shall be

deemed to be reduced to the extent necessary to permit the enforcement of such Separate Covenant or Separate Covenants.

(e) If any court or tribunal of competent jurisdiction shall refuse to enforce any or all of the Separate Covenants because, taken together, they are more extensive (whether as to geographic area, scope of business or otherwise) than is deemed to be reasonable, it is expressly understood and agreed between the Parties hereto that such Separate Covenant or Separate Covenants shall not be void but that for the purpose of such proceedings the restrictions contained therein (whether as to geographic area, scope of business or otherwise) shall be deemed to be reduced to the extent necessary to permit the enforcement of such Separate Covenant or Separate Covenants.

(f) The foregoing, however, shall not prohibit Seller or any Non-Purchased Entity from conducting or engaging in activities in the printing industry.

6.2 Restriction on Employment. The Seller agrees on its behalf and on behalf of each of the other Non-Purchased Entities that during the Restricted Period none of the Non-Purchased Entities nor their respective successors or assigns will solicit for employment, or seek to entice, induce or in any manner influence any person to leave, or not accept, his or her employment in the Business. The foregoing shall not prevent any Seller Group Person from hiring any person who was previously employed by the Business but who has been discharged by the Buyer.

6.3 Confidentiality. Seller agrees on its behalf and on behalf of the other Non-Purchased Entities that, from and after the Closing, none of the Non-Purchased Entities will at any time disclose to any person other than a Buyer Company or use any Proprietary Information (as hereinafter defined) owned, possessed, licensed or used by or relating to the Business, whether or not such information is embodied in writing or other physical form. For purposes of this Agreement, the phrase Proprietary Information means all trade names, trademarks, service marks, patents and trade secrets and any and all other information not publicly available which relates to specific matters concerning the Business, such as, without limiting the generality of the foregoing, engineering, design, manufacturing, maintenance and repair information; computer software and programs; component sourcing and supply information; identities of suppliers, customers and contractors; product distribution information; pricing and compensation policies; sales or financing procedures or methods; operational methods; strategic plans; internal financial information; research and development plans and activities; and acquisition and expansion plans. Seller recognizes and agrees that all documents and objects containing any Proprietary Information, whether developed by Seller or by someone else for Seller or any Seller Group Person, will after the Closing Date become the exclusive property of the Buyer Companies.

6.4 Remedies. Because the breach or anticipated breach of the restrictive covenants provided for in Section 6.1 could result in immediate and irreparable harm and injury to Buyer, for which it would not have an adequate remedy at law, Seller agrees that Buyer shall be entitled to relief in equity to temporarily, preliminarily and/or permanently enjoin such breach or anticipated breach and to seek any and all other legal and equitable remedies to which Buyer may be entitled. Should such action be taken and an injunction issued, Buyer shall be entitled to reimbursement of attorneys' fees and costs incurred.

6.5 Permitted Investments. Nothing contained herein shall restrict Seller or any other Non-Purchased Entity from owning five percent (5%) or less of the corporate securities of any Person in competition with the Business which securities are listed on any national securities exchange or authorized for quotation on the Automated Quotations System of the National Association of Securities Dealers, Inc., if such Person has no other connection or relationship, direct or indirect, with the issuer of such securities.

6.6 Access to Properties and Records. (a) Following the Closing, upon reasonable prior notice and during normal business hours as requested by Seller, Buyer will afford to Seller such cooperation of the employees of Buyer as is reasonably necessary or desirable to enable Seller to prepare timely financial statements and federal, state and local tax returns or similar matters. Such cooperation, however, shall not have the effect of unduly disrupting the performance of such employees regular duties.

(b) Subject to consummation of the Closing and subject to the terms of Buyer s documentation retention policy (which policy the Buyer agrees to deliver to the Seller on or before June 1, 1997), for a period of eight (8) years after the

Closing Date, Buyer will afford and cause to be afforded to Seller (i) such access during normal business hours, upon reasonable prior notice, to such books and records of Buyer as Seller may reasonably request in connection with matters relating to Seller for periods ending on or prior to the Closing Date; and (ii) such assistance in locating and copying such books and records as Seller may reasonably request, which assistance shall not have the effect of unduly disrupting the performance of such employees regular duties.

ARTICLE VII

CONDITIONS T O BUYER'S OBLIGATIONS

The obligations of Buyer to consummate the transactions provided for in this Agreement shall be subject to the satisfaction of each of the following conditions on or before the Closing Date, subject to the right of Buyer to waive any one or more of such conditions:

7.1 Representations and Warranties of Seller. The representations and warranties of Seller contained in this Agreement, including the Schedules hereto, and in the certificates and papers to be delivered to Buyer pursuant hereto and in connection herewith shall be true and correct in all respects on the date hereof and, subject to Section 5.11, on the Closing Date as though such representations and warranties were made on the Closing Date, and, to the extent such representations and warranties are qualified by knowledge, on the basis of knowledge on the Closing Date.

7.2 Performance of this Agreement. Seller shall have duly performed or complied with all of the obligations to be performed or complied with by it under the terms of this Agreement on or prior to the Closing Date.

7.3 No Material Adverse Change. There shall have been no material adverse change, actual or threatened, in the Business (including relationships with customers or vendors for any reason), whether or not covered by insurance, as a result of any cause whatsoever.

7.4 Certificate of Seller. Buyer shall have received a certificate signed by the President of Seller dated as of the Closing Date and subject to no qualification certifying that the conditions set forth in Sections 7.1, 7.2, 7.3, 7.6, 7.7, 7.8, and 7.13 hereof have been fully satisfied. Such certificate shall be deemed a representation and warranty of Seller under this Agreement.

Opinion of Counsel. Buyer shall have received from Vedder, Price, Kaufman & Kammholz, counsel to Seller, an opinion of such counsel, dated the Closing Date, substantially in the form attached hereto as Exhibit E.

7.6 No Lawsuits. No suit, action or other proceeding or investigation shall be threatened or pending before or by any Court or Government concerning this Agreement or the consummation of the transactions contemplated hereby, or in connection with any claim against any Seller Group Persons not disclosed herein or on the Schedules hereto. No Government shall have threatened or directed any request for information concerning this Agreement, the transaction contemplated hereby or the consequences or implications of such transaction to any Buyer Company or any Seller Group Person, or any officer or director of any Buyer Company or any Seller Company, or any employee or agent of any Buyer Company or any Seller Group Person.

7.7 No Restrictions. There shall exist no conditions, restrictions or reservations affecting the title to or utility of the Purchased Assets and the rights under the Assumed Liabilities which would prevent the Buyer Companies from occupying and utilizing the Purchased Assets and Assumed Liabilities, or any part thereof, to the same full extent that any Seller Group Person might continue to do so if the sale and transfer contemplated hereby did not take place.

7.8 Consents. All consents and approvals, including without limitation final approval of transfer of the Puerto Rico Grant, necessary to insure that the Buyer Companies will continue to have the same full rights in respect to the Purchased Assets and Assumed Liabilities as the Seller Group Persons had immediately prior to the consummation of the transaction contemplated hereunder shall have been obtained; provided that the foregoing shall not apply to the Puerto Rico Grant to the extent any delay in approval results from Buyer s request for modification of the current terms of the Puerto Rico Grant in addition to the request for transfer to a Buyer Company.

7.9 Releases. Prior to the Closing Date, Seller shall have delivered to Buyer the written release of all Liens, other than

Liens permitted hereunder, relating to the Purchased Assets, executed by the holder of or parties to each such Lien. The releases shall be satisfactory in substance and form to Buyer and its counsel.

7.10 Documents. Buyer shall receive from Seller, duly executed, on the Closing Date:

(a) the Bill of Sale, certificates for the Shares duly endorsed for transfer or accompanied by duly endorsed stock powers, and other appropriate documents conveying to Buyer good and marketable title to the Purchased Assets, other than the general warranty deeds delivered to the Title Company as provided in Section 7.12;

the Assignment and Assumption Agreement, with related consents, if any are so required, and

Purchased Entity Purchase Agreements, duly stamped, authenticated, and/or notarized as required by Law and as necessary for the transfer of the Purchased Entities to a Buyer Company.

7.11 [RESERVED].

7.12 Title Insurance.

(a) As soon as practicable after the date hereof, but in any event at least fifteen (15) days prior to the Closing Date, Buyer shall have received a commitment (the Title Commitment ) from a nationally recognized title company selected by Buyer (the Title Company ) to issue an ALTA standard form owner's title insurance policy to the Buyer Companies with respect to the Real Property, in an amount reasonably acceptable to Buyer and showing title thereto vested in Seller, subject only to (i) applicable zoning and building Laws, (ii) the Lien of real estate Taxes not yet due and payable, (iii) the Permitted Liens as are set forth on Schedule 3.9(a), and (iv) such other exceptions and Liens which can be satisfied by the payment of money and which exceptions and Liens Seller shall, at Seller's sole cost, cause to be removed, discharged or released at the Closing. Buyer shall also have obtained assurances from the Title Company that all standard exceptions (including without limitation those relating to mechanics' and materialmen's Liens, parties in possession and survey matters) shall be deleted, and that the title policy to be issued at Closing shall include an ALTA Form 3.1 zoning endorsement insuring the ability of the Buyer Companies to continue to operate the Real Property in the same manner as operated by the Seller Group Persons prior to the Closing Date, a comprehensive endorsement and any other special endorsement required by Buyer. The costs thereof divided equally between Buyer and Seller and settled at Closing.

(b) In connection with the Title Commitment, Buyer and the Title Company shall have received as soon as practicable after the date hereof, but in any event at least fifteen (15) days prior to the Closing Date, from reputable surveyors, an as built survey for all improvements located on the Real Property and an ALTA form survey for the Real Property which shall located by book and page all easements and rights of way on the Real Property. The survey shall have been certified by the surveyor to Buyer and the Title Company in form reasonably acceptable to Buyer and shall have been sufficient to enable the Title Company to issue the policy of title insurance contemplated in paragraph (a) above. Each survey shall contain a legal description of the applicable Real Property and a certification of the area of the applicable Real Property in square feet. The costs thereof divided equally between Buyer and Seller and settled at Closing.

(c) At Closing, Seller shall have executed and delivered to the Title Company, pursuant to a joint written letter of instructions, general warranty deeds in statutory form conveying the Real Property to the Buyer Companies, subject only to (i) applicable zoning and building Laws, (ii) the Lien of real estate taxes not yet due and payable, and (iii) the Permitted Liens set forth on Schedule 3.9(a) which are acceptable to Buyer, together with such affidavits, certificates and other instruments as are ordinarily delivered to a purchaser (or assignee) of real estate and/or filed in the public records of each community where the Real Property is located. At the Closing, the Title Company shall have (i) issued to Buyer the owner's policy of title insurance conforming with all requirements under paragraph (a) above and (ii) filed each deed for the Real Property for record in the appropriate public records.

7.13 Compliance with Applicable Law. All filing and waiting periods requirements of the HSR Act, any other antitrust or cartel Law, and any other applicable Law relating to consummation of the transactions provided for herein shall have been duly complied with. No second request shall have been issued pursuant to the HSR Act nor has any inquiry or investigation been

instituted by any state or federal antitrust Government agency with respect to this Agreement.

7.14 Due Diligence. Buyer shall not have obtained information pursuant to its due diligence review of the Business and its Business Condition, including without limitation investigation of customer, vendor, and other third person relationships and environmental, tort, securities, corporate, product liability, employee benefits, taxation and insurance matters, which would reasonably cause Buyer to conclude that that the Business is not consistent, in all material respects, with the Confidential Memorandum.

7.15 Foreign Closings. All actions necessary to consummate the transactions to be contemplated by the Purchased Entity Purchase Agreements shall have been taken.

7.16 Further Assurances. Buyer shall have received such further instruments and documents as may reasonably be required to carry out the transactions contemplated hereby and to evidence the fulfillment of the agreements herein contained and the performance of all conditions to the consummation of such transactions.

## ARTICLE VIII

## CONDITIONS TO SELLER'S OBLIGATIONS

The obligations of Seller to consummate the transactions provided for in this Agreement shall be subject to the satisfaction of each of the following conditions on or before the Closing Date, subject to the right of Seller to waive any one or more of such conditions:

8.1 Representations and Warranties of Buyer. The representations and warranties of Buyer contained in this Agreement, including the Schedules hereto, and in the certificates and papers to be delivered to Seller pursuant hereto and in connection herewith shall be true and correct in all respects on the date hereof and on the Closing Date (except for changes specifically permitted hereunder) as though such representations and warranties were made on the Closing Date.

8.2 Performance of this Agreement. Buyer shall have duly performed or complied with all of the obligations to be performed or complied with by it under the terms of this Agreement on or prior to the Closing Date.

8.3 Certificate of Buyer. Seller shall have received a certificate signed by an officer of Buyer dated as of the Closing Date and subject to no qualification certifying that the conditions set forth in Sections 8.1 and 8.2 hereof have been fully satisfied. Such certificate shall be deemed a representation and warranty of Buyer hereunder.

8.4 Opinion of Counsel. Seller shall have received from Bryan Cave LLP, counsel to Buyer, an opinion of such counsel, dated the Closing Date, substantially in the form attached hereto as Exhibit F.

8.5 Payment of Purchase Price . Seller shall receive from Buyer on the Closing Date the Purchase Price to be delivered under Section 2.7 hereof.

8.6 Documents. Buyer shall have duly executed the Assignment and Assumption Agreement and the Purchased Entity Purchase Agreements.

8.7 Further Assurances. Seller shall have received such further instruments and documents as may reasonably be required to carry out the transactions contemplated hereby and to evidence the fulfillment of the agreements herein contained and the performance of all conditions to the consummation of such transactions.

## ARTICLE IX

## INDEMNIFICAT ION

9.1 Indemnification of Buyer. Seller shall hold Buyer, the Affiliates of Buyer, and, from and after the Closing, the Purchased Entities, and the shareholders, directors, officers, employees, successors, assigns and agents of each of them (collectively, the Buyer Indemnified Parties ) harmless and indemnify each of them from, against and in respect of, and waives any claim for contribution or indemnity with respect to, any and all claims, losses, damages, Liabilities, expenses or costs ( Losses ), plus reasonable attorneys' fees and expenses incurred in connection with Losses and/or enforcement of this Agreement, plus interest from the date incurred through the date of payment at the prime lending rate of Morgan Guaranty from time to time prevailing (in all, Indemnified Losses ) incurred or to be incurred by any of them and resulting from or arising out of (a) any breach or violation of the representations, warranties, covenants or agreements of any Seller Group Person contained in

this Agreement, or in any exhibit, statement, Schedule, certificate, instrument or document delivered pursuant hereto, including provisions of this Article IX; (b) any Liability of any Non-Purchased Entity not expressly assumed by Buyer hereunder or any Liability of any Purchased Entity not connected to the Business; (c) any Liability arising from the ownership, operation, or termination of the manufacturing operations of FilterTek GmbH; (d) any Liability arising from the acquisition of FilterTek, Inc., Robinson Industries, and/or Fuzere Manufacturing by a Seller Group Person, except to the extent used in the computation of Working Capital set forth on the Closing Balance Sheet; (e) any Liability arising from the divestiture of Plastic Molded Concepts; (f) any Liability arising from (i) any transportation or disposal of any Hazardous Materials, or (ii) violation of, or contribution obligation under, any Environmental Law in connection with (A) any location not included in the Real Property, (B) any operations not included in the Business, or (C) any discontinued operations of the Business; and/or (g) any Liability arising from the termination of employment of Employees in Puerto Rico as a result of the consummation of the transactions contemplated hereby.

9.2 Indemnification of Seller. Buyer shall hold the Seller Group Persons, except for, from and after the Closing, the Purchased Entities, and the shareholders, directors, officers, employees, successors, assigns, and agents of each of them, harmless and indemnify each of them from and against any and all Indemnified Losses incurred or to be incurred by any of them, and resulting from or arising out of any breach or violation of the representations, warranties, covenants or agreements of Buyer contained in this Agreement, including the provisions of this Article IX, and including the Assignment and Assumption Agreement.

9.3 Survival. The respective representations and warranties made by the Parties in Articles III and IV and in the certificates with respect thereto issued pursuant to Sections 7.4 and 8.3 shall survive the Closing Date but thereafter shall expire unless a claim with respect thereto shall have been made in writing against the Party responsible for indemnification hereunder (the Indemnifying Party ) pursuant to Section 11.12 hereof not later than March 31, 1998; provided, that the foregoing limitations shall not apply to representations and warranties under Sections 3.1, 3.2, 3.9, 3.10, 3.26 and 3.27, and on the certificate under Section 7.4 with respect to Sections 3.1, 3.2, 3.9, 3.10, 3.26 and 3.27, which shall survive without limitation hereunder, or to representations and warranties under Section 3.8 and on the certificate under Section 7.4 with respect to Section 3.8, and the rights of the Buyer Indemnified Parties under Section 9.8, which shall survive to the extent of the applicable statutes of limitations, if any.

9.4 Limitations.

(a) Seller shall not be liable for any breach of any representation or warranty under Article III or certificate with respect thereto under Section 7.4, or indemnification with respect thereto under Section 9.1(a) or indemnification under Section 9.8, (i) unless Indemnified Losses with respect thereto exceed $200,000 but if so Seller shall be liable to the full extent thereof, (ii) to the extent all payments by Seller to a Buyer Indemnified Party pursuant to Seller s indemnification obligations hereunder exceed $15,000,000 and (iii) with respect to any matter involving Indemnified Loss or Losses, or group or series of Indemnified Losses relating to the same matter, less than $25,000 in the aggregate; provided, that none of the foregoing limitations shall apply to representations and warranties under Sections 3.1, 3.2, 3.9, 3.10, 3.26 and 3.27 and on the certificate under Section 7.4 with respect to Sections 3.1, 3.2, 3.9, 3.10, 3.26 and 3.27.

9.5 Notice of Claim. In the event that any Party hereto seeks indemnification hereunder on behalf of itself or himself or another indemnified person, such Party (the Indemnified Party ) shall give written notice to the Indemnifying Party specifying the facts constituting the basis for such claim and the amount, if known, of the claim asserted. The failure of the Indemnifying Party, within a period of thirty (30) days after the giving of such notice by the Indemnified Party, to give written notice to the Indemnified Party of the intention to contest such claim shall be deemed an agreement that the claim is a valid claim and at such time as it is known, the amount thereof shall be paid promptly by the Indemnifying Party.

9.6 Rights to Contest Claims of Third Persons. If an Indemnified Party asserts a claim for indemnification hereunder because of a claim made by any claimant not a Party, the Indemnified Party shall give the Indemnifying Party reasonably prompt notice thereof, but in no event more than ten (10) business days after said assertion is actually known to the Indemnified

Party; provided, however, that the right of a person to be indemnified hereunder in respect of claims made by a third party shall not be adversely affected by a failure to give such notice unless, and then only to the extent that, an Indemnifying Party is prejudiced thereby. The Indemnifying Party shall have the right, upon written notice to the Indemnified Party, and using counsel reasonably satisfactory to the Indemnified Party, to investigate, secure, contest or settle the claim alleged by such third person (hereinafter called a Third-Person Claim ), provided that the Indemnified Party may participate voluntarily, at its own expense, in any such Third-Person Claim through representatives and counsel of its own choice, and, provided further, that the Indemnifying Party unconditionally acknowledges to the Indemnified Party in writing its obligation to indemnify the persons to be indemnified hereunder with respect to all elements of, and to the full extent of, such Third-Person Claim. Unless and until the Indemnifying Party elects to defend the Third-Person Claim, the Indemnified Party shall have the full right, at its option, to do so and to look to the Indemnifying Party under the provisions of this Agreement for the full amount of the costs, if any, of defense. The failure of the Indemnifying Party to respond in writing to the aforesaid notice of the Indemnified Party with respect to such Third-Person Claim within thirty (30) days after receipt thereof shall be deemed an election not to defend the same. If the Indemnifying Party does not assume the defense of any such Third-Person Claim, including any litigation resulting therefrom, (a) the Indemnified Party may defend against such claim or litigation, in such manner as it may deem appropriate, including, but not limited to, settling such claim or litigation, after giving notice of the same to the Indemnifying Party, on such terms as the Indemnified Party may deem appropriate, and (b) the Indemnifying Party shall be entitled to participate in (but not to control) the defense of such action, with its own counsel at its own expense. If the Indemnifying Party thereafter seeks to question the manner in which the Indemnified Party defended such Third-Person Claim or the amount or nature of any such settlement, the Indemnifying Party shall have the burden to prove that the Indemnified Party did not defend or settle such Third-Person Claim in a reasonably prudent manner. The Parties shall make available to each other all relevant information in their possession relating to any such Third-Person Claim and shall cooperate in the defense thereof.

9.7 Exclusive Remedy. The provisions of this Article IX and Article X shall constitute the exclusive remedy of the Parties with respect to any claims or Losses resulting from or arising out of the provisions of this Agreement which may be asserted after the Closing; provided, that the foregoing shall not preclude any claim for injunctive or other non-monetary equitable relief.

9.8 Tax Indemnification. In addition to any other indemnification granted herein, but subject to Section 9.4 hereof, Seller agrees to indemnify, defend and hold harmless the Buyer Indemnified Parties from and against all loss, liability, including Seller's liability for Seller s Taxes or Seller s liability, if any (for example, by reason of transferee liability or application of Treas. Reg. Section 1.1502-6) for Taxes of others, loss of tax attributes, damage or reasonable expense (including but not limited to reasonable attorneys' fees and expenses) (collectively, Tax Losses ) payable with respect to Taxes claimed or assessed against Buyer, any Buyer Company, any Purchased Entity, or the Purchased Assets (i) for any taxable period ending on or before the Closing Date except Taxes of the Purchased Entities to the extent reflected in the computation of Working Capital set forth on the Closing Balance Sheet, or (ii) for any taxable period resulting from a breach of any of the representations or warranties contained in Section 3.8 hereof. Seller also agrees to indemnify, defend and hold harmless the Buyer from and against any and all Tax Losses sustained in a tax period of Buyer ending after the Closing Date arising out of the settlement or other resolution of a proposed tax adjustment which relates to a tax period ending on or before the Closing Date. Notwithstanding anything else stated in this Section 9.8, Seller is not obligated to indemnify Buyer for Tax Losses to the extent they arise from changes after the Closing Date to any Laws related to Taxes.

9.9 Mitigation of Losses. Each Party shall take, and shall cause its respective Affiliates to take, all reasonable steps within their respective control to mitigate Indemnified Losses hereunder, provided that all such cost incurred shall be included in Indemnified Losses.

In addition, the amount of the indemnification due to a party hereunder in connection with any Indemnified Losses shall be calculated after giving effect to the amount of any insurance proceeds or other cash receipts to the extent received by the

Indemnified Person as an indemnity against such Indemnified Loss.

ARTICLE X

DISPUTE RESOLUTION

10.1 Scope; Initiation. Resolution (except for resolution of the Closing Balance Sheet under Section 2.8) of any and all disputes arising from or in connection with this Agreement, whether based on contract, tort, statute or otherwise, including disputes over arbitrability and disputes in connection with claims by third persons ( Disputes ) shall be exclusively governed by and settled in accordance with the provisions of this Article X; provided, that the foregoing shall not preclude equitable or other judicial relief to enforce the provisions hereof or to preserve the status quo pending resolution of Disputes hereunder; and provided further that resolution of Disputes with respect to claims by third persons shall be deferred until any judicial proceedings with respect thereto are concluded. Either Party to this Agreement may commence proceedings hereunder by delivery of written notice providing a reasonable description of the Dispute to the other, including a reference to this Article (the Dispute Notice ).

10.2 Negotiations Between Executives. The Parties shall first attempt in good faith to resolve promptly any Dispute by negotiations between executives who are not directly involved in the Dispute, and who have authority to settle it (as to each Party, an Executive ). Not later than 20 days after delivery of the Dispute Notice, each Party shall designate an Executive to meet with the other Party's Executive at a reasonably acceptable time and place, and thereafter as such Executives deem reasonably necessary. The Executives shall exchange relevant information and endeavor to resolve the Dispute. Prior to any such meeting, each Party's Executive shall advise the other as to any other individuals who will attend such meeting. All negotiations pursuant to this Section 10.2 shall be confidential and shall be treated as compromise negotiations for purposes of Rule 408 of the Federal Rules of Evidence and similarly under other federal and state rules of evidence.

10.3 Binding Arbitration.

(a) If a Dispute has not been resolved pursuant to Sections 10.2 hereof within 120 days (or such longer period as the Parties may agree), the Parties hereby agree to submit the Dispute to arbitration under the following provisions, which arbitration shall be final and binding upon the Parties, their successors and assigns, and that the following provisions constitute a binding arbitration clause under applicable Law.

(b) Either Party may initiate arbitration of a Dispute by delivery of a demand therefor (the Arbitration Demand ) to the other Party not sooner than 120 days after the date of delivery of the Dispute Notice but at any time thereafter; provided, that if a Party does not cooperate in the procedures provided under Section 10.2, the other Party may initiate arbitration at such earlier time as such non-cooperation shall become reasonably apparent.

(c) The arbitration shall be conducted in St. Louis, Missouri or Chicago, Illinois, by a sole arbitrator selected by agreement of the Parties not later than 10 days after delivery of the Arbitration Demand or, failing such agreement, appointed pursuant to the Commercial Arbitration Rules of the American Arbitration Association, as amended from time to time (the AAA Rules ). In order to qualify as an arbitrator hereunder, a person must be an equity partner (or comparable) in a law firm located in St. Louis, Missouri or Chicago, Illinois with 175 or more attorneys and must be experienced in commercial disputes. If an arbitrator becomes unable to serve, his or her successor(s) shall be similarly selected or appointed.

(d) The arbitration shall be conducted pursuant to the Federal Arbitration Act and the Missouri Uniform Arbitration Act or Illinois Uniform Arbitration Act, as applicable, and such procedures as the Parties may agree or, in the absence of or failing such agreement, pursuant to the AAA Rules. Notwithstanding the foregoing:

(i) each Party shall be allowed to conduct discovery through written requests for information, document requests, requests for stipulations of fact, and depositions; (ii) the nature and extent of such discovery shall be determined by the arbitrator, taking into account the needs of the Parties and the desirability of making discovery expeditious and cost-effective; (iii) the arbitrator may issue orders to protect the confidentiality of information, to be disclosed in discovery; and (iv) the arbitrator's discovery rulings may be enforced in any court of competent jurisdiction.

(e) All hearings shall be conducted on an expedited schedule, and all proceedings shall be confidential. Either Party may at its expense make a stenographic record thereof.

(f) The arbitrator shall complete all hearings not later than 90 days after selection or appointment, and shall make a final award not later than 30 days thereafter. The award shall be in writing and shall specify the factual and legal bases for the award. The arbitrator shall apportion all costs and expenses of the arbitration, including the arbitrator's fees and expenses and fees and expenses of experts ( Arbitration Costs ) between the prevailing and non-prevailing Party as the arbitrator deems fair and reasonable. In circumstances where a Dispute has been asserted or defended against on grounds that the arbitrator deems manifestly unreasonable, the arbitrator may assess all Arbitration Costs against the non-prevailing Party and may include in the award the prevailing Party's attorney's fees and expenses in connection with any and all proceedings under this Article X. Notwithstanding the foregoing, in no event may the arbitrator award multiple, punitive or exemplary damages.

(g) Either Party may assert appropriate statutes of limitation as a defense in arbitration; provided, that upon delivery of a Dispute Notice any such statute shall be tolled pending resolution hereunder.

10.4 Confidentiality Notice. Each Party shall notify the other promptly, and in any event prior to disclosure to any third person, if it receives any request for access to confidential information or proceedings hereunder.

## ARTICLE XI

## MISCELLANEOUS

11.1 Changes to Structure. In the event Buyer deems it necessary or advisable to change the structure of the acquisition set forth on Schedule 2.1, so that it would purchase Purchased Assets of a Seller Group Person and assume its Assumed Liabilities, rather than include such Person as a Purchased Entity; or require a transfer of Purchased Assets and Assumed Liabilities to a Purchased Entity prior to Closing; or other structural change consistent with the overall objective of Buyer to acquire the Business; then in such event, provided Buyer gives Seller notice of such change not later than January 15, 1997, the Parties shall amend this Agreement accordingly; provided further, that to the extent such change requires the incurrence of additional cost by Seller in excess of $25,000, Buyer shall reimburse the amount so in excess; and provided further, that Schedule 2.1 may be modified by mutual consent of the Parties to include the acquisition of Filtertek do Brazil Industria E Comercio Ltda.

11.2 Termination of Agreement. This Agreement and the transactions contemplated hereby may be terminated prior to the Closing Date only as follows:

(a) by mutual consent of Buyer and Seller; or

(b) by either Buyer or Seller if the Closing shall not have occurred on or before, (i) if any of the conditions to Closing are not satisfied as a result of factors beyond the control of either Party, March 31, 1997, otherwise (ii) February 15, 1997.

11.3 Manner and Effect of Termination.

(a) Any action by Buyer or Seller to terminate this Agreement and the transactions contemplated hereby, as provided in Section 11.2 hereof, shall be taken by its respective Board of Directors.

(b) If this Agreement is terminated pursuant to Section 11.2 hereof without fault of either Party or breach of this Agreement, all obligations of Seller and Buyer hereunder shall terminate, without liability of Seller to Buyer or of Buyer to Seller. In such event, each Party hereto shall pay all legal and other costs and expenses incurred by such Party in connection with this Agreement and the transactions contemplated hereby.

(c) Nothing in this Section or elsewhere in this Agreement shall impair or restrict the rights of any Party to any and all remedies at law or in equity in the event of a breach of or default under this Agreement.

11.4 Non-Disclosure of Information. No Seller Group Person nor Buyer or any of its Affiliates shall make any announcement or other disclosure of the terms hereof or the transactions contemplated hereby (except disclosure to their respective professional advisors) without the mutual written consent of both of the Parties, except as required by law.

11.5 Bulk Sales. Buyer hereby waives compliance with any applicable State Uniform Commercial Code or other statutory provisions governing bulk sales. Seller agrees to indemnify,

defend and hold harmless the Buyer Companies from any and all loss, cost or expenses, resulting from the assertion of claims made against the Purchased Assets sold hereunder or against any Buyer Company by creditors of any Seller Group Person under any bulk sales Law with respect to liabilities and obligations of Seller Group Persons not assumed by any Buyer Company hereunder, such indemnity to be in accordance with the provisions of Article IX hereof without regard to the limitations contained in Section 9.4.

11.6 Contents of Agreement, Parties in Interest, Assignment. This Agreement, including the Schedules and Exhibits hereto, and the other agreements and documents referred to herein set forth the entire understanding of the Parties with respect to the subject matter hereof. Any previous agreements of understandings between the parties regarding the subject matter hereof, including, without limitation, the Confidentiality Agreement, by and between Buyer and Coopers & Lybrand, LLP, dated as of September 9, 1996, and the letters from Buyer to Coopers & Lybrand, LLP, relating to the Business, dated September 26, 1996, November 19, 1996, November 20, 1996, November 23, 1996, and November 25, 1996, are merged into and superseded by this Agreement. All representations, warranties, covenants, terms and conditions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective heirs, legal representatives, successors and permitted assigns of the parties hereto; provided, however, that none of the rights or obligations of any of the parties hereto may be assigned without the prior written consent of, in the case of assignment by Seller, Buyer, or, in the case of assignment by Buyer, Seller; provided however, that Buyer may assign all or part of its rights under this Agreement and may delegate all or part of its obligations under this Agreement to one or more corporations all or substantially all of the capital stock of which is owned, directly or indirectly, by Buyer, in which event all the rights and powers of Buyer and the remedies available to it under this Agreement shall extend to and be enforceable by such assignee. Any such assignment and delegation shall not release Buyer from its obligations under this Agreement, and further Buyer guarantees to Seller the performance by each such assignee of its obligations under this Agreement. In the event of any such assignment and delegation, the term Buyer as used in this Agreement shall be deemed to refer to each such assignee of Buyer and shall be deemed to include both Buyer and each such assignee where appropriate.

11.7 Severability. If any provision of this Agreement shall be determined to be contrary to Law and unenforceable by any court of law, the remaining provisions shall be severable and enforceable in accordance with their terms.

11.8 Counterparts. This Agreement may be executed in one or more identical counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument.

11.9 Interpretation. The table of contents and article and section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of the Agreement. Both Parties have participated substantially in the negotiation and drafting of this Agreement and each Party hereby disclaims any defense or assertion in any litigation or arbitration that any ambiguity herein should be construed against the draftsman. Each reference in this Agreement to an Article or a Section, Schedule or Exhibit, unless otherwise indicated, shall mean an Article or a Section of this Agreement or a Schedule or Exhibit attached to this Agreement, respectively.

11.10 Governing Law. This Agreement shall be construed and interpreted according to the Laws of the State of Illinois.

11.11 Payment of Fees and Expenses. Each Party hereto shall pay all fees and expenses of such Party's respective counsel, accountants and other experts and all other expenses incurred by such Party incident to the negotiation, preparation and execution of this Agreement and the consummation of the transaction contemplated hereby, including any finder's or brokerage fees.

11.12 Notice. All notices, requests, demands and other communications required or permitted under this Agreement shall be deemed to have been duly given and made if in writing upon being delivered either by courier delivery or by fax to the Party for whom it is intended, provided that a copy thereof is deposited, postage prepaid, certified or registered mail, return receipt requested (or such form of mail as may be substituted therefor by postal authorities), in the United States mail, bearing the address shown in this Section 11.12 for, or such other address as may be designated in writing hereafter by such Party:

If to Buyer:

ESCO Electronics Corporation

8888 Ladue Road, Suite 200
St. Louis, Missouri 63124-2090
Attention: General Counsel
Telecopier: (314) 213-7215
With a copy to:

Bryan Cave LLP
One Metropolitan Square
211 North Broadway, Suite 3600
St. Louis, Missouri 63108-2750
Attn: Michael Morgan.
Telecopier: (314) 259-2020

If to Seller:

Schawk, Inc.
1695 River Road
Des Plaines, Illinois 60018
Attention: Clarence W. Schawk
Telecopier: (847) 827-1264
With copies to:

Schawk, Inc.
1695 River Road
Des Plaines, Illinois 60018
Attention: A. Alex Sarkisian
Telecopier: (847) 827-2353
and
Vedder, Price, Kaufman & Kammholz
222 N. LaSalle
Suite 2600
Chicago, Illinois 60601
Attention: John T. McEnroe
Telecopier: (312) 609-5005

Any such notice shall be effective upon receipt. Either Party may change the address to which notices are to be addressed by giving the other Party notice in the manner herein set forth.

11.13 Additional Agreements. At the Closing, Buyer shall reimburse Seller to the extent of:

(a) the cost to Seller of automated fuel-injector filter assembly cells purchased for use in the Business, provided that (i) such reimbursement shall not exceed $600,000.00, (ii) such expenditures for cells shall have been made by Seller prior to Closing, and (iii) the acquisition of such cells shall have been consistent with standard policies and procedures of the Business and pursuant to the documentation attached as Schedule 11.13(a); and

(b) one-half of the cost of the items listed on Schedule 11.13(b) provided that (i) such reimbursement shall not exceed $300,000.00, (ii) such expenditures have been made by Seller prior to Closing, and (iii) such expenditures have been consistent with standard policies and procedures of the Business and pursuant to the documentation attached as Schedule 11.13(b).

In addition, Buyer shall consider, in Buyer s sole discretion, the reimbursement of additional capital expenditures presented to it by Seller prior to Closing.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement, as of the day and year first above written.

ESCO ELECTRONICS CORPORATION

By:
Name:
Title:

ATTEST:

Name:
Title:

SCHAWK, INC.

By:
Name:
Title:

ATTEST:

Name:
Title:

TABLE OF EXHIBITS

TABLE OF SCHEDULES

FIRST AMENDMENT TO THE
ACQUISITION AGREEMENT
BY AND BETWEEN
ESCO ELECTRONICS CORPORATION AND SCHAWK, INC.
DATED DECEMBER 18, 1996

This First Amendment to the Acquisition Agreement by and between ESCO Electronics Corporation and Schawk, Inc. dated December 18, 1996 (this Amendment ) is dated as of February 6, 1997.

Whereas, ESCO Electronics Corporation, a Missouri corporation ( Buyer ) and Schawk, Inc., a Delaware corporation ( Seller ) are parties to an acquisition agreement (the Acquisition Agreement ) dated December 18, 1996, to which they desire to make certain amendments, as further described herein.

Now therefore, in consideration of the foregoing recitals and the premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree for themselves, their successors and assigns, as follows:

1. The following clause shall be added at the end of subparagraph 2.9 (e): and shall include interest at the prime rate of interest as announced from time to time by Morgan Guaranty Trust Co. of New York from the Closing Date through the date of payment.

1. Clause (b)(i) in Section 3.13 of the Acquisition Agreement is deleted and replaced by the following:
(i)(A) registered patents and trademarks included in the Intellectual Property were validly issued, (B) unregistered trademarks included in the Intellectual Property are valid, to the full extent, in civil law counties, of protection for unregistered trademarks under applicable Law, and in common law counties, to the full extent under common law and (C) except as set forth on Schedule 3.13(b), no Seller Group Person has received notice of the invalidity or unenforccability of any Intellectual Property;

1. Section 5.4 of the Acquisition Agreement is hereby deleted and replaced by the following:

51 Full Access. Seller covenants that, until the Closing, representatives of Buyer shall have full access at all reasonable times to all premises, properties, books, records, contracts, tax records and documents of each Seller Group Person relating to the Business, and Seller will furnish to Buyer any information in respect to the Business as Buyer may from time to time request. Such examination and investigation by Buyer, and any discovery of facts resulting therefrom, shall not affect the warranties and representations of Seller contained in this Agreement.
Buyer shall inform Seller of any matter involving Indemnified Loss involving $50,000 or more as to which Buyer believes, as of the Closing Date, that it is entitled to and intends to assert a claim pursuant to Article IX hereof that arises from a breach of the representations and warranties pursuant to Article III hereof.

1.The following clause (h) shall be added to Section 9.1 of the Acquisition Agreement. and/or (h) any fines, orders, sanctions, penalties, or other claims by any Government, and any Liability to any to any Employee, arising from any actual or alleged violation of any Law respecting employee or occupational safety or health ( OSHA Law ) arising from or in connection with conditions at any facility of the Business or other Purchased Asset if such conditions existed at the Effective Time, provided that (A) Buyer provides notice to Seller of any such claim or Liability not later than March 31, 1998, and (B) notwithstanding the foregoing. Buyer shall be responsible for any capital expenditure to remedies such facilities and Purchased Assets in order to comply with such OSHA Law, and shall use reasonable best efforts to mitigate any such claims or Liabilities by endeavoring to cure after governmental notice of violation has been received, and shall proceed to implement procedures in accordance with good business practice.

1. Buyer and Seller agree that proper accruals shall be made in accordance with GAAP on the closing Date Balance for inter ail 1996 ad valorem real estate taxes.

2. The following shall be added to Section 9.8:
The Purchased Assets shall include certain items as provided in the letter dated February 7, 1997 attached as Schedule 9.8. Seller further agrees to indemnify, defend and hold harmless the Buyer Indemnified Parties from and against all Taxes and Tax Losses (as to any event, net of any actual tax gain realized in connection with the same

event) payable as a result of the transactions contemplated in Section 9.8 including without limitation any Taxes or Tax Losses arising from the invalidity, transfer or repayment of any intercompany loans or administration thereof, so as to put the Buyer Indemnified Parties in all respects in the same position with respect to Taxes and tax attributes that they would have had if the transactions contemplated in Schedule 9.8 had not occurred and the Closing had occurred as contemplated in this Agreement without reference to Schedule 9.8; provided, that the foregoing shall not be subject to the limitations in Section 9/4(a)(i) or (iii) hereof. Seller and Buyer agree to review the transactions described in said February 7, 1997 letter during the sixty days after Closing to ascertain whether such transactions may be restructured in a manner more favorable or neutral the Parties provided that neither Party shall be required to incur any additional expense in such respect. The Closing Balance Sheet shall be prepared in all respects as if the Closing had occurred without reference to the transactions contemplated in Schedule 9.8.

1. This Amendment is limited as specified and shall not constitute a modification of any other provision of the Acquisition Agreement. Except as expressly amended hereby, the Acquisition Agreement shall continue in full force and effect in accordance with the provisions thereof on the date hereof. As used in the Acquisition Agreement, herein. hereinafter, hereto, hereof, and words of similar import shall, unless the context otherwise requires, mean the Acquisition Agreement after the amendments by this Amendment.
2. This Amendment may be executed in one or more identical counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument.

In witness whereof, ESCO Electronics Corporation and Schawk, Inc., hereby approve this Amendment as of the day and year first written above.

ESCO Electronics Corporation

/s/ D. W. Snoke

/s/ A. Alex Sarkisian

$140,000,000

CREDIT AGREEMENT

dated as of September 23, 1990

(as amended and restated as of February 7, 1997)

among

ESCO Electronics Corporation

Defense Holding Corp.,

The Banks Listed Herein

and

Morgan Guaranty Trust Company of New York,
as Agent

THIS CREDIT AGREEMENT CONTEMPLATES FUTURE ADVANCES
AND IS SECURED BY, AMONG OTHER THINGS, A MISSOURI
DEED OF TRUST DATED AS OF SEPTEMBER 24, 1990

[CS&M Ref. No. 1385-252]

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THIS CREDIT AGREEMENT CONTEMPLATES FUTURE ADVANCES AND IS SECURED BY, AMONG OTHER THINGS, A MISSOURI DEED OF TRUST DATED AS OF SEPTEMBER 24, 1990.

CREDIT AGREEMENT

AGREEMENT dated as of September 23, 1990 (as amended and restated as of February 7, 1997), among ESCO ELECTRONICS CORPORATION, DEFENSE HOLDING CORP., the BANKS listed on the signature pages hereof, and MORGAN GUARANTY TRUST COMPANY OF NEW YORK, as Agent.

ESCO and the Borrower (such terms, and all other capitalized terms in this preliminary statement, being used as hereinafter defined) entered into the Distribution Agreement consistent with which (a) Emerson has transferred to ESCO all the outstanding capital stock of the Borrower and has transferred to the Borrower all the outstanding capital stock of the Specified Subsidiaries, as well as certain additional assets, (b) the Borrower paid a dividend to ESCO, which in turn paid a

dividend to Emerson, on the Effective Date in the aggregate amount of $20,000,000 and (c) Emerson transferred all the common stock of ESCO to a trust and distributed common stock trust receipts representing such common stock to the holders of Emerson's common stock. In connection therewith, the Borrower requested that the Banks, subject to the terms and conditions of the Original Credit Agreement, extend credit to the Borrower, in the aggregate principal amount of up to $95,000,000, in the form of (i) Term Loans in an aggregate principal amount of $20,000,000, (ii) Working Capital Loans in an aggregate principal amount at any time outstanding not in excess of $75,000,000 (subject to certain limitations) to finance the working capital requirements of the Borrower and its Subsidiaries, and (iii) letters of credit and/or letters of guaranty in an aggregate amount at any time outstanding not in excess of $50,000,000 (subject to certain limitations) to be issued only for general corporate purposes in the ordinary course of business of the Borrower and its Subsidiaries. The proceeds of the Terms Loans were used by the Borrower to finance payment of the dividend referred to above. Subsequent thereto, the Borrower and the Banks amended and restated the Original Credit Agreement, as of June 12, 1992, and, in connection therewith, the Borrower prepaid the Terms Loans then outstanding and the Banks agreed to extend credit to the Borrower, in the aggregate principal amount of up to $100,000,000, in the form of (i) Working Capital Loans to be made by the Banks from time to time in an aggregate principal amount at any time outstanding not in excess of $75,000,000 (subject to certain limitations), (ii) letters of credit and/or letters of guaranty to be issued by the Issuing Bank from time to time in an aggregate amount at any time outstanding not in excess of $65,000,000 (subject to certain limitations), and (iii) additional letters of credit to be issued by the Issuing Bank from time to time in an aggregate amount at any time outstanding not in excess of $25,000,000 (subject to certain limitations). Subsequent thereto, the Borrower and the Banks amended and restated the Original Credit Agreement, as previously amended and restated, as of May 27, 1994, and in connection therewith, the Borrower prepaid the Loans then outstanding and the Banks agreed to extend credit to the Borrower, in the aggregate principal amount of up to $100,000,000, in the form of (i) Term Loans to be made by the Banks in an aggregate principal amount of $20,000,000, (ii) Working Capital Loans to be made by the Banks from time to time in an aggregate principal amount at any time outstanding not in excess of $80,000,000 (subject to certain limitations), and (iii) letters of credit and/or letters of guaranty to be issued by the Issuing Banks from time to time in an aggregate amount at any time outstanding not in excess of $65,000,000 (subject to certain limitations). Subsequent thereto, the Borrower and the Banks amended and restated the Original Credit Agreement, as previously amended and restated, as of September 29, 1995. ESCO and the Borrower have requested that the Original Credit Agreement, as previously amended and restated, be amended and restated in the form hereof in order to provide for certain changes hereto, including to increase the amount of Term Loans to an aggregate principal amount of $60,000,000 and to reduce the aggregate amount of letters of credit and/or letters of guaranty to be issued by the Issuing Banks from time to time to an aggregate amount at any time outstanding not in excess of $40,000,000 (subject to certain limitations). The proceeds of the Loans shall be used by the Borrower to finance the working capital requirements of the Borrower and its Subsidiaries and permitted acquisitions, and Letters of Credit shall be issued only for general

corporate purposes in the ordinary course of business of the Borrower and its Subsidiaries and, subject to certain limitations specified herein, for the purpose of providing credit support for certain obligations of ESCO to Emerson.

Accordingly, the parties hereto agree as follows:

## ARTICLE I

## DEFINITIONS

SECTION 1.01. Definitions. The following terms, as used herein, have the following meanings:

"Account Debtor" means any Person who is or who may become obligated to the Borrower or one of the Subsidiaries under, with respect to, or on account of, an Account.

"Accounts" means any and all rights of the Borrower and the Subsidiaries (other than Restricted Subsidiaries) to payment for goods and services sold or leased, including any such right evidenced by chattel paper, whether due or to become due, whether or not it has been earned by performance, and whether now or hereafter acquired or arising in the future, including accounts receivable from Affiliates.

"Adjusted CD Rate" has the meaning set forth in Section 2.05(b).

"Adjusted London Interbank Offered Rate" has the meaning set forth in Section 2.05(c).

"Administrative Questionnaire" means, with respect to each Bank, the administrative questionnaire in the form submitted to such Bank by the Agent and submitted to the Agent (with a copy to the Borrower) duly completed by such Bank.

"Affiliate" means any Person (other than a Subsidiary) directly or indirectly controlling, controlled by or under common control with the Borrower or ESCO. As used in this definition, the term "control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise. For purposes of this Agreement, any Person that directly or indirectly owns 10% or more of the regularly voting common equity securities of ESCO shall be deemed to be an Affiliate of the Borrower and ESCO, and, for purposes of Section 5.14, Emerson shall be deemed to be an Affiliate of the Borrower and ESCO.

"Agent" means Morgan Guaranty Trust Company of New York in its capacity as agent for the Banks hereunder, and its successors in such capacity.

"Alternative Currency Equivalent" shall mean, with respect to an amount of Dollars on any date in relation to any specified Alternative Letter of Credit Currency, the amount of such specified Alternative Letter of Credit Currency that may be purchased with such amount of Dollars at the Spot Exchange Rate with respect to Dollars on such date.

"Alternative Letter of Credit Currency" means any Permitted Letter of Credit Currency other than Dollars.

"Amendment and Restatement Effective Date" has the meaning set forth in Section 3.03.

"Applicable Lending Office" means, with respect to any Bank, (i) in the case of its Domestic Loans, its Domestic Lending Office and (ii) in the case of its Euro-Dollar Loans, its Euro-Dollar Lending Office.

"Applicable Percentage" of any Bank means the percentage of the aggregate Commitments represented by such Bank's Commitment.

"Assessment Rate" has the meaning set forth in Section 2.05(b).

"Assignee" has the meaning set forth in Section 9.06(c).

"Assignment of Claims Act" means the Assignment of Claims Act of 1940, as amended, 31 U.S.C. Section 3727 and 41 U.S.C. Section 15.

"Back-up LOC" means any letter of credit issued by a Bank to the Issuing Bank in accordance with Section 2.14(d).

"Bank" means each bank or lender listed on the signature pages hereof, each Assignee which becomes a Bank pursuant to Section 9.06(c), and their respective successors.

"Base Rate" means, for any day, a rate per annum equal to the higher of (i) the Prime Rate for such day and
(ii) the sum of 1/2 of 1% plus the Federal Funds Rate for such day.

"Base Rate Loan" means at any time a loan outstanding hereunder which bears interest at such time at a rate based on the Base Rate pursuant to a Notice of Borrowing or Notice of Interest Rate Election or pursuant to Article VIII.

"Base Rate Margin" has the meaning set forth in Section 2.05(a).

"Billed Receivable" means, as at any date of determination thereof, any Receivable or portion thereof for which an invoice has been issued to the Account Debtor.

"Borrower" means Defense Holding Corp., formerly Emerson Defense Holding Corp., a Delaware corporation, and its successors.

"Borrowing" has the meaning set forth in Section 1.03.

"Borrowing Base" means, at any date of determination thereof, the sum of:

(i) an amount equal to the sum of (a) 90% of the aggregate amount at such date of all Eligible Billed  Government Receivables, plus (b) 85% of the aggregate amount at such date of all Eligible Billed Commercial Receivables, plus (c) 70% of the aggregate amount at such date of all Eligible Foreign Receivables, plus (d) 60% of the aggregate amount at such date of all Eligible Unbilled Receivables; plus

(ii) an amount equal to 35% of the aggregate amount at such date of Eligible Net Inventories; plus

(iii) an amount equal to the amount of cash collateral held by the Security Agent at such date in accordance with Section 2.14(j);

provided, however, that not more than 40% of the Borrowing Base at any time shall consist of the amount specified in clause (ii) above.  The portion

of the Borrowing Base at any time represented by the sum of the amounts referred to in clauses (i) and (ii) above shall be determined by reference to the most recent Borrowing Base Certificate delivered to the Agent, absent any error in such Borrowing Base Certificate.

"Borrowing Base Certificate" means a certificate in the form of Exhibit B hereto, duly completed and executed by the chief financial officer, chief accounting officer or treasurer of ESCO.

"Business Acquisition" means any acquisition by the Borrower or any Subsidiary of another business enterprise, whether consummated through the acquisition of capital stock or other ownership interests in another entity or through the acquisition of assets, and regardless of whether (i) such business is similar or dissimilar to any business conducted by the Borrower and its Subsidiaries or (ii) such acquisition is permitted by the terms hereof or is permitted pursuant to any waiver granted hereunder.

"Capital Expenditures" means, with respect to any fiscal period of any Person, the additions to property, plant and equipment and other capital expenditures of such Person for such fiscal period, as the same are (or would be) set forth, in accordance with generally accepted accounting principles, in the statement of cash flow of such Person for such fiscal period.

"Cash Available For Cash Charges" means, for any period, the excess of (a) the sum (without duplication) of (i) Consolidated Net Income for such period (excluding any extraordinary item of gain or loss), plus (ii) depreciation, amortization and other non-cash items deducted in determining such Consolidated Net Income, plus (iii) interest expense and lease expense deducted in determining such Consolidated Net Income, plus (iv) the Guarantee Fees paid during such period, plus (v) any loss deducted in determining such Consolidated Net Income resulting from any Specified Event, plus (vi) any decrease in Net Working Investment during such period, over (b) the sum (without duplication) of (i) any non-cash gains included in determining such Consolidated Net Income, plus (ii) any gains included in determining such Consolidated Net Income resulting from any Specified Event, plus (iii) the aggregate amount of refunds and payments made and Letters of Credit issued during such period for the purposes described in Section 5.20, to the extent not deducted in determining such Consolidated Net Income, plus (iv) any increase in Net Working Investment during such period.

"Cash Charges" means, for any period, the sum (without duplication) of (i) interest expense and lease expense deducted in determining Consolidated Net Income for such period, plus (ii) the Guarantee Fees paid during such period, plus (iii) Capital Expenditures of ESCO and its Consolidated Subsidiaries for such period, plus (iv) Restricted Payments made during such period as permitted by clauses (ii) and (iii) of Section 5.12, plus (v) any mandatory repayments of principal of Debt of ESCO and its Consolidated Subsidiaries during such period, except repayments of Loans and Letter of Credit Disbursements (it being understood that payments under any Rate Protection Agreement permitted by clause (iv) of Section 5.11(a) shall not be considered repayments of principal of Debt for purposes of this clause (v)).

"CD Base Rate" has the meaning set forth in Section 2.05(b).

"CD Loan" means at any time a loan outstanding hereunder which bears interest at such time at a rate based on the Adjusted CD Rate pursuant to a Notice of Borrowing or Notice of Interest Rate Election or pursuant to Article VIII.

"CD Margin" has the meaning set forth in Section 2.05(b).

"CD Reference Banks" means The Bank of New York, Morgan Guaranty Trust Company of New York and The Boatmen's National Bank of St. Louis.

A "Change of Control" shall be deemed to have occurred if (i) any person or group (within the meaning of Rule 13d-5 of the Securities and Exchange Commission as in effect on the Effective Date) other than Emerson shall become the beneficial owner (within the meaning of Rule 13d-3 of such Commission as in effect on the Effective Date) of voting securities (including any options, rights or warrants to purchase, and any securities convertible into or exchangeable for, voting securities) of ESCO representing 20% or more of the voting power represented by all outstanding securities of ESCO; (ii) a majority of the seats (other than vacant seats) on the board of directors of ESCO shall at any time have been occupied by persons who were neither (a) nominated by Emerson or the management of ESCO, nor (b) appointed by directors so nominated; (iii) any person or group other than Emerson shall otherwise directly or indirectly control ESCO; or (iv) the Borrower shall cease to be a Wholly Owned Consolidated Subsidiary of ESCO, directly controlled by ESCO.

"Class" has the meaning set forth in Section 1.03.

"Commitment" means, with respect to each Bank, its Term Commitment or Working Capital Commitment or both, as the context may require.

"Commitment Fee Rate" has the meaning set forth in Section 2.06(b).

"Comtrak" means Comtrak International Services, Inc., a Missouri corporation, and its successors.

"Consolidated Adjusted Debt" means, at any date, (a) the Debt of ESCO and its Consolidated Subsidiaries at such date, as the same would be reflected on a consolidated balance sheet prepared as of such date in accordance with generally accepted accounting principles, plus (without duplication) the Letter of Credit Exposure at such date plus the aggregate undrawn amount at such date of all letters of credit (other than the Existing LOCs) issued for the account of ESCO or any of its Consolidated Subsidiaries (to the extent not collateralized by Letters of Credit) less (b) the excess of (i) cash and cash equivalents of ESCO and its Consolidated Subsidiaries at such date, as the same would be reflected on such balance sheet, over (ii) the aggregate principal amount of outstanding Working Capital Loans at such date; provided, however, that for purposes of calculating the excess in clause (b), no credit will be given with respect to the cash and cash equivalents set forth in sub-clause (i) thereof in excess of $2,000,000, unless such cash and cash equivalents are maintained with a Bank.

"Consolidated Adjusted EBIT" means, with respect to ESCO and its Consolidated Subsidiaries for any period, the sum (without duplication) of (a) Consolidated Adjusted Net Income for such period (excluding any non-cash extraordinary item of gain or loss), (b) interest expense deducted in

determining Consolidated Adjusted Net Income for such period, (c) all fees payable in connection with the issuance of letters of credit and letters of guarantee deducted in determining Consolidated Adjusted Net Income for such period, (d) Federal, state and local income taxes deducted in determining Consolidated Adjusted Net Income for such period, (e) depreciation and amortization in respect of consolidated Intangible Assets that were reflected on the balance sheet of ESCO dated December 31, 1991, made available to the Banks pursuant to Section 5.01, to the extent such depreciation and amortization were deducted in determining such Consolidated Adjusted Net Income and (f) the Emerson Guarantee Charge, Inventory Charge and Relocation Expenses, to the extent deducted in determining such Consolidated Adjusted Net Income.

"Consolidated Adjusted Interest Expense" means with respect to ESCO and its Consolidated Subsidiaries for any period, the sum (without duplication) of (i) interest expense deducted in determining Consolidated Adjusted Net Income for such period and (ii) the amortization of all fees payable in connection with the issuance of letters of credit and letters of guarantee deducted in determining Consolidated Adjusted Net Income for such period.

"Consolidated Adjusted Net Income" means, for any period, the Consolidated Net Income for such period (excluding charges, not in excess of $25,000,000, related to the adoption of Statement of Financial Accounting Standards ("SFAS") 106 (Employers' Accounting for Post-retirement Benefits Other Than Pensions) which are noncash in nature).

"Consolidated Adjusted Operating Cash Flow" means, for any period, the sum of the Consolidated Net Income for such period (A) plus depreciation, amortization and other similar non-cash charges, to the extent deducted in determining such Consolidated Net Income and (B) plus the amount by which the deferred taxes increased (or minus the amount by which the deferred taxes decreased) from the respective amounts as of the end of the previous fiscal period.

"Consolidated Adjusted Tangible Net Worth" means at any date the stockholders' equity of ESCO less its consolidated Intangible Assets, all determined as of such date; provided that solely for the purpose of computations in connection with Section 5.23, such stockholders' equity shall be adjusted to exclude the after-tax impact on such stockholders' equity of the Emerson Guarantee Charge, Inventory Charge and Relocation Expenses, to the extent that such Emerson Guarantee Charge, Inventory Charge and Relocation Expenses were deducted in any determination of Consolidated Net Income for any period ending on or prior to such date.

"Consolidated Net Income" means, for any period, the consolidated net income (or loss) of ESCO and its Consolidated Subsidiaries for such period.

"Consolidated Subsidiary" means at any date any Subsidiary or other entity the accounts of which would be consolidated with those of the Borrower or ESCO, as applicable, in its consolidated financial statements if such statements were prepared as of such date.

"DCS" means Distribution Control Systems Inc., formerly TWACS Corp., a Missouri corporation, and its successors.

"Debt" of any Person means at any date, without duplication, (i) all obligations of such Person for borrowed money, (ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments, (iii) all obligations of such Person to pay the deferred purchase price of property or services, except trade accounts payable arising in the ordinary course of business, (iv) all obligations of such Person as lessee which are capitalized in accordance with generally accepted accounting principles, (v) all obligations of such Person under any Rate Protection Agreements, (vi) all Debt of others secured by a Lien on any asset of such Person, whether or not such Debt is assumed by such Person, and (vii) all Debt of others Guaranteed by such Person.

"Default" means any condition or event which constitutes an Event of Default or which with the giving of notice or lapse of time or both would, unless cured or waived, become an Event of Default.

"Deposit Agreement" means the Deposit and Trust Agreement dated as of September 24, 1990, among ESCO, Emerson, Boatmen's Trust Company, as depositary and trustee, and the holders of Common Stock Trust Receipts issued thereunder, as amended and supplemented from time to time.

"Designated Letter of Credit" means a certain letter of credit issued by Barclays Bank, PLC New York for the account of the Borrower in the initial amount of $33,000 and not at any time exceeding $36,000 and issued in favor of Standard Chartered Bank, Jalan Ampang Branch, Kuala Lumpur, Malaysia, which letter of credit is issued as an inducement for Standard Chartered Bank to issue a bank guarantee in Malaysian Ringgits (MYR 83,400) in favor of the Government of Malaysia, which guarantee serves as a performance guarantee against a certain contract between E&S and the Government of Malaysia.

"Designated Payment Office" means, with respect to any Alternative Letter of Credit Currency, the office designated by the Agent, by notice to the Borrower and the Banks, for payments to be made in such currency.

"Distribution Agreement" means the Distribution Agreement dated as of September 24, 1990, among Emerson, ESCO, the Borrower and the other entities listed on the signature pages thereof, as amended and supplemented from time to time.

"Dollar Equivalent" shall mean, with respect to an amount of any Alternative Letter of Credit Currency on any date, the amount of Dollars that may be purchased with such amount of such Alternative Letter of Credit Currency at the Spot Exchange Rate with respect to such Alternative Letter of Credit Currency on such date.

"Dollar Reimbursement Amount" means, in respect of any Letter of Credit Disbursement in an Alternative Letter of Credit Currency, the Dollar Equivalent of the amount of such Letter of Credit Disbursement based upon the Spot Exchange Rate on the date of the issuance of the applicable Letter of Credit plus any reasonable costs or expenses the applicable Issuing Bank incurs in purchasing such Alternative Letter of Credit Currency in order to pay such Letter of Credit Disbursement as reasonably determined by such Issuing Bank minus the amount realized, if any, by such Issuing Bank pursuant to the Rate Protection Agreement entered into by the Borrower in connection with such Letter of Credit.

"Dollars", "dollars" or "$" means lawful money of the United States of America.

"Domestic Business Day" means any day except a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to close.

"Domestic Lending Office" means, as to each Bank, its office located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Domestic Lending Office) or such other office as such Bank may hereafter designate as its Domestic Lending Office by notice to the Borrower and the Agent; provided that any Bank may so designate separate Domestic Lending Offices for its Base Rate Loans, on the one hand, and its CD Loans, on the other hand, in which case all references herein to the Domestic Lending Office of such Bank shall be deemed to refer to either or both of such offices, as the context may require.

"Domestic Loans" means CD Loans or Base Rate Loans or both.

"Domestic Reserve Percentage" has the meaning set forth in Section 2.05(b).

"Effective Date" means the date the Original Credit Agreement became effective in accordance with Section 3.01.

"Eligible Account Debtor" means, as at any date of determination thereof, the Government and any other Account Debtor in respect of Receivables other than:

(a) any Account Debtor as to which on such date Billed Receivables representing more than 20% of the aggregate amount of all Receivables of such Account Debtor have remained unpaid for more than 60 days (measured from the original due date specified at the time of the original issuance of the invoice therefor);

(b) any Account Debtor that is not current on obligations (other than trade accounts payable) to the Borrower and its Subsidiaries;

(c) any Account Debtor in respect of which a credit loss has been recognized or reserved by the Borrower or any of its Subsidiaries;

(d) any Account Debtor in respect of which terms of payment for any Billed Receivable have been extended or rewritten in a manner more favorable to such Account Debtor after the time of the original issuance of the invoice therefor;

(e) any Account Debtor that the Security Agent, at the request of the Required Banks, shall have notified the Borrower does not have a satisfactory credit standing (any such notice being effective immediately for purposes of determining the Borrowing Base for additional Borrowings or the issuance of additional Letters of Credit and effective at the time of delivery of the next Borrowing Base Certificate for purposes of Section 2.08(c)); and

(f) any Account Debtor that is the subject of a case or proceeding, or has taken an action, of the type described in clause (h) or (i) of Section 6.01.

"Eligible Billed Commercial Receivable" means, as at any date of determination thereof, any Eligible Receivable that is a Billed Receivable for which the Account Debtor is not the Government or a Foreign Account Debtor.

"Eligible Billed Government Receivable" means, as at any date of determination thereof, any Eligible Government Receivable that is a Billed Receivable.

"Eligible Foreign Receivable" means, as at any date of determination thereof, any Eligible Receivable that is a Billed Receivable and for which the Account Debtor is a Foreign Account Debtor; provided that such Receivable is invoiced to and paid from a business office of such Foreign Account Debtor located within the United States of America.

"Eligible Government Receivable" means, as at any date of determination thereof, any Eligible Receivable for which the Account Debtor is the Government; provided that, on and after December 31, 1990, such Receivable shall not constitute an Eligible Government Receivable unless (a) the contract under which such Receivable arose includes a provision, substantially to the effect of Federal Acquisition Regulation 52.232-23, permitting assignment of amounts due under such contract in accordance with the Assignment of Claims Act, (b) Receivables due or to become due under such contract have been assigned to the Security Agent and the Security Agent has received appropriate documentation in order to enable the Security Agent to comply with the Assignment of Claims Act, as contemplated by the form of Borrowing Base Certificate, and (c) such contract has not been designated by notice (any such notice being effective immediately for purposes of determining the Borrowing Base for additional Borrowings and the issuance of additional Letters of Credit and effective at the time of delivery of the next Borrowing Base Certificate for purposes of Section 2.08(c)) to the Borrower from the Security Agent at the request of the Required Banks (which designation by the Required Banks shall be made in good faith) as an unacceptable Government contract for purposes of this Agreement (it being understood that the failure to obtain an acknowledgement from the Government of notice of assignment under the Assignment of Claims Act after reasonable efforts shall constitute adequate grounds for such designation).

"Eligible Net Inventories" means, at any date of determination thereof, the value (determined at cost on a basis consistent with that used in the preparation of the financial statements referred to in Section 4.04(a) of the Original Credit Agreement) at such date of all Inventories owned by the Borrower or any of its Subsidiaries, and in the possession of the Borrower or any of its Subsidiaries and located in any jurisdiction in the United States of America as to which appropriate Uniform Commercial Code financing statements have been filed naming the Borrower or such Subsidiary (as applicable) as "debtor" and the Security Agent as "secured party" (excluding, however, (i) any such Inventory which has been shipped to a customer, even if on a consignment or "sale or return" basis; (ii) any Inventory subject to a Lien (other than Liens permitted under the Loan Documents); (iii) any supply, scrap, obsolete or slow moving Inventory; and (iv) any Inventory (other than Inventory acquired or manufactured by the Borrower or any Subsidiary within six months prior to such date and specifically reserved for sale to customers that require delivery of such Inventory promptly after placing any order therefor) that is not associated with or committed

to a valid contract or purchase order for which, in the case of a contract with or purchase order from the Government, there is an authorized procurement), all net of (x) any amounts payable by the Borrower or such Subsidiary in respect of commissions, processing fees or other charges, (y) any advance payments and unliquidated progress billings in respect of such Inventory and (z) without duplication, any amount of such Inventory that constitutes an Unbilled Receivable at such time. Notwithstanding the foregoing, the Security Agent may at the request of the Required Banks by notice to the Borrower at any time exclude from Eligible Net Inventory any type of Inventory which the Required Banks in the good faith exercise of their discretion determine to be unmarketable.

"Eligible Receivables" means, at any date of determination thereof, the aggregate of all Receivables at such date due to the Borrower or one of its Subsidiaries other than the following (determined without duplication):

(a) any Receivable due from an Account Debtor that is not an Eligible Account Debtor;

(b) any Receivable that does not comply with all applicable legal requirements, including, without limitation, all laws, rules, regulations and orders of any governmental or judicial authority;

(c) any Receivable in respect of which there is any unresolved dispute with the Account Debtor (including any claim or threatened claim for offset or counterclaim by the Account Debtor in respect of such Receivable), but only to the extent of such dispute;

(d) any Receivable that is not denominated and payable in U.S. dollars;

(e) any Billed Receivable payable more than 120 days after the date of the issuance of the original invoice therefor;

(f) any Billed Receivable that remains unpaid for more than 120 days after the date of the issuance of the original invoice therefor;

(g) any Billed Receivable that remains unpaid for more than 90 days from the original due date specified at the time of the original issuance of the invoice therefor;

(h) Receivables of any Account Debtor (other than the Government, McDonnell Douglas Corporation, Delco Electronics Corporation and International Business Machines Corporation) to the extent the aggregate amount of all Receivables of such Account Debtor at such date exceeds 5% of the aggregate amount of all Receivables at such date;

(i) any Receivable due from an Account Debtor that is ESCO, the Borrower, a Subsidiary or an Affiliate, unless (i) the Required Banks consent to the inclusion of Receivables of such Person as Eligible Receivables and (ii) such Receivables arose from a sale in the ordinary course of business on terms as advantageous to such Person as could be obtained in a comparable arm's-length transaction with a Person that is not an Affiliate;

(j) any Receivable that is not subject to a valid, perfected security interest created under a Security Document, prior to any other

Liens (except Liens permitted under the Loan Documents);

(k) any Receivable evidenced by an "instrument" (as defined in the Uniform Commercial Code) not in the possession of the Security Agent; and

(l) any Receivable due from a Foreign Account Debtor, unless such Receivable is invoiced to and paid from (or, in the case of an Unbilled Receivable, is to be invoiced to and paid from) a business office of such Foreign Person located within the United States of America.

"Eligible Unbilled Receivable" means, as at any date of determination thereof, any Unbilled Receivable that is an Eligible Government Receivable or is an Eligible Receivable for which the Account Debtor is not the Government.

"EMCO" means Electro-Mechanics Company, Inc., a Texas corporation.

"EMCO Acquisition" means the acquisition of EMCO and Hart pursuant to (a) the acquisition by the Borrower of all the outstanding capital stock of EMCO and/or Hart and/or (b) a merger of a wholly-owned subsidiary of the Borrower into EMCO and/or Hart, in any event followed by the liquidation of EMCO into Hart or the merger of EMCO into Hart, with such actions resulting in Hart being the sole surviving corporation and a direct wholly-owned subsidiary of the Borrower, which shall change its corporate name to Electro-Mechanics Company, Inc. and use the trade name "EMCO".

"EMC Test Systems" means a limited partnership organized under the laws of the State of Texas of which Rantec Commercial is sole general partner and Rantec Holdings is sole limited partner organized for the purpose of the EMC Test Systems Reorganization.

"EMC Test Systems Reorganization" means the series of substantially contemporaneous transactions pursuant to which (a) the Borrower forms Rantec Holding and transfers all of the issued and outstanding shares of the capital stock of each of Rantec and EMCO to Rantec Holding in exchange for all of the issued and outstanding capital stock of Rantec Holding, (b) Rantec forms Rantec Commercial and transfers certain assets and operations to it in exchange for all of its issued and outstanding capital stock, (c) Rantec Commercial, as sole general partner (with a 1% partnership interest), and EMCO, as sole limited partner (with a 99% partnership interest), form EMC Tests Systems and contribute all of their respective assets to EMC Test Systems, (d) EMCO liquidates into Rantec Holding, and (e) the Borrower (i) causes each of Rantec Holding, Rantec Commercial and EMC Test Systems to (A) become a party to the Guarantee Agreement and the Security Agreement and, if applicable, the Pledge Agreement and (B) perfect all resulting security interests, and (ii) pledges (or causes to be pledged) all the issued and outstanding capital stock of Rantec Holding and Rantec Commercial and all the existing limited and general partnership interests in EMC Test Systems to secure the Obligations, pursuant to documentation satisfactory to the Agent.

"Emerson" means Emerson Electric Co., a Missouri corporation, and its successors.

"Emerson Debt" means any and all Debt of ESCO, the Borrower or any Specified Subsidiary owing to Emerson or any of its subsidiaries,

including any such Debt reflected in the account referred to as "long-term debt, Emerson" in the financial statements referred to in Section 4.04; provided, that the "Emerson Debt" shall not include the Emerson Fee Debt.

"Emerson Fee Debt" means Debt of the Borrower to Emerson in an aggregate principal amount equal to the fees paid on the Effective Date pursuant to clause (v) of Section 3.01, which Debt shall be due and payable on or prior to October 1, 1990 and may bear interest at a rate not exceeding 9.5% per annum.

"Emerson Guarantee Charge" means the noncash charge associated with the write-off of unamortized Guarantee Fees of approximately $10,600,000 as of September 30, 1995.

"Emerson Lease" means the Lease Agreement dated as of September 24, 1990, between E&S, as tenant, and Emerson, as landlord, as amended and supplemented from time to time.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Group" means all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with the Borrower, are treated as a single employer under Section 414 of the Internal Revenue Code.

"E&S" means Electronics & Space Corp., a Missouri corporation, and its successors.

"ESCO" means ESCO Electronics Corporation, a Missouri corporation, and its successors.

"Euro-Dollar Business Day" means any Domestic Business Day on which commercial banks are open for international business (including dealings in dollar deposits) in London.

"Euro-Dollar Lending Office" means, as to each Bank, its office, branch or affiliate located at its address set forth in its Administrative Questionnaire (or identified in its Administrative Questionnaire as its Euro-Dollar Lending Office) or such other office, branch or affiliate of such Bank as it may hereafter designate as its Euro-Dollar Lending Office by notice to the Borrower and the Agent.

"Euro-Dollar Loan" means at any time a loan outstanding hereunder which bears interest at such time at a rate based on the Adjusted London Interbank Offered Rate pursuant to a Notice of Borrowing or Notice of Interest Rate Election.

"Euro-Dollar Margin" has the meaning set forth in Section 2.05(c).

"Euro-Dollar Reference Banks" means the principal London offices of The Bank of New York, Morgan Guaranty Trust Company of New York and The Boatmen's National Bank of St. Louis.

"Euro-Dollar Reserve Percentage" has the meaning set forth in Section 2.05(c).

"Event of Default" has the meaning set forth in Section 6.01.

"Excluded Items" means (i) an after-tax, non-recurring charge attributable to cost growth in System & Electronics, Inc.'s 60K Loader contract, not to exceed $18,800,000, (ii) an after-tax, non-recurring, non-cash charge attributable to the

write-off of certain of the Borrower's and its Subsidiaries' inventory, not to exceed $14,300,000, (iii) an after-tax, non-recurring charge attributable to the reduction of the anticipated claim receivable of System and Electronics, Inc. against the United States government under the M1000 program, not to exceed $8,500,000, and (iv) the after-tax, non-recurring gain attributable to the Hazeltine Transaction; provided that Excluded Items shall not include any charge taken after September 30, 1996.

"Existing LOCs" means letters of credit issued prior to the Amendment and Restatement Effective Date for the account of one or more of ESCO and its Consolidated Subsidiaries in the ordinary course of their business, not exceeding $10,000,000.00 in aggregate undrawn amount, identified on Schedule 1.01A.

"Exposed Government Contracts" means contracts, subcontracts and agreements which, if terminated, could result in a liability of ESCO, the Borrower or a Subsidiary for a refund of progress payments received, directly or indirectly, from any federal governmental agency, authority, instrumentality, department, administrative agency, regulatory body or other governmental entity.

"FBV" means Filtertek B.V., a Netherlands B.V.

"FDPR" means Filtertek de Puerto Rico, Inc., a Delaware corporation.

"Federal Funds Rate" means, for any day, the rate per annum (rounded upwards, if necessary, to the nearest 1/100th of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Domestic Business Day next succeeding such day, provided that (i) if such day is not a Domestic Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Domestic Business Day as so published on the next succeeding Domestic Business Day, and (ii) if no such rate is so published on such next succeeding Domestic Business Day, the Federal Funds Rate for such day shall be the average rate quoted to Morgan Guaranty Trust Company of New York on such day on such transactions as determined by the Agent.

"FGMBH" means Filterk GmbH, a German GmbH.

"Filtertek Acquisition" means the acquisition by ESCO of the plastic group business of Schawk, Inc. pursuant to the Filtertek Acquisition Documents.

"Filtertek Acquisition Documents" means the Acquisition Agreement dated December 18, 1996 by and between ESCO and Schawk, Inc., and each other document or agreement executed by ESCO, the Borrower or any Subsidiary pursuant thereto.

"Filtertek" means Filtertek Inc., a Delaware corporation.

"Filtrotec" means Filtrotec, Inc., a Puerto Rico corporation.

"Financing Transactions" means the transactions contemplated by the Loan Documents, including the borrowing of the Loans, the issuance of the Letters of Credit and the grant of security interests under the Security Documents.

"Fixed Rate Loans" means CD Loans or Euro-Dollar Loans or any combination thereof.

"Foreign Account Debtor" means any Account Debtor that is a Person domiciled in, or organized under the laws of, a jurisdiction outside the United States of America, or whose principal place of business is located outside of the United States of America.

"FSA" means Filtertek SA, a Netherlands company.

"FSI" means ESCO Foreign Sales, Inc., a corporation organized and existing under the laws of the U.S. Virgin Islands. FSI is a Restricted Subsidiary.

"Government" means the Federal government of the United States of America or any agency thereof.

"Governmental Authority" means any federal, state, local or foreign court or governmental agency, authority, instrumentality or regulatory body.

"Governmental Reviews" means any formal or informal reviews, investigations or proceedings by any federal governmental agency, authority, instrumentality, department, administrative agency, regulatory body or other entity of or with respect to the responsibility or fitness of ESCO, the Borrower or any Subsidiary thereof as a government contractor that contemplate any temporary or permanent debarring or suspension of the Borrower or any Subsidiary from bidding for or being awarded government contracts or government-approved subcontracts (either generally or for any particular governmental entity).

"Guarantee" by any Person means any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Debt or other obligation of any other Person and, without limiting the generality of the foregoing, any obligation, direct or indirect, contingent or otherwise, of such Person (i) to purchase or pay (or advance or supply funds for the purchase or payment of) such Debt or other obligation (whether arising by virtue of partnership arrangements, by agreement to keep-well, to purchase assets, goods, securities or services, to take-or-pay, or to maintain financial statement conditions or otherwise) or (ii) entered into for the purpose of assuring in any other manner the obligee of such Debt or other obligation of the payment thereof or to protect such obligee against loss in respect thereof (in whole or in part), provided that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"Guarantee Agreement" means the Guarantee Agreement among ESCO, certain of its Subsidiaries and the Agent, substantially in the form of Exhibit C hereto, as the same may be amended from time to time.

"Guarantee Fees" means the fees payable by ESCO to Emerson pursuant to Section 6.01 of the Distribution Agreement.

"Guarantor" means each Person that is or becomes party to the Guarantee Agreement as a Guarantor, and the permitted successors and assigns of such Person.

"Hart" means Hart Properties, Inc., a Texas corporation and, immediately prior to

consummation of the EMCO Acquisition, the owner of a majority of the outstanding capital stock of EMCO.

"Hazeltine" means Hazeltine Corporation, a Delaware corporation, and its successors.

"Hazeltine Closing Date" means the date of consummation of the Hazeltine Transaction.

"Hazeltine Letters of Credit" means Letters of Credit that will remain outstanding after consummation of the Hazeltine Transaction and that are issued to support an obligation of Hazeltine or for the account of Hazeltine.

"Hazeltine Transaction" means the sale of all the outstanding capital stock or all or substantially all the assets of Hazeltine (and, in the case of an asset sale, the liquidation of Hazeltine).

"Information Statement" means the Information Statement of ESCO contained in Amendment No. 1 to the Borrower's Form 10 Registration Statement as filed with the Securities and Exchange Commission on September 19, 1990.

"Intangible Assets" means the amount (to the extent reflected in determining ESCO's stockholders' equity) of (i) all write-ups (other than write-ups of assets of a going concern business made within twelve months after the acquisition of such business) subsequent to the Effective Date in the book value of any asset owned by ESCO or a Consolidated Subsidiary, (ii) all Investments in unconsolidated Subsidiaries and all equity investments in Persons which are not Subsidiaries, and (iii) all unamortized debt discount and expense, unamortized deferred charges, goodwill, purchase price premium, patents, trademarks, service marks, trade names, copyrights, organization or developmental expenses and other intangible assets.

"Interest Period" means: (1) With respect to each Euro-Dollar Loan Borrowing, the period commencing on the date of such Borrowing and ending one, two, three or six months thereafter, as the Borrower may elect in the applicable Notice of Borrowing or Notice of Interest Rate Election; provided that:

(a) any Interest Period which would otherwise end on a day which is not a Euro-Dollar Business Day shall be extended to the next succeeding Euro-Dollar Business Day unless such Euro-Dollar Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Euro-Dollar Business Day; and

(b) any Interest Period which begins on the last Euro-Dollar Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Euro-Dollar Business Day of a calendar month.

(2) With respect to each CD Loan Borrowing, the period commencing on the date of such Borrowing and ending 30, 60, 90 or 180 days thereafter, as the Borrower may elect in the applicable Notice of Borrowing or Notice of Interest Rate Election; provided that any Interest Period which would otherwise end on a day which is not a Euro-Dollar Business Day shall be extended to the next succeeding Euro-Dollar Business Day.

(3) With respect to each Base Rate

Borrowing, the period commencing on the date of such Borrowing and ending 30 days thereafter; provided that any Interest Period which would otherwise end on a day which is not a Euro-Dollar Business Day shall be extended to the next succeeding Euro-Dollar Business Day.

Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request any Borrowing if the Interest Period requested with respect thereto would end after the Termination Date.

"Internal Revenue Code" means the Internal Revenue Code of 1986, as amended, or any successor statute.

"Inventory" means inventory (as defined in Article 9 of the Uniform Commercial Code) to the extent comprised of readily marketable materials of a type manufactured, consumed or held for resale by the Borrower or any of its Subsidiaries (other than Restricted Subsidiaries) in the ordinary course of its business as presently conducted.

"Inventory Charge" means the noncash charge of approximately $7,900,000 (pre-tax) associated with the write-off of slow-moving inventory at March 31, 1995.

"Investment" means any investment in any Person, whether by means of share purchase, capital contribution, loan, time deposit or otherwise.

"Issuing Bank" means, with respect to any Letter of Credit, either Morgan Guaranty Trust Company of New York, The Bank of Nova Scotia or The Bank of New York, as the context shall require with respect to Letters of Credit issued by such institution in accordance with the terms and conditions of Section 2.14; provided that (i) with respect to any Letters of Credit issued prior to June 12, 1992, "Issuing Bank" shall have the meaning assigned to it in the Original Credit Agreement and (ii) with respect to any other Letters of Credit issued prior to the Amendment and Restatement Effective Date, "Issuing Bank" shall mean the bank that issued such Letter of Credit.

"Letter of Credit" means any Traditional LOC or Letter of Guaranty and, as used in the Security Documents and the Guaranty Agreement, shall also include any Back-up LOC.

"Letter of Credit Disbursement" means a payment or disbursement made by an Issuing Bank pursuant to a Letter of Credit or by a Bank pursuant to a Back-up LOC.

"Letter of Credit Exposure" means at any time the sum of (i) the aggregate undrawn amount of all outstanding Traditional LOCs, (ii) the aggregate unfunded amount of the obligations, contingent or otherwise, under all outstanding Letters of Guaranty and (iii) the aggregate amount of all Letter of Credit Disbursements not yet reimbursed by the Borrower as provided in Section 2.14, but the "Letter of Credit Exposure" shall not include any drawn or undrawn amounts under the Hazeltine Letters of Credit if and when the Hazeltine Letters of Credit cease to constitute Letters of Credit as provided in Section 2.14(n). The Letter of Credit Exposure of any Bank at any time shall mean its Applicable Percentage of the aggregate Letter of Credit Exposure at such time. For purposes of determining the Letter of Credit Exposure attributable to Letters of Credit denominated in an Alternative Letter of Credit Currency, such Letter of Credit Exposure shall be valued in Dollars as provided in Section 2.14(m).

"Letter of Guaranty" means any letter issued by an Issuing Bank pursuant to Section 2.14 (other than a Back-up LOC or a Traditional LOC) (a) that is issued (i) for the benefit of any Person in connection with an obligation incurred by ESCO, the Borrower or any Specified Subsidiary, as the case may be, in the ordinary course of its business, to furnish products or services to such Person and (ii) for the account of ESCO, the Borrower or such Specified Subsidiary, as the case may be, and (b) pursuant to which such Issuing Bank may be required to make a cash payment to such Person, up to a specified maximum dollar amount, in the event of a breach of such obligation.

"Level I Pricing Period" means any period during which (based on the most recent financial statements referred to in Section 4.04(b) or delivered pursuant to Section 5.01(a) or (b)) the ratio of Consolidated Adjusted Operating Cash Flow (for the period of four consecutive fiscal quarters ended as of the last day of the fiscal period covered by such financial statements) to Consolidated Adjusted Debt (as of the last day of the fiscal period covered by such financial statements) is greater than or equal to 0.50 to 1.00. Any such period shall commence on (and include) the date of delivery to the Agent of financial statements demonstrating that such period has commenced and shall terminate on (and exclude) the date of delivery to the Agent of financial statements demonstrating that such period has terminated.

"Level II Pricing Period" means any period during which (based on the most recent financial statements referred to in Section 4.04(b) or delivered pursuant to Section 5.01(a) or (b)) the ratio of Consolidated Adjusted Operating Cash Flow (for the period of four consecutive fiscal quarters ended as of the last day of the fiscal period covered by such financial statements) to Consolidated Adjusted Debt (as of the last day of the fiscal period covered by such financial statements) is less than 0.50 to 1.00 but greater than or equal to 0.20 to 1.00. Any such period shall commence on (and include) the date of delivery to the Agent of financial statements demonstrating that such period has commenced and shall terminate on (and exclude) the date of delivery to the Agent of financial statements demonstrating that such period has terminated.

"Level III Pricing Period" means any period that is not a Level I Pricing Period or a Level II Pricing Period.

"Leverage Ratio" means, at any date, the ratio of (i) Consolidated Adjusted Debt at such date to (ii) Consolidated Adjusted Tangible Net Worth at such date.

"Lien" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset. For the purposes of this Agreement, ESCO, the Borrower or any Subsidiary shall be deemed to own subject to a Lien any asset which it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement relating to such asset.

"Loan" means a Domestic Loan or a Euro-Dollar Loan and "Loans" means Domestic Loans or Euro-Dollar Loans or any combination of the foregoing.

"Loan Documents" means this Agreement, the Notes, the Letters of Credit, the Back-up LOCs, the Guarantee Agreement, the Subordination

Agreement and the Security Documents.

"London Interbank Offered Rate" has the meaning set forth in Section 2.05(c).

"LRA" means Lee Ross and Associates, St. Louis, Inc.

"LRA Acquisition" means the acquisition by E&S of shares of LRA preferred stock, for consideration in an aggregate amount not to exceed $500,000.

"Margin Stock" has the meaning given such term under Regulation U.

"Material Adverse Effect" means (i) a materially adverse effect on the business, assets, operations, prospects or condition, financial or otherwise, of ESCO and its Consolidated Subsidiaries taken as a whole, (ii) material impairment of the ability of ESCO, the Borrower or any Subsidiary to perform any of its obligations under any Loan Document to which it is or will be a party, or (iii) material impairment of the rights of or benefits available to the Agent, the Security Agent, the Issuing Banks or the Banks under any Loan Document.

"Material Debt" means Debt, or any obligation to reimburse an issuing bank or surety with respect to any draw upon a letter of credit or payment with respect to a performance bond or similar obligation, of ESCO, the Borrower and/or one or more of its Subsidiaries, arising in one or more related or unrelated transactions, in an aggregate principal amount exceeding $5,000,000.

"MD&M" means Microwave Design and Manufacturing, Inc., a California corporation.

"MD&M Acquisition" means the acquisition by Rantec of all the assets of and existing contracts for sales by MD&M.

"Mortgages" means the mortgages, deeds of trust assignments of leases and other instruments and documents executed and delivered pursuant to paragraph (j) of Section 3.01.

"Net Cash Proceeds" means, with respect to any Prepayment Event, an amount equal to the cash proceeds received by ESCO, the Borrower or a Subsidiary, as applicable, from or in respect of such Prepayment Event less any expenses reasonably incurred by ESCO, the Borrower or a Subsidiary, as applicable, in respect of such Prepayment Event, including, but not limited to, reasonable professional fees paid by ESCO, the Borrower or a Subsidiary, as applicable, and if applicable, printing costs.

"Net Working Investment" means, at any date (i) the consolidated current assets of ESCO and its Consolidated Subsidiaries (excluding cash and Temporary Cash Investments) minus (ii) the consolidated current liabilities of ESCO and its Consolidated Subsidiaries (excluding Debt), all determined as of such date. Net Working Investment at any date may be a positive or negative number. Net Working Investment increases when it becomes more positive or less negative and decreases when it become less positive or more negative.

"Note" means a promissory note of the Borrower payable to a Bank, substantially in the forms of Exhibit A-1 and Exhibit A-2 hereto for the applicable Class, evidencing the obligation of the Borrower to repay the Loans made by such Bank, and "Notes" means any of or all such promissory notes issued hereunder.

"Notice of Borrowing" has the meaning set forth in Section 2.02.

"Notice of Interest Rate Election" has the meaning set forth in Section 2.04.

"Obligations" means (i) the due and punctual payment by the Borrower of (a) the principal of and interest on the Loans, when and as due, whether at maturity, by acceleration, upon one or more dates set for prepayment or otherwise, (b) each payment required to be made by the Borrower under Section 2.14 in respect of any Letter of Credit Disbursement, when and as due, including interest thereon, if any, and (c) all other monetary obligations of the Borrower to the Agent, the Security Agent, the Issuing Banks and the Banks under this Agreement and the other Loan Documents to which the Borrower is or is to be a party, (ii) the due and punctual performance of all other obligations of the Borrower under this Agreement and the other Loan Documents and (iii) the due and punctual payment and performance of all obligations of ESCO under this Agreement and of ESCO and each Subsidiary under the Loan Documents to which it is or is to be a party.

"Original Credit Agreement" shall mean this Agreement as in effect on September 23, 1990, prior to any amendment hereto.

"Parent" means, with respect to any Bank, any Person controlling such Bank.

"Participant" has the meaning set forth in Section 9.06(b).

"PBGC" means the Pension Benefit Guaranty Corporation or any entity succeeding to any or all of its functions under ERISA.

"Performance Letter of Credit Fee Rate" shall have the meaning set forth in Section 2.14(f).

"Permitted Joint Venture" means any joint venture into which ESCO, the Borrower or any of their Subsidiaries shall enter in the ordinary course of their business and (i) which shall not require from ESCO, the Borrower or any of their Subsidiaries, and to which none of them shall make, any capital contribution, (ii) which shall provide for such indemnities to ESCO, the Borrower or any of their Subsidiaries, as appropriate, in respect of liabilities, including any contingent liabilities, as shall be satisfactory to the Required Banks and (iii) over which ESCO and the Borrower shall have sufficient control in order to assure compliance by such joint venture with the provisions of this Agreement applicable thereto.

"Permitted Letter of Credit Currency" means any of (i) Dollars, (ii) French Francs, Deutsche Marks, Yen, Pounds Sterling, Swedish Krona, Australian Dollars, Malaysian Ringgits, Canadian Dollars and Singapore Dollars, and (iii) any other currency approved by the applicable Issuing Bank and each Bank.

"Person" means an individual, a corporation, a partnership, an association, a trust or any other entity or organization, including a government or political subdivision or an agency or instrumentality thereof.

"Plan" means at any time an employee pension benefit plan which is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Internal Revenue Code and is either (i) maintained by a member of

the ERISA Group for employees of a member of the ERISA Group or (ii) maintained pursuant to a collective bargaining agreement or any other arrangement under which more than one employer makes contributions and to which a member of the ERISA Group is then making or accruing an obligation to make contributions or has within the preceding five plan years made contributions.

"Pledge Agreement" means the Pledge Agreement among ESCO, the Borrower, certain Subsidiaries and the Security Agent, substantially in the form of Exhibit D hereto, as the same may be amended from time to time.

"PPD" means Process Plant Design, Ltd., a corporation incorporated under the laws of England, which is based in Yorkshire, England, and is a wholly-owned subsidiary of SFL.

"PPD Debt" means (i) the PPD Overdraft Facility and (ii) the VAT Guarantee.

"PPD Overdraft Facility" means an overdraft or working capital facility maintained by PPD in an aggregate amount not to exceed U.K. 30,000.

"Prepayment Event" shall mean (a) the issuance or incurrence by ESCO of any convertible preferred stock or unsecured Debt that is convertible into shares of common stock of ESCO, as permitted under clause (x) of Section 5.11(a) or clause (ii) of Section 5.11(b) or (b) any sale or other disposition by the Borrower or any Subsidiary (other than to the Borrower or another Subsidiary) of all or any portion of its ownership interest in the Tek Packaging Business or all or any substantial portion of its the assets comprising the Tek Packaging Business.

"Prime Rate" means the rate of interest publicly announced by Morgan Guaranty Trust Company of New York in New York City from time to time as its Prime Rate.

"PTI" means PTI Technologies Inc., a Delaware corporation (formerly known as Textron Filtration Systems).

"PTI Acquisition" means the acquisition by the Borrower of all the outstanding capital stock of PTI.

"PTI Note" means a promissory note or notes of ESCO issued as partial consideration in connection with the PTI Acquisition; provided that (i) such notes shall not represent Debt in an aggregate principal amount exceeding $8,000,000 and (ii) such note or notes shall be issued in the form of Exhibit J hereto.

"Rantec" means Rantec Microwave & Electronics, Inc., a Delaware corporation, and its successors.

"Rantec Commercial" means a corporation organized under the laws of the State of California and a wholly-owned subsidiary of Rantec organized for the purpose of the EMC Test Systems Reorganization.

"Rantec Holding" means a corporation organized under the laws of the State of Missouri and a Wholly-Owned Consolidated Subsidiary of the Borrower organized for the purpose of the EMC Tests Systems Reorganization.

"Rantec S.A." means RANTEC EUROPE Microwave Electronics & Space S.A., a corporation incorporated in Lyon, France, and its successors.

"Rate Protection Agreements" means interest rate protection agreements, foreign currency exchange agreements and other interest or exchange rate hedging, cap, collar or swap arrangements.

"Receivable" means, as at any date of determination thereof, the unpaid portion of an Account, in respect of Inventory sold or services rendered in the ordinary course, which amount (i) has been earned by performance under the terms of the related contract and invoiced to the Account Debtor or (ii) has been recognized as revenue on the books of the Borrower or a Subsidiary, in each case net of (a) any credits, rebates or offsets owed to the Account Debtor and also net of any commissions payable to Persons other than employees or Affiliates of the Borrower or a Subsidiary, (b) without duplication, the aggregate amount of accounts payable of the Borrower and its Subsidiaries owed to the Account Debtor at such date and (c) in the case of a Receivable described in clause (ii), any advance payments and unliquidated progress billings in respect of such Receivable.

"Reference Banks" means the CD Reference Banks or the Euro-Dollar Reference Banks, as the context may require, and "Reference Bank" means any one of such Reference Banks.

"Regulation U" means Regulation U of the Board of Governors of the Federal Reserve System, as in effect from time to time.

"Relocation Expenses" means all nonrecurring expenses incurred by ESCO and its Consolidated Subsidiaries in connection with vacating its facilities at 8100 W. Florissant Ave., St. Louis, Missouri 63136, and transferring personnel and relocating equipment to other facilities, including any recognition of prepaid rent expense in connection therewith.

"Reportable Event" means any reportable event as defined in Section 4043 of ERISA, or the regulations issued thereunder, with respect to a Plan.

"Required Banks" means at any time Banks with Loans, Letter of Credit Exposure and unused Commitments representing at least 66-2/3% of the sum of the aggregate principal amount of Loans outstanding and the aggregate amount of the Letter of Credit Exposure and unused Commitments at such time; provided that for purposes of Sections 3.01 and 3.03 only, "Required Banks" means Banks with Commitments that would, immediately after the satisfaction (or waiver) of the conditions set forth in Section 3.01 or 3.03 (as relevant), represent more than 50% of the Commitments.

"Restricted Payment" means (i) any dividend or other distribution on any shares of the Borrower's or ESCO's capital stock (except dividends payable solely in shares of its common stock), (ii) any payment on account of the purchase, redemption, retirement or acquisition of (a) any shares of the Borrower's or ESCO's capital stock or (b) any option, warrant or other right to acquire shares of the Borrower's or ESCO's capital stock, (iii) any payment or prepayment of principal of or premium (if any) or interest on or any other amount in respect of any Subordinated Obligation, (iv) any payment on account of the purchase, redemption, retirement, defeasance, acquisition, termination, cancellation or compromise of any Subordinated Obligation or (v) any optional payment on account of the prepayment, purchase, retirement, defeasance, acquisition, termination, cancellation

or compromise of any Debt of ESCO, the Borrower or any Subsidiary, except prepayments of the Loans and prepayments of Debt described in clause (iii) of Section 5.11(a).

"Restricted Payment Amount" means an amount equal to the net cash proceeds of the Hazeltine Transaction received by the Borrower less the sum of the amounts applied to prepay Term Loans and the PTI Note in connection with the Hazeltine Transaction, which prepayment occurred upon the closing of the Hazeltine Transaction in July 1996; provided that the Restricted Payment Amount shall not exceed $50,000,000.

"Restricted Subsidiary" means any Consolidated Subsidiary that shall not engage in any business activity whatsoever, including the incurrence of any Debt or the acquisition or ownership of any asset or property.

"Rights Agreement" means the Rights Agreement dated as of September 24, 1990, between ESCO and Boatmen's Trust Company, as Rights Agent, as amended and supplemented from time to time.

"Scheduled Properties" means the properties identified in Schedule 1.01B hereto.

"Security Agent" means Morgan Guaranty Trust Company of New York, Delaware Branch (formerly named J.P. Morgan Delaware) in its capacity as security agent under the Security Documents, and its successors in such capacity.

"Security Agreement" means the Security Agreement among ESCO, the Borrower, certain of its Subsidiaries and the Security Agent, substantially in the form of Exhibit E hereto, as the same may be amended from time to time.

"Security Documents" means the Mortgages, the Pledge Agreement, the Security Agreement and all other security agreements, mortgages, deeds of trust and other documents and instruments executed and delivered pursuant to Section 5.08(a) in order to secure any Obligations.

"Services Agreement" means the Services Sharing Agreement dated as of September 24, 1990, among Emerson, ESCO, the Borrower and the Specified Subsidiaries, as amended and supplemented from time to time.

"SEI" means Systems and Electronics, Inc., a Delaware corporation and successor by merger to E&S and Southwest.

"SFL" means PTI Technologies, Ltd. (formerly known as Schumacher Filter, Ltd.), a corporation incorporated under the laws of England, which is based in Sheffield, England.

"SFL Acquisition" means the acquisition of SFL and PPD pursuant to the acquisition by the Borrower of all the outstanding capital stock of SFL, resulting in SFL becoming a direct wholly-owned subsidiary of the Borrower and PPD becoming an indirect wholly-owned subsidiary of the Borrower.

"SFL Debt" means (i) two U.K. 80,000 non-interest bearing notes in existence prior to the SFL Acquisition, each payable by SFL to Norman William Dyson, Elaine Dyson, Alan Oliver Jagger and Rose Jagger, on May 1, 1994, and May 1, 1995, and the related guarantee by Midland Bank and counter-indemnity by SFL, (ii) the U.K. 1,665,000 interest bearing note in existence prior to the SFL Acquisition payable by SFL to Commerzbank AG of Heidelberg, Germany on December 28, 1993, the

related guarantee by Kraftenlagen AG and not more than 150,000 in accrued interest payable to Kraftenlagen AG not later than October 31, 1994, (iii) the SFL Overdraft Facility and (iv) the VAT Guarantee.

"SFL Overdraft Facility" means an overdraft or working capital facility maintained by SFL in an aggregate amount not to exceed U.K. 250,000.

"Southwest" means Southwest Mobile Systems Corporation, a Delaware corporation, and its successors.

"Specified Event" shall mean (i) any sale, assignment, transfer or other disposition of, or casualty with respect to, any assets or other properties of ESCO, the Borrower or any Subsidiary (other than sales of inventory in the ordinary course of business) or (ii) the issuance or incurrence by ESCO, the Borrower or any Subsidiary of any Debt (other than the Loans), to the extent such Debt is subject to amortization or mandatory repayment or prepayment (directly or indirectly, including put rights, sinking fund obligations, redemption provisions or otherwise and whether or not subject to any contingency) on or prior to September 30, 1998.

"Specified Subsidiaries" means (a) (i) PTI, Rantec S.A. and any Subsidiary resulting from an Investment made in accordance with clause (f) of Section 5.16 and (ii) Rantec Holding, Rantec Commercial and EMC Test Systems, in each case after the completion of the EMC Test Systems Reorganization (but, in each of the foregoing cases in clauses (i) and (ii), solely for the purpose of the definitions of the terms "Letter of Guaranty" and "Subsidiary" and for purposes of Sections 2.14, 3.03, 4.02, 4.03, 4.04, 4.08, 4.14, 4.17, 5.01, 5.04, 5.09, 5.14 and 5.16(f)), and (b) Comtrak International Service, Inc., DCS, SEI, Rantec, Vacco, Filtertek, Filtrotec, FBV, FSA, FGMBH and FDPR.

"Spot Exchange Rate" shall mean, on any day, (a) with respect to any Alternative Letter of Credit Currency, the spot rate at which Dollars are offered on such day by Morgan Guaranty Trust Company of New York in London for such Alternative Letter of Credit Currency at approximately 11:00 a.m. (London time), and (b) with respect to Dollars in relation to any specified Alternative Letter of Credit Currency, the spot rate at which such specified Alternative Letter of Credit Currency is offered on such day by Morgan Guaranty Trust Company of New York in London for Dollars at approximately 11:00 a.m. (London time).

"Standby Letter of Credit Fee Rate" has the meaning set forth in Section 2.14(f).

"Subordination Agreement" means the Subordination Agreement among Emerson, ESCO, the Borrower and the Agent, substantially in the form of Exhibit F hereto, as the same may be amended from time to time.

"Subordinated Obligations" has the meaning set forth in the Subordination Agreement.

"Subsidiary" means any corporation or other entity of which securities or other ownership interests having ordinary voting power to elect a majority of the board of directors or other persons performing similar functions are at the time directly or indirectly owned by ESCO or the Borrower, as applicable. The Borrower shall be deemed to have been a Subsidiary of ESCO, and the Specified Subsidiaries shall be deemed to have been

Subsidiaries of the Borrower, prior to the Effective Date for the purposes of the representations made in Article III. For purposes of Sections 4.19, 5.05, 5.09, 5.11 through 5.15, 5.20 and 6.01(h), (i) and (k) only, each Permitted Joint Venture shall be deemed to be a Subsidiary.

"Tax Agreement" means the Tax Agreement dated as of September 24, 1990, among Emerson, ESCO, the Borrower and the Specified Subsidiaries, as amended and supplemented from time to time.

"Tek Packaging Business" means the business conducted by Tek Packaging, Inc. (formerly known as Fuzere Manufacturing Co, Inc.) immediately prior to the Filtertek Acquisition, the assets of which were purchased by ESCO pursuant to the Filtertek Acquisition Documents.

"Temporary Cash Investment" means any Investment in (i) direct obligations of the United States or any agency thereof, or obligations guaranteed by the United States or any agency thereof, (ii) commercial paper rated in the highest grade by a nationally recognized credit rating agency, (iii) time deposits with, including certificates of deposit issued by, (A) any Bank that is an original party to this Agreement or (B) any office located in the United States of any bank or trust company which is organized under the laws of the United States or any state thereof and has capital, surplus and undivided profits aggregating at least $500,000,000 or (iv) repurchase agreements with respect to securities described in clause (i) above entered into with an office of a bank or trust company meeting the criteria specified in clause (iii)(B) above, provided in each case that such Investment matures within one year from the date of acquisition thereof by the Borrower or a Subsidiary or, in the case of Section 2.14(j), the Security Agent.

"Term Commitment" means, as to any Bank, the obligation of such Bank to make Term Loans to the Borrower in an aggregate principal amount not exceeding the amount set forth opposite such Bank's name in Schedule 1 hereto under the caption "Term Commitment".

"Term Loan" means a loan made by a Bank pursuant to Section 2.01(a).

"Termination Date" means (i) with respect to the Working Capital Loans, the last day of the Working Capital Availability Period, and (ii) with respect to the Term Loans, September 30, 2000, or in each case such earlier date as the Commitments of the relevant Class shall have expired or been terminated and all Loans of the relevant Class have been repaid in full and, in the case of the Working Capital Loans, all Letter of Credit Disbursements shall have been repaid in full and all Letters of Credit shall have expired or been canceled.

"Traditional LOC" shall mean any letter of credit issued by an Issuing Bank pursuant to Section 2.14 (other than any Letter of Guaranty or Back-up LOC).

"Transaction Documents" means (i) the Distribution Agreement, the Tax Agreement, the Emerson Lease, the Rights Agreement, the Services Agreement and the Deposit Agreement and (ii) all contracts and agreements between ESCO, the Borrower or any Subsidiary, on the one hand, and Emerson or any subsidiary thereof, on the other hand, in effect on the Effective Date (other than contracts and agreements relating solely to the purchase or sale of inventory or services in the ordinary course of business).

"Transactions" means the Financing Transactions and the other transactions contemplated by the Transaction Documents.

"Type" has the meaning set forth in Section 1.03.

"Unfunded Vested Liabilities" means, with respect to any Plan at any time, the amount (if any) by which (i) the present value of all benefits under such Plan exceeds (ii) the fair market value of all Plan assets allocable to such benefits, all determined as of the then most recent valuation date for such Plan, but only to the extent that such excess represents a potential liability of a member of the ERISA Group to the PBGC or such Plan under Title IV of ERISA.

"Unbilled Receivable" means, as at any date of determination thereof, any Receivable or portion thereof described in clause (ii) of the definition of the term "Receivable".

"Uniexcel" means PTI-Uniexcel Private Limited, a private limited company established under the Indian Companies Act of 1956.

"Uniexcel Investment" means the investment by SFL in Uniexcel pursuant to the acquisition of 51% of the capital stock of Uniexcel for approximately $65,280.

"Vacco" means Vacco Industries, a California corporation, and its successors.

"VAT Guarantee" means reimbursement obligations under a guarantee by Midland Bank or other financial institution with respect to deferred payment by SFL or PPD of value added taxes to U.K. Customs and Excise as required in the ordinary course of business.

"Wholly-Owned Consolidated Subsidiary" means any Consolidated Subsidiary all of the shares of capital stock or other ownership interests of which (except directors' qualifying shares and the FDPR management shares) are at the time directly or indirectly owned by ESCO or the Borrower, as the case may be.

"Working Capital Availability Period" means the period from and including the latest of the Effective Date, September 28, 1990, and the date one Domestic Business Day after the Security Agent shall have received the initial Borrowing Base Certificate (as of August 31, 1990), to but excluding September 30, 2000 (or such later date to which such period shall have been extended in accordance with Section 2.16), or such earlier date as the Working Capital Commitments shall have expired or been terminated.

"Working Capital Commitment" means, as to any Bank, the obligation of such Bank to make Working Capital Loans to the Borrower and to acquire participations in, or to issue Back-up LOCs in respect of, Letters of Credit in an aggregate principal amount at any one time outstanding not exceeding the amount set forth opposite such Bank's name in Schedule 1 hereto under the caption "Working Capital Commitment", as the same may be reduced from time to time pursuant to Section 2.07 and subject to the limitations of Sections 2.01(b) and 2.14.

"Working Capital Loan" means a Loan made by a Bank pursuant to Section 2.01(b).

SECTION 1.02. Accounting Terms and Determinations. Unless otherwise specified herein,

all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared, in accordance with generally accepted accounting principles as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the audited consolidated financial statements of the Borrower and its Consolidated Subsidiaries referred to in Section 4.04; provided that, if the Borrower notifies the Agent that the Borrower wishes to amend the definition of the term "Level I Pricing Period" or "Level II Pricing Period" or any covenant contained in Article V to eliminate the effect of any change in generally accepted accounting principles on such definition or on the operation of such covenant or such determination (or if the Agent notifies the Borrower that the Required Banks wish to amend any such definition or covenant or such determination for such purpose), then such definitions and the Borrower's compliance with such covenant, as applicable, shall be determined on the basis of generally accepted accounting principles in effect immediately before the relevant change in generally accepted accounting principles became effective, until either such notice is withdrawn or such amendment becomes effective in accordance with this Agreement.

SECTION 1.03. Types of Borrowings and Classes of Letters of Credit. The term "Borrowing" refers to the portion of the aggregate principal amount of Loans of any Class outstanding hereunder which bears interest of a specific Type and for a specific Interest Period pursuant to a Notice of Borrowing or Notice of Interest Rate Election. Each Bank's ratable share of each Borrowing is referred to herein as a separate "Loan". Borrowings and Loans hereunder are distinguished by "Class" and by "Type". The "Class" of a Loan (or of a Commitment to make such a Loan or of a Borrowing comprising such Loans) refers to whether such Loan is a Term Loan or a Working Capital Loan, each of which constitutes a Class. The Type of a Loan refers to whether such Loan is a Base Rate Loan, a CD Loan or a Euro-Dollar Loan. Borrowings and Loans may be identified by both Class and Type (e.g., a "Term Euro-Dollar Loan" is a Loan which is both a Term Loan and a Euro-Dollar Loan).

## ARTICLE II

## THE CREDITS

SECTION 2.01. Commitments to Lend. (a) Term Loans. Each Bank severally agrees, on the terms and conditions set forth in this Agreement, to make a loan to the Borrower on the Amendment and Restatement Effective Date in an aggregate principal amount not exceeding its Term Commitment. Each Bank with Term Loans outstanding immediately prior to the Amendment and Restatement Effective Date shall be deemed to have made its Term Loans hereunder on the Amendment and Restatement Effective Date to the extent of the amount of such Term Loans already outstanding and shall fund the excess of the amount of its Term Commitment over the principal amount of such Term Loans already outstanding.

(b) Working Capital Loans. Each Bank severally agrees, on the terms and conditions set forth in this Agreement, to make loans to the Borrower from time to time during the Working Capital Availability Period; provided that the aggregate principal amount of such Bank's loans at any one time outstanding under this subsection (b)

shall not exceed the lesser of (i) the excess of (A) its Working Capital Commitment at such time over (B) its Letter of Credit Exposure at such time and (ii) the excess of (A) its Applicable Percentage of the Borrowing Base at such time over (B) its Letter of Credit Exposure at such time. Within the foregoing limit, the Borrower may borrow under this subsection (b), repay or (to the extent permitted by Section 2.09) prepay loans made under this subsection (b) and reborrow at any time during the Working Capital Availability Period under this subsection (b).

(c) Borrowings Ratable. Each Borrowing under subsection (a) or (b) of this Section 2.01 shall be made from the Banks ratably in proportion to their respective Commitments of the relevant Class.

SECTION 2.02. Method of Borrowing. (a) The Borrower shall give the Agent notice (a "Notice of Borrowing") not later than 10:00 A.M. (New York City time) on the date of any Base Rate Borrowing and not later than 10:00 A.M. (New York City time) at least two Domestic Business Days before each CD Loan Borrowing and at least three Euro-Dollar Business Days before each Euro-Dollar Loan Borrowing, specifying:

(i) the date of such Borrowing, which shall be a Domestic Business Day in the case of a Domestic Borrowing or a Euro-Dollar Business Day in the case of a Euro-Dollar Borrowing,

(ii) the aggregate amount of such Borrowing, which shall be $2,500,000 or a larger multiple of $500,000 (except that any Borrowing may be in the aggregate amount of the unused Commitment of the applicable Class),

(iii) whether the Loans comprising such Borrowing are to be Base Rate Loans, CD Loans or Euro-Dollar Loans, and

(iv) in the case of a CD Loan Borrowing or Euro-Dollar Loan Borrowing, the duration of the initial Interest Period applicable thereto, subject to the provisions of the definition of Interest Period.

(b) Upon receipt of a Notice of Borrowing, the Agent shall promptly notify each Bank of the contents thereof and of such Bank's share of such Borrowing and such Notice of Borrowing shall not thereafter be revocable by the Borrower.

(c) Not later than 12:00 noon (New York City time) on the date of each Borrowing, each Bank shall (except as provided in subsection (d) of this Section) make available its share of such Borrowing, in Federal or other funds immediately available in New York City, to the Agent at its address specified in or pursuant to Section 9.01. Unless the Agent determines that any applicable condition specified in Article III has not been satisfied, the Agent will make the funds so received from the Banks available to the Borrower at the Agent's aforesaid address.

(d) If any Bank makes a new Loan hereunder on a day on which the Borrower is to repay all or any part of an outstanding Loan from such Bank, such Bank shall apply the proceeds of its new Loan to make such repayment and only an amount equal to the difference (if any) between the amount being borrowed and the amount being repaid shall be made available by such Bank to the Agent as provided in subsection (b), or remitted by the

Borrower to the Agent as provided in Section 2.10, as the case may be.

(e) If the Agent has not received from the Borrower the payment required by Section 2.14(g) by 12:00 noon (New York City time) on the date on which the Borrower is required to make such payment, as provided in Section 2.14(g), the Agent will promptly notify the applicable Issuing Bank and each Bank of the Letter of Credit Disbursement and, in the case of each Bank, its Applicable Percentage of such Letter of Credit Disbursement. If such Letter of Credit Disbursement shall be in respect of a Letter of Guaranty, then such notice shall be deemed to constitute a request for a drawing under any Back-up LOC issued in connection with such Letter of Guaranty. Not later than 2:00 P.M. (New York City time) on such date, each Bank shall, in fulfillment of its obligations under Section 2.14(d), make available such Bank's Applicable Percentage of such Letter of Credit Disbursement, in Federal or other funds immediately available in New York City (or, in the case of a Letter of Credit Disbursement in an Alternative Letter of Credit Currency, such Bank's Applicable Percentage of the Dollar Reimbursement Amount in respect of such Letter of Credit Disbursement), to the Agent at its address specified in or pursuant to Section 9.01, and the Agent will promptly make such funds available to the applicable Issuing Bank. The Agent will promptly remit to each Bank its Applicable Percentage of any amounts subsequently received by the Agent from the Borrower in respect of such Letter of Credit Disbursement.

(f) Unless the Agent shall have received notice from a Bank prior to the date of any Borrowing, or prior to the time of any required payment by such Bank in respect of a Letter of Credit Disbursement, that such Bank will not make available to the Agent such Bank's share of such Borrowing or payment, the Agent may assume that such Bank has made such share available to the Agent on the date of such Borrowing or payment in accordance with subsections (c) and (d) or (e), as applicable, of this Section 2.02 and the Agent may, in reliance upon such assumption, make available to the Borrower or the applicable Issuing Bank, as applicable, on such date a corresponding amount. If and to the extent that such Bank shall not have so made such share available to the Agent, such Bank and the Borrower severally agree to repay to the Agent forthwith on demand such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower or the applicable Issuing Bank until the date such amount is repaid to the Agent, at (i) in the case of the Borrower, a rate per annum equal to the higher of the Federal Funds Rate and the interest rate applicable thereto pursuant to Section 2.05 and (ii) in the case of such Bank, the Federal Funds Rate. If such Bank shall repay to the Agent such corresponding amount in respect of a Borrowing, such amount so repaid shall constitute such Bank's Loan included in such Borrowing for purposes of this Agreement.

SECTION 2.03. Notes. (a) Each Bank's Loans of each Class shall be evidenced by a single Note (in the form applicable to such Class) payable to the order of such Bank for the account of its Applicable Lending Office in an amount equal to the aggregate Commitment of such Bank of such Class.

(b) Each Bank may, by notice to the Borrower and the Agent, request that its Loans of a particular Type and Class be evidenced by a separate Note in an amount equal to the aggregate Commitment (or in the case of a Note evidencing Term Loans, the aggregate Term Loans) of such Bank

of such Class. Each such Note shall be in substantially the form of Exhibit A-1 or Exhibit A-2 hereto applicable to the relevant Class with appropriate modifications to reflect the fact that it evidences solely Loans of the relevant Type. Each reference in this Agreement to the "Note" of such Bank shall be deemed to refer to and include any or all of such Notes, as the context may require.

(c) Upon receipt of each Bank's Notes pursuant to Section 3.03(k), the Agent shall forward such Notes to such Bank. Each Bank shall record the date and amount of each Loan made by it and the date and amount of each payment of principal made by the Borrower with respect thereto, and prior to any transfer of its Note shall endorse on the schedule forming a part thereof appropriate notations to evidence the foregoing information with respect to each such Loan then outstanding; provided that the failure of any Bank to make any such recordation or endorsement or any error in such recordation or endorsement shall not affect the obligations of the Borrower hereunder or under the Notes. Each Bank is hereby irrevocably authorized by the Borrower so to endorse its Note and to attach to and make a part of its Note a continuation of any such schedule as and when required.

SECTION 2.04. Interest Rate Elections. (a) The initial Type of Loans comprising each Borrowing, and the duration of the initial Interest Period applicable thereto if they are initially CD Loans or Euro-Dollar Loans, shall be as specified in the applicable Notice of Borrowing. Thereafter, the Borrower may from time to time elect to change or continue the Type of, or the duration of the Interest Period applicable to, the Loans included in any Borrowing (excluding overdue Loans and subject in each case to the provisions of the definition of Interest Period and Article VIII), as follows:

(i) if such Loans are Base Rate Loans, the Borrower may elect to designate such Loans as CD Loans or Euro-Dollar Loans, may elect to continue such Loans as Base Rate Loans for an additional Interest Period, or may elect to designate such Loans as any combination of Base Rate Loans, CD Loans and Euro-Dollar Loans;

(ii) if such Loans are CD Loans, the Borrower may elect to designate such Loans as Base Rate Loans or Euro-Dollar Loans, may elect to continue such Loans as CD Loans for an additional Interest Period, or may elect to designate such Loans as any combination of Base Rate Loans, CD Loans and Euro-Dollar Loans; and

(iii) if such Loans are Euro-Dollar Loans, the Borrower may elect to designate such Loans as Base Rate Loans or CD Loans, may elect to continue such Loans as Euro-Dollar Loans for an additional Interest Period, or may elect to designate such Loans as any combination of Base Rate Loans, CD Loans and Euro-Dollar Loans.

Notwithstanding the foregoing, the Borrower may not elect an Interest Period for CD Loans or Euro-Dollar Loans unless the aggregate outstanding principal amount of such CD Loans or Euro-Dollar Loans (including any such CD Loans or Euro-Dollar Loans made pursuant to Section 2.01 on the date that such Interest Period is to begin) to which such Interest Period will apply is at least $2,500,000.

(b) Any election permitted by subsection (a) of this Section may become effective on any Euro-Dollar Business Day specified by the Borrower (the "Election Date"). Each such election shall be made by the Borrower by delivering a notice (a "Notice of Interest Rate Election") to the Agent not later than 10:00 A.M. (New York City time) at least one Domestic Business Day before the Election Date, if all the resulting Loans will be Base Rate Loans, at least two Domestic Business Days before the Election Date, if the resulting Loans will include CD Loans but not Euro-Dollar Loans, and at least three Euro-Dollar Business Days before the Election Date, if the resulting Loans will include Euro-Dollar Loans; provided that, if a Notice of Interest Rate Election provides for an Election Date with respect to an outstanding Fixed Rate Loan that is not the last day of the Interest Period therefor, such Notice of Interest Rate Election shall be delivered not later than 10:00 A.M. (New York City time) at least three Euro-Dollar Business Days before the Election Date. Each Notice of Interest Rate Election shall specify with respect to the outstanding Loans to which such notice applies:

(i) the Election Date;

(ii) if the Type of Loan is to be changed, the new Type of Loan and, if such new Type is a CD Loan or Euro-Dollar Loan, the duration of the first Interest Period applicable thereto;

(iii) if such Loans are CD Loans or Euro-Dollar Loans and the Type of such Loans is to be continued for an additional or different Interest Period, the duration of such additional or different Interest Period; and

(iv) if such Loans are to be designated as a combination of Base Rate Loans, CD Loans or Euro-Dollar Loans, the information specified in clauses (i) through (iii) above as to each resulting Borrowing and the aggregate amount of each such Borrowing.

Each Interest Period specified in a Notice of Interest Rate Election shall comply with the provisions of the definition of Interest Period and the last sentence of subsection (a) of this Section.

(c) Upon receipt of a Notice of Interest Rate Election, the Agent shall promptly notify each Bank of the contents thereof and of such Bank's share of such Borrowing and such notice shall not thereafter be revocable by the Borrower.

(d) If the Borrower (i) fails to deliver a timely Notice of Interest Rate Election to the Agent electing to continue or change the Type of, or the duration of the Interest Period applicable to, the Loans included in any Borrowing as provided in this Section and (ii) has not theretofore delivered a notice of prepayment relating to such Loans, then the Borrower shall be deemed to have given the Agent a Notice of Interest Rate Election electing to change the Type of such Loans to (or continue the Type thereof as) Base Rate Loans, with an Interest Period commencing on the last day of the then current Interest Period.

(e) Notwithstanding the foregoing, the Borrower shall not be entitled to specify or elect in any Notice of Borrowing or Notice of Interest Rate Election that any Loans shall be or become Fixed Rate Loans if an Event of Default shall have occurred and be continuing and the Required Banks shall have notified the Agent that additional Fixed Rate Loans shall not be made available while such

Event of Default is continuing. If the Agent shall receive such notice from the Required Banks, then the Agent shall notify the Borrower thereof and, thereafter, until all Events of Default have been cured or waived (or such notice has been rescinded), each outstanding Loan shall be changed to or continued as a Base Rate Loan on the last day of its Interest Period and any additional Loans shall be made as Base Rate Loans.

SECTION 2.05. Interest Rates. (a) Each Base Rate Loan shall bear interest on the outstanding principal amount thereof, for each day from the date such Loan is made until it becomes due, at a rate per annum equal to the sum of the applicable Base Rate Margin plus the Base Rate for such day. Such interest shall be payable for each Interest Period on the last day thereof. Any overdue principal of and, to the extent permitted by law, overdue interest on any Base Rate Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the rate otherwise applicable to such Base Rate Loan for such day.

"Base Rate Margin" applicable to any Base Rate Loan outstanding on any day means (i) if such day falls within a Level I Pricing Period, 0.125%; (ii) if such day falls within a Level II Pricing Period, 0.250%; and (iii) if such day falls within a Level III Pricing Period, 0.500%.

(b) Each CD Loan shall bear interest on the outstanding principal amount thereof, for the Interest Period applicable thereto, at a rate per annum equal to the sum of the applicable CD Margin plus the applicable Adjusted CD Rate. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than 90 days, at intervals of 90 days after the first day thereof. Any overdue principal of and, to the extent permitted by law, overdue interest on any CD Loan shall bear interest, payable on demand, for each day until paid at a rate per annum equal to the sum of 2% plus the higher of (i) the sum of the applicable CD Margin plus the Adjusted CD Rate applicable to such Loan and (ii) the rate applicable to Base Rate Loans for such day.

"CD Margin" applicable to any CD Loan outstanding on any day means (i) if such day falls within a Level I Pricing Period, 1.250%; (ii) if such day falls within a Level II Pricing Period, 1.375%; and (iii) if such day falls within a Level III Pricing Period, 1.625%.

The "Adjusted CD Rate" applicable to any Interest Period means a rate per annum determined pursuant to the following formula:

$$ACDR = \left[\frac{CDBR}{1.00 - DRP}\right]^{*} + AR$$

ACDR = Adjusted CD Rate
CDBR = CD Base Rate
DRP = Domestic Reserve Percentage
AR = Assessment Rate

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* The amount in brackets being rounded upwards, if necessary, to the next higher 1/100 of 1%.

The "CD Base Rate" applicable to any Interest Period is the rate of interest determined by the Agent to be the average (rounded upward, if necessary, to the next higher 1/100 of 1%) of the prevailing rates per annum bid at 10:00 A.M. (New York City time) (or as soon thereafter as

practicable) on the first day of such Interest Period by two or more New York certificate of deposit dealers of recognized standing for the purchase at face value from each CD Reference Bank of its certificates of deposit in an amount comparable to the unpaid principal amount of the CD Loan of such CD Reference Bank to which such Interest Period applies and having a maturity comparable to such Interest Period.

"Domestic Reserve Percentage" means for any day that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement (including without limitation any basic, supplemental or emergency reserves) for a member bank of the Federal Reserve System in New York City with deposits exceeding five billion dollars in respect of new non-personal time deposits in dollars in New York City having a maturity comparable to the related Interest Period and in an amount of $100,000 or more. The Adjusted CD Rate shall be adjusted automatically on and as of the effective date of any change in the Domestic Reserve Percentage.

"Assessment Rate" means for any day the annual assessment rate in effect on such day which is payable by a member of the Bank Insurance Fund classified as adequately capitalized and within supervisory subgroup "A" (or a comparable successor assessment risk classification) within the meaning of 12 C.F.R. 327.3(d) (or any successor provision) to the Federal Deposit Insurance Corporation (or any successor) for such Corporation's (or such successor's) insuring time deposits at offices of such institution in the United States. The Adjusted CD Rate shall be adjusted automatically on and as of the effective date of any change in the Assessment Rate.

(c) Each Euro-Dollar Loan shall bear interest on the outstanding principal amount thereof, for the Interest Period applicable thereto, at a rate per annum equal to the sum of the applicable Euro-Dollar Margin plus the applicable Adjusted London Interbank Offered Rate. Such interest shall be payable for each Interest Period on the last day thereof and, if such Interest Period is longer than three months, at intervals of three months after the first day thereof.

"Euro-Dollar Margin" applicable to any Euro-Dollar Loan outstanding on any day means (i) if such day falls within a Level I Pricing Period, 1.125%; (ii) if such day falls within a Level II Pricing Period, 1.250%; and (iii) if such day falls within a Level III Pricing Period, 1.500%.

The "Adjusted London Interbank Offered Rate" applicable to any Interest Period means a rate per annum equal to the quotient obtained (rounded upwards, if necessary, to the next higher 1/100 of 1%) by dividing (i) the applicable London Interbank Offered Rate by (ii) 1.00 minus the Euro-Dollar Reserve Percentage.

The "London Interbank Offered Rate" applicable to any Interest Period means the average (rounded upwards, if necessary, to the next higher 1/16 of 1%) of the respective rates per annum at which deposits in dollars are offered to each of the Euro-Dollar Reference Banks in the London interbank market at approximately 11:00 A.M. (London time) two Euro-Dollar Business Days before the first day of such Interest Period in an amount approximately equal to the principal amount of the Euro-Dollar Loan of such Euro-Dollar Reference Bank

to which such Interest Period is to apply and for a period of time comparable to such Interest Period.

"Euro-Dollar Reserve Percentage" means for any day that percentage (expressed as a decimal) which is in effect on such day, as prescribed by the Board of Governors of the Federal Reserve System (or any successor) for determining the maximum reserve requirement for a member bank of the Federal Reserve System in New York City with deposits exceeding five billion dollars in respect of "Eurocurrency liabilities" (or in respect of any other category of liabilities which includes deposits by reference to which the interest rate on Euro-Dollar Loans is determined or any category of extensions of credit or other assets which includes loans by a non-United States office of any Bank to United States residents). The Adjusted London Interbank Offered Rate shall be adjusted automatically on and as of the effective date of any change in the Euro-Dollar Reserve Percentage.

(d) Any overdue principal of and, to the extent permitted by law, overdue interest on any Euro-Dollar Loan shall bear interest, payable on demand, for each day from and including the date payment thereof was due to but excluding the date of actual payment, at a rate per annum equal to the sum of 2% plus the higher of (i) the sum of the Euro-Dollar Margin plus the Adjusted London Interbank Offered Rate applicable to such Loan and (ii) the Euro-Dollar Margin plus the quotient obtained (rounded upwards, if necessary, to the next higher 1/100 of 1%) by dividing (x) the average (rounded upwards, if necessary, to the next higher 1/16 of 1%) of the respective rates per annum at which one-day (or, if such amount due remains unpaid more than three Euro-Dollar Business Days, then for such other period of time not longer than three months as the Agent may select) deposits in dollars in an amount approximately equal to such overdue payment due to each of the Euro-Dollar Reference Banks are offered to such Euro-Dollar Reference Bank in the London interbank market for the applicable period determined as provided above by (y) 1.00 minus the Euro-Dollar Reserve Percentage (or, if the circumstances described in clause (a) or (b) of Section 8.01 shall exist, at a rate per annum equal to the sum of 2% plus the rate applicable to Base Rate Loans for such day).

(e) The Agent shall determine each interest rate applicable to the Loans hereunder. The Agent shall give prompt notice to the Borrower and the participating Banks by telex or cable of each rate of interest so determined, and its determination thereof shall be conclusive in the absence of manifest error.

(f) Each Reference Bank agrees to use its best efforts to furnish quotations to the Agent as contemplated by this Section. If any Reference Bank does not furnish a timely quotation, the Agent shall determine the relevant interest rate on the basis of the quotation or quotations furnished by the remaining Reference Bank or, if none of such quotations is available on a timely basis, the provisions of Section 8.01 shall apply.

SECTION 2.06. Fees. (a) During the period from and including the Amendment and Restatement Effective Date to but excluding the last day of the Working Capital Availability Period, the Borrower shall pay to the Agent for the account of the Banks ratably in proportion to their Working Capital Commitments a commitment fee at the applicable per annum Commitment Fee Rate, determined for each day during such period on the amount by which the aggregate amount of the Working Capital Commitments exceeds the sum of the Letter of Credit Exposure and the aggregate outstanding

principal amount of the Working Capital Loans. Such commitment fee shall accrue from and including the Amendment and Restatement Effective Date to but excluding the last day of the Working Capital Availability Period. Accrued commitment fees under this Section shall be payable quarterly on the last day of March, June, September and December in each year, commencing on the first such date following the Amendment and Restatement Effective Date, and upon the date of termination of the Working Capital Commitments in their entirety.

(b) "Commitment Fee Rate" applicable to any day means: (i) if such day falls within a Level I Pricing Period, 0.3125%; (ii) if such day falls within a Level II Pricing Period, 0.3750%; and (iii) if such day falls within a Level III Pricing Period, 0.4375%.

(c) On the Amendment and Restatement Effective Date, the Borrower shall pay to the Agent for the account of each Bank, a participation fee equal to 0.250% of the total Commitment of such Bank, as set forth in Schedule 1 hereto.

SECTION 2.07. Termination or Reduction of Commitments. (a) During the Working Capital Availability Period, the Borrower may, upon at least three Domestic Business Days' notice to the Agent (upon receipt of such notice, the Agent shall promptly notify the Banks of such notice), (i) terminate the Working Capital Commitments at any time, if there is no Letter of Credit Exposure at such time and if no Working Capital Loans are outstanding at such time, or (ii) ratably reduce from time to time by an aggregate amount of $5,000,000 or any larger multiple of $1,000,000 the aggregate amount of the Working Capital Commitments in excess of the sum of the Letter of Credit Exposure and the aggregate outstanding principal amount of the Working Capital Loans. Subject to extension pursuant to Section 2.16, the Working Capital Commitments shall terminate on the last day of the Working Capital Availability Period.

(b) The Term Commitments shall automatically terminate at the close of business on the Amendment and Restatement Effective Date.

SECTION 2.08. Mandatory Repayments and Prepayments. (a) Subject to adjustment as provided in subsection (g) of this Section, the Borrower shall repay Term Loans in an aggregate principal amount equal to (i) $1,000,000 on March 31, June 30, September 30 and December 31 of each year, commencing March 31, 1997, to but excluding March 31, 1998, and (ii) $2,000,000 on March 31, June 30, September 30 and December 31 of each year, commencing March 31, 1998, to but excluding the Termination Date. Any Term Loans outstanding on the Termination Date shall be due and payable on such date, together with accrued interest thereon.

(b) Each Working Capital Loan outstanding on the Termination Date shall be due and payable on such date, together with accrued interest thereon.

(c) In the event and on each occasion that the sum of the Letter of Credit Exposure plus the aggregate outstanding principal amount of the Working Capital Loans exceeds the Borrowing Base, the Borrower shall forthwith prepay Working Capital Loans (or, if no Working Capital Loans are outstanding, provide cash collateral in respect of the Letter of Credit Exposure pursuant to Section 2.14(j) and thereupon such cash shall be deemed to be part of the Borrowing Base) in an amount equal to such excess.

(d) In the event and on each occasion after the Amendment and Restatement Effective Date that a Prepayment Event occurs, the Borrower shall promptly following (and in any event not later than the Domestic Business Day next following) the receipt of Net Cash Proceeds in respect of such Prepayment Event, prepay Term Loans (i) in the case of a Prepayment Event described in clause (a) of the definition thereof, in an aggregate principal amount equal to 50% of the aggregate principal amount of any Working Capital Loans borrowed in connection with any Business Acquisition consummated during the period from and including the Amendment and Restatement Date to and including the date of such Prepayment Event and (ii) in the case of a Prepayment Event described in clause (b) of the definition thereof, in an aggregate principal amount equal to the Net Cash Proceeds in respect of such Prepayment Event. No prepayments of Working Capital Loans shall be required pursuant to this Section 2.08(d).

(e) On the date of each repayment or prepayment of Loans pursuant to this Section, the Borrower shall pay interest accrued on the principal amount repaid or prepaid to the day of repayment or prepayment.

(f) Prior to the date of each mandatory repayment or prepayment pursuant to this Section, the Borrower shall, by notice to the Agent given not later than 11:00 A.M. (New York City time) on (i) the Domestic Business Day prior to the date of repayment or prepayment of any Base Rate Borrowing, and (ii) the third Euro-Dollar Business Day prior to the date of repayment or prepayment of any Fixed Rate Borrowing, select which outstanding Borrowings of the applicable Class are to be prepaid; provided that the Borrower shall not elect to prepay any CD Borrowing or Euro-Dollar Borrowing to the extent that a Base Rate Borrowing of the applicable Class is outstanding. Upon receipt of such notice, the Agent shall promptly notify each Bank of the contents thereof and of such Bank's ratable share of such prepayment, and such notice shall not thereafter be revocable by the Borrower. Each such repayment or prepayment shall be applied to repay or prepay ratably the respective Loans included in the Borrowings so selected.

(g) Any optional or mandatory prepayment of the Term Loans shall be applied to reduce the subsequent scheduled repayments of the Term Loans pursuant to subsection (a) of this Section in the inverse order of maturity.

SECTION 2.09. Optional Prepayments. (a) Subject to subsection (b) below, the Borrower may, upon notice to the Agent by 10:30 a.m. on the day of prepayment, in the case of Base Rate Borrowings, or three Euro-Dollar Business Days' notice to the Agent, in the case of CD Borrowings or Euro-Dollar Borrowings, prepay any Borrowing in whole at any time, or from time to time in part in amounts aggregating $2,500,000 or any larger multiple of $500,000, by paying the principal amount to be prepaid together with accrued interest thereon to the date of prepayment. Each such notice of prepayment shall specify which outstanding Borrowing is to be prepaid in connection therewith. Each such optional prepayment shall be applied to prepay ratably the Loans of the several Banks included in such Borrowing.

(b) Upon receipt of a notice of prepayment pursuant to this Section, the Agent shall promptly notify each Bank of the contents thereof and of such Bank's ratable share of such prepayment and such notice shall not thereafter be revocable by the Borrower.

SECTION 2.10. General Provisions as to Payments. (a) The Borrower shall make each payment of principal of, and interest on, the Loans and of reimbursement of Letter of Credit Disbursements and fees hereunder, not later than 12:00 Noon (New York City time) on the date when due (or, in the case of the reimbursement of Letter of Credit Disbursements in an Alternative Letter of Credit Currency, not later than 4:00 p.m., local time at the location of the applicable Designated Payment Office on the date when due), in Federal or other funds immediately available in New York City (or, in the case of a Letter of Credit Disbursement in an Alternative Letter of Credit Currency, subject to the second sentence of Section 2.14(g), funds in such currency immediately available at the applicable Designated Payment Office), to the Agent at its address referred to in Section 9.01. The Agent will promptly distribute to each Bank its ratable share of each such payment received by the Agent for the account of the Banks (which distribution shall be made on the date of receipt by the Agent, if timely received). Whenever any payment of principal of, or interest on, the Domestic Loans or of fees shall be due on a day which is not a Domestic Business Day, the date for payment thereof shall be extended to the next succeeding Domestic Business Day. Whenever any payment of principal of, or interest on, the Euro-Dollar Loans shall be due on a day which is not a Euro-Dollar Business Day, the date for payment thereof shall be extended to the next succeeding Euro-Dollar Business Day unless such Euro-Dollar Business Day falls in another calendar month, in which case the date for payment thereof shall be the next preceding Euro-Dollar Business Day. If the date for any payment of principal is extended by operation of law or otherwise, interest thereon shall be payable for such extended time.

(b) Unless the Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Banks hereunder that the Borrower will not make such payment in full, the Agent may assume that the Borrower has made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed to each Bank on such due date an amount equal to the amount then due such Bank. If and to the extent that the Borrower shall not have so made such payment, each Bank shall repay to the Agent forthwith on demand such amount distributed to such Bank together with interest thereon, for each day from the date such amount is distributed to such Bank until the date such Bank repays such amount to the Agent, at the Federal Funds Rate.

SECTION 2.11. Funding Losses. If the Borrower makes any payment of principal with respect to any Fixed Rate Loan (pursuant to Article II, VI or VIII or otherwise), or makes any election under Section 2.04 with respect to any Fixed Rate Loan with an Election Date, on any day other than the last day of the Interest Period applicable thereto, or the end of an applicable period fixed pursuant to Section 2.04(d), or if the Borrower fails to borrow or prepay or to continue or convert into any Fixed Rate Loans after notice has been given to any Bank in accordance with Section 2.02, 2.04 or 2.08(f), the Borrower shall reimburse each Bank within 15 days after demand for any resulting loss or expense incurred by it (or by an existing or prospective Participant in the related Loan), including (without limitation) any loss incurred in obtaining, liquidating or employing deposits from third parties, but excluding loss of margin for the period after any such payment or failure to borrow, convert, continue or prepay provided that such Bank shall have delivered to the Borrower a certificate as to the amount of such loss or expense, which

certificate shall be conclusive in the absence of manifest error.

SECTION 2.12. Computation of Interest and Fees. Interest based on the Prime Rate hereunder shall be computed on the basis of a year of 365 days (or 366 days in a leap year) and paid for the actual number of days elapsed (including the first day but excluding the last day). All fees and other interest shall be computed on the basis of a year of 360 days and paid for the actual number of days elapsed (including the first day but excluding the last day).

SECTION 2.13. Withholding Tax Exemption. At least five Domestic Business Days prior to the first date on which interest or fees are payable hereunder for the account of any Bank, each Bank that is not incorporated under the laws of the United States of America or a state thereof agrees that it will deliver to each of the Borrower and the Agent two duly completed copies of United States Internal Revenue Service Form 1001 or 4224, certifying in either case that such Bank is entitled to receive payments under this Agreement and the Notes without deduction or withholding of any United States federal income taxes. Each Bank which so delivers a Form 1001 or 4224 further undertakes to deliver to each of the Borrower and the Agent two additional copies of such form (or a successor form) on or before the date that such form expires or becomes obsolete or after the occurrence of any event requiring a change in the most recent form so delivered by it, and such amendments thereto or extensions or renewals thereof as may be reasonably requested by the Borrower or the Agent, in each case certifying that such Bank is entitled to receive payments under this Agreement and the Notes without deduction or withholding of any United States federal income taxes, unless an event (including without limitation any change in treaty, law or regulation) has occurred prior to the date on which any such delivery would otherwise be required which renders all such forms inapplicable or which would prevent such Bank from duly completing and delivering any such form with respect to it and such Bank advises the Borrower and the Agent that it is not capable of receiving payments without any deduction or withholding of United States federal income tax.

SECTION 2.14. Letters of Credit. (a) The Borrower may request the issuance of Letters of Credit, in a form reasonably acceptable to the applicable Issuing Bank (which shall be either Morgan Guaranty Trust Company of New York, The Bank of Nova Scotia or The Bank of New York; provided that The Bank of New York shall not be required to issue any Letter of Guaranty, and Morgan Guaranty Trust Company of New York shall not be required to issue any Letter of Credit that is not a standby Letter of Credit and The Bank of Nova Scotia shall not be required to issue any Letter of Credit in respect of military weaponry or any Letter of Guaranty), appropriately completed, for the account of the Borrower (although a Letter of Credit may state that it is for the account of ESCO or any Specified Subsidiary, in which case such Letter of Credit shall be deemed to be issued jointly for the accounts of ESCO or such Specified Subsidiary and the Borrower), at any time and from time to time during the Working Capital Availability Period; provided that:

(i) any Letter of Credit shall be issued only if, and each request by the Borrower for the issuance of any Letter of Credit shall be deemed a representation and warranty of the Borrower that, immediately following the issuance of any such Letter of Credit, (A) the Letter of Credit Exposure shall not exceed

$40,000,000, (B) the sum of the Letter of Credit Exposure and the aggregate principal amount of outstanding Working Capital Loans shall not exceed the then current Borrowing Base and (C) the sum of the Letter of Credit Exposure and the aggregate principal amount of outstanding Working Capital Loans shall not exceed the aggregate Working Capital Commitments at the time;

(ii) Letters of Credit issued to provide Adequate Collateral (as defined in the Distribution Agreement) pursuant to the Distribution Agreement shall be subject to further limitations as provided in Section 5.20; and

(iii) any Letter of Credit to be denominated in an Alternative Letter of Credit Currency shall be issued only if, and each request by the Borrower for the issuance of any such Letter of Credit shall be deemed to be a representation and warranty by the Borrower that, (A) the Borrower has entered into a Rate Protection Agreement with the applicable Issuing Bank and satisfactory to such Issuing Bank providing for the purchase by the Borrower of an amount of such Alternative Letter of Credit Currency equal to the amount of the requested Letter of Credit, for a purchase price payable in Dollars, at the end of the term of such Letter of Credit and (B) the Borrower has assigned its rights under such Rate Protection Agreement to such Issuing Bank for the benefit of the Banks holding participations in such Letter of Credit.

(b) Each Letter of Credit shall expire at the close of business on the Domestic Business Day that is three Domestic Business Days prior to the last day of the Working Capital Availability Period (determined as of the date of issuance of such Letter of Credit), unless such Letter of Credit expires by its terms on an earlier date. Each Letter of Credit shall provide for payments of drawings in a Permitted Letter of Credit Currency.

(c) Each issuance of any Letter of Credit shall be made on at least three Domestic Business Days' prior written or telex notice from the Borrower to the applicable Issuing Bank (which shall give prompt notice thereof to the Agent which shall give prompt notice thereof to each Bank) specifying the date of issuance, the date on which such Letter of Credit is to expire (which shall not be later than the earlier of (i) at least three Domestic Business Days prior to the last day of the Working Capital Availability Period (determined as of the date of issuance of such Letter of Credit), and (ii) subject to extension, the date that is two years after the date of such Letter of Credit or, if such Letter of Credit permits acceleration of the expiration date thereof by the applicable Issuing Bank upon the occurrence of an Event of Default described in clause (h) or (i) of Section 6.01, a later date), the amount and currency of such Letter of Credit, the name and address of the beneficiary of such Letter of Credit (and, if such currency is an Alternative Letter of Credit Currency, a description of the Rate Protection Agreement entered into by the Borrower as required by clause (iii) of subsection (a) above) and such other information as may be necessary or desirable to complete such Letter of Credit. The Banks will consider in good faith any request by the Borrower for a Letter of Credit expiring after the last day of the Working Capital Availability Period, but no such Letter of Credit shall be issued without the prior written consent of all the Banks and agreement upon appropriate

amendments to the Loan Documents.

(d) By the issuance of a Letter of Credit and without any further action on the part of the applicable Issuing Bank or the Banks in respect thereof, the applicable Issuing Bank hereby grants to each Bank, and each Bank hereby agrees to acquire from such Issuing Bank, a participation in such Letter of Credit equal to such Bank's Applicable Percentage of the face amount of such Letter of Credit, effective upon the issuance of such Letter of Credit; provided, however, that, if such Letter of Credit is issued in the form of a Letter of Guaranty and any Bank notifies the Agent, the applicable Issuing Bank and the Borrower that such Bank either cannot or, as a matter of policy, will not acquire participations in credit commitments in the nature of Letters of Guaranty, then such Bank, in lieu of acquiring such participation, hereby absolutely and unconditionally agrees to issue a Back-up LOC for the benefit of such Issuing Bank and the account of the Borrower in a face amount equal to such Bank's Applicable Percentage of the face amount of such Letter of Guaranty (or, in the case of a Letter of Guaranty denominated in an Alternative Letter of Credit Currency, a Back-up LOC denominated in Dollars and in a face amount equal to such Bank's Applicable Percentage of the Dollar Equivalent of such Letter of Guaranty as of the date of issuance), which Back-up LOC may be drawn upon in the event of any Letter of Credit Disbursement in respect of such Letter of Guaranty. Any Back-up LOC issued by a Bank for the benefit of an Issuing Bank pursuant to the immediately preceding sentence shall be issued on the date of issuance of, and shall expire concurrently with, the related Letter of Guaranty. In consideration and in furtherance of the foregoing, each Bank hereby absolutely and unconditionally agrees to pay to the Agent, on behalf of the applicable Issuing Bank, in accordance with Section 2.02(e), such Bank's Applicable Percentage of each Letter of Credit Disbursement made by such Issuing Bank (or, in the case of a Letter of Credit Disbursement in an Alternative Letter of Credit Currency, such Bank's Applicable Percentage of the Dollar Reimbursement Amount in respect of such Letter of Credit Disbursement); provided that (i) the Banks shall not be obligated to make any such payment to an Issuing Bank with respect to any wrongful payment or disbursement made by such Issuing Bank under any Letter of Credit as a result of the gross negligence or wilful misconduct of such Issuing Bank and (ii) in the case of any Letter of Credit Disbursement in respect of a Letter of Guaranty, any Bank that issued (or was required to issue) a Back-up LOC in lieu of acquiring a participation in such Letter of Guaranty, hereby absolutely and unconditionally agrees, in lieu of making payment as aforesaid (but subject to the condition specified in clause (i) above), to pay any draft presented to it by such Issuing Bank in connection with such Letter of Credit Disbursement not exceeding its Applicable Percentage of such Letter of Credit Disbursement, it being understood that such drafts shall be deemed presented as contemplated by Section 2.02(e) and shall be paid as contemplated thereby. If a Letter of Guaranty denominated in an Alternative Letter of Credit Currency is issued, a Bank issues a Back-up LOC in respect thereof and a Letter of Credit Disbursement is made in respect of such Letter of Guaranty, and if such Bank's Applicable Percentage of the Dollar Reimbursement Amount exceeds the amount available to be drawn under such Back-up LOC, then such Bank absolutely and unconditionally agrees to pay to the Agent, on behalf of the applicable Issuing Bank, in accordance with Section 2.02(e), an amount in Dollars equal to such excess as a separate obligation and such payment shall be included for

the purpose of determining the Borrower's reimbursement obligation pursuant to Section 2.14(g).

(e) Each Bank acknowledges and agrees that its obligation to acquire participations pursuant to paragraph (d) in respect of Letters of Credit (or, if applicable, to issue a Back-up LOC in respect of a Letter of Guaranty in lieu of acquiring a participation therein) is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of a Default, and that each payment to be made by such Bank pursuant to paragraph (d) shall be made without any offset, abatement, withholding or reduction whatsoever (subject only to clause (i) of the proviso to the second sentence of paragraph (d)).

(f) During the Working Capital Availability Period, the Borrower shall pay to the Agent (i) for the account of the Banks ratably in proportion to their Applicable Percentages (A) a fee at the applicable per annum Standby Letter of Credit Fee Rate (determined as of the Domestic Business Day immediately preceding the date payment of such fee is due) on the daily average aggregate undrawn amount of outstanding Letters of Credit that are in the nature of standby Letters of Credit and (B) a fee at the applicable per annum Performance Letter of Credit Fee Rate (determined as of the Domestic Business Day immediately preceding the date that payment of such fee is due) on the daily average aggregate undrawn amount of all other outstanding Letters of Credit and (ii) for the account of each Issuing Bank a fee at the rate of 0.2500% per annum on the daily average aggregate undrawn amount of the outstanding Letters of Credit issued by such Issuing Bank. Such fees shall accrue from and including the Amendment and Restatement Effective Date to but excluding the Termination Date. Accrued fees under this paragraph shall be payable quarterly on the last day of March, June, September and December of each year, commencing on the first such date following the Amendment and Restatement Effective Date, and on the Termination Date. In addition to the fees payable pursuant to clause (ii) above, the Borrower shall pay to each Issuing Bank, for its own account, such other fees and charges in connection with the issuance or administration of each Letter of Credit as the Borrower and such Issuing Bank shall, if at all, agree. All such fees shall be payable in Dollars, notwithstanding that Letters of Credit may be denominated in one or more Alternative Letter of Credit Currencies, and for purposes of determining such fees, the undrawn amount of Letters of Credit denominated in an Alternative Letter of Credit Currency shall be valued in Dollars as provided in subsection (m) of this Section.

"Standby Letter of Credit Fee Rate" as of any day means (i) if such day falls within a Level I Pricing Period, 1.1250%; (ii) if such day falls within a Level II Pricing Period, 1.2500%; and (iii) if such day falls within a Level III Pricing Period, 1.5000%.

"Performance Letter of Credit Fee Rate" as of any day means (i) if such day falls within a Level I Pricing Period, 1.0000%; (ii) if such day falls within a Level II Pricing Period, 1.1250%; and (iii) if such day falls within a Level III Pricing Period, 1.3750%.

(g) If any Issuing Bank shall pay any draft presented under a Letter of Credit, the Borrower shall pay to the Agent, on behalf of such Issuing Bank (or, if such Issuing Bank shall have received payment from any Bank or Banks in respect of its Letter of Credit Disbursement pursuant to the Banks' participation therein or a drawing under a Back-up LOC, then on behalf of such Issuing Bank and such Banks), an amount equal to the amount of such draft before (i) 12:00 Noon (New York City time), on the day on which such Issuing Bank shall have notified the Borrower that payment of such draft will be made or (ii) if the Issuing Bank shall have notified the Borrower of such payment later than 9:45 A.M. (New York City time) on the day on which the payment of such draft will be made, 12:00 Noon (New York City time) on the next Domestic Business Day; provided that with respect to any draft paid in an Alternative Letter of Credit Currency, the payment due from

the Borrower pursuant to this sentence shall not be due prior to the day that is (x) two Euro-Dollar Business Days after the day on which such Issuing Bank shall have notified the Borrower of such payment if such notice shall have been given on such day no later than 4:00 p.m., local time at the location of the applicable Designated Payment Office or (y) three Euro-Dollar Business Days after the day on which such Issuing Bank shall have notified the Borrower of such payment, if such notice shall have been given on such day no later than 4:00 p.m., local time at the location of the applicable Designated Payment Office. Notwithstanding the foregoing, to the extent such Issuing Bank shall have received payment from any Bank or Banks in respect of a Letter of Credit Disbursement made in an Alternative Letter of Credit Currency pursuant to the Banks' participation therein or a drawing under a Back-up LOC, then the amount to be paid by the Borrower pursuant to the first sentence of this Section 2.14(g) shall be converted to the Dollar Reimbursement Amount so paid by such Bank or Banks, for their account. The Agent will promptly pay any such amounts received by it to the applicable Issuing Bank or the applicable Banks, as their interests may appear. If the Borrower shall fail to pay any amount required to be paid by it under clause (i) of the first sentence of this paragraph when due, or if the Borrower shall fail to pay an amount equal to the amount of any draft under a Letter of Credit on the same day that payment of such draft is made by reason of clause (ii) of the first sentence of this paragraph, or then such unpaid amount shall bear interest, for each day from and including the due date or the date of payment of such draft, as the case may be, to but excluding the date of payment, at a rate per annum equal to the sum of the Base Rate for such day plus the applicable Base Rate Margin plus 2%.

(h) The Borrower's obligation to repay each Issuing Bank or each Bank for payments and disbursements made by such Issuing Bank or Bank under any Letter of Credit or Back-up LOC shall be absolute, unconditional and irrevocable under any and all circumstances and irrespective of:

(i) any lack of validity or enforceability of any Letter of Credit or Back-up LOC; provided that the disregard by such Issuing Bank of such lack of validity or enforceability shall not have constituted gross negligence or wilful misconduct of such Issuing Bank;

(ii) the existence of any claim, setoff, defense or other right which ESCO, the Borrower, any Subsidiary or any other Person may at any time have against the beneficiary under any Letter of Credit or Back-up LOC, such Issuing Bank, the Agent or any Bank (other than the defense of payment in accordance with the terms of this Agreement or a defense based on the gross negligence or wilful misconduct of such Issuing Bank) or any other Person in connection with this Agreement or any other agreement or transaction;

(iii) any draft or other document presented under a Letter of Credit or Back-up LOC proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; provided that payment by such Issuing Bank under such Letter of Credit against presentation of such draft or document shall not have constituted gross negligence or wilful misconduct of such Issuing Bank;

(iv) payment by such Issuing Bank or Bank under a Letter of Credit or Back-up LOC against presentation of a draft or other document which does not comply with the terms of such Letter of Credit or Back-up LOC; provided that such payment shall not have constituted gross negligence or wilful misconduct of such Issuing Bank;

(v) any statement in any Letter of Credit to the effect that such Letter of Credit is for the account of ESCO or any Specified Subsidiary; and

(vi) any other circumstance or event whatsoever, whether or not similar to any of the foregoing;

provided that such other circumstance or event shall not have been the result of gross negligence or wilful misconduct of such Issuing Bank.

It is understood that in making any payment under a Letter of Credit or Back-up LOC (x) an Issuing Bank's or a Bank's exclusive reliance on the documents presented to it under such Letter of Credit or Back-up LOC as to any and all matters set forth therein, including reliance on the amount of any draft presented under such Letter of Credit or Back-up LOC, whether or not the amount due to the beneficiary equals the amount of such draft and whether or not any document presented pursuant to such Letter of Credit or Back-up LOC proves to be insufficient in any respect, if such document on its face appears to be in order, and whether or not any other statement or any other document presented pursuant to such Letter of Credit or Back-up LOC proves to be forged or invalid or any statement therein proves to be inaccurate or untrue in any respect whatsoever, even if such Issuing Bank is informed thereof, and (y) any noncompliance in any immaterial respect of the documents presented under a Letter of Credit or Back-up LOC with the terms thereof shall, in each case, not be deemed wilful misconduct or gross negligence of such Issuing Bank or Bank.

(i) Each Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit issued by such Issuing Bank to ascertain that the same appear on their face to be in substantial conformity with the terms and conditions of such Letter of Credit. Such Issuing Bank shall as promptly as possible give oral notification, confirmed by telex or telecopy, to the Agent and the Borrower of such demand for payment and the determination by such Issuing Bank as to whether such demand for payment was in accordance with the terms and conditions of such Letter of Credit and whether such Issuing Bank has made or will make a Letter of Credit Disbursement thereunder, provided that the failure to give such notice shall not relieve the Borrower of its obligation to reimburse such Issuing Bank with respect to any such Letter of Credit Disbursement, and the Agent shall promptly give each Bank notice thereof.

(j) In the event that the Borrower is required pursuant to the terms of this Agreement or any other Loan Document to provide cash collateral in respect of the Letter of Credit Exposure, the Borrower shall deposit in an account with the Security Agent, for the benefit of the Banks, an amount in cash equal to the Letter of Credit Exposure (or such lesser amount as shall be required hereunder or thereunder). In addition, the Borrower may elect to provide cash collateral in order to increase the Borrowing Base by depositing in an account with the Security Agent, for the benefit of the Banks, an amount in cash equal to the desired increase in the Borrowing Base. Any such deposit shall be held by the Security Agent as collateral for the payment and performance of the Obligations. The Security Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over any such account. Other than any interest earned on the investment of such deposits in Temporary Cash Investments, which investments shall be selected by the Security Agent in its sole but reasonable discretion (unless an Event of Default shall have occurred and be continuing, in which case the Security Agent shall have the option, in its sole but reasonable discretion, to decline to invest such deposits), such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall automatically be applied by the Security Agent to reimburse the Issuing Banks and the Banks, as applicable, for Letter of Credit Disbursements and, if the maturity of the Loans has been accelerated, to satisfy the Obligations. If the Borrower is required to provide an amount of cash collateral hereunder as a result of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within three Domestic Business days after all Events of Default have been cured or waived. If the Borrower is required to provide an amount of cash collateral hereunder pursuant to Section 2.08(c), or elects to provide an amount of cash

collateral hereunder in order to increase the Borrowing Base, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower upon demand; provided that, after giving effect to such return, (i) the sum of the Letter of Credit Exposure plus the aggregate outstanding principal amount of Working Capital Loans would not exceed the Borrowing Base and (ii) no Default shall have occurred and be continuing.

(k) The Issuing Banks agree to provide the Agent with such information with respect to the Letters of Credit as it may reasonably request, including a written monthly report with respect to the status of each outstanding Letter of Credit as of the last day of the preceding month.

(l) Notwithstanding any contrary provisions herein, each payment to be made by the Borrower pursuant to subsection (g) of this Section in respect of any Letter of Credit Disbursement (including interest thereon) shall be payable in the same currency that such Letter of Credit Disbursement is made, except to the extent the applicable Issuing Bank shall have received payment from any Bank or Banks in Dollars in the amount of the Dollar Reimbursement Amount pursuant to Section 2.14(d), in which case each such payment to be made by the Borrower shall, to such extent, be payable in Dollars. The foregoing shall not be construed to require any Bank to make any Loan hereunder or make any payment pursuant to Section 2.02(e) or subsection (d) of this Section 2.14 in any currency other than Dollars.

(m) For purposes of determining the Letter of Credit Exposure hereunder and fees payable under subsection (f) of this Section, each Letter of Credit denominated in an Alternative Letter of Credit Currency and each Letter of Credit Disbursement made thereunder shall be valued in Dollars at the Dollar Equivalent (determined as of the date of issuance of such Letter of Credit) of the amount thereof. Each valuation of any Letter of Credit or Letter of Credit Disbursement hereunder shall be determined by the Agent, and its determination thereof shall be conclusive absent manifest error. The Agent shall give prompt notice to the Borrower and the Banks of the valuations so determined. Valuations pursuant to this paragraph (m) shall be solely for purposes of determining the Letter of Credit Exposure and determining fees payable under subsection (f) of this Section and shall not be construed to affect the currency in which payments are to be made hereunder.

(n) if each Issuing Bank that shall have issued any of the Hazeltine Letters of Credit shall have received the letters of credit and written agreement (if any) referred to in Section 1(b)(v) of the Amendment, Waiver and Consent dated as of June 6, 1996, relating to the Original Credit Agreement, then on and as of the Hazeltine Closing Date (i) the Hazeltine Letters of Credit shall cease to constitute Letters of Credit hereunder, (ii) the Borrower, ESCO and the Subsidiaries shall be released from their obligations and liabilities in respect of the Hazeltine Letters of Credit and (iii) the Banks shall be released from their participations in the Hazeltine Letters of Credit; provided that (i) the Borrower shall indemnify the Issuing Banks in respect of the Hazeltine Letters of Credit for any failure by Hazeltine (or the purchaser of its assets) to pay fees in respect of the Hazeltine Letters of Credit after the Hazeltine Closing Date, and (ii) unless the Hazeltine Transaction is consummated as a sale by Hazeltine of its assets, Hazeltine shall not be released from its obligations and liabilities in respect of the Hazeltine Letters of Credit and shall remain liable on and after the Hazeltine Closing Date for the reimbursement of drawings under the Hazeltine Letters of Credit and for the payment of fees in respect thereof to the respective Issuing Banks, all on the terms specified in this Agreement applicable to Letters of Credit, notwithstanding any contrary provision herein or in any other Loan Document.

SECTION 2.15. Taxes. (a) Any and all payments by the Borrower hereunder shall be made free and clear of and without deduction for any and all present or future taxes, levies, imposts, deductions, charges or withholdings, and all liabilities with respect thereto, excluding taxes

imposed on the Agent's or any Issuing Bank's or Bank's net income and franchise taxes imposed on the Agent or any Issuing Bank or Bank by the United States or any jurisdiction under the laws of which it is organized or any political subdivision thereof (all such nonexcluded taxes, levies, imposts, deductions, charges, withholdings and liabilities being hereinafter referred to as "Taxes"). If the Borrower shall be required by law to deduct any Taxes from or in respect of any sum payable hereunder to the Agent or any Issuing Bank or Bank, (i) the sum payable shall be increased by the amount necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section 2.15) the recipient shall receive an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant taxing authority or other Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or from the execution, delivery or registration of, or otherwise with respect to, this Agreement or any other Loan Document (hereinafter referred to as "Other Taxes").

(c) The Borrower will indemnify the Agent, each Issuing Bank and each Bank for the full amount of Taxes and Other Taxes (including any Taxes or Other Taxes imposed by any jurisdiction on amounts payable under this Section 2.15) paid by such Issuing Bank or Bank or the Agent, as the case may be, and any liability (including penalties, interest and expenses) arising therefrom or with respect thereto, whether or not such Taxes or Other Taxes were correctly or legally asserted by the relevant taxing authority or other Governmental Authority. Such indemnification shall be made within 30 days after the date any Issuing Bank or Bank or the Agent, as the case may be, makes written demand therefor. If the Agent or any Issuing Bank or Bank shall become aware that it is entitled to receive a refund in respect of Taxes or Other Taxes, it shall promptly notify the Borrower of the availability of such refund and shall, within 30 days after receipt of a request by the Borrower, apply for such refund at the Borrower's expense. If the Agent or any Issuing Bank or Bank receives a refund in respect of any Taxes or Other Taxes for which the Agent or such Issuing Bank or Bank has received payment from the Borrower hereunder it shall promptly notify the Borrower of such refund and shall, within 30 days after receipt of a request by the Borrower (or promptly upon receipt, if the Borrower has requested application for such refund pursuant hereto), repay such refund to the Borrower, net of all out-of-pocket expenses and without interest; provided that the Borrower, upon the request of the Agent or such Issuing Bank or Bank, agrees to return such refund (plus penalties, interest or other charges) to the Agent or such Issuing Bank or Bank in the event the Agent or such Issuing Bank or Bank is required to repay such refund.

(d) Within 30 days after the date of any payment of Taxes or Other Taxes withheld by the Borrower in respect of any payment to the Agent or any Issuing Bank or Bank, the Borrower will furnish to the Agent, at its address referred to in Section 9.01, the original or a certified copy of a receipt evidencing payment thereof.

(e) Without prejudice to the survival of any other agreement contained herein, the agreements and obligations contained in this Section 2.l5 shall survive the payment in full of the principal of and interest on all Loans made hereunder.

(f) Unless the Borrower and the Agent have received forms or other documents satisfactory to them indicating that payments hereunder or under the Notes are not subject to United States withholding tax or are subject to such tax at a rate reduced by an applicable tax treaty, the Borrower or the Agent shall withhold taxes from such payments at the applicable statutory rate in the case of payments to or for

any Issuing Bank or Bank organized under the laws of a jurisdiction outside the United States.

(g) The Borrower shall not be required to pay any additional amounts to any Issuing Bank or Bank in respect of United States withholding tax pursuant to paragraph (a) above if the obligation to pay such additional amounts would not have arisen but for a failure by such Issuing Bank or Bank to comply with the provisions of Section 2.13 unless such failure results from (i) a change in applicable law, regulation or official interpretation thereof or (ii) an amendment, modification or revocation of any applicable tax treaty or a change in official position regarding the application or interpretation thereof, in each case after the Effective Date.

(h) Any Bank claiming any additional amounts payable pursuant to this Section 2.l5 shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document requested by the Borrower or to change the jurisdiction of its Applicable Lending Office if the making of such a filing or change would avoid the need for or reduce the amount of any such additional amounts which may thereafter accrue and would not, in the judgment of such Bank, be otherwise disadvantageous to such Bank.

SECTION 2.16. Extension of Working Capital Availability Period. Not earlier than the date two years prior to the then scheduled expiration of the Working Capital Availability Period, the Borrower may, by written notice to the Agent and the Banks, request a one-year extension of the Working Capital Availability Period. If the Agent shall receive written approval of such extension from each Bank within 30 days after the date of such notice from the Borrower, then the scheduled expiration date of the Working Capital Availability Period shall be deemed to be extended to the date one year after the then scheduled expiration date in respect thereof. The Agent shall notify the Borrower and the Banks promptly following the expiration of such 30-day period (or such earlier date as the Agent shall have received written approval of such extension from all the Banks) whether the Working Capital Availability Period has been extended. The approval by any Bank of any extension requested hereunder may be granted or withheld in the sole discretion of such Bank.

## ARTICLE III

## CONDITIONS

SECTION 3.01. Effectiveness. The Original Credit Agreement became effective on the date that each of the following conditions was satisfied (or waived in accordance with Section 9.05 thereof):

(a) receipt by the Agent of counterparts of the Original Credit Agreement signed by each of the parties thereto (or, in the case of any party as to which an executed counterpart was not received, receipt by the Agent in form satisfactory to it of telegraphic, telex or other written confirmation from such party of execution of a counterpart thereof by such party);

(b) receipt by the Agent for the account of each Bank of a duly executed Note for each Class (as defined in the Original Credit Agreement) of Loans, dated on or before the Effective Date complying with the provisions of Section 2.03 of the Original Credit Agreement;

(c) receipt by the Agent of an opinion of Bryan Cave, counsel for the Borrower, substantially in the form of Exhibit G thereto and covering such additional matters relating to the transactions contemplated thereby as the Required Banks may reasonably request;

(d) receipt by the Agent of (i) a certificate signed by any Vice President of the Borrower, dated the Effective Date, to the effect set forth in clauses (b), (c) and (d) of Section 3.02 thereof and (ii) a certificate signed by any Vice President of Emerson,

dated the Effective Date, to the effect set forth in Section 4.13 thereof regarding information furnished by Emerson to the Agent or any Bank;

(e) receipt by the Agent of counterparts of the Guarantee Agreement and the Subordination Agreement, duly executed by the parties thereto;

(f) receipt by the Security Agent of counterparts of the Pledge Agreement, duly executed by the parties thereto, and certificates representing all outstanding shares of capital stock of the Borrower and each Subsidiary of the Borrower to be pledged under the Pledge Agreement, accompanied by stock powers endorsed in blank;

(g) receipt by the Security Agent of counterparts of the Security Agreement, duly executed by the parties thereto, and a duly completed and executed Perfection Certificate from each grantor under the Security Agreement, substantially in the form of Exhibit H hereto;

(h) receipt by the Security Agent of copies of each document (including each Uniform Commercial Code financing statement) required by law or reasonably requested by the Security Agent to be filed, registered or recorded in order to create in favor of the Security Agent for the benefit of the Banks a valid, legal and perfected security interest in or lien on the collateral that is the subject of the Security Agreement;

(i) receipt by the Security Agent of (i) the results of a search of the Uniform Commercial Code financing statements filed with respect to ESCO, the Borrower and the Specified Subsidiaries in the States in which are located the chief executive offices of such Persons and the other jurisdictions in which Uniform Commercial Code financing statements are to be filed pursuant to the preceding paragraph, together with copies of all financing statements disclosed by such search, and accompanied by evidence reasonably satisfactory to the Required Banks that each Lien indicated in any such financing statement is permitted thereunder or that the collateral subject to the Lien indicated thereby has been released; or (ii) if the condition set forth in clause (i) is not fully satisfied, a written undertaking from Emerson, in form and substance satisfactory to the Required Banks and for the benefit of the Borrower and the Banks, to (A) cause (at Emerson's cost and expense) the termination of any financing statement indicating a Lien that is not permitted thereunder and that would have been disclosed by information required to be delivered pursuant to clause (i) above and not so delivered prior to the Effective Date and the release of the collateral subject to such Lien and (B) discharge (at Emerson's cost and expense) each obligation the payment of which is secured by the collateral described in such financing statement (provided that Emerson's undertaking may require that the Borrower bear the costs and expenses of all such terminations, releases and discharges if the total thereof does not exceed $100,000);

(j) receipt by the Security Agent of each mortgage, deed of trust, assignment of leases and similar instrument or document required by law or reasonably requested by the Security Agent (all in form and substance reasonably satisfactory to the Required Banks) to be filed, registered or recorded in order to create in favor of the Security Agent (or a trustee on its behalf) for the benefit of the Banks a valid, legal and perfected first priority security interest in or lien on the real property (and improvements thereon) owned by the Borrower or any Specified Subsidiary and identified on Schedule 3.01(j) thereto, in each case duly executed and delivered by each mortgagor, grantor or pledgor thereunder;

(k) ESCO shall have acquired direct beneficial and record ownership of all outstanding shares of capital stock of the Borrower, and the Borrower shall have acquired direct (or, in the case of DCS and Vacco, indirect) beneficial and record ownership of all outstanding shares of capital stock of each Specified Subsidiary and ESCO, the Borrower and the Specified Subsidiaries shall have acquired the other assets to be transferred to them pursuant to the Distribution Agreement, free and clear of any Liens (other than Liens granted under the Security Documents);

(l) receipt by the Banks of true and complete copies of the Information Statement and the Transaction Documents, satisfaction of the Banks with the form, terms and provisions of the Transaction Documents, and consummation of all transactions contemplated thereby to be consummated on or prior to the Effective Date in accordance with the terms and conditions thereof without giving effect to any amendment, modification or waiver not approved by the Banks;

(m) satisfaction of the Banks with any material changes in or to the terms of the Transactions or the organization and capital structure of ESCO, the Borrower and the Specified Subsidiaries, in each case from the terms, organization and capital structure thereof disclosed to the Banks prior to the Effective Date;

(n) receipt by the Banks of satisfactory evidence that any and all Governmental Reviews shall have been concluded without any action having been taken that, in the opinion of the Required Banks, could have a Material Adverse Effect;

(o) the Banks shall be satisfied that none of ESCO, the Borrower and the Specified Subsidiaries have any Debt (other than Debt permitted under clauses (ii), (iii), (iv) and (v) of Section 5.11(a) of the Original Credit Agreement) and shall be satisfied with the terms and conditions of any such Debt permitted thereunder;

(p) receipt by the Banks of satisfactory evidence that ESCO, Emerson and their respective affiliates shall have obtained all consents and approvals of, and shall have made all filings and registrations with, any Governmental Authority required in order to consummate the Transactions (other than the declaration by the Securities and Exchange Commission of the effectiveness of the Borrower's Form 10 Registration Statement filed in connection with the Transactions), in each case without the imposition of any condition which, in the judgment of the Required Banks, could have a Material Adverse Effect;

(q) the Banks shall be satisfied that, after giving effect to the Transactions, the total liabilities of the Borrower shall increase by less than 100% and the ratio of the Borrower's total liabilities to total assets shall be less than 75%;

(r) receipt by the Banks of an environmental audit report, satisfactory in substance and scope to the Banks and from an environmental consulting firm acceptable to the Banks, as to any environmental hazards, conditions or liabilities to which ESCO, the Borrower or any of the Specified Subsidiaries may be subject, and the Banks shall be satisfied with the amount and nature of any such hazards, conditions or liabilities and with the Borrower's plans with respect thereto;

(s) receipt by the Banks of historical and pro forma (giving effect to the Transactions) consolidated balance sheets of ESCO as of a recent date, and the Banks shall be satisfied with the form and substance thereof;

(t) receipt by the Agent of a written, irrevocable acknowledgment by Emerson, on behalf of itself and its

subsidiaries and in form and substance satisfactory to the Required Banks, that all Emerson Debt outstanding as of September 28, 1990, is forgiven as of September 28, 1990;

(u) the fact that the Required Banks shall not have advised the Agent that, in their judgment, either (i) there shall have occurred a material adverse change in the business, assets, operations, prospects or condition, financial or otherwise, of ESCO, the Borrower and the Specified Subsidiaries, taken as a whole, since June 30, 1990, or (ii) there is an action, suit or proceeding pending or threatened against the Borrower, Emerson or any of their respective affiliates in which there is a reasonable possibility of an adverse decision, or there is a pending dispute involving any contract, agreement or purchase order relating to the business of any Specified Subsidiary, and, in any such case, there is a reasonable possibility that the resolution of such action, suit, proceeding or dispute could materially adversely affect the ability of the Borrower to perform any of its obligations under the Loan Documents or the rights of the Banks thereunder or the ability of the Banks to exercise such rights;

(v) receipt by the Agent and the Banks of all fees and other compensation payable to them on or prior to the Effective Date pursuant to their agreements with Emerson, ESCO or the Borrower; and

(w) receipt by the Agent of all documents it may reasonably request relating to the existence of ESCO, the Borrower and the Specified Subsidiaries, the corporate authority for and the validity of the Loan Documents, and any other matters relevant hereto, all in form and substance satisfactory to the Agent.

SECTION 3.02. Each Credit Event. The obligation of any Bank to make a Loan on the occasion of any Borrowing and of an Issuing Bank to issue a Letter of Credit is subject to the satisfaction of the following conditions:

(a) receipt by the Agent of a Notice of Borrowing as required by Section 2.02 or a notice requesting issuance of a Letter of Credit as required by Section 2.14(c), as applicable;

(b) the fact that, immediately after such Borrowing or the issuance of such Letter of Credit, the aggregate outstanding principal amount of the Loans and the Letter of Credit Exposure will not exceed the limitations set forth in Sections 2.01 and 2.14(a);

(c) the fact that, immediately after such Borrowing or the issuance of such Letter of Credit, no Default shall have occurred and be continuing; and

(d) the fact that the representations and warranties of ESCO, the Borrower and its Subsidiaries contained in this Agreement and the other Loan Documents shall be true on and as of the date of such Borrowing or of the issuance of such Letter of Credit.

Each Borrowing hereunder and the issuance of each Letter of Credit hereunder shall be deemed to be a representation and warranty by the Borrower on the date of such Borrowing or issuance as to the facts specified in clauses (b), (c), and (d) of this Section.

SECTION 3.03. Amendment and Restatement. This amendment and restatement shall become effective, and this Agreement as in effect prior to this amendment and restatement shall be amended and restated in its entirety in the form of this Agreement, only upon satisfaction, on or prior to February 15, 1997, of the following conditions precedent (the date on which each of such conditions has been satisfied (or waived in accordance with Section 9.05) (such date being herein called the "Amendment and Restatement Effective Date"):

(a) receipt by the Agent of counterparts hereof signed by each of the parties hereto (or, in the case of any party as to which an executed counterpart shall not have been received, receipt by the Agent in form satisfactory to it of telegraphic, telex or other written confirmation from such party of execution of a counterpart hereof by such party);

(b) receipt by the Agent of an opinion of Bryan Cave LLP, in form and substance satisfactory to the Agent, covering such matters relating to this amendment and restatement as the Agent shall reasonably request;

(c) receipt by the Agent for distribution to the Banks of the aggregate amount of the fees due and payable pursuant to Section 2.06(c), all in the manner specified in Section 2.10;

(d) receipt by the Agent for distribution to the Issuing Banks and the Banks party to this Agreement immediately prior to the effectiveness of the amendment and restatement of this Agreement on the Amendment and Restatement Effective Date and prior to giving effect to any assignments becoming effective on such date of the aggregate amount accrued to the Amendment and Restatement Effective Date of the commitment fees referred to in Section 2.06 and of the fees referred to in Section 2.14(f), all in the manner specified in Section 2.10 (the amounts of such fees and the distribution thereof to be in accordance with the interests of the Issuing Banks and such Banks hereunder immediately prior to the effectiveness of the amendment and restatement of this Agreement on the Amendment and Restatement Effective Date and any assignments becoming effective on such date);

(e) any Loans outstanding immediately prior to the effectiveness of the amendment and restatement of this Agreement on the Amendment and Restatement Effective Date shall have been prepaid, together with accrued interest thereon and any amount owed as a result of such prepayment pursuant to Section 2.11 (unless such amount owed is otherwise waived by the Banks); provided that the foregoing shall not prejudice the Borrower's right to finance such prepayment with the proceeds of Borrowings hereunder, subject to the terms and conditions hereof, on the Amendment and Restatement Effective Date;

(f) as of the Amendment and Restatement Effective Date and after giving effect to this Agreement, (i) no Default shall have occurred and be continuing and (ii) the representations and warranties of ESCO, the Borrower and its Subsidiaries contained in this Agreement and the other Loan Documents shall be true on and as of such date;

(g) receipt by the Security Agent of a duly completed and executed Perfection Certificate, dated as of the Amendment and Restatement Effective Date and substantially in the form of Exhibit I hereto;

(h) receipt by the Security Agent of copies of each document (including each Uniform Commercial Code financing statement), if any, required by law or reasonably requested by the Security Agent to be filed, registered or recorded in order to create in favor of the Security Agent for the benefit of the Banks a valid, legal and perfected security interest in or lien on all of the collateral that is the subject of the Security Agreement and with respect to which the lien thereon, or security interest therein, has not been previously perfected;

(i) the fact that the Required Banks shall not have advised the Agent that, in their judgment, there shall have occurred a material adverse change in the business, assets, operations, prospects or condition, financial or otherwise, of ESCO, the Borrower and the Specified Subsidiaries, taken as a whole, since September 30, 1996;

(j) receipt by the Agent of all documents it may reasonably request relating to any matter relevant to this Agreement, including such evidence as it may request as to the perfection and first-priority status of each security interest and Lien created or intended to be created by the Security Documents and such documents as it deems necessary in order to amend or modify any of the Security Documents to reflect the changes made pursuant to this amendment and restatement, all in form and substance satisfactory to the Agent and the Banks;

(k) receipt by the Agent for the account of each Bank of a duly executed Note or Notes, dated on or before the Amendment and Restatement Effective Date and complying with the provisions of Section 2.03; and

(l) consummation of the Filtertek Acquisition on the terms and conditions set forth in the Filtertek Acquisition Documents, without any material amendment to, modification of, or waiver under, any of the Filtertek Acquisition Documents previously delivered to the Banks (except such as have been approved by the Required Banks), and receipt by the Agent of all documents required to be delivered pursuant to Section 5.08 resulting from the creation of any new Subsidiaries in connection with the Filtertek Acquisition.

The Agent shall promptly notify the Borrower and the Banks of the effectiveness of this amendment and restatement of this Agreement, and such notice shall be conclusive and binding on all parties hereto. Each of the parties hereto agrees that, as of the Amendment and Restatement Effective Date, each Bank shall be deemed to have assigned a proportionate part of its rights and obligations under this Agreement and the Notes to the other Banks to the extent necessary such that the Commitments of the Banks as of the Amendment and Restatement Effective Date shall be as set forth in Schedule 1 hereto and the participation of each Bank in any outstanding Letters of Credit shall be proportionate to its pro rata share of the Working Capital Commitments, and the Banks agree to assume, as of the Amendment and Restatement Effective Date, such rights and obligations to such extent.

On and after the Amendment and Restatement Effective Date, all Letters of Credit issued prior to such date which remain outstanding on such date shall continue to constitute "Letters of Credit" for all purposes of this Agreement and the other Loan Documents.

## ARTICLE IV

## REPRESENTATIONS AND WARRANTIES

Each of ESCO and the Borrower represents and warrants that:

SECTION 4.01. Corporate Existence and Power. The Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware, and has all corporate powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted.

SECTION 4.02. Corporate and Governmental Authorization; No Contravention. The execution, delivery and performance by each of ESCO, the Borrower and the Specified Subsidiaries of this Agreement and the other Loan Documents to which it is or is to be a party and the consummation of the Financing Transactions and, to the extent involving ESCO, the Borrower or any Specified Subsidiary, the other Transactions and the Filtertek Acquisition are within its corporate powers, have been duly authorized by all necessary corporate action, require no action by or in respect of, or filing with, any Governmental Authority (other than such as have been duly taken or made)

and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the certificate of incorporation or by-laws of ESCO, the Borrower or any Specified Subsidiary or of any agreement, judgment, injunction, order, decree or other instrument binding upon ESCO, the Borrower or any Specified Subsidiary or result in the creation or imposition of any Lien (other than the Liens of the Security Documents) on any asset of ESCO, the Borrower or any of its Subsidiaries, in each case both before and after giving effect to the Transactions and consummation of the Filtertek Acquisition.

SECTION 4.03. Binding Effect. This Agreement constitutes a valid and binding agreement of each of ESCO and the Borrower and the other Loan Documents, when executed and delivered in accordance with this Agreement, will constitute valid and binding obligations of each of ESCO, the Borrower and the Specified Subsidiaries party thereto, in each case enforceable in accordance with its terms.

SECTION 4.04. Financial Information. (a) The consolidated and consolidating balance sheets of ESCO, the Borrower and its Consolidated Subsidiaries as of September 30, 1996 and 1995, and the related consolidated and consolidating statements of income and cash flows for each of the years in the two-year period ended September 30, 1996, reported on by KPMG Peat Marwick and delivered to each of the Banks pursuant to Section 5.01(a), fairly present, in conformity with generally accepted accounting principles, the financial position of ESCO, the Borrower and its Consolidated Subsidiaries as of such dates and the results of their operations and cash flows for such years.

(b) Since September 30, 1996, there has been no material adverse change in the business, assets, operations, prospects or condition, financial or otherwise, of the Specified Subsidiaries or of ESCO, the Borrower and its Consolidated Subsidiaries, in each case considered as a whole.

SECTION 4.05. Litigation. There is no (i) injunction, stay, decree or order of any Governmental Authority, (ii) Governmental Review or (iii) except as disclosed in Schedule 4.05, action, suit or proceeding pending against, or to the knowledge of ESCO or the Borrower threatened against or affecting, Emerson, ESCO, the Borrower or any of its Subsidiaries before any court or arbitrator or any governmental body, agency or official in which there is a reasonable possibility of an adverse decision, which in any such case could have a Material Adverse Effect or which in any manner draws into question the validity or enforceability of the Distribution Agreement, this Agreement or the other Loan Documents.

SECTION 4.06. Compliance with ERISA. Each member of the ERISA Group has fulfilled its obligations under the minimum funding standards of ERISA and the Internal Revenue Code with respect to each Plan and is in compliance in all material respects with the presently applicable provisions of ERISA and the Internal Revenue Code, and has not incurred any liability to the PBGC or a Plan under Title IV of ERISA other than a liability to the PBGC for premiums under Section 4007 of ERISA.

SECTION 4.07. Taxes. ESCO, the Borrower and its Subsidiaries have filed or caused to be filed all United States Federal income tax returns and all other material tax returns which are required to be filed by them and have paid or caused to be paid all taxes shown to be due on such returns or pursuant to any assessment received by ESCO, the Borrower or any Subsidiary, except where the same may be contested in good faith by appropriate proceedings. The charges, accruals and reserves on the books of ESCO, the Borrower and its Subsidiaries in respect of taxes or other governmental charges are, in the opinion of ESCO and the Borrower, adequate.

SECTION 4.08. Subsidiaries. Each of ESCO and the Borrower's corporate Subsidiaries is a corporation duly incorporated, validly existing and in good standing under the laws of its jurisdiction of incorporation, and has all

corporate powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted. As of the Amendment and Restatement Effective Date, the only direct Subsidiary of ESCO shall be the Borrower and the only Subsidiaries of the Borrower shall be the Specified Subsidiaries and FSI, each of which shall be a Wholly-Owned Consolidated Subsidiary.

SECTION 4.09. Not an Investment Company. Neither ESCO nor the Borrower is an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

SECTION 4.10. Compliance with Laws. Neither ESCO, the Borrower nor any of the Subsidiaries is in violation of any material law, rule or regulation, or in default with respect to any material judgment, writ, injunction or decree applicable to it of any Governmental Authority.

SECTION 4.11. Agreements. (a) Neither ESCO, the Borrower nor any of the Subsidiaries is a party to any agreement or instrument or subject to any corporate restriction that has resulted or could result in a Material Adverse Effect. Neither ESCO, the Borrower nor any of the Subsidiaries is a party to any agreement or instrument or subject to any corporate restriction that restricts or impairs (i) the ability of ESCO, the Borrower and its Subsidiaries to grant to the Security Agent Liens on any of their assets to secure the Obligations or (ii) the ability of any Subsidiary to pay dividends on its capital stock.

(b) Neither ESCO, the Borrower nor any of the Subsidiaries is in default in any manner under any provision of any indenture or other agreement or instrument evidencing Debt, or (except as disclosed in Schedule 4.05) any other agreement or instrument to which it is a party or by which it or any of its properties or assets are or may be bound (including any Exposed Government Contract), where such default could result in a Material Adverse Effect.

SECTION 4.12. Federal Reserve Regulations. Neither ESCO, the Borrower nor any of the Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose of purchasing or carrying Margin Stock.

SECTION 4.13. Disclosure. All information heretofore furnished by ESCO, the Borrower or any Subsidiary to the Agent or any Bank for purposes of or in connection with this Agreement or any transaction contemplated hereby was, and all such information hereafter furnished by ESCO, the Borrower or any Subsidiary to the Agent or any Bank will be, true and accurate in all material respects or based on reasonable estimates on the date as of which such information is stated or certified. ESCO and the Borrower have disclosed to the Banks in writing any and all facts known to any officer of ESCO or the Borrower which materially and adversely affect or may materially and adversely affect (to the extent ESCO and the Borrower can now reasonably foresee) the business, financial position or results of operations of ESCO, the Borrower and its Consolidated Subsidiaries, considered as a whole. The Borrower has heretofore provided the Banks with certain projected financial information which ESCO and the Borrower believe to have been prepared in a reasonable manner and based on reasonable assumptions with respect to ESCO's business; provided that no representation is made by ESCO or the Borrower that the future results of ESCO will equal those set forth in such projected financial information.

SECTION 4.14. Solvency. After giving effect to the Transactions, (a) the fair salable value of each of the assets of ESCO, the Borrower and the Specified Subsidiaries will exceed the amount that will be required to be paid on or in respect of its existing debts and other liabilities (including contingent liabilities) as they mature; (b) the assets of each of ESCO, the Borrower and the Specified Subsidiaries will not constitute unreasonably small capital to carry out its business as conducted or as proposed to be conducted; and (c) none of ESCO, the Borrower and the Specified Subsidiaries will intend to, or will believe that it will, incur debts beyond its ability to pay such debts as

they mature (taking into account the timing and amounts of cash to be received by it and the amounts to be payable on or in respect of its obligations).

SECTION 4.15. Governmental Approvals. As of the Effective Date, all consents and approvals of, and filings and registrations with, and all other actions in respect of, all Governmental Authorities or any other Person required in order to consummate the Transactions were obtained, given, filed or taken and shall be in full force and effect, other than the declaration by the Securities and Exchange Commission of the effectiveness of the Borrower's Form 10 Registration Statement filed in connection with the Transactions.

SECTION 4.16. Security Interests. (a) The security interests created in favor of the Security Agent under the Pledge Agreement will at all times after the execution and delivery of the Pledge Agreement constitute valid, first-priority, perfected security interests in the Pledged Securities (as defined therein), and such Pledged Securities will be subject to no Liens or security interests of any other Person. No filings or recordings are or will be required in order to perfect the security interests in the Pledged Securities created under the Pledge Agreement.

(b) Upon the completion of the filings and recordation referred to in clauses (h) and (j) of Section 3.01 and in clause (h) of Section 3.03 in the filing and recording offices specified in the Perfection Certificates referred to in clause (g) of Section 3.01 and clause (g) of Section 3.03, the security interests created in favor of the Security Agent for the benefit of the Banks under the Security Agreement and Mortgages will constitute valid, perfected security interests in the collateral subject thereto, subject only to Liens permitted by the Loan Documents.

SECTION 4.17. Employment and Management Agreements. Except as disclosed in Schedule 4.17, as of the Amendment and Restatement Effective Date, there are no (a) employment agreements covering management employees of ESCO, the Borrower or any of the Specified Subsidiaries, (b) agreements for management or consulting services to which ESCO, the Borrower or any of the Specified Subsidiaries is a party or by which it is bound (other than for consulting services in the ordinary course of business), or (c) collective bargaining agreements or other labor agreements covering any of the employees of ESCO, the Borrower or any of the Specified Subsidiaries.

SECTION 4.18. Capitalization. As of the Effective Date, the authorized capital stock of ESCO consists of 50,000,000 shares of common stock, par value $0.01 per share (the "ESCO Common Stock"), and 10,000,000 shares of preferred stock (the "ESCO Preferred Stock"), of which approximately 11,150,000 shares of ESCO Common Stock and no shares of ESCO Preferred Stock were issued and outstanding on the Effective Date. All such outstanding shares of ESCO Common Stock shall be fully paid and nonassessable and shall be owned beneficially and of record as described in the Information Statement. All the outstanding shares of capital stock of the Borrower are owned beneficially and of record by ESCO. There are no outstanding subscriptions, options, warrants, calls, rights (including preemptive rights) or other agreements or commitments of any nature relating to any capital stock of ESCO or the Borrower, except as described in the Information Statement with respect to capital stock of ESCO and except for options to acquire up to 2,390,000 shares of ESCO Common Stock authorized by the Board of Directors of ESCO to be granted to members of the management of the Borrower or a Specified Subsidiary.

SECTION 4.19. Environmental Matters. Each of ESCO, the Borrower and the Subsidiaries has complied in all material respects with all Federal, state, local and other statutes, ordinances, orders, judgments, rulings and regulations relating to environmental pollution or to environmental regulation or control. None of ESCO, the Borrower and the Subsidiaries has received notice of any

failure so to comply which alone or together with any other such failure could result in a Material Adverse Effect. The facilities of ESCO, the Borrower and the Subsidiaries do not manage or handle any hazardous wastes, hazardous substances, hazardous materials, toxic substances or toxic pollutants, as those terms are used in the Resource Conservation and Recovery Act, the Comprehensive Environmental Response Compensation and Liability Act, the Superfund Amendments and Reauthorization Act of 1986, the Hazardous Materials Transportation Act, the Toxic Substance Control Act, the Clean Air Act or the Clean Water Act, in violation thereof or in violation of any regulations promulgated pursuant thereto or of any other applicable law where such violation could result, individually or together with other violations, in a Material Adverse Effect.

ARTICLE V

COVENANTS

ESCO and the Borrower jointly and severally agree that, so long as any Bank has any Commitment hereunder or any amount payable under any Loan Document remains unpaid or any Letter of Credit remains outstanding:

SECTION 5.01. Information. The Borrower will deliver to each of the Banks:

(a) as soon as available and in any event within 90 days after the end of each fiscal year of ESCO, consolidated and consolidating balance sheets of ESCO, the Borrower and its Consolidated Subsidiaries as of the end of such fiscal year and the related consolidated and consolidating statements of income and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by KPMG Peat Marwick or other independent public accountants of nationally recognized standing;

(b) as soon as available and in any event within 45 days after the end of each of the first three quarters of each fiscal year of ESCO, consolidated balance sheets of ESCO, the Borrower and its Consolidated Subsidiaries as of the end of such quarter and the related consolidated statements of income and cash flows for such quarter and for the portion of ESCO's fiscal year ended at the end of such quarter, setting forth in each case in comparative form the figures for the corresponding quarter and the corresponding portion of ESCO's previous fiscal year, all certified (subject to normal year-end adjustments) as to fairness of presentation, generally accepted accounting principles and consistency by the chief financial officer or the chief accounting officer of ESCO;

(c) simultaneously with the delivery of each set of financial statements referred to in clauses (a) and (b) above, a certificate of the chief financial officer or the chief accounting officer of ESCO (i) setting forth in reasonable detail a list of Investments in order to establish whether ESCO was in compliance with Section 5.16 and the calculations required to establish whether ESCO was in compliance with the requirements of Sections 5.21, 5.22 and 5.23 on the date of such financial statements, (ii) stating whether any Default exists on the date of such certificate and, if any Default then exists, setting forth the details thereof and the action which ESCO and the Borrower are taking or propose to take with respect thereto and (iii) stating whether, since the date of the most recent financial statements previously delivered pursuant to this Section, there has been any material change in the generally accepted accounting principles applied in the preparation of such statements and, if so, describing such change;

(d) simultaneously with the delivery of each set of financial statements referred to in clause (a) above, a statement of the firm of independent public accountants

which reported on such statements (i) whether anything has come to their attention to cause them to believe that any Default existed on the date of such statements and (ii) confirming the calculations set forth in the officer's certificate delivered simultaneously therewith pursuant to clause (c) above;

(e) simultaneously with the delivery of each set of financial statements referred to in clauses (a) and (b) above, (i) a Receivables aging report broken down by division with respect to the Receivables outstanding as of the last day of the immediately preceding quarter and (ii) a report setting forth the twenty largest Receivables obligors with respect to all Receivables outstanding as of the last day of the immediately preceding quarter, in each case, together with an attached certificate of the chief financial officer or the chief accounting officer of ESCO certifying as to the accuracy of such report;

(f) simultaneously with the delivery of each set of financial statements referred to in clause (a), a report setting forth the aggregate dollar amount of Receivables written-off as uncollectible during the immediately preceding fiscal year, together with an attached certificate of the chief financial officer, the chief accounting officer or the treasurer of ESCO certifying as to the accuracy of such report;

(g) within 20 days after the last day of each calendar month, a Borrowing Base Certificate as of such last day certified by the chief financial officer or chief accounting officer of ESCO (which certificate the Agent and the Security Agent shall have the right to audit at the expense of the Borrower); provided that Schedules II and III to each Borrowing Base Certificate shall be delivered only to the Security Agent;

(h) prompt notice of (i) any default or alleged default under the Distribution Agreement or any claim or request by Emerson for any payment or collateral thereunder, (ii) any Governmental Reviews initiated or threatened and (iii) any notice received by ESCO, the Borrower or any Subsidiary regarding the termination or possible termination of any Exposed Government Contract (or any other material contract) or alleging any default thereunder or requesting the return of progress payments made thereunder;

(i) prompt notice of each Prepayment Event, including a reasonably detailed calculation of the Net Cash Proceeds therefrom;

(j) within five days after any officer of ESCO or the Borrower obtains knowledge of any Default, if such Default is then continuing, a certificate of the chief financial officer or the chief accounting officer of ESCO setting forth the details thereof and the action which ESCO and the Borrower are taking or propose to take with respect thereto;

(k) promptly upon the mailing thereof to the shareholders of ESCO generally, copies of all financial statements, reports and proxy statements so mailed;

(l) promptly upon the filing thereof, copies of all registration statements (other than the exhibits thereto and any registration statements on Form S-8 or its equivalent) and reports on Forms 10-K, 10-Q and 8-K (or their equivalents) which ESCO shall have filed with the Securities and Exchange Commission;

(m) if and when any member of the ERISA Group (i) gives or is required to give notice to the PBGC of any "reportable event" (as defined in Section 4043 of ERISA) with respect to any Plan which might constitute grounds for a termination of such Plan under Title IV of ERISA, or knows that the plan administrator of any Plan has given or is required to give notice of any such reportable event, a copy of the notice of such reportable event given or required to be given to the

PBGC; (ii) receives notice of complete or partial withdrawal liability under Title IV of ERISA, a copy of such notice; or (iii) receives notice from the PBGC under Title IV of ERISA of an intent to terminate or appoint a trustee to administer any Plan, a copy of such notice;

(n) promptly upon delivery thereof to Emerson, copies of any and all financial plans and projections delivered pursuant to Section F-4(a) or (b) of Exhibit F to the Distribution Agreement, to the extent not duplicative of information previously delivered to the Banks;

(o) promptly upon the formation of any Restricted Subsidiary or Permitted Joint Venture, a written description thereof in sufficient detail satisfactory to the Banks and in the case of a Permitted Joint Venture, copies of the joint-venture agreement and related documents (including such documents as shall be necessary or as any Bank shall request in order for such Bank to make its own determination that such Permitted Joint Venture is in compliance with the conditions contained in the definition thereof and the other restrictions pertaining thereto contained in this Agreement); and

(p) from time to time such additional information regarding the financial position or business of ESCO, the Borrower and its Subsidiaries as the Agent, at the request of any Bank, may reasonably request; provided, that notwithstanding this or any other provision of this Agreement or any other Loan Document (i) any Bank which is a "foreign interest", as defined in relevant regulations of the Department of Defense, shall not require, will not have, and will be effectively excluded from, access to any and all classified information in the possession of any cleared facility of ESCO, the Borrower or any Specified Subsidiary, in each case to the extent prohibited by regulations of the Department of Defense, and (ii) the access of any and all of the Banks, their agents and representatives to any information shall at all times be subject to all laws and regulations of the United States with respect to national security and classified information, including without limitation Section 721 of Title VII of the Defense Production Act of 1950, as amended by Section 5021 of the Omnibus Trade and Competitiveness Act of 1988 and the regulations thereunder.

SECTION 5.02. Payment of Obligations. ESCO and the Borrower will pay and discharge, and will cause each Subsidiary to pay and discharge, at or before maturity, all their respective material obligations and liabilities, including, without limitation, tax liabilities, except where the same may be contested in good faith by appropriate proceedings, and will maintain, and will cause each Subsidiary to maintain, in accordance with generally accepted accounting principles, appropriate reserves for the accrual of any of the same.

SECTION 5.03. Maintenance of Property; Insurance. (a) ESCO and the Borrower will keep, and will cause each Subsidiary to keep, all property useful and necessary in its business in good working order and condition, ordinary wear and tear excepted.

(b) ESCO and the Borrower will maintain, and will cause each Subsidiary to maintain, (i) physical damage insurance on all real and personal property on an all risks basis (including the perils of flood and quake), covering the repair and replacement cost of all such property and consequential loss coverage for business interruption and extra expense, (ii) comprehensive general liability insurance (including products/completed operations liability coverage) in an amount not less than $200,000,000 per occurrence, in the case of aircraft product liability insurance, and in an amount not less than $25,000,000 per occurrence in all other cases, and (iii) such other insurance coverage in such amounts and with respect to such risks as shall be required by the terms of any other Loan

Document or as the Required Banks may reasonably request. All such insurance shall be provided by insurers having an A.M. Best policyholders rating of not less than B+ or such other insurers as the Required Banks may approve in writing; provided that, as long as the Borrower obtains insurance through Emerson, Emerson shall be an acceptable insurer to the extent of its self-insurance levels unless and until the Required Banks notify the Borrower that Emerson shall no longer be an acceptable insurer due to a material adverse change in its financial condition. The Borrower will deliver to the Banks (i) on the date of the first Borrowing hereunder, a certificate dated such date showing the amount of coverage as of such date, (ii) upon request of any Bank through the Agent from time to time full information as to the insurance carried, (iii) within five days of receipt of notice from any insurer a copy of any notice of cancellation or material change in coverage from that existing on the date of this Agreement and (iv) forthwith, notice of any cancellation or nonrenewal of coverage by the Borrower.

SECTION 5.04. Conduct of Business and Maintenance of Existence. ESCO and the Borrower will continue, and will cause each Subsidiary to continue, to engage in business of the same general type as now conducted by the Specified Subsidiaries, and will preserve, renew and keep in full force and effect, and will cause each Subsidiary to preserve, renew and keep in full force and effect, their respective corporate existences and their respective rights, privileges and franchises necessary or desirable in the normal conduct of business; provided that the foregoing shall not prohibit the liquidation of any Subsidiary or the merger or consolidation of any Subsidiary with any other Person if such liquidation, merger or consolidation is expressly permitted by Section 5.13. ESCO's only business shall be the ownership of the Borrower's capital stock and activities incidental thereto.

SECTION 5.05. Compliance with Laws. ESCO and the Borrower will comply, and cause each Subsidiary to comply, in all material respects with all applicable laws, ordinances, rules, regulations, and requirements of Governmental Authorities (including, without limitation, ERISA and the rules and regulations thereunder) except where the necessity of compliance therewith is contested in good faith by appropriate proceedings.

SECTION 5.06. Inspection of Property, Books and Records. ESCO and the Borrower will keep, and will cause each Subsidiary to keep, proper books of record and account in which full, true and correct entries shall be made of all dealings and transactions in relation to its business and activities; and will permit, and will cause each Subsidiary to permit, representatives of any Bank at such Bank's expense to visit and inspect any of their respective properties, to examine and make abstracts from any of their respective books and records (except to the extent prohibited by applicable law) and to discuss their respective affairs, finances and accounts with their respective officers, employees and independent public accountants, all at such reasonable times and as often as may reasonably be desired.

SECTION 5.07. Fiscal Year. ESCO will cause its fiscal year to end on September 30.

SECTION 5.08. Further Assurances. (a) ESCO and the Borrower will execute any and all further documents, financing statements, agreements and instruments, and take all further action, which may be required under applicable law, or which the Required Banks or the Agent or Security Agent may reasonably request, in order to effectuate the transactions contemplated by the Loan Documents and in order to grant, preserve, protect and perfect the validity and first priority of the security interests created or intended to be created by the Security Documents, including, without limitation, such actions as shall be requested (i) in order to amend or modify any of the Security Documents to reflect the changes made pursuant to this amendment and restatement or any future amendment, extension or modification to this Agreement or (ii) in order to effectuate the assignment in accordance with the Assignment of Claims Act of any

Receivables intended to be included in the Borrowing Base as Eligible Government Receivables. In addition, from time to time (including promptly following the Filtertek Acquisition), ESCO and the Borrower will, at the Borrower's cost and expense, promptly secure the Obligations by pledging or creating, or causing to be pledged or created, first priority perfected security interests with respect to such assets and properties of ESCO, the Borrower and the Subsidiaries as the Agent or the Required Banks shall reasonably designate, including, without limitation, if the Required Banks permit an additional Subsidiary under Section 5.09, or if an additional Subsidiary is acquired as contemplated by clause (f) of Section 5.16, causing such Subsidiary to become a party to the Guarantee Agreement and the Security Agreement and pledging (or causing to be pledged) the capital stock of such Subsidiary under the Pledge Agreement; provided, that ESCO and the Borrower shall not be required to cause any Subsidiary to pledge or create a security interest in its assets or properties in violation of any applicable law or regulation; provided further, that the Borrower shall not be required to pledge or create a security interest in any of the assets of SFL, FBV, FGMBH, FSA, Filtrotec or PPD (including the capital stock of PPD), nor shall SFL, FBV, FGMBH, FSA, Filtrotec or PPD be required to become a party to the Guarantee Agreement or the Security Agreement, and the pledge by the Borrower of the capital stock of SFL, and the pledge by Filtertek of the capital stock of FBV, FGMBH, FSA and Filtrotec shall be limited to 65% of each class of such capital stock. Such security interests and Liens will be created under security agreements, mortgages, deeds of trust and other instruments and documents in form and substance reasonably satisfactory to the Required Banks, and ESCO and the Borrower shall deliver or cause to be delivered to the Banks all such instruments and documents (including legal opinions, title insurance policies and lien searches) as the Required Banks shall reasonably request to evidence compliance with this Section 5.08. ESCO and the Borrower agree to provide such evidence as the Required Banks shall reasonably request as to the perfection and first priority status of each such security interest and Lien.

(b) The Borrower shall deliver to the Security Agent (at the Borrower's cost and expense), with respect to each property identified on Schedule 3.01(j), (i) within 90 days after the Effective Date, a title report and copies of each instrument of record identified therein as a Lien with respect to such property, (ii) on or prior to October 31, 1991, an ALTA lender's extended coverage title insurance policy from a reputable title insurance company with such endorsements as the Security Agent may reasonably require, providing coverage to the Security Agent (for the benefit of the Banks) in an amount equal to the approximate fair market value of such property (both land and improvements), insuring the Mortgage thereon as a valid, first priority Lien on such property, free and clear of Liens (other than Liens permitted under the Loan Documents), and (iii) within 90 days after the Effective Date, a current survey of such property, certified to the Security Agent and the title company issuing the insurance policy obtained under clause (ii) above, by a surveyor licensed in the state where such property is located, showing no state of facts that materially and adversely affect the Lien of the applicable Mortgage. In the event that any title report or survey so delivered discloses any information that, in the reasonable opinion of the Security Agent, materially impairs the Lien of any Mortgage, ESCO and the Borrower shall take, or cause to be taken, such action as the Security Agent may reasonably request in order to cure such impairment and grant, preserve, protect and perfect the Lien created or intended to be created by such Mortgage.

(c) In the event that the condition specified in subclause (i) of clause (i) of Section 3.01 shall not have been fully satisfied prior to the Effective Date, ESCO and the Borrower shall, within 60 days after the Effective Date, deliver to the Security Agent (at the Borrower's cost and expense) all searches, copies of financing statements and evidence contemplated thereby and not delivered prior to the Effective Date. In the event that the foregoing materials disclose any Lien not permitted under the Loan Documents,

the Borrower shall promptly take such remedial action as shall be required by the Security Agent, including enforcement of Emerson's undertaking referred to in subclause (ii) of clause (i) of Section 3.01.

SECTION 5.09. Subsidiaries; Partnerships. ESCO will not have any direct Subsidiaries other than the Borrower and any Restricted Subsidiaries. The Borrower will not have any direct or indirect Subsidiaries, other than the Specified Subsidiaries and any Subsidiaries resulting from any Investments made in accordance with clause (f) of Section 5.16 and any Restricted Subsidiaries, all of which shall be direct Subsidiaries (except that (i) PPD shall be a direct Subsidiary of SFL, (ii) Comtrak shall be a direct Subsidiary of SEI, (iii) EMC Test Systems shall be a limited partnership as described in the definition of "EMC Test Systems Reorganization", (iv) Rantec shall be a direct Subsidiary of Rantec Holding as described in the definition of "EMC Test Systems Reorganization", (v) Rantec Commercial shall be a direct Subsidiary of Rantec as described in the definition of "EMC Test Systems Reorganization", (vi) FBV, FGMBH, Filtrotec and FDPR shall be direct subsidiaries of Filtertek and (vii) FSA shall be a subsidiary of Filtertek and FBV). Neither ESCO nor the Borrower will, and they will not permit any of their Subsidiaries to, enter into any partnership or joint venture other than EMC Test Systems and a Permitted Joint Venture. Notwithstanding anything to the contrary contained in this Section (i) Uniexcel shall be a partially-owned Subsidiary of SFL and (ii) Filtertek de Puerto Rico S.A. may issue Class B Common Stock to certain of its senior executives.

SECTION 5.10. Amendment of Certain Documents. Neither ESCO nor the Borrower will permit any amendment or modification to be made to, or any waiver of its rights or the rights of any Subsidiary under, any Transaction Document or any Filtertek Acquisition Document unless, in the reasonable judgment of the Required Banks, such amendment, modification or waiver does not adversely affect the Borrower or the Banks.

SECTION 5.11. Debt; Preferred Stock; Letters of Credit. (a) Neither ESCO nor the Borrower will, nor will they permit any of their Subsidiaries to, incur or at any time be liable with respect to any Debt, except:

(i) Debt outstanding under this Agreement and the other Loan Documents;

(ii) Debt identified in Schedule 5.11 hereto outstanding on the Effective Date (but not any renewals, extensions, refinancings or refundings of such Debt);

(iii) Debt owed by ESCO or any Wholly-Owned Consolidated Subsidiary of the Borrower to the Borrower (other than Debt owed by Hazeltine to the Borrower consisting of obligations of Hazeltine in respect of the industrial revenue bonds referred to in clause (vi) below) or by the Borrower to any Wholly-Owned Consolidated Subsidiary, and permitted under clause (b) of Section 5.16;

(iv) Debt consisting of the obligations of the Borrower or any Subsidiary under any Rate Protection Agreement that is a foreign currency forward exchange agreement or a foreign currency option contract, but only to the extent that such Rate Protection Agreement is entered into in order to satisfy the requirements of clause (iii) of Section 2.14(a) or (A) in connection with a contract under which a Subsidiary is to receive or make payments in, or valued by reference to, a foreign currency and (B) for the purpose of protecting against fluctuations in exchange rates by providing for the exchange of such foreign currency for Dollars in the approximate amounts and at the approximate times that payments are anticipated to be received or made under such contract;

(v) Debt consisting of loans made by The Boatmen's National Bank of St. Louis to Southwest under the "MO

BUCKS for More Jobs" program of the State of Missouri; provided that the aggregate principal amount of Debt at any time outstanding under this clause (v) shall not exceed $7,500,000;

(vi) Debt consisting of obligations of Hazeltine in respect of industrial revenue bonds issued and loans provided by the State of New York or political subdivisions thereof in connection with the construction of Hazeltine's new Antenna Technology Center in Greenlawn, New York, and the renovation of its existing facilities in Greenlawn, New York; provided that the aggregate principal amount of Debt at any time outstanding under this clause (vi) shall not exceed $6,250,000;

(vii) Debt evidenced by the PTI Note;

(viii) Debt consisting of obligations as lessee which are capitalized in accordance with generally accepted accounting principles and are entered into in the ordinary course of business of such lessee; provided that the aggregate principal amount of Debt at any time outstanding under this clause (viii) shall not exceed $2,500,000;

(ix) upon and after consummation of the SFL Acquisition, the SFL Debt and PPD Debt; and

(x) unsecured Debt of ESCO in respect of debt securities issued in a public offering registered under the Securities Act of 1933 and convertible into shares of common stock of ESCO; provided that such Debt does not mature, or require any scheduled repayment of principal, on or prior to September 30, 2000.

(b) Neither ESCO nor the Borrower will, nor will they permit any of their Subsidiaries to, issue any additional capital stock other than in the case of ESCO, (i) additional shares of its common stock and (ii) shares of its preferred stock issued in a public offering registered under the Securities Act of 1933 and convertible into shares of common stock of ESCO; provided that any such preferred stock shall not be subject to any mandatory redemption or repurchase provisions that would require redemption or repurchase thereof on or prior to September 30, 2000.

(c) Neither ESCO nor the Borrower will, nor will they permit any of their Subsidiaries to, incur or at any time be liable with respect to any obligation as an account party in respect of a letter of credit, except as an account party in respect of (i) the Letters of Credit, (ii) the Existing LOCs, (iii) the Designated Letter of Credit and (iv) any letter of credit issued by an issuing bank that holds as collateral therefor a Letter of Credit in an amount equal to the amount of such letter of credit.

(d) ESCO and the Borrower shall not, nor shall they permit any of their Subsidiaries to, (i) agree to any amendment or modification of the PTI Note or any of the terms or provisions of any agreement or other instrument governing or evidencing any of the Debt evidenced thereby or (ii) directly or indirectly repurchase or prepay, in whole or in part, any such Debt.

SECTION 5.12. Restricted Payments. Neither ESCO nor the Borrower will, nor will they permit any of their Subsidiaries to, declare or make or agree to make, directly or indirectly, any Restricted Payment, except (i) the Borrower may pay a cash dividend to ESCO, and ESCO may pay a cash dividend to Emerson, on the Effective Date in the aggregate amount of $20,000,000; (ii) ESCO may pay cash dividends if, after giving effect to any such dividend, (a) no Default shall have occurred and be continuing and (b) the aggregate, cumulative dividends paid pursuant to this clause (ii) does not exceed during any fiscal year 25% of Consolidated Net Income for the next preceding fiscal year of ESCO plus additional dividends not to exceed, on a cumulative basis commencing with the Hazeltine Closing Date, the Restricted Payment Amount less any amounts paid for stock repurchases based on the Restricted Payment Amount

pursuant to clause (iii) below; (iii) ESCO may purchase shares of its common stock or trust receipts representing such shares if, after giving effect to such purchase, (a) no Default shall have occurred and be continuing and (b) aggregate Restricted Payments pursuant to this clause (iii) shall not exceed $5,000,000 during the 12-month period ending on the date of such purchase and shall not exceed $10,000,000 on a cumulative basis commencing with September 30, 1995, plus additional stock repurchases not to exceed, on a cumulative basis commencing with the Hazeltine Closing Date, the Restricted Payment Amount less any amounts paid as cash dividends based on the Restricted Payment Amount pursuant to clause (ii) above; (iv) the Borrower may pay cash dividends to ESCO in such amounts and at such times as shall be necessary to permit ESCO to make Restricted Payments permitted to be paid by it hereunder and to pay expenses incurred in the ordinary course of business; (v) the foregoing shall not prohibit the payment of Subordinated Obligations to the extent not prohibited by the Subordination Agreement or Section 5.20; and (vi) Filtertek de Puerto Rico S.A. may pay dividends on its Class B Common Stock to its senior executive officers in an amount not to exceed $500,000 in any fiscal year.

SECTION 5.13. Mergers, Consolidations, Acquisitions and Sales of Assets. (a) Neither ESCO nor the Borrower will, nor will they permit any of their Subsidiaries to, merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or purchase or otherwise acquire (in one transaction or a series of transactions) any material assets, except that (i) the foregoing shall not prohibit the transfer to the Borrower of the Specified Subsidiaries and other assets pursuant to the Distribution Agreement, (ii) the foregoing shall not prohibit the acquisition of assets in the ordinary course of business, (iii) if at the time thereof and after giving effect thereto no Default shall have occurred and be continuing, the Borrower may acquire for cash consideration (not to exceed, on a cumulative basis commencing with the Amendment and Restatement Effective Date, the excess of (A) $10,000,000 over (B) the aggregate cumulative amount of Investments made in reliance upon clause (f) of Section 5.16) assets constituting a business of the same general type as now conducted by the Specified Subsidiaries (as determined in the reasonable judgment of the Borrower's Board of Directors by a resolution, with a certified copy thereof delivered to the Agent), subject to 30 days' prior written notice to the Banks of such acquisition describing the material terms of such acquisition, the assets to be acquired and any actions necessary in order to perfect liens on such assets under the Security Documents, provided that this clause (iii) shall not be construed as permitting or restricting acquisitions of businesses through the acquisition of capital stock, which shall be subject to Section 5.16, and (iv) if at the time thereof and immediately after giving effect thereto no Default shall have occurred and be continuing (A) any Wholly-Owned Consolidated Subsidiary may merge into the Borrower in a transaction in which the Borrower is the surviving corporation, (B) any Wholly-Owned Consolidated Subsidiary may merge into or consolidate with any other Wholly-Owned Consolidated Subsidiary in a transaction in which the surviving entity is a Wholly-Owned Consolidated Subsidiary and no person other than the Borrower or a Wholly-Owned Consolidated Subsidiary receives any consideration and (C) the EMC Test Systems Reorganization and the Filtertek Acquisition may be consummated.

(b) Neither ESCO nor the Borrower will, nor will they permit any of their Subsidiaries to, sell, assign, transfer or otherwise dispose of any asset, including any stock, without the prior written consent of the Required Banks to such sale, assignment, transfer or disposition and the terms thereof; provided, however, that the foregoing shall not prohibit (1) the sale of (i) inventory in the ordinary course of business, (ii) used or surplus equipment in the ordinary course of business, (iii) the Scheduled Properties and (iv) other tangible personal property and real property not exceeding $10,000,000 in fair market value in any fiscal year of ESCO; provided further, however, that such sales shall be made for fair market value and solely

for cash consideration, (2) the transfer of all the issued and outstanding capital stock of DCS and Vacco to the Borrower by means of a dividend declared and paid by Southwest or (3) the EMC Test Systems Reorganization or (4) the transfer of certain assets located in Puerto Rico from Filtertek to FDPR.

SECTION 5.14. Transactions with Affiliates. Neither ESCO nor the Borrower will, nor will they permit any of their Subsidiaries to, directly or indirectly, (a) make any Investment in an Affiliate, except as expressly permitted under Section 5.16(b), (b) sell, lease or otherwise transfer any assets to an Affiliate, (c) purchase or acquire assets from an Affiliate, or (d) enter into any other transaction directly or indirectly with or for the benefit of an Affiliate (including, without limitation, Guarantees and assumptions of obligations of an Affiliate); provided that (i) the Borrower or any of its Subsidiaries may enter into any such transaction with an Affiliate if the monetary or business consideration arising therefrom would be substantially as advantageous to the Borrower or such Subsidiary as the monetary or business consideration which would obtain in a comparable arm's length transaction with a Person not an Affiliate, (ii) the foregoing shall not prohibit the Transactions (including the processing of intercompany payables and receivables with Emerson and its subsidiaries prior to September 30, 1990, as contemplated by Section 5.06 of the Distribution Agreement), (iii) ESCO may Guarantee the performance of any Specified Subsidiary under any contract entered into in the ordinary course of such Specified Subsidiary's business requiring it to furnish products or services to one or more third parties and (iv) the foregoing shall not prohibit the EMC Test Systems Reorganization.

SECTION 5.15. Sale and Lease-Back Transactions. Neither ESCO nor the Borrower will, nor will they permit any of their Subsidiaries to, enter into any arrangement, directly or indirectly, with any Person whereby it shall sell or transfer any asset, real or personal, whether now owned or hereafter acquired, and thereafter rent or lease such asset or other assets which it intends to use for substantially the same purpose or purposes as the asset being sold or transferred.

SECTION 5.16. Investments. Neither ESCO nor the Borrower will, nor will they permit any of their Subsidiaries to, make or acquire any Investment in any Person other than:

(a) Temporary Cash Investments;

(b) additional Investments by the Borrower in ESCO or any Wholly-Owned Consolidated Subsidiary (other than a Restricted Subsidiary) or Investments by any Wholly-Owned Consolidated Subsidiary in the Borrower; provided that (i) such Investments are made as unsecured loans pursuant to promissory notes duly executed by ESCO, the Borrower or the applicable Subsidiary and pledged by the Borrower or the applicable Subsidiary pursuant to the Pledge Agreement, except that any such promissory note evidencing any such loan to SFL or PPD need not be pledged pursuant to the Pledge Agreement if the aggregate amount of all such loans to SFL and PPD shall not at any time exceed U.K. 2,800,000 (or its equivalent in Dollars), exclusive of accrued interest, (ii) the Borrower shall make such loans to ESCO only in such amounts and at such times as shall be necessary to permit ESCO to make Restricted Payments permitted to be made by it hereunder and to pay expenses incurred in the ordinary course of business and (iii) any Wholly-Owned Consolidated Subsidiary that shall be indebted to the Borrower in respect of any such loan shall not make any such loan to the Borrower;

(c) if at the time thereof and after giving effect thereto no Default shall have occurred and be continuing, an Investment by the Borrower consisting of the EMCO Acquisition (i) for consideration consisting solely of (A) cash consideration not in excess of $5,100,000 in the aggregate (which includes the amount

of all trade payables and Debt to be assumed or paid in connection with the EMCO Acquisition) payable at the closing of such acquisition (or from installments from an escrow, as applicable) plus (B) an agreement to pay an additional amount (not in excess of $5,500,000 in the aggregate) approximately two years after such closing based on an earn-out formula to be agreed between the Borrower and Hart and (ii) otherwise on the terms heretofore provided to the Banks; provided that the Agent shall have received prior to such Investment (i) a certified copy of a resolution of the Board of Directors of the Borrower that it has, in its reasonable judgment, determined that the businesses of EMCO are of the same general type as now conducted by the Specified Subsidiaries, (ii) certified copies of all agreements entered into by the Borrower (or ESCO or any of the Specified Subsidiaries) with the seller (or any affiliate of the seller) in connection with the EMCO Acquisition and (iii) notice from the Borrower describing the assets to be acquired in connection with the EMCO Acquisition and any actions necessary in order to perfect Liens on such assets under the Security Documents; provided further that, upon consummation of the EMCO Acquisition, all outstanding shares of EMCO's capital stock shall be pledged pursuant to the Pledge Agreement and EMCO shall take the other actions required to be taken by it pursuant to Section 5.08(a) as an additional Subsidiary;

(d) additional Investments by ESCO or the Borrower in Rantec S.A.; provided, however, that the amount of such Investments shall not exceed 750,000 French francs unless, prior to the making of any such Investments, (i) Rantec S.A. shall have granted to the Security Agent for the benefit of the Banks (pursuant to the Security Agreement and any other Security Document as may be necessary or appropriate) a legal, valid and binding first priority security interest in or lien on all its assets and all actions necessary or appropriate in the sole judgment of the Security Agent (including the delivery of opinions of counsel) to perfect such security interest or lien and to assure the Agent that such security interest or lien has been created and is perfected under United States, French or other appropriate law shall have been delivered to the Security Agent and (ii) any Investment in Rantec S.A. in excess of the above-referenced 750,000 French francs shall be made in accordance with Section 5.16(b) above;

(e) an Investment by the Borrower consisting of the PTI Acquisition (i) for consideration consisting solely of (A) cash consideration not in excess of $20,000,000 in the aggregate (subject to adjustment in accordance with the Stock Purchase Agreement dated as of August 20, 1992, and entered into in connection therewith) plus (B) the PTI Note with a detachable warrant for the purchase of up to 500,000 shares of ESCO Common Stock (or trust receipts representing such shares) and (ii) otherwise on the terms provided to the Banks prior to August 20, 1992; provided that the Agent shall have received in connection with such Investment (i) a certified copy of a resolution of the Board of Directors of the Borrower that it has, in its reasonable judgment, determined that the businesses of PTI are of the same general type as now conducted by the Specified Subsidiaries, (ii) certified copies of all agreements entered into by the Borrower (or ESCO or any of ESCO's Subsidiaries) with the seller (or any affiliate of the seller) in connection with the PTI Acquisition and (iii) notice from the Borrower describing the assets to be acquired in connection with the PTI Acquisition and any actions necessary in order to perfect Liens on such assets under the Security Documents; provided further that, upon consummation of the PTI Acquisition, all outstanding shares of PTI's capital stock shall be pledged pursuant to the Pledge Agreement and PTI shall take all the other actions required to be taken by it pursuant to Section 5.08(a) as an additional Subsidiary;

(f) any Investment that is not otherwise permitted by the other clauses of this Section constituting either

the LRA Acquisition or an acquisition by the Borrower of all the outstanding capital stock of another corporation if (i) immediately after such Investment is made or acquired, no Default shall have occurred and be continuing, (ii) such Investment is made solely for cash consideration, (iii) immediately after such Investment is made or acquired, the aggregate cumulative amount of all Investments made in reliance upon this clause (f) after the Amendment and Restatement Effective Date does not exceed the excess of (A) $10,000,000 over (B) the sum of the aggregate, cumulative amount of consideration paid in respect of acquisitions made in reliance upon clause (iii) of Section 5.13(a) plus the outstanding amount of loans made by the Borrower to SFL and PPD in reliance upon clause (b) above, (iv) such Investment (other than the LRA Acquisition) results in the corporation whose capital stock is acquired becoming a Wholly-Owned Consolidated Subsidiary that is in a business of the same general type as now conducted by the Specified Subsidiaries (as determined in the reasonable judgment of the Borrower's Board of Directors by a resolution, with a certified copy thereof delivered to the Agent), (v) 30 days' prior written notice of such Investment is given to the Banks describing the material terms of such Investment, the assets to be acquired through such Investment and any action necessary in order to perfect Liens on such assets under the Security Documents and (vi) all the capital stock of the corporation acquired as a result of such Investment, including all shares of LRA's preferred stock acquired in connection with the LRA Acquisition, shall be pledged pursuant to the Pledge Agreement and such corporation shall, upon such acquisition, take all other actions required to be taken by it pursuant to Section 5.08(a) as an additional Subsidiary;

(g) an Investment by the Borrower consisting of the SFL Acquisition (i) pursuant to (A) payment of cash consideration for the shares of SFL, including related non-competition payments and payments to guarantors, of not more than the foreign currency equivalent of $4,500,000 plus (B) the assumption, purchase or payment of certain long-term debt and related accrued interest that would constitute SFL Debt in an amount not to exceed the foreign currency equivalent of $4,000,000 and (ii) otherwise on the terms provided to the Banks prior to November 30, 1993; provided that the Agent shall have received in connection with such Investment (i) a certified copy of a resolution of the Board of Directors of the Borrower that it has, in its reasonable judgment, determined that the businesses of SFL and PPD are of the same general type as now conducted by the Specified Subsidiaries and (ii) certified copies of all agreements entered into by ESCO (or the Borrower or any of ESCO's Subsidiaries) with the sellers (or any affiliate of the sellers) in connection with the SFL Acquisition; provided further that, upon consummation of the SFL Acquisition, sixty-five percent (65%) of all the outstanding shares of each class of capital stock of SFL shall be pledged pursuant to the Pledge Agreement;

(h) an Investment by SFL consisting of (i) the Uniexcel Investment and (ii) additional Investments in Uniexcel in an amount which, in the aggregate, shall not exceed $250,000; provided that (i) both the Uniexcel Investment and any additional Investments in Uniexcel shall be in accordance with the terms previously disclosed to the Agent and the Banks in a letter dated August 1, 1994 from ESCO to the Agent and the Banks and (ii) any additional Investments in Uniexcel in accordance with the terms hereof shall be included in the computation of the aggregate cumulative amount of all Investments permitted under Section 5.16(f)(iii);

(i) if at the time thereof and after giving effect thereto no Default shall have occurred and be continuing, an Investment by Rantec consisting of the MD&M Acquisition (i) for consideration consisting

solely of cash not in excess of $4,000,000 in the aggregate payable at the closing of such acquisition (or from installments from an escrow, as applicable) and (ii) otherwise on the terms heretofore provided to the Banks; provided that the Agent shall have received prior to such Investment (i) a certified copy of a resolution of the Board of Directors of each of the Borrower and Rantec that it has, in its reasonable judgment, determined that the businesses of MD&M are of the same general type as now conducted by the Specified Subsidiaries, (ii) certified copies of all agreements entered into by the Borrower (or ESCO or any of the Specified Subsidiaries) with MD&M (or any affiliate of MD&M) in connection with the MD&M Acquisition and (iii) notice from the Borrower describing the assets to be acquired in connection with the MD&M Acquisition and any actions necessary in order to perfect Liens on such assets under the Security Documents;

(j) if at the time thereof and after giving effect thereto no Default shall have occurred and be continuing, Investments by the Borrower and the Specified Subsidiaries resulting from the EMC Test Systems Reorganization; and

(k) if at the time thereof and after giving effect thereto no Default shall have occurred and be continuing, an Investment on the Amendment and Restatement Effective Date consisting of the Filtertek Acquisition on the terms and conditions set forth in the Filtertek Acquisition Documents.

SECTION 5.17. Negative Pledge. Neither ESCO nor the Borrower will, nor will they permit any of their Subsidiaries to, create, assume or suffer to exist any Lien on any asset now owned or hereafter acquired by it, except Liens granted under the Security Documents and except:

(a) any Lien existing on any asset (other than an asset subject to a security interest granted under the Pledge Agreement or the Security Agreement) prior to the acquisition thereof by the Borrower or a Consolidated Subsidiary and not created in contemplation of such acquisition;

(b) Liens for taxes not delinquent or being contested in good faith and by appropriate proceedings;

(c) deposits or pledges to secure obligations under workers' compensation, social security or similar laws, or under unemployment insurance;

(d) mechanics', workers', materialmen's or other like Liens arising in the ordinary course of business with respect to obligations which are not due or which are being contested in good faith;

(e) Liens arising under the regulations of any Governmental Authority in connection with any procurement contract entered into with such Governmental Authority providing for progress payments, provided that such Liens attach only to inventory to be sold under such contract;

(f) Liens identified on Schedule 5.11 hereto securing Debt identified on such Schedule;

(g) Liens arising in the ordinary course of its business which (i) do not attach to any asset subject to a security interest granted under the Pledge Agreement or the Security Agreement, (ii) do not secure Debt or any other monetary obligation and (iii) do not in the aggregate materially detract from the value of its assets or materially impair the use thereof in the operation of its business;

(h) Liens represented by capitalized leases permitted under Section 5.11(a)(viii);

(i) cash and Temporary Cash Investments deposited with or pledged to The Boatmen's National Bank of

St. Louis to secure Debt outstanding under clause (v) of Section 5.11(a); provided that the aggregate principal amount of such cash and Temporary Cash Investments shall not exceed the proceeds of such Debt;

(j) Liens on Hazeltine's interests in the real property and improvements thereon located in Greenlawn, New York, and referred to in clause (vi) of Section 5.11(a); provided that such Liens secure only the obligations of Hazeltine in respect of the industrial revenue bonds identified in such clause (vi);

(k) cash deposited with or pledged to the issuer of the Designated Letter of Credit; provided that the aggregate amount of such cash shall not exceed the amount of the Designated Letter of Credit; and

(l) Liens on assets of SFL and PPD securing SFL Debt and PPD Debt; provided that such Liens were created prior to the SFL Acquisition and not in contemplation thereof.

SECTION 5.18. Use of Proceeds and Letters of Credit. The proceeds of the Loans made under this Agreement will be used by the Borrower only for the purposes set forth in the preamble to this Agreement, except that the proceeds of the Term Loans representing the incremental increase in the Term Loans on the Amendment and Restatement Effective Date will be used by the Borrower to pay consideration payable in connection with the Filtertek Acquisition and related fees and expenses. None of such proceeds will be used, directly or indirectly, for the purpose, whether immediate, incidental or ultimate, of buying or carrying any Margin Stock. The Letters of Credit will be used by the Borrower only for general corporate purposes in the ordinary course of business of the Borrower and its Subsidiaries and, subject to Section 5.20, to provide Adequate Collateral (as defined in the Distribution Agreement) pursuant to the Distribution Agreement.

SECTION 5.19. Grants of Negative Pledges or Dividend Restrictions. Neither ESCO nor the Borrower will, nor will they permit any of their Subsidiaries to, agree to or become bound by any agreement or other arrangement that would restrict or impair (i) the ability of ESCO, the Borrower and its Subsidiaries to grant to the Security Agent a Lien on any of their respective properties or assets pursuant to Section 5.08 or (ii) the ability of any Subsidiary of the Borrower to pay dividends on its capital stock.

SECTION 5.20. Certain Contract Payments. Neither ESCO nor the Borrower will, nor will they permit any of their Subsidiaries to, (a) refund any progress payments received under any Exposed Government Contract upon any termination of such Exposed Government Contract for default or alleged default or under any threat thereof, (b) make any payment to Emerson or any affiliate thereof in respect of any claims made by Emerson or any such affiliate (under the Distribution Agreement or otherwise) as a result of any liability arising out of its guarantee or other obligations in respect of a Guaranteed Contract (as defined in the Distribution Agreement), (c) make any payment to an issuing bank (other than an Issuing Bank hereunder) in respect of a claim for reimbursement arising out of a draw on a letter of credit supporting a Guaranteed Contract or (d) use any Letter of Credit to provide Adequate Collateral (as defined in the Distribution Agreement) pursuant to the Distribution Agreement, unless (i) the amount to be paid in respect of such claimed refund or payment or the amount of such Letter of Credit does not exceed (A) the amount of cash and Temporary Cash Investments then held by the Borrower, minus (B) the aggregate outstanding principal amount of Working Capital Loans and the Letter of Credit Exposure plus $5,000,000, or (ii) after giving effect to such refund or payment or the issuance of such Letter of Credit, the ratio of (A) Cash Available For Cash Charges (for the period of four consecutive fiscal quarters, or shorter period commencing with October 1, 1990, ended at the date of ESCO's most recent balance sheet made available to the Banks pursuant to Section 5.01) minus the amount of such refund,

payment or Letter of Credit (and the amount of all other such refunds and payments made and such Letters of Credit issued since the date of such balance sheet), to (B) Cash Charges (for the period of four consecutive fiscal quarters, or shorter period commencing with October 1, 1990, ended at the date of such balance sheet), would not be less than (1) 1.10 to 1.00, if the date of such balance sheet shall be September 30, 1991, or earlier, (2) 1.40 to 1.00, if the date of such balance sheet shall be after September 30, 1991, and on or prior to September 30, 1992, (3) 1.20 to 1.00, if the date of such balance sheet shall be after September 30, 1992, and on or prior to September 30, 1993, or (4) 1.35 to 1.00, if the date of such balance sheet shall be after September 30, 1993.

SECTION 5.21. Coverage Ratio. At each March 31, June 30, September 30 and December 31, commencing June 30, 1995, the ratio of (i) Consolidated Adjusted EBIT to (ii) Consolidated Adjusted Interest Expense, in each case for the period of four consecutive fiscal quarters then ended, will not be less than 2.00 to 1.00 at each such date; provided that, for purposes of determining such ratio for any period that includes either or both of the two fiscal quarters ended June 30 and September 30, 1996, Consolidated Adjusted EBIT shall be determined excluding (to the extent otherwise included therein) the Excluded Items.

SECTION 5.22. Minimum Consolidated Adjusted Tangible Net Worth. Consolidated Adjusted Tangible Net Worth will not at any date be less than the sum of (i) $130,000,000 plus (ii) the aggregate amount of increases to Consolidated Adjusted Tangible Net Worth attributable to the issuance of additional equity securities or receipt of capital contributions subsequent to September 30, 1991, and prior to such date plus (iii) after September 30, 1991, if positive, (x) 75% of Consolidated Adjusted Net Income from October 1, 1991 to September 30, 1993 (treated as a single accounting period) and (y) 50% of Consolidated Adjusted Net Income thereafter for the period from October 1, 1993 to such date (treated as a single accounting period) minus (iv) the aggregate amount that Consolidated Adjusted Tangible Net Worth is reduced as a result of repurchases of ESCO capital stock or the payment of any cash dividends to the holders of ESCO capital stock pursuant to clause (ii) or (iii) of Section 5.12, but only to the extent made in reliance upon the Restricted Payment Amount.

SECTION 5.23. Leverage Ratio. The Leverage Ratio will not exceed (i) 0.70 to 1.00 at any date on or prior to September 30, 1997, (ii) 0.60 to 1.00 at any date on or after October 1, 1997 and prior to October 1, 1998, or (iii) 0.50 to 1.00 at any date on or after October 1, 1998.

## ARTICLE VI

## DEFAULTS

SECTION 6.01. Events of Default. If one or more of the following events ("Events of Default") shall have occurred and be continuing:

(a) the Borrower shall fail to pay when due any principal of or interest on any Loan, any fees or any other amount payable hereunder or under any other Loan Document;

(b) ESCO or the Borrower shall fail to observe or perform any covenant contained in Section 5.01(g) or 5.07 or in Sections 5.09 to 5.23, inclusive;

(c) ESCO or the Borrower or any Subsidiary shall fail to observe or perform any covenant or agreement contained in any Loan Document (other than those covered by clause (a) or (b) above) for 10 days after written notice thereof has been given to the Borrower by the Agent at the request of any Bank;

(d) any representation, warranty, certification or statement made (or deemed made) by ESCO or the Borrower or any Subsidiary in any Loan Document or by Emerson,

ESCO, the Borrower or any Subsidiary in any certificate, financial statement or other document delivered pursuant to any Loan Document shall prove to have been incorrect in any material respect when made (or deemed made);

(e) ESCO or the Borrower or any Subsidiary shall fail to make any payment in respect of any Material Debt (other than the Notes) when due or within any applicable grace period;

(f) any event or condition shall occur which results in the acceleration of the maturity of any Material Debt or enables (or, with the giving of notice or lapse of time or both, would enable) the holder of such Debt or any Person acting on such holder's behalf to accelerate the maturity thereof or to terminate any commitment to lend such Debt;

(g) Emerson or any subsidiary thereof shall for any reason (other than payment or performance in accordance with its terms) cease to be liable under its guarantees with respect to any Guaranteed Contract (as defined in the Distribution Agreement);

(h) ESCO, the Borrower or any Subsidiary (i) shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or (ii) shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or (iii) shall make a general assignment for the benefit of creditors, or (iv) shall fail generally or admit in writing its inability to pay its debts as they become due, or (v) shall take any corporate action to authorize any of the foregoing;

(i) an involuntary case or other proceeding shall be commenced against ESCO, the Borrower or any Subsidiary seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against ESCO, the Borrower or any Subsidiary under the federal bankruptcy laws as now or hereafter in effect;

(j) any member of the ERISA Group shall fail to pay when due an amount or amounts aggregating in excess of $1,000,000 which it shall have become liable to pay to the PBGC or to a Plan under Title IV of ERISA; or notice of intent to terminate a Plan or Plans having aggregate Unfunded Vested Liabilities in excess of $5,000,000 (collectively, a "Material Plan") shall be filed under Title IV of ERISA by any member of the ERISA Group, any plan administrator or any combination of the foregoing; or the PBGC shall institute proceedings under Title IV of ERISA to terminate or to cause a trustee to be appointed to administer any Material Plan or a proceeding shall be instituted by a fiduciary of any Material Plan against any member of the ERISA Group to enforce Section 515 or 4219(c)(5) of ERISA and such proceeding shall not have been dismissed within 30 days thereafter; or a Reportable Event or Reportable Events shall have occurred with respect to a Material Plan and the Agent shall have notified the Borrower that the Required Banks have made a determination that, on the basis of such Reportable Event or Reportable Events, there are reasonable grounds for the termination of such Material Plan by the PBGC or for the appointment by an appropriate United States district court of a trustee to administer

such Material Plan and any such Reportable Event shall be continuing 10 days after such notice;

(k) one or more judgments or orders for the payment of money in an aggregate amount in excess of $1,000,000 shall be rendered against ESCO, the Borrower, any Subsidiary or any combination thereof and shall continue unsatisfied and unstayed for a period of 10 days, or any action shall be legally taken by a judgment creditor to levy upon assets or properties of ESCO, the Borrower or any Subsidiary to enforce any such judgment;

(l) a Change of Control shall occur; or

(m) any security interest purported to be created by any Security Document shall cease to be, or shall be asserted by ESCO, the Borrower or any Subsidiary not to be, a valid, perfected, first priority security interest in respect of any material amount of collateral, except as expressly permitted under the Loan Documents and except as a result of an act or omission of the Security Agent, the Agent or any Bank;

then, and in every such event, the Agent shall (i) if requested by Banks having more than 50% in aggregate amount of the Commitments, by notice to the Borrower terminate the Commitments and they shall thereupon terminate, (ii) if requested by Banks holding Notes evidencing more than 50% in aggregate principal amount of the Loans, by notice to the Borrower declare the Notes (together with accrued interest thereon and all other amounts payable hereunder) to be, and the Notes (together with accrued interest thereon and all other amounts payable hereunder) shall thereupon become, immediately due and payable (in whole or, at the option of the Banks, in part) without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower, (iii) if requested by Banks having more than 50% of the Letter of Credit Exposure, require cash collateral as contemplated by Section 2.14(j) in an amount not exceeding the Letter of Credit Exposure, (iv) exercise and direct the Security Agent to exercise remedies available under the Guarantee Agreement, the Security Documents or otherwise, as requested by the Required Banks, or (v) take any combination of the foregoing actions; provided that in the case of any of the Events of Default specified in clause (h) or (i) above with respect to the Borrower without any notice to the Borrower or any other act by the Agent or the Banks, the Commitments shall thereupon terminate and the Notes (together with accrued interest thereon and all other amounts payable hereunder) shall become immediately due and payable (in whole) without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

SECTION 6.02. Notice of Default. The Agent shall give notice to the Borrower under Section 6.01(c) promptly upon being requested to do so by any Bank, and shall thereupon notify all the Banks thereof.

## ARTICLE VII

## THE AGENT, SECURITY AGENT AND ISSUING BANK

SECTION 7.01. Appointment and Authorization. Each Bank irrevocably appoints and authorizes each of the Agent, the Security Agent and the Issuing Banks (each being referred to as an "Agent" for purposes of this Article VII) to take such action as agent on its behalf and to exercise such powers under this Agreement and the other Loan Documents as are delegated to such Agent by the terms hereof or thereof, together with all such powers as are reasonably incidental thereto.

SECTION 7.02. Agent and Affiliates. Each Bank that is an Agent shall have the same rights and powers under this Agreement as any other Bank and may exercise or refrain from exercising the same as though it were not an Agent, and each such Bank and its affiliates may accept deposits from, lend money to, and generally engage in any kind of business with

the Borrower or any Subsidiary or Affiliate of the Borrower as if it were not an Agent.

SECTION 7.03. Action by Agent. The obligations of any Agent under the Loan Documents are only those expressly set forth herein and therein. Without limiting the generality of the foregoing, no Agent shall be required to take any action with respect to any Default, except as expressly provided in Article VI.

SECTION 7.04. Consultation with Experts. Each Agent may consult with legal counsel (who may be counsel for the Borrower), independent public accountants and other experts selected by it and shall not be liable for any action taken or omitted to be taken by it in good faith in accordance with the advice of such counsel, accountants or experts.

SECTION 7.05. Liability of Agent. Neither any Agent nor any of its directors, officers, agents, or employees shall be liable for any action taken or not taken by it in connection herewith (i) with the consent or at the request of the Required Banks (or all the Banks, as applicable) or (ii) in the absence of its own gross negligence or willful misconduct. Neither any Agent nor any of its directors, officers, agents or employees shall be responsible for or have any duty to ascertain, inquire into or verify (i) any statement, warranty or representation made in connection with this Agreement or any borrowing hereunder; (ii) the performance or observance of any of the covenants or agreements of ESCO, the Borrower or any Subsidiary; (iii) the satisfaction of any condition specified in Article III, except receipt of items required to be delivered to it; or (iv) the validity, effectiveness or genuineness of this Agreement, any other Loan Document or any other instrument or writing furnished in connection herewith. No Agent shall incur any liability by acting in reliance upon any notice, consent, certificate, statement, or other writing (which may be a bank wire, telex or similar writing) believed by it to be genuine or to be signed by the proper party or parties.

SECTION 7.06. Indemnification. Each Bank shall, ratably in accordance with its Commitment, indemnify each Agent (to the extent not reimbursed by the Borrower) against any cost, expense (including counsel fees and disbursements), claim, demand, action, loss or liability (except such as result from such Agent's gross negligence or willful misconduct) that such Agent may suffer or incur in connection with this Agreement or any other Loan Document or any action taken or omitted by such Agent hereunder or thereunder.

SECTION 7.07. Credit Decision. Each Bank acknowledges that it has, independently and without reliance upon any Agent or any other Bank, and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it will, independently and without reliance upon any Agent or any other Bank, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking any action under this Agreement. Without limiting the generality of the foregoing, each Bank acknowledges that it has, independently and without reliance upon the Agent, the Issuing Bank, or any other Bank, made its own determination that it is not required under applicable law and regulations in the context of the transactions contemplated hereby to obtain any real estate appraisal.

SECTION 7.08. Successor Agent. Any Agent (other than an Issuing Bank in respect of Letters of Credit issued by it) may resign at any time by giving written notice thereof to the Banks and the Borrower. Upon any such resignation, the Required Banks shall have the right to appoint a successor to such Agent. If no successor to such Agent shall have been so appointed by the Required Banks, and shall have accepted such appointment, within 30 days after the retiring Agent gives notice of resignation, then the retiring Agent may, on behalf of the Banks, appoint a successor Agent, which, in the case of the Agent under this

Agreement, shall be a commercial bank organized or licensed under the laws of the United States of America or of any State thereof and having a combined capital and surplus of at least $500,000,000. Upon the acceptance of its appointment as an Agent by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations. After any retiring Agent's resignation, the provisions of this Article shall inure to its benefit as to any actions taken or omitted to be taken by it while it was an Agent.

SECTION 7.09. Agents Fees. The Borrower shall pay to each Agent for its own account fees in the amounts and at the times previously agreed upon between the Borrower and such Agent.

SECTION 7.10. Sub-Agents. Each Agent (other than an Issuing Bank) may perform any of its obligations and exercise any of its rights under the Loan Documents by or through sub-agents. The provisions of this Article VII shall inure to the benefit of any sub-agent of any Agent in the same manner and to the same extent as they inure to the benefit of such Agent.

## ARTICLE VIII

## CHANGE IN CIRCUMSTANCES

SECTION 8.01. Basis for Determining Interest Rate Inadequate or Unfair. If on or prior to the first day of any Interest Period for any Fixed Rate Borrowing:

(a) the Agent is advised by the Reference Banks that deposits in dollars (in the applicable amounts) are not being offered to the Reference Banks in the relevant market for such Interest Period, or

(b) Banks having 50% or more of the aggregate amount of the Commitments of the applicable Class advise the Agent that the Adjusted CD Rate or the Adjusted London Interbank Offered Rate, as the case may be, as determined by the Agent will not adequately and fairly reflect the cost to such Banks of funding their CD Loans or Euro-Dollar Loans, as the case may be, for such Interest Period,

the Agent shall forthwith give notice thereof to the Borrower and the Banks, whereupon until the Agent notifies the Borrower that the circumstances giving rise to such suspension no longer exist, the obligations of the Banks to make CD Loans or Euro-Dollar Loans, as the case may be, shall be suspended. Unless the Borrower notifies the Agent at least two Domestic Business Days before the date of any Fixed Rate Borrowing for which a Notice of Borrowing has previously been given that it elects not to borrow on such date, such Borrowing shall instead be made as a Base Rate Borrowing.

SECTION 8.02. Illegality. If, on or after the date of this Agreement, the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or its Euro-Dollar Lending Office) with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency shall make it unlawful or impossible for any Bank (or its Euro-Dollar Lending Office) to make, maintain or fund its Euro-Dollar Loans and such Bank shall so notify the Agent, the Agent shall forthwith give notice thereof to the other Banks and the Borrower, whereupon until such Bank notifies the Borrower and the Agent that the circumstances giving rise to such suspension no longer exist, the obligation of such Bank to make Euro-Dollar Loans shall be suspended. Before giving any notice to the Agent pursuant to this Section, such Bank shall designate a different Euro-

Dollar Lending Office if such designation will avoid the need for giving such notice and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. If such Bank shall determine that it may not lawfully continue to maintain and fund any of its outstanding Euro-Dollar Loans to maturity and shall so specify in such notice, the Borrower shall immediately prepay in full the then outstanding principal amount of each such Euro-Dollar Loan, together with accrued interest thereon. Concurrently with prepaying each such Euro-Dollar Loan, the Borrower shall borrow a Base Rate Loan in an equal principal amount from such Bank (on which interest and principal shall be payable contemporaneously with the related Euro-Dollar Loans of the other Banks), and such Bank shall make such a Base Rate Loan.

SECTION 8.03. Increased Cost and Reduced Return. (a) If on or after the Effective Date the adoption of any applicable law, rule or regulation, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or compliance by any Bank (or its Applicable Lending Office) or any Issuing Bank with any request or directive (whether or not having the force of law) of any such authority, central bank or comparable agency:

(i) shall subject any Bank (or its Applicable Lending Office) or any Issuing Bank to any tax, duty or other charge with respect to its Fixed Rate Loans, its Note or its obligation to make Fixed Rate Loans or participate in Letters of Credit or, in the case of an Issuing Bank, its Letters of Credit or its obligation to issue Letters of Credit, or in the case of a Bank, its Back-up LOCs or its obligation to issue Back-up LOCs or shall change the basis of taxation of payments to any Bank (or its Applicable Lending Office) or any Issuing Bank of the principal of or interest on its Fixed Rate Loans or any other amounts due under this Agreement in respect of its Fixed Rate Loans or its obligation to make Fixed Rate Loans or participate in Letters of Credit or, in the case of an Issuing Bank, its fees in respect of its Letters of Credit (except for changes in the rate of tax on the overall net income of such Bank or its Applicable Lending Office or such Issuing Bank, as the case may be, imposed by the jurisdiction in which such Bank's or Issuing Bank's principal executive office or the Applicable Lending Office is located); or

(ii) shall impose, modify or deem applicable any reserve, special deposit or similar requirement (including , without limitation, any such requirement imposed by the Board of Governors of the Federal Reserve System, but excluding (A) with respect to any CD Loan any such requirement included in an applicable Domestic Reserve Percentage and (B) with respect to any Euro-Dollar Loan any such requirement included in an applicable Euro-Dollar Reserve Percentage) against assets of, deposits with or for the account of, or credit extended by, any Bank (or its Applicable Lending Office) or any Issuing Bank or shall impose on the Bank (or its Applicable Lending Office) or any Issuing Bank or on the United States market for certificates of deposit or the London interbank market, as applicable, any other condition affecting its Fixed Rate Loans, its Note or its obligation to make Fixed Rate Loans or participate in Letters of Credit or, in the case of an Issuing Bank, its Letters of Credit or its obligation to issue Letters of Credit or in the case of a Bank, its Backup LOCs or its obligation to issue Backup LOCs;

and the result of any of the foregoing is to increase the cost to such Bank (or its Applicable Lending Office) or Issuing Bank, as the case may be, of making or maintaining any Fixed Rate Loan or issuing, participating in or maintaining any Letter of Credit, or issuing or maintaining any Back-up LOC, or to reduce the amount of any sum received or receivable by such Bank (or its Applicable Lending Office) or Issuing Bank under this Agreement or under its

Note with respect thereto, by an amount deemed by such Bank or Issuing Bank to be material, then, within 15 days after demand by such Bank or Issuing Bank (with a copy to the Agent), the Borrower shall pay to such Bank or Issuing Bank such additional amount or amounts as will compensate such Bank or Issuing Bank for such increased cost or reduction.

(b) If any Bank or Issuing Bank shall have determined that, after the Effective Date, the adoption of any applicable law, rule or regulation regarding capital adequacy, or any change in any applicable law, rule or regulation, or any change in the interpretation or administration thereof by any governmental authority, central bank or comparable agency charged with the interpretation or administration thereof, or any request or directive regarding capital adequacy (whether or not having the force of law) of any such authority, central bank or comparable agency, has or would have the effect of reducing the rate of return on capital of such Bank or Issuing Bank (or its Parent) as a consequence of such Bank's or Issuing Bank's obligations hereunder or under its Letters of Credit or Back-up LOCs, as the case may be to a level below that which such Bank or Issuing Bank (or its Parent) could have achieved but for such adoption, change, request or directive (taking into consideration its policies with respect to capital adequacy) by an amount deemed by such Bank or Issuing Bank to be material, then from time to time, within 15 days after demand by such Bank or Issuing Bank (with a copy to the Agent), the Borrower shall pay to such Bank or Issuing Bank such additional amount or amounts as will compensate such Bank or Issuing Bank (or its Parent) for such reduction.

(c) Each Bank and Issuing Bank will promptly notify the Borrower and the Agent of any event of which it has knowledge, occurring after the Effective Date, which will entitle such Bank or Issuing Bank to compensation pursuant to this Section and, in the case of a Bank, will designate a different Applicable Lending Office if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the judgment of such Bank, be otherwise disadvantageous to such Bank. A certificate of any Bank or Issuing Bank claiming compensation under this Section and setting forth the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. In determining such amount, such Bank or Issuing Bank may use any reasonable averaging and attribution methods.

SECTION 8.04. Base Rate Loans Substituted for Affected Fixed Rate Loans. If (i) the obligation of any Bank to make Euro-Dollar Loans has been suspended pursuant to Section 8.02 or (ii) any Bank has demanded compensation under Section 8.03(a) and the Borrower shall, by at least five Euro-Dollar Business Days' prior notice to such Bank through the Agent, have elected that the provisions of this Section shall apply to such Bank, then, unless and until such Bank notifies the Borrower that the circumstances giving rise to such suspension or demand for compensation no longer apply:

(a) all Loans which would otherwise be made by such Bank as CD Loans or Euro-Dollar Loans, as the case may be, shall be made instead as Base Rate Loans (on which interest and principal shall be payable contemporaneously with the related Fixed Rate Loans of the other Banks), and

(b) after each of its CD Loans or Euro-Dollar Loans, as the case may be, has been repaid, all payments of principal which would otherwise be applied to repay Fixed Rate Loans shall be applied to repay its Base Rate Loans instead.

Notwithstanding the foregoing, any election by the Borrower in accordance with this Section 8.04 shall not affect the Borrower's obligations under Section 8.02 and Section 8.03.

SECTION 8.05. HLT Classification. (a) If, after the Effective Date, the Agent determines that, or the Agent is advised by any Bank that such Bank has received notice

from any governmental authority, central bank or comparable agency having jurisdiction over such Bank that, Loans hereunder are classified as a "highly leveraged transaction" (an "HLT Classification"), the Agent shall promptly give notice of such HLT Classification to the Borrower and the other Banks. Thereupon, the Agent, the Banks and the Borrower shall commence negotiations in good faith to agree on the extent to which fees, interest rates and/or margins hereunder should be increased so as to reflect such HLT Classification. If the Borrower and Banks holding more than 50% in aggregate amount of the outstanding Loans, Letter of Credit Exposure and unused Commitments agree on the amount of such increase or increases, this Agreement may be amended to give effect to such increase or increases as provided in Section 9.05 without the necessity of approval by the Required Banks. If the Borrower and Banks holding more than 50% in aggregate amount of the outstanding Loans, Letter of Credit Exposure and unused Commitments fail to so agree within 45 days after notice is given by the Agent as provided above, then the Agent shall, if requested by Banks holding 50% or more in aggregate amount of the outstanding Loans, Letter of Credit Exposure and unused Commitments, by notice to the Borrower, terminate the Commitments and they shall thereupon terminate and the Borrower shall repay each outstanding Loan at the end of the Interest Period applicable thereto. The Banks acknowledge that an HLT Classification is not a Default.

(b) The Borrower and the Banks recognize that applicable regulations or guidelines of Governmental Authorities may require the Agent to determine whether an HLT Classification should be made and that such determination may be binding upon the Borrower and the Banks. The Borrower and the Banks understand that any such determination will be made solely by the Agent based upon such factors (which may include the Agent's internal policies and prevailing market practices) as the Agent shall deem relevant and agree that the Agent shall have no liability for the consequences of any such determination.

## ARTICLE IX

## MISCELLANEOUS

SECTION 9.01. Notices. (a) All notices, requests and other communications to any party hereunder shall be in writing (including bank wire, telex, facsimile transmission or similar writing) and shall be given to such party: (w) in the case of ESCO, the Borrower or the Agent, at its address or telecopy number set forth on the signature pages hereof, (x) in the case of any Bank, at its address or telecopy or telex number set forth in its Administrative Questionnaire, (y) in the case of the Security Agent, at Morgan Guaranty Trust Company of New York, Delaware Branch, 902 Market Street, Wilmington, Delaware 19801, Attention of Loan Department (telecopy number: (302) 652-7416) or (z) in the case of any party, at such other address or telecopy or telex number as such party may hereafter specify for the purpose by notice to the Agent and the Borrower; provided that copies of any notice of Default given to the Borrower shall also be sent to the attention of the Borrower's General Counsel (at the address or telecopy number of the Borrower set forth on the signature pages hereof) and to Bryan Cave LLP, 211 North Broadway, Suite 3600, St. Louis, Missouri 63102, Attention of John G. Boyle, Esq., provided, further, that any failure or delay in the delivery of any notice pursuant to the foregoing proviso shall not affect the validity of any notice given to the Borrower in accordance herewith. Each such notice, request or other communication shall be effective (i) if given by telecopy or telex, when such telecopy or telex is transmitted to the telecopy or telex number specified in this Section and the appropriate confirmation of receipt or answer back is received, (ii) if given by mail, 72 hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid, or (iii) if given by any other means, when delivered at the address specified in this Section; provided that notices to the Agent under Article II or Article VIII shall not be effective until received.

(b) Payments to be made to the Agent hereunder shall be made to it at its address set forth on the signature pages hereof or at such other address as the Agent may specify for the purpose by notice to the Borrower and the Banks.

SECTION 9.02. No Waivers. No failure or delay by the Agent, the Security Agent, any Issuing Bank or any Bank in exercising any right, power or privilege hereunder or under any other Loan Document shall operate as a waiver thereof nor shall any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided shall be cumulative and not exclusive of any rights or remedies provided by law.

SECTION 9.03. Expenses; Documentary Taxes; Indemnification. (a) The Borrower shall pay (i) all reasonable out-of-pocket expenses of the Agent, the Security Agent and (in the case of expenses relating to the issuance of a Letter of Credit) each Issuing Bank, including fees and disbursements of special counsel for the Agent, in connection with the preparation of this Agreement and the other Loan Documents, any waiver or consent hereunder or thereunder or any amendment hereof or thereof or any Default or alleged Default hereunder and (ii) if an Event of Default occurs, all reasonable out-of-pocket expenses incurred by the Agent, the Security Agent, any Issuing Bank or (in the case of expenses of collection and other enforcement proceedings) any Bank, including fees and disbursements of counsel, in connection with such Event of Default and collection and other enforcement proceedings resulting therefrom. The Borrower shall indemnify each Bank against any transfer taxes, documentary taxes, assessments or charges made by any Governmental Authority by reason of the execution and delivery of this Agreement or the other Loan Documents.

(b) The Borrower agrees to indemnify the Agent, the Security Agent, each Issuing Bank and each Bank and hold the Agent, the Security Agent, each Issuing Bank and each Bank harmless from and against any and all liabilities, losses, damages, costs and expenses of any kind, including, without limitation, the reasonable fees and disbursements of counsel, which may be incurred by any Bank (or by the Agent, the Security Agent or any Issuing Bank in connection with its actions as such) in connection with any investigative, administrative or judicial proceeding (whether or not the Agent, the Security Agent or such Issuing Bank or such Bank shall be designated a party thereto) relating to or arising out of the Loan Documents or any actual or proposed use of proceeds of Loans or Letters of Credit hereunder; provided that neither the Agent, the Security Agent nor any Issuing Bank or any Bank shall have the right to be indemnified hereunder for its own bad faith, gross negligence or willful misconduct as determined by a court of competent jurisdiction.

SECTION 9.04. Sharing of Set-Offs. Each Bank agrees that if it shall, by exercising any right of set-off or counterclaim or otherwise, receive payment of a proportion of the aggregate amount of its claims in respect of Letter of Credit Disbursements and principal and interest due with respect to any Note held by it which is greater than the proportion received by any other Bank in respect of the aggregate amount of claims in respect of Letter of Credit Disbursements and principal and interest due with respect to any Note held by such other Bank, the Bank receiving such proportionately greater payment shall purchase such participations in the claims in respect of Letter of Credit Disbursements and Notes held by the other Banks, and such other adjustments shall be made, as may be required so that all such payments of claims in respect of Letter of Credit Disbursements and of principal and interest with respect to the Notes held by the Banks shall be shared by the Banks pro rata; provided that nothing in this Section shall impair the right of any Bank to exercise any right of set-off or counterclaim it may have and to apply the amount subject to such exercise to the payment of indebtedness of the Borrower other than its indebtedness under the Loan Documents. The

Borrower agrees, to the fullest extent it may effectively do so under applicable law, that any holder of a participation in a Letter of Credit or Note, whether or not acquired pursuant to the foregoing arrangements, may exercise rights of set-off or counterclaim and other rights with respect to such participation as fully as if such holder of a participation were a direct creditor of the Borrower in the amount of such participation.

SECTION 9.05. Amendments and Waivers. Any provision of this Agreement or any other Loan Document may be amended or waived if, but only if, such amendment or waiver is in writing and is signed or otherwise approved in writing by ESCO, the Borrower and the Required Banks (and, if the rights or duties of the Agent, the Security Agent or any Issuing Bank are affected thereby, by the Agent, the Security Agent or such Issuing Bank, as the case may be); provided that no such amendment or waiver shall, unless signed by all the Banks affected thereby, (i) increase the Commitment of any Bank or subject any Bank to any additional obligation, (ii) reduce the principal of or rate of interest on any Loan, the reimbursement obligation of the Borrower in respect of any Letter of Credit Disbursement or any fees hereunder, (iii) postpone the date fixed for any payment of principal of any Loan under Section 2.08(a) or (b), for any reimbursement in respect of any Letter of Credit Disbursement under Section 2.14(g), for any payment of interest on any Loan or any fees hereunder or for any reduction or termination of any Commitment, (iv) permit the release of any material amount of collateral under any Security Document (except as provided therein), (v) limit or release the Guarantee Agreement, (vi) amend or modify the provisions of this Section 9.05 or the definition of "Required Banks" or (vii) change the percentage of the Commitments, the percentage of the aggregate unpaid principal amount of the Notes, the percentage of the Letter of Credit Exposure or the number of Banks which shall be required for the Banks or any of them to take any action under this Section or any other provision of this Agreement; provided further that no such amendment or waiver shall, unless signed by each Issuing Bank and each Bank, amend or modify the definition of "Alternative Letter of Credit Currency" or "Permitted Letter of Credit Currency" or change the currencies in which Letters of Credit may be issued hereunder or payments are required to be made hereunder.

SECTION 9.06. Successors and Assigns. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns, except that neither ESCO nor the Borrower may assign or otherwise transfer any of its rights under this Agreement without the prior written consent of all Banks.

(b) Any Bank may at any time grant to one or more banks or other institutions (each a "Participant") participating interests in any or all of its Commitment or its Loans or its participations in Letters of Credit. In the event of any such grant by a Bank of a participating interest to a Participant, whether or not upon notice to the Borrower and the Agent, such Bank shall remain responsible for the performance of its obligations hereunder, and the Borrower and the Agent shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement. Any agreement pursuant to which any Bank may grant such a participating interest shall provide that such Bank shall retain the sole right and responsibility to enforce the obligations of the Borrower hereunder including, without limitation, the right to approve any amendment, modification or waiver of any provision of this Agreement; provided that such participation agreement may provide that such Bank will not agree to any modification, amendment or waiver described in clause (i), (ii), (iii) or (iv) of Section 9.05 without the consent of the Participant. The Borrower agrees that each Participant shall, to the extent provided in its participation agreement, be entitled to the benefits of Article VIII and Section 2.11 with respect to its participating interest. An assignment or other transfer which is not permitted by subsection (c) or (d) below shall be given effect for purposes of this Agreement only to the

extent of a participating interest granted in accordance with this subsection (b).

(c) Any Bank may at any time assign to one or more banks or other financial institutions (each an "Assignee") all, or a proportionate part of all, of its rights and obligations under this Agreement and the Notes, and such Assignee shall assume such rights and obligations, pursuant to an instrument executed by such Assignee and such transferor Bank, with (and subject to) the subscribed consent (which consent shall not be unreasonably withheld) of the Borrower and the Agent (and, in the case of an assignment of any Working Capital Commitment, the Issuing Banks); provided that (i) each such assignment shall be in a minimum amount of $5,000,000, (ii) each such assignment shall be of a constant, and not a varying, percentage of all such transferor Bank's rights and obligations under this Agreement and the Notes, (iii) if there exists a Default or an Event of Default, no such consent of the Borrower shall be required and (iv) if an Assignee is a Bank or an affiliate of a Bank, no such consent shall be required. Upon execution and delivery of such an instrument, payment by such Assignee to such transferor Bank of an amount equal to the purchase price agreed between such transferor Bank and such Assignee, delivery to the Agent of an executed copy of such instrument and payment to the Agent by the Assignee of a processing fee of $2,000, then such Assignee shall be a Bank party to this Agreement and shall have all the rights and obligations of a Bank with a Commitment as set forth in such instrument of assumption, and the transferor Bank shall be released from its obligations hereunder to a corresponding extent, and no further consent or action by any party shall be required. Upon the effective date of any such assignment, Schedule I shall be deemed amended to reflect such assignment. Upon the consummation of any assignment pursuant to this subsection (c), the transferor Bank, the Agent and the Borrower shall make appropriate arrangements so that, if required, a new Note or Notes are issued to the Assignee. If the Assignee is not incorporated under the laws of the United States of America or a state thereof, it shall, on or prior to the date on which it becomes a Bank party to this Agreement, deliver to the Borrower and the Agent certification as to exemption from deduction or withholding of any United States federal income taxes in accordance with Section 2.13.

(d) Any Bank may at any time assign all or any portion of its rights under this Agreement and its Notes to a Federal Reserve Bank. No such assignment shall release the transferor Bank from its obligations hereunder.

(e) No Assignee, Participant or other transferee of any Bank's rights shall be entitled to receive any greater payment under Section 8.03 than such Bank would have been entitled to receive with respect to the rights transferred, unless such transfer is made with the Borrower's prior written consent or by reason of the provisions of Section 8.02 or 8.03 requiring such Bank to designate a different Applicable Lending Office under certain circumstances or at a time when the circumstances giving rise to such greater payment did not exist.

SECTION 9.07. Collateral. Each of the Banks represents to the Agent and each of the other Banks that it in good faith is not relying upon any Margin Stock as collateral in the extension or maintenance of the credit provided for in this Agreement.

SECTION 9.08. Waiver of Trial by Jury. Each of the parties hereto irrevocably waives any and all rights to trial by jury in any legal proceeding arising out of or relating to this Agreement or any other Loan Document or the transactions contemplated hereby.

SECTION 9.09. New York Law. THIS AGREEMENT AND EACH NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF NEW YORK.

SECTION 9.10. Counterparts; Integration. This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if

the signatures thereto and hereto were upon the same instrument. This Agreement constitutes the entire agreement and understanding among the parties hereto and supersedes any and all prior agreements and understandings, oral or written, relating to the subject matter hereof.

SECTION 9.11. Confidentiality. Any information disclosed by the Borrower to the Agent or any of the Banks, which is either non-public financial information or designated proprietary or confidential at the time of receipt thereof by the Agent or such Bank, shall be used solely for purposes of this Agreement and, if such information is not otherwise in the public domain, shall not be disclosed by the Agent or such Bank to any other Person except (i) to its independent accountants and legal counsel (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such information and instructed to keep such information confidential), (ii) pursuant to statutory and regulatory requirements, including in connection with examinations by regulatory authorities, (iii) pursuant to any mandatory court order, subpoena or other legal process, (iv) to the Agent or any other Bank, (v) pursuant to any agreement heretofore or hereafter made between such Bank and the Borrower which permits such disclosure, (vi) in connection with the enforcement of any Loan Document or (vii) subject to an agreement containing provisions substantially the same as those of this Section, to any Participant in or Assignee of, or prospective Participant in or Assignee of, any Loan or Commitment or participation in any Letter of Credit.

SECTION 9.12. Conflicts. The Loan Documents shall be construed to the fullest extent possible in such manner as shall avoid any conflict among the provisions thereof; however, in the event of any clear conflict between the terms of this Agreement and the terms of any other Loan Document, the terms of this Agreement shall control.

SECTION 9.13. Rates and Fees Unaffected Prior to Amendment and Restatement Effective Date. Accrued interest and fees under the Original Credit Agreement prior to the Amendment and Restatement Effective Date shall not be affected by this Agreement; provided that interest rates and fees accruing on and after the Amendment and Restatement Effective Date shall be calculated in accordance with, and after giving effect to, this Agreement.

SECTION 9.14. Survival of Agreement. All covenants, agreements, representations and warranties made by ESCO and the Borrower herein and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement shall be considered to have been relied upon by the Banks and shall survive the making by the Banks of the Loans and the Letters of Credit, regardless of any investigation made by the Banks or on their behalf, and shall continue in full force and effect as long as any Obligation is outstanding and unpaid or so long as the Commitments have not been terminated.

SECTION 9.15. Severability. In the event any one or more of the provisions contained in this Agreement should be held invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein and therein shall not in any way be affected or impaired thereby. The parties shall endeavor in good-faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

SECTION 9.16. Currencies. (a) Each Loan hereunder shall be made in Dollars and each payment of principal of and interest on each Loan, and each payment of fees hereunder and of any other amount payable hereunder or under any other Loan Document shall be payable in Dollars, except that amounts expressly provided in Section 2.14(l) to be payable in an Alternative Letter of Credit Currency shall be payable in such currency as provided therein.

(b) The Borrower's obligations hereunder and under

the other Loan Documents to make payments in Dollars or in any Alternative Letter of Credit Currency (the "Obligation Currency") shall not be discharged or satisfied by any tender or recovery pursuant to any judgment expressed in or converted into any currency other than the Obligation Currency, except to the extent that such tender or recovery results in the effective receipt by the Agent, an Issuing Bank or a Bank of the full amount of the Obligation Currency expressed to be payable to the Agent, such Issuing Bank or such Bank under this Agreement or the other Loan Documents. If, for the purpose of obtaining or enforcing judgment against the Borrower or any Guarantor in any court or in any jurisdiction, it becomes necessary to convert into or from any currency other than the Obligation Currency (such other currency being hereinafter referred to as the "Judgment Currency") an amount due in the Obligation Currency, the conversion shall be made, at the Alternative Currency Equivalent or Dollar Equivalent, in the case of any Alternative Letter of Credit Currency or Dollars, and, in the case of other currencies, the rate of exchange (as quoted by the Agent or if the Agent does not quote a rate of exchange on such currency, by a known dealer in such currency designated by the Agent) determined, in each case, as of the Domestic Business Day immediately preceding the day on which the judgment is given (such Domestic Business Day being hereinafter referred to as the "Judgment Currency Conversion Date").

(c) If there is a change in the rate of exchange prevailing between the Judgment Currency Conversion Date and the date of actual payment of the amount due, the Borrower covenants and agrees to pay, or cause to be paid, such additional amounts, if any (but in any event not a lesser amount), as may be necessary to ensure that the amount paid in the Judgment Currency, when converted at the rate of exchange prevailing on the date of payment, will produce the amount of the Obligation Currency which could have been purchased with the amount of Judgment Currency stipulated in the judgment or judicial award at the rate of exchange prevailing on the Judgment Currency Conversion Date.

(d) For purposes of determining the Alternative Currency Equivalent or Dollar Equivalent or rate of exchange for this Section, such amounts shall include any premium and costs payable in connection with the purchase of the Obligation Currency.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

ESCO ELECTRONICS CORPORATION,

by

Name: Donald H. Nonnenkamp
Title: Vice President &
Treasurer

8888 Ladue Road
Suite 200
St. Louis, Missouri 63124
Telecopy: (314) 213-7250

DEFENSE HOLDING CORP.,

by

Name: Philip M. Ford
Title: Senior Vice President &
CFO

8888 Ladue Road
Suite 200
St. Louis, Missouri 63124
Telecopy: (314) 213-7250

MORGAN GUARANTY TRUST COMPANY OF
NEW YORK, as Agent,

by

  Name:
  Title:

 60 Wall Street
  New York, New York 10260
  Attention of Kevin J. O'Brien
  Telephone: (212) 648-9974
  Telecopy: (212) 648-5018

MORGAN GUARANTY TRUST COMPANY OF
NEW YORK,

by

  Name:
  Title:

THE BOATMEN'S NATIONAL BANK OF
ST. LOUIS,

by

  Name:
  Title:

THE BANK OF NEW YORK,

  by

  Name:
  Title:

THE BANK OF NOVA SCOTIA,

by

  Name:
  Title:

THE SUMITOMO BANK, LIMITED,

by

  Name:
  Title:

by

  Name:
  Title:

FIRST UNION NATIONAL BANK OF NORTH
CAROLINA,

by

  Name:
  Title:

SANWA BUSINESS CREDIT CORPORATION,

by

Name:
Title:

SCHEDULE 1

Commitments

| Name of Bank | Working Capital Commitment | Term Commitment | Total Commitment | Percentage of Total Commitment |
|---|---|---|---|---|
| Morgan Guaranty Trust Company of New York | $17,143,000 | $12,857,000 | $30,000,000 | 21.43% |
| The Boatmen's National Bank of St. Louis | $16,000,000 | $12,000,000 | $28,000,000 | 20.00% |
| Sanwa Business Credit Corporation | $12,000,000 | $9,000,000 | $21,000,000 | 15.00% |
| The Bank of New York | $13,143,000 | $9,857,000 | $23,000,000 | 16.43% |
| The Bank of Nova Scotia | $8,000,000 | $6,000,000 | $14,000,000 | 10.00% |
| First Union National Bank of North Carolina | $8,000,000 | | | |

$6,000,000

$14,000,000

10.00%

The Sumitomo Bank
Limited

$5,714,000

  $4,286,000

$10,000,000

7.14%
        TOTAL .....
$ 80,000,000
$ 60,000,000
$140,000,000
100%

     */ The Table of Contents is not a part of this
Agreement.





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1,000

3-MOS
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DEC-31-1996
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64,890
730
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277
3002
820
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0
0
0
2,182
.18
.18

THIS NUMBER DOES NOT INCLUDE $53.0 MILLION OF COSTS AND ESTIMATED EARNINGS ON LONG-TERM CONTRACTS.