

=====
UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1995

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF
THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

COMMISSION FILE NUMBER 1-6462

TERADYNE, INC.
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

MASSACHUSETTS
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)

04-2272148
(I.R.S. EMPLOYER
IDENTIFICATION NUMBER)

321 HARRISON AVENUE, BOSTON, MASSACHUSETTS
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

02118
(ZIP CODE)

Registrant's telephone number, including area code: (617) 482-2700

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, par value \$0.125 New York Stock Exchange

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 the
filing requirements for the past 90 days. Yes [X] No []

Indicate by check mark if disclosure of delinquent filers pursuant to Item
405 of Regulation S-K is not contained herein, and will not be contained to the
best of the registrant's knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-K or in any
amendment to this Form 10-K. []

The aggregate market value of the voting stock held by nonaffiliates of the
registrant as of February 16, 1996 was \$1.78 billion based upon the composite
closing price of the registrant's Common Stock on the New York Stock Exchange on
that date.

The number of shares outstanding of the registrant's only class of Common
Stock as of February 16, 1996 was 83,383,894 shares.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's proxy statement in connection with its 1996
annual meeting of shareholders are incorporated by reference into Part III.

PART I

ITEM 1: BUSINESS

Teradyne, Inc. is a manufacturer of electronic test systems and backplane connection systems used in the electronics and telecommunications industries. For financial information concerning these two industry segments, see "Note O: Industry Segment and Geographic Information" in Notes to Consolidated Financial Statements. Unless the context indicates otherwise, the term "Company" as used herein includes Teradyne, Inc. and all its subsidiaries.

On December 1, 1995, the Company completed its acquisition of Megatest Corporation ("Megatest"), by means of a merger of M Merger Corp., a wholly owned subsidiary of the Company, with and into Megatest. As a result of the merger, Megatest became a wholly owned subsidiary of the Company. Megatest, whose headquarters are in San Jose, California, designs, manufactures, markets, and services electronic test systems for the integrated circuit industry. The Megatest combination has been accounted for as a pooling of interests. All financial information contained in this report has been restated to reflect the pooling of interests with Megatest and to give effect to the two-for-one stock split effected in the form of a 100% stock dividend distributed August 29, 1995. For further information concerning the merger, see "Note C: Merger -- Pooling of Interests" in Notes to Consolidated Financial Statements.

Statements in this Annual Report on Form 10-K which are not historical facts, so-called "forward looking statements," are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Investors are cautioned that all forward-looking statements involve risks and uncertainties, including those detailed in the Company's filings with the Securities and Exchange Commission. See also "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Certain Factors That May Affect Future Results."

ELECTRONIC TEST SYSTEMS

The Company designs, manufactures, markets, and services electronic test systems and related software used by component manufacturers in the design and testing of their products and by electronic equipment manufacturers for the incoming inspection of components and for the design and testing of circuit boards and other assemblies. Manufacturers use such systems and software to increase product performance, to improve product quality, to shorten time to market, to enhance manufacturability, to conserve labor costs, and to increase production yields. The Company's electronic systems are also used by telephone operating companies for the testing and maintenance of their subscriber telephone lines and related equipment.

Electronic test systems produced by the Company include: (i) test systems for a wide variety of semiconductors, including digital, analog, and mixed signal integrated circuits ("semiconductor test systems"), (ii) test systems for circuit boards and other assemblies ("circuit-board test systems"), and (iii) test systems for telephone lines and networks ("telecommunications test systems"). The Company's test systems are all controlled by computers, and programming and operating software is supplied both as an integral part of the product and as a separately priced enhancement. Semiconductor test systems accounted for 69% of consolidated net sales in 1995 and 62% in 1994 and 1993. Circuit-board test systems accounted for 11% of consolidated net sales in 1995, 15% in 1994, and 17% in 1993. Telecommunications test systems accounted for 7% of consolidated net sales in 1995, 6% in 1994, and 7% in 1993.

The Company's systems are extremely complex and require extensive support both by the customer and by the Company. Prices for the Company's systems range from less than \$100,000 to \$5 million or more.

BACKPLANE CONNECTION SYSTEMS

The Company also manufactures backplane connection systems, principally for the computer, telecommunications, and military/aerospace industries. A backplane is a panel that supports the circuit boards in an electronic assembly and carries the wiring that connects the boards to each other and to other elements

of a system. The Company produces both printed circuit and metal backplanes, along with mating circuit-board connectors. Backplanes are custom-configured to meet specific customer requirements. The Company has begun to extend the manufacture of backplane connection systems to include the manufacture of fully integrated electronic assemblies that incorporate backplane, card cage, cabling, and related design and production services. Backplane connection systems accounted for 13% of consolidated net sales in 1995, 17% in 1994, and 14% in 1993.

MARKETING AND SALES

MARKETS

The Company sells its products across most sectors of the electronics industry and to companies in other industries that use electronic devices in high volume. No single customer accounted for 10% or more of net sales in 1995. In 1995, the Company's four largest customers accounted for 31% of net sales.

Direct sales to United States government agencies accounted for less than 2% of net sales in 1995, less than 1% in 1994 and approximately 2% of net sales in 1993. Sales are also made within each of the Company's segments to customers who are government contractors. Approximately 17% of backplane connection systems sales and less than 10% of electronic test systems sales fell into this category during 1995.

The Company's international customers are located primarily in Europe, the Asia Pacific region, and Japan. The Company sells in these areas both directly and through foreign sales subsidiaries. Substantially all of the Company's manufacturing activities are conducted in the United States.

Domestic export sales and foreign jurisdictional sales (which amounted to less than 10% of total net sales in all periods presented) to international customers accounted for 52% of net sales in 1995, 46% in 1994, and 41% in 1993. Identifiable assets of the Company's foreign subsidiaries, consisting principally of operating assets used in support of domestic export sales, approximated \$125.2 million at December 31, 1995, \$94.5 million at December 31, 1994, and \$65.0 million at December 31, 1993. Of these identifiable assets at December 31, 1995, \$79.9 million were in Europe, \$38.6 million were in Japan, and \$6.7 million were in the Asia Pacific region.

The Company is subject to the inherent risks involved in international trade, such as political and economic instability, restrictive trade policies, controls on funds transfer, foreign currency fluctuations, difficulties in managing distributors, potentially adverse tax consequences, and the possibility of difficulty in accounts receivable collection. The Company attempts to reduce the effects of currency fluctuations by hedging part of its exposed position and by conducting some of its foreign transactions in U.S. dollars or dollar equivalents.

DISTRIBUTION

The Company sells its products primarily through a direct sales force. The Company has sales and service offices throughout North America, Europe, the Asia Pacific region, and Japan.

COMPETITION

The Company faces substantial competition throughout the world, primarily from electronic test systems manufacturers located in the United States, Europe, and Japan, as well as several of the Company's customers. Some of these competitors have substantially greater financial and other resources with which to pursue engineering, manufacturing, marketing, and distribution of their products. New product introductions by the Company's competitors could cause a decline in sales or loss of market acceptance of existing products.

BACKLOG

On December 31, 1995, the Company's backlog of unfilled orders for electronic test systems and backplane connection systems was approximately \$607.1 million and \$52.2 million, respectively, compared with \$352.0 million and \$66.3 million, respectively, on December 31, 1994. Of the backlog at December

31, 1995, approximately 92% of the electronic test systems backlog and approximately 94% of the backplane connection systems backlog are expected to be delivered in 1996. The electronic test systems backlog at December 31, 1995 includes \$40.2 million of United States government orders for M900 VXI Digital Test subsystems for the U.S. Navy's Consolidated Automated Support System (CASS) which are unfunded. The unfunded orders are for shipments scheduled to be delivered in 1997 and beyond. The Company's past experience indicates that a portion of orders included in the backlog may be canceled. There are no seasonal or unusual factors related to the backlog.

RAW MATERIALS

The Company's products require a wide variety of electronic and mechanical components. In the past, the Company has experienced occasional delays in obtaining timely delivery of certain items. Additionally, the Company could experience a temporary adverse impact if any of its sole source suppliers ceased to deliver products. Any prolonged inability of the Company to obtain adequate yields or deliveries, or any other circumstances that would require the Company to seek alternative sources of supply could have a material adverse effect on the Company's business, financial condition, and results of operations.

PATENTS AND LICENSES

The development of products by the Company, both hardware and software, is largely based on proprietary information. The Company protects its rights in proprietary information through various methods such as copyrights, trademarks, patents and patent applications, software license agreements, and employee agreements. The Company relies on certain intellectual property protections to preserve its intellectual property rights. Any invalidation of the Company's intellectual property rights or lengthy and expensive defense of those rights could have a material adverse affect on the Company.

EMPLOYEES

As of December 31, 1995, the Company employed approximately 5,200 persons. Since the inception of the Company's business, there have been no work stoppages or other labor disturbances. The Company has no collective bargaining contracts.

ENGINEERING AND DEVELOPMENT ACTIVITIES

The highly technical nature of the Company's products requires a large and continuing engineering and development effort. Engineering and development expenditures for new and improved products were approximately \$123.5 million in 1995, \$86.6 million in 1994, and \$74.6 million in 1993. These expenditures amounted to approximately 10% of net sales in 1995, 11% in 1994, and 12% in 1993.

ENVIRONMENTAL AFFAIRS

The Company's manufacturing facilities are subject to numerous laws and regulations designed to protect the environment, particularly from manufacturing plant wastes and emissions. These include laws such as the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, the Superfund Amendment and Reauthorization Act of 1986, the Occupational Safety and Health Act, the Clean Air Act, the Clean Water Act, the Resource Conservation and Recovery Act of 1976, and the Hazardous and Solid Waste Amendments of 1984. In the opinion of management, the costs associated with complying with these laws and regulations has not had and is currently not expected to have a material adverse effect upon the capital expenditures, earnings and competitive position of the Company.

4

5

EXECUTIVE OFFICERS OF THE COMPANY

The following table sets forth the names of all executive officers of the Company and certain other information relating to their positions held with the Company and other business experience. Executive officers of the Company do not have a specific term of office but rather serve at the discretion of the Board of Directors.

EXECUTIVE OFFICER	AGE	POSITION	BUSINESS EXPERIENCE FOR THE PAST 5 YEARS
Alexander V. d'Arbeloff.....	68	Chairman of the Board and Chief Executive Officer	Chairman of the Board of the Company since 1977; Chief Executive Officer beginning in 1996; President of the Company from 1971 to 1996; Director of the Company since 1960.
James A. Prestridge.....	64	Vice Chairman of the Board and Executive Vice President	Vice Chairman of the Board beginning in 1996; Executive Vice President of the Company since 1992; Vice President of the Company from 1971 to 1992.
Owen W. Robbins.....	66	Vice Chairman of the Board and Executive Vice President	Vice Chairman of the Board beginning in 1996; Executive Vice President of the Company since 1992; Vice President of the Company from 1977 to 1992.
George W. Chamillard.....	57	President, Chief Operating Officer, and Member of the Board	President, Chief Operating Officer, and Director of the Company beginning in 1996; Executive Vice President of the Company from 1994 to 1996; Vice President of the Company from 1981 to 1993.
Michael A. Bradley.....	47	Vice President	Vice President of the Company since 1992; TQM Manager of the Company from 1990 to 1992.
George V. d'Arbeloff.....	51	Vice President	Vice President of the Company since 1980.
Ronald J. Dias.....	52	Vice President	Vice President of the Company since 1988.
John E. Halter.....	62	Vice President	Vice President beginning in 1996; President and Chief Executive Officer of Megatest Corporation from 1990 to 1995.
Donald J. Hamman.....	44	Controller	Controller of the Company since 1994; Director of Corporate Accounting from 1986 to 1994.
Jeffrey R. Hotchkiss.....	48	Vice President	Vice President of the Company since 1990.
John P. McCabe.....	51	Vice President	Vice President of the Company since 1994; Controller of the Company from 1975 to 1994.
Stuart M. Osattin.....	50	Vice President and Treasurer	Vice President of the Company since 1994; Treasurer of the Company since 1980.
Edward Rogas, Jr.	55	Vice President	Vice President of the Company since 1984.
David L. Sulman.....	52	Vice President	Vice President of the Company since 1994; Division General Manager since 1993; Division Engineering Manager from 1982 to 1992.

The Company's executive offices are in Boston, Massachusetts. Manufacturing and other operations are carried on in several locations. The following table provides certain information as to the Company's principal general offices and manufacturing facilities.

LOCATION -----	PROPERTY INTEREST -----	APPROXIMATE SQUARE FEET OF FLOOR SPACE -----
ELECTRONIC TEST SYSTEMS INDUSTRY SEGMENT:		
Boston, Massachusetts.....	Own	490,000
Boston, Massachusetts.....	Lease	45,000
Agoura Hills, California.....	Own	360,000
Deerfield, Illinois.....	Own	65,000
Deerfield, Illinois.....	Lease	20,000
Walnut Creek, California.....	Lease	60,000
Kumamoto, Japan.....	Own	28,000
San Jose, California.....	Own	112,000
San Jose, California.....	Lease	17,000
BACKPLANE CONNECTION SYSTEMS INDUSTRY SEGMENT:		
Nashua, New Hampshire.....	Own	377,000
Dublin, Ireland.....	Lease	46,000

The Company is subleasing an additional 85,000 square feet of space to a third party in Walnut Creek, California, through the expiration of the lease in June 1996.

ITEM 3: LEGAL PROCEEDINGS

The Company is not a party to any litigation that, in the opinion of management, could reasonably be expected to have a material adverse impact on the Company's financial position.

ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

Not Applicable.

PART II

ITEM 5: MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

The following table shows the market range for the Company's Common Stock based on reported sales prices on the New York Stock Exchange, after giving effect to the two-for-one stock split effected in the form of a 100% stock dividend distributed on August 29, 1995.

PERIOD -----	HIGH ----	LOW ---
1994 First Quarter.....	\$15 5/8	\$11 3/4
Second Quarter.....	13 3/8	10 1/4
Third Quarter.....	16	11 3/4
Fourth Quarter.....	17 1/8	12 7/8
1995 First Quarter.....	21 1/2	16
Second Quarter.....	33	20
Third Quarter.....	42 7/8	32 1/4
Fourth Quarter.....	36 5/8	20 1/8

The number of record holders of the Company's Common Stock at February 16, 1996 was 3,389.

The Company has never paid cash dividends because it has been its policy to use earnings to finance expansion and growth. While payment of future cash dividends will rest within the discretion of the Board of Directors and will depend, among other things, upon the Company's earnings, capital requirements, and financial condition. The Company presently expects to retain all of its earnings for use in the business.

ITEM 6: SELECTED FINANCIAL DATA

	YEARS ENDED DECEMBER 31,*				
	1995	1994	1993	1992	1991
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)				
Net sales.....	\$1,191,022	\$777,731	\$633,139	\$595,072	\$568,599
Income from continuing operations.....	\$ 159,284	\$ 76,390	\$ 41,202	\$ 26,412	\$ 20,479
Income from continuing operations per common share.....	\$ 1.89	\$ 0.95	\$ 0.54	\$ 0.37	\$ 0.31
Total assets.....	\$1,023,831	\$759,480	\$621,607	\$502,212	\$460,945
Long-term obligations.....	\$ 18,679	\$ 9,111	\$ 9,942	\$ 25,828	\$ 26,419

<FN>

*Note: Previously published financial data have been restated to reflect the pooling of interests with Megatest Corporation (see "Note C: Merger -- Pooling of Interests" in Notes to Consolidated Financial Statements) and to give effect to the two-for-one stock split effected in the form of a 100% stock dividend distributed on August 29, 1995.

ITEM 7: MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SELECTED RELATIONSHIPS WITHIN THE CONSOLIDATED STATEMENTS OF INCOME

	YEARS ENDED DECEMBER 31,*		
	1995	1994	1993
	(DOLLARS IN THOUSANDS)		
Net sales.....	\$1,191,022	\$777,731	\$633,139
Income from continuing operations.....	\$ 159,284	\$ 76,390	\$ 41,202
Increase in net sales from preceding year:			
Amount.....	\$ 413,291	\$144,592	\$ 38,067
Percentage.....	53%	23%	6%
Increase in income from continuing operations from preceding year.....	\$ 82,894	\$ 35,188	\$ 14,790
Percentage of net sales:			
Net sales.....	100%	100%	100%
Expenses:			
Cost of sales.....	54	56	57
Engineering and development.....	10	11	12
Selling and administrative.....	15	19	22

	-----	-----	-----
Other income (expense):	79	86	91
Merger expenses.....	(1)		
Net interest income.....	1	1	
	-----	-----	-----
Income before income taxes, extraordinary item, and cumulative effect of change in accounting for taxes.....	21	15	9
Provision for income taxes.....	8	5	2
	-----	-----	-----
Income before extraordinary item and cumulative effect of change in accounting for income taxes...	13%	10%	7%
	-----	-----	-----

<FN>

*Note: Previously published financial data have been restated to reflect the pooling of interests with Megatest Corporation (see "Note C: Merger -- Pooling of Interests" in Notes to Consolidated Financial Statements) and to give effect to the two-for-one stock split effected in the form of a 100% stock dividend distributed on August 29, 1995.

RESULTS OF OPERATIONS:

1995 compared to 1994

Sales advanced 53% in 1995 to \$1.2 billion. Each of the major product lines of the Company -- semiconductor test systems, circuit-board test systems, telecommunications test systems, and backplane connection systems contributed to the increase in sales. Sales of semiconductor test systems grew 70% as semiconductor manufacturers continued to add capacity in response to rising demand for their products. This capacity expansion was evidenced by a number of new semiconductor manufacturing plants coming on line. Telecommunications test systems sales increased 84% primarily from the growing installation of telephone-line test equipment at Deutsche Telekom in Germany. Sales of backplane connection systems increased 18% as a result of greater penetration into the Company's high technology commercial customer base. Circuit-

8

9

board test systems sales increased 13%. As a result of the increase in sales, income from continuing operations more than doubled in 1995, increasing \$82.9 million to \$159.3 million.

Incoming orders grew faster than sales in 1995, increasing 59% to \$1.4 billion. The increase in orders, like the increase in sales, was primarily due to increases in semiconductor test systems orders, which increased 73%. Additionally, circuit-board test systems orders increased by 110% due in large part to U.S. government contracts to supply electronic test equipment for the B-2 Stealth Bomber and for the Navy's CASS program. Orders for backplane connection systems and telecommunications test systems declined 11% and 5%, respectively. As a result of the overall increase in orders, the Company's backlog grew 58% in 1995, finishing the year at \$659.3 million.

Cost of sales, as a percentage of sales, decreased from 56% in 1994 to 54% in 1995. The improvement was primarily the result of increased utilization of the fixed and semi-variable components of the Company's overhead structure. In addition, there was a favorable change in mix as sales of backplane connection systems, whose product margins are generally lower than those of electronic test systems, were lower as a percentage of total Company sales.

Engineering and development expenses, as a percentage of sales, declined 1% from 11% in 1994 to 10% in 1995, as these expenses did not increase at the same rate as sales. The dollar amount of these expenses grew \$36.9 million in 1995 as a result of increased investment in new product development of semiconductor test systems. Selling and administrative expenses decreased to 15% of sales in 1995 compared with 19% of sales in 1994, as the dollar volume of these expenses grew by 19% while sales increased 53%.

In 1995, the Company incurred merger expenses of \$5.6 million consisting primarily of professional fees related to its merger with Megatest.

Interest income increased 82% in 1995 to \$14.2 million due to an increase in the Company's average invested balances and higher interest rates. Interest expense increased from \$1.8 million in 1994 to \$3.0 million in 1995 as a result of increased borrowing at Megatest prior to the merger.

The Company's effective tax rate was 36% in 1995 compared with 33% in 1994. The Company utilized certain tax credit and net loss carryforward amounts in 1994 to operate below the United States statutory rate of 35%. In 1995, the effective rate increased as the tax credit and loss carryforwards were no longer available and certain merger expenses were nondeductible for income tax purposes. The Company expects its tax rate to approximate the statutory rate of 35% in 1996.

1994 Compared to 1993

Sales increased 23% in 1994, to \$777.7 million. Sales increased in each of the Company's major product groups. The increase in sales was primarily due to a 23% increase in sales of semiconductor test systems and to a 49% increase in sales of backplane connection systems. Sales of semiconductor test systems increased as semiconductor manufacturers added capacity to meet rising demand for their products, while sales of backplane connection systems increased due to growth in demand for the high technology products of the Company's commercial customer base. Sales of circuit-board test systems and telecommunications test systems increased 8% and 11%, respectively, in 1994 compared to 1993. Income from continuing operations increased by \$35.2 million from 1993 to 1994 on a sales increase of \$144.6 million.

Incoming orders grew faster than sales in 1994, increasing 29% to \$901.0 million. The increase in orders, like the increase in sales, was primarily due to increases in semiconductor test systems and backplane connection systems. Orders for circuit-board test systems and telecommunications test systems declined in 1994. As a result of the overall increase in orders, the Company's backlog grew during 1994 to \$418.3 million.

Cost of sales, as a percentage of sales, decreased from 57% of sales in 1993 to 56% in 1994. The improvement was a result of the following two factors. First, the increase in sales volume permitted increased utilization of certain fixed and semi-variable components of the Company's overhead structure. Second, there was an unfavorable change in mix as sales of backplane connection systems, whose product margins are

generally lower than those of electronic test systems, were higher as a percentage of total Company sales. Engineering and development expenses, as a percentage of sales, declined 1% in 1994, compared with 1993. The dollar amount of these expenses grew \$12.0 million in 1994 as a result of increased investment in new product development of semiconductor test systems. Selling and administrative expenses declined from 22% of sales to 19% as the dollar amount of these expenses grew only 4% while sales increased by 23%.

Interest income increased \$4.0 million in 1994 as a result of a \$70.9 million increase in the Company's average invested balances during the year and as a result of higher interest rates. Interest expense decreased \$2.1 million in 1994 as a result of the Company's retirement of its 9.25% convertible subordinated debentures in the fourth quarter of 1993.

The Company's effective tax rate was 33% in 1994 compared to 28% in 1993. The Company was able to operate with an effective tax rate below the United States statutory rate of 35% as a result of the utilization of tax credit and net operating loss carryforwards. The 1993 combined financial results also reflect the adoption of Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, which resulted in a one-time \$7.6 million credit. The one-time credit resulted from the recognition of previously unrecognized tax benefits of deductible temporary differences and operating loss carryforwards.

In connection with the retirement of the Company's outstanding 9.25% convertible subordinated debentures, the Company incurred, in the fourth quarter of 1993, an extraordinary charge of \$0.7 million, net of income taxes, for the costs of the redemption premium of 3.7% and the write-off of unamortized debt issuance costs.

The Company's cash, cash equivalents and marketable securities balance grew \$54.6 million in 1995 following an increase of \$70.9 million in 1994. Cash flow generated from operations was \$115.5 million in 1995 and \$107.0 million in 1994. Cash of \$24.9 million in 1995 and \$17.1 million in 1994 was generated from the sale of stock to employees under the Company's stock option and stock purchase plans. A secondary public offering of Megatest common stock, completed in October 1993 (prior to Megatest's merger with the Company), provided \$13.6 million in additional cash in 1994.

Cash was used to fund additions to property, plant and equipment of \$93.2 million in 1995 and \$40.7 million in 1994. The Company increased its investment in marketable securities by \$64.3 million in 1995. In 1993, the Company's Board of Directors authorized the repurchase of 1,000,000 shares of the Company's stock on the open market. Cash of \$24.6 million in 1994 and \$2.3 million in 1993 was utilized for this buyback of the Company's stock. Long-term debt increased by \$11.5 million in 1995 after a reduction of \$1.5 million in 1994. The 1995 increase resulted from borrowing at Megatest prior to the merger.

The Company believes its cash and cash equivalents balance of \$182.2 million, together with other sources of funds, including marketable securities of \$93.7 million, cash flow generated from operations, and the available borrowing capacity of \$120.0 million under its line of credit agreement, will be sufficient to meet working capital and capital expenditure requirements in 1996.

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, "Statement 123". Statement 123 encourages, but does not require, the recognition of compensation expense for grants of stock, stock options, and other equity instruments based upon new fair value accounting rules (the "recognition method"). Companies that choose not to adopt the recognition method may continue to apply the existing accounting principles however, Statement 123 requires companies that choose not to adopt the new fair value accounting rules to disclose pro forma net income and earnings per share amounts under the new fair value method (the "disclosure method"). The Company plans to adopt the disclosure method in 1996 and will report the pro forma effect of applying fair value accounting rules to grants of stock-based awards on net income and earnings per share in its 1996 financial statements.

10

11

Inflation has not had a significant long-term impact on earnings. If there was inflation, the Company's efforts to cover cost increases with price increases could be frustrated in the short-term by its relatively high backlog.

CERTAIN FACTORS THAT MAY AFFECT FUTURE RESULTS

From time to time, information provided by the Company, statements made by its employees or information included in its filings with the Securities and Exchange Commission (including this Form 10-K and the Company's Annual Report to Shareholders) may contain statements which are not historical facts, so-called "forward looking statements," which involve risks and uncertainties. In particular, statements in "Item 1. Business" relating to the Company's market share position and the delivery time of unfilled orders, and in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" relating to the sufficiency of capital to meet working capital and capital expenditure requirements may be forward-looking statements. The Company's actual future results may differ significantly from those stated in any forward looking statements. Factors that may cause such differences include, but are not limited to, the factors discussed below. Each of these factors, and others, are discussed from time to time in the Company's filings with the Securities and Exchange Commission.

The Company's future results are subject to substantial risks and uncertainties. The Company's business and results of operations depend in significant part upon capital expenditures of manufacturers of semiconductors, which in turn depend upon the current and anticipated market demand for semiconductors and products incorporating semiconductors. Historically, the semiconductor industry has been highly cyclical with recurring periods of over supply, which often have had a severe effect on the semiconductor industry's demand for test equipment, including systems manufactured and marketed by the Company. The Company believes that the markets for newer generations of semiconductors will also be subject to similar fluctuations. In recent years,

the semiconductor industry has experienced significant growth which, in turn, has caused significant growth in the capital equipment industry. There can be no assurance that such growth can be sustained. In addition, any factor adversely affecting the semiconductor industry or particular segments within the semiconductor industry may adversely affect the Company's business, financial condition and operating results. Also, the Company relies on certain intellectual property protections to preserve its intellectual property rights. Any invalidation of the Company's intellectual property rights or lengthy and expensive defense of those rights could have a material adverse affect on the Company. The development of new technologies, commercialization of those technologies into products, and market acceptance and customer demand for those products is critical to the Company's success. Successful product development and introduction depends upon a number of factors, including new product selection, development of competitive products by competitors, timely and efficient completion of product design, timely and efficient implementation of manufacturing and assembly processes and product performance at customer locations. The Company faces substantial competition throughout the world, primarily from electronic test systems manufacturers located in the United States, Europe and Japan, as well as several of the Company's customers. Some of these competitors have substantially greater financial and other resources to pursue engineering, manufacturing, marketing and distribution of their products. Certain of the Company's competitors have introduced or announced new products with certain performance characteristics which may be considered equal or superior to those currently offered by the Company. The Company expects its competitors to continue to improve the performance of their current products and to introduce new products or new technologies that provide improved cost of ownership and performance characteristics. New product introductions by competitors could cause a decline in sales or loss of market acceptance of the Company's existing products. Moreover, increased competitive pressure could lead to intensified price based competition, which could materially adversely affect the Company's business, financial condition and results of operations. The Company derives a significant portion of its total revenues from international sales. International sales are subject to significant risks, including unexpected changes in legal and regulatory requirements and policy changes affecting the Company's markets, changes in tariffs, exchange rates and other barriers, political and economic instability, difficulties in accounts receivable collection, difficulties in managing distributors and representatives, difficulties in staffing and managing foreign operations, difficulties in protecting the Company's intellectual property and potentially adverse tax consequences.

11

12

The Company's quarterly and annual operating results are affected by a wide variety of factors that could materially adversely affect revenues and profitability, including: competitive pressures on selling prices; the timing and cancellation of customer orders; changes in product mix; the Company's ability to introduce new products and technologies on a timely basis; introduction of products and technologies by the Company's competitors; market acceptance of the Company's and its competitors' products; the level of orders received which can be shipped in a quarter; and the timing of investments in research and development. As a result of the foregoing and other factors, the Company may experience material fluctuations in future operating results on a quarterly or annual basis which could materially and adversely affect its business, financial condition, operating results and stock price.

12

13

ITEM 8: FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT ACCOUNTANTS

To the Directors and Shareholders of
TERADYNE, INC.:

We have audited the consolidated balance sheets of Teradyne, Inc. as of December 31, 1995 and 1994, and the related consolidated statements of income, cash flows, and shareholders' equity for each of the three years in the period ended December 31, 1995. The financial statements give retroactive effect to the merger of Teradyne, Inc. and Megatest Corporation (Megatest) on December 1, 1995, which has been accounted for using the pooling of interests method as

described in Note B to the consolidated financial statements. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the consolidated financial statements of Megatest for the years ended August 31, 1994 and 1993, which statements reflect consolidated total assets constituting 13% of the related consolidated total assets as of December 31, 1994, and which reflect consolidated net sales constituting 13% and 12% of the related consolidated net sales for the years ended December 31, 1994 and 1993, respectively. Those statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for Megatest, is based solely on the reports of the other auditors.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Teradyne, Inc. as of December 31, 1995 and 1994, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1995, after giving retroactive effect to the merger of Megatest, as described in the notes to the consolidated financial statements, in conformity with generally accepted accounting principles.

COOPERS & LYBRAND L.L.P.

Boston, Massachusetts

January 18, 1996, except as to the third paragraph of Note E, for which the date is January 31, 1996.

13

14

TERADYNE, INC.

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 1995 AND 1994

ASSETS

	1995	1994
	-----	-----
	(DOLLARS IN THOUSANDS)	
Current assets:		
Cash and cash equivalents.....	\$ 182,165	\$202,215
Marketable securities.....	93,662	29,835
Accounts receivable, less allowance for doubtful accounts of \$2,269 in 1995 and \$2,219 in 1994.....	254,820	152,138
Inventories:		
Parts.....	120,011	53,879
Assemblies in process.....	56,840	54,173
	-----	-----
	176,851	108,052
Deferred tax assets.....	19,546	21,656
Prepayments and other current assets.....	13,101	9,026
	-----	-----
Total current assets.....	740,145	522,922
Property, plant, and equipment:		
Land.....	22,755	19,482
Buildings and improvements.....	128,235	114,887
Machinery and equipment.....	351,950	307,373
Construction in progress.....	10,046	7,067
	-----	-----
Total.....	512,986	448,809

Less: Accumulated depreciation.....	(255,968)	(239,130)
Net property, plant, and equipment.....	257,018	209,679
Deferred charges and other assets.....	26,668	26,879
Total assets.....	\$1,023,831	\$759,480
LIABILITIES		
Current liabilities:		
Notes payable -- banks.....	\$ 8,141	\$ 8,431
Current portion of long-term debt.....	2,082	316
Accounts payable.....	42,229	22,342
Accrued employees' compensation and withholdings.....	66,000	42,235
Unearned service revenue and customer advances.....	53,587	48,469
Other accrued liabilities.....	41,395	32,154
Income taxes payable.....	16,157	9,635
Total current liabilities.....	229,591	163,582
Deferred tax liabilities.....	15,711	13,901
Long-term debt.....	18,679	9,111
Commitments (Note G)		
Total liabilities.....	263,981	186,594
SHAREHOLDERS' EQUITY		
Common stock \$0.125 par value, authorized 125,000,000 shares (75,000,000 in 1994), issued and outstanding after deduction of reacquired shares, 82,633,591 in 1995 and 39,610,602 in 1994.....	10,329	4,952
Additional paid-in capital.....	366,970	329,887
Retained earnings.....	382,551	238,047
Total shareholders' equity.....	759,850	572,886
Total liabilities and shareholders' equity.....	\$1,023,831	\$759,480

The accompanying notes are an integral part of the consolidated financial statements.

14

15

TERADYNE, INC.

CONSOLIDATED STATEMENTS OF INCOME

	YEARS ENDED DECEMBER 31,		
	1995	1994	1993
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
Net sales.....	\$1,191,022	\$777,731	\$633,139
Expenses:			
Cost of sales.....	646,382	435,129	358,661
Engineering and development.....	123,487	86,570	74,561
Selling and administrative.....	176,797	148,004	142,540
	946,666	669,703	575,762
Income from operations.....	244,356	108,028	57,377
Other income (expense):			
Merger expenses.....	(5,600)		
Interest income.....	14,209	7,827	3,874
Interest expense.....	(3,040)	(1,830)	(3,968)
Income before income taxes, extraordinary item, and cumulative effect of change in accounting for income taxes.....	249,925	114,025	57,283
Provision for income taxes.....	90,641	37,635	16,081
Income before extraordinary item and cumulative effect of change in accounting for income taxes.....	159,284	76,390	41,202

Extraordinary item, less applicable income taxes of \$313.....			(729)
Cumulative effect of change in accounting for income taxes.....			7,600
Net income.....	\$ 159,284	\$ 76,390	\$ 48,073
Income per common share:			
Income before extraordinary item and cumulative effect of change in accounting for income taxes.....	\$ 1.89	\$ 0.95	\$ 0.54
Extraordinary item, net of income taxes.....			(0.01)
Cumulative effect of change in accounting for income taxes.....			0.10
Net income per common share.....	\$ 1.89	\$ 0.95	\$ 0.63
Shares used in calculations of income per common share.....	84,253	80,729	75,984

The accompanying notes are an integral part of the consolidated financial statements.

15

16

TERADYNE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEARS ENDED DECEMBER 31,		
	1995	1994	1993
	(DOLLARS IN THOUSANDS)		
Cash flows from operating activities:			
Net income.....	\$ 159,284	\$ 76,390	\$ 48,073
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation.....	39,817	34,686	33,025
Amortization.....	3,329	3,756	3,775
Deferred income taxes.....	3,920	3,875	3,037
Extraordinary loss on retirement of debt.....			1,042
Cumulative effect of change in accounting for income taxes.....			(7,600)
Other non-cash items, net.....	4,881	1,752	1,544
Changes in operating assets and liabilities:			
Accounts receivable.....	(114,708)	(32,178)	13,642
Inventories.....	(57,111)	(18,277)	(13,699)
Other assets.....	(18,567)	(12,764)	(3,282)
Accounts payable and accruals.....	60,361	34,887	16,915
Income taxes payable.....	34,334	14,902	10,682
Net cash provided by operating activities.....	115,540	107,029	107,154
Cash flows from investing activities:			
Additions to property, plant, and equipment.....	(79,197)	(32,568)	(28,676)
Increase in equipment manufactured by the Company.....	(14,004)	(8,127)	(10,008)
Purchases of marketable securities.....	(190,961)	(55,400)	(7,942)
Maturities of marketable securities.....	126,619	25,848	
Net cash used in investing activities.....	(157,543)	(70,247)	(46,626)
Cash flows from financing activities:			
Net payments under short-term borrowing agreements....	(4,100)		(3,500)
Payments of long-term debt.....	(1,015)	(1,665)	(7,449)
Additions to long-term debt.....	12,500	145	1,420
Payment to retire convertible subordinated debentures.....			(10,780)
Issuance of common stock under stock option and stock purchase plans.....	24,914	17,119	24,737
Sale of common stock.....		13,575	23,917
Acquisition of treasury stock.....		(24,597)	(2,277)

Net cash provided by financing activities.....	32,299	4,577	26,068
Increase (decrease) in cash and cash equivalents.....	(9,704)	41,359	86,596
Adjustment to conform fiscal year of Megatest.....	(10,346)		
Cash and cash equivalents at beginning of year.....	202,215	160,856	74,260
Cash and cash equivalents at end of year.....	\$ 182,165	\$202,215	\$160,856
Supplementary disclosure of cash flow information:			
Cash paid during the year for:			
Interest.....	\$ 3,092	\$ 1,722	\$ 4,839
Income taxes.....	52,339	16,563	1,991

The accompanying notes are an integral part of the consolidated financial statements.

16

17

TERADYNE, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 1995, 1994 AND 1993

	SHARES		COMMON STOCK PAR VALUE	ADDITIONAL PAID IN CAPITAL	RETAINED EARNINGS
	ISSUED	REACQUIRED			
(DOLLARS IN THOUSANDS)					
Balance, December 31, 1992, as previously reported.....	33,600,578	554,918	\$ 4,131	\$206,439	\$134,078
Adjustment to effect pooling of interests with Megatest Corporation.....	1,734,500		217	42,809	(20,494)
Balance, December 31, 1992, as restated.....	35,335,078	554,918	4,348	249,248	113,584
Tax benefit from stock options upon adoption of SFAS 109.....				6,869	
Issuance of stock to employees under benefit plans.....	2,689,645	87,054	326	24,411	
Tax benefit from stock options.....				8,943	
Issuance of stock upon conversion of convertible subordinated debentures.....	210,585		26	4,656	
Repurchase of stock.....		125,580	(16)	(2,261)	
Initial public offering of Megatest Corporation, net of offering costs.....	1,007,575		126	23,791	
Net income.....					48,073
Pension adjustment.....					(1,468)
Balance, December 31, 1993.....	39,242,883	767,552	4,810	315,657	160,189
Issuance of stock to employees under benefit plans.....	1,583,974	17,303	196	16,923	
Tax benefit from stock options.....				8,275	
Repurchase of stock.....		878,400	(110)	(24,487)	
Secondary offering of Megatest Corporation, net offering costs.....	447,000		56	13,519	
Net income.....					76,390
Pension adjustment.....					1,468
Balance, December 31, 1994.....	41,273,857	1,663,255	4,952	329,887	238,047
Adjustment to conform fiscal year of Megatest Corporation.....	3,214			9	(14,780)
Issuance of stock to employees under benefit plans.....	1,614,317		202	22,940	
Tax benefit from stock options.....				17,549	
Two-for-one stock split effected in the form of a 100% stock dividend...	42,891,388	1,663,255	5,154	(5,154)	
Issuance of stock to employees under benefit plans after the two-for-one stock split.....	177,325		21	1,751	
Payment for fractional shares					

resulting from merger.....				(12)	
Net income.....					159,284
Balance, December 31, 1995.....	85,960,101	3,326,510	\$10,329	\$366,970	\$382,551
	=====	=====	=====	=====	=====

The accompanying notes are an integral part of the consolidated financial statements.

TERADYNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

A. THE COMPANY

Teradyne, Inc. (the "Company") designs, manufactures, markets, and services electronic test systems and related software used by component manufacturers in the design and testing of their products and by electronic equipment manufacturers for the incoming inspection of components and for the design and testing of circuit boards and other assemblies. Manufacturers use such systems and software to increase product performance, to improve product quality, to shorten time to market, to enhance manufacturability, to conserve labor costs, and to increase production yields. The Company's electronic systems are also used by telephone operating companies for the testing and maintenance of their subscriber telephone lines and related equipment.

The Company also manufactures backplane connection systems, principally for the computer, telecommunications, and military/aerospace industries. A backplane is a panel that supports the circuit boards in an electronic assembly and carries the wiring that connects the boards to each other and to other elements of a system.

B. ACCOUNTING POLICIES

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its subsidiaries, all of which are wholly owned. All significant intercompany balances and transactions are eliminated. Certain prior years' amounts have been reclassified to conform to the current year presentation. On December 1, 1995, the Company completed its acquisition of Megatest Corporation ("Megatest"), by means of a merger of M Merger Corp., a wholly owned subsidiary of the Company, with and into Megatest. As a result of the merger, Megatest became a wholly owned subsidiary of the Company. The Megatest combination has been accounted for as a pooling of interests. The consolidated financial statements of the Company for periods prior to the merger have been restated to include the financial position and results of operations of the combined companies.

Preparation of Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reported periods. Actual results could differ from those estimates.

Inventories

Inventories are stated at the lower of cost (first-in, first-out basis) or market (net realizable value).

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Leasehold improvements and major renewals are capitalized and included in property, plant and equipment accounts while expenditures for maintenance and repairs and minor renewals are charged to expense. When assets are retired, the assets and related allowances for depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected in operations.

The Company provides for depreciation of its property principally on the straight-line method by charges to expense which are sufficient to write-off the cost of the assets over their estimated useful lives.

18

19

TERADYNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

B. ACCOUNTING POLICIES -- (CONTINUED)

Revenue Recognition

Revenue is recorded when products are shipped or, in instances where products are configured to customer requirements, upon the successful completion of test procedures. Service revenue is recognized ratably over applicable contract periods or as services are performed. In certain situations, revenue is recorded using the percentage of completion method based upon the completion of measurable milestones, with changes to total estimated costs and anticipated losses, if any, recognized in the period in which determined.

Engineering and Development Costs

The Company's products are highly technical in nature and require a large and continuing engineering and development effort. All engineering and development costs are expensed as incurred.

Income Taxes

Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The measurement of deferred tax assets is reduced by a valuation allowance if, based upon weighted available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

The Company's practice is to provide U.S. federal taxes on undistributed earnings of the Company's foreign sales and service subsidiaries.

Translation of Foreign Currencies

Assets and liabilities of foreign subsidiaries which are denominated in foreign currencies are remeasured into U.S. dollars at rates of exchange in effect at the end of the fiscal year except nonmonetary assets and liabilities which are remeasured using historical exchange rates. Revenue and expense amounts are remeasured using an average of exchange rates in effect during the year, except those amounts related to nonmonetary assets and liabilities, which are remeasured at historical exchange rates. Net realized and unrealized gains and losses resulting from foreign currency remeasurement are included in operations.

Net Income per Common Share

Net income per common share is based upon the weighted average number of common and common equivalent shares (when dilutive) outstanding each year. Common equivalent shares result from the assumed exercise of outstanding stock options, the proceeds of which are then assumed to have been used to repurchase outstanding common stock using the treasury stock method. Primary and fully diluted earnings per share are equal for all periods presented.

C. MERGER -- POOLING OF INTERESTS

On December 1, 1995, the Company acquired through a merger all of the authorized and outstanding common stock of Megatest in exchange for approximately 6,831,000 shares of the Company's common stock using an exchange ratio of 0.9091 of one share of the Company's common stock for each Megatest share. In addition, all outstanding Megatest stock options were converted, at the common stock exchange ratio, into options to purchase the Company's common stock. Megatest manufactures electronic test systems for the integrated circuit industry. Prior to the merger, Megatest prepared its financial statements on an August 31 fiscal year end. Megatest's fiscal year has been changed to December

31 to conform to the Company's year end. The restated financial statements for 1994 and 1993 include Megatest's amounts as of and for the years ended August 31, 1994 and 1993, respectfully. As a result, Megatest's financial position and results of

TERADYNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

C. MERGER -- (CONTINUED)

operations as of and for the four month period ended December 31, 1994 are not reflected in the Company's consolidated balance sheet and statements of income and cash flows. Megatest's loss for this period of \$14.8 million has been charged to retained earnings effective January 1, 1995. Megatest's results of operations for the four months ended December 31, 1994 are summarized as follows (in thousands):

Revenue.....	\$ 14,111
Net Loss.....	\$(14,780)

Separate results of the Company and Megatest that have been combined in the Company's consolidated results for the years ended December 31, 1995, 1994, and 1993 are as follows (in thousands):

	1995 -----	1994 -----	1993 -----
Net sales:			
Teradyne.....	\$1,059,409	\$677,440	\$554,734
Megatest.....	131,613	100,291	78,405
	-----	-----	-----
	\$1,191,022	\$777,731	\$633,139
	=====	=====	=====
Net income:			
Teradyne.....	\$ 157,204	\$ 70,941	\$ 35,194
Megatest.....	2,297	10,799	5,279
Adjustments.....	(217)	(5,350)	7,600
	-----	-----	-----
	\$ 159,284	\$ 76,390	\$ 48,073
	=====	=====	=====

The combined financial results reflect the restatement of Megatest's provision for income taxes in accordance with Financial Accounting Standards No. 109 Accounting for Income Taxes. Due to the merger, Megatest's previously unrecognized tax benefits of deductible temporary differences and operating loss carryforwards were recognized by the combined company in the restated periods. The restatement of the provision for income taxes increased net income in 1993 by \$7.6 million and decreased net income in 1994 by \$5.1 million. The combined financial results also include adjustments, which were immaterial to the combined financial statements, to conform accounting policies of the two companies. Adjustments made to conform the accounting policies of the two companies decreased net income by \$0.2 million in 1994 and 1995. All other adjustments consist of reclassifications to conform financial statement presentation. There were no intercompany transactions between the two companies for the periods presented.

In connection with the merger, the Company recorded a \$5.6 million one-time charge in the fourth quarter of 1995 for transaction costs consisting primarily of professional fees.

D. FINANCIAL INSTRUMENTS

Fair Value

The Company considers all highly liquid debt instruments with maturities of three months or less at date of acquisition to be cash equivalents. At December 31, 1995 and 1994, marketable securities consist of short-term investments in

U.S. Treasury Bills with original maturities of greater than three months and remaining contractual maturities of less than one year. The Company has classified these marketable securities as held to maturity. Accordingly, marketable securities and cash equivalents are carried at amortized cost plus accrued interest, which approximate fair value. The Company's debt includes subsidized loans whose fair value is not practicable to estimate. For all other balance sheet financial instruments and the remaining debt of the Company, the carrying amount approximates fair value.

TERADYNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

D. FINANCIAL INSTRUMENTS -- (CONTINUED)
Off-Balance Sheet Risk

The Company regularly enters into forward foreign exchange contracts in European and Japanese currencies to hedge its overseas net monetary position and firm commitments. These contracts are used to reduce the Company's risk associated with exchange rate movements, as gains and losses on these contracts are intended to offset foreign exchange losses and gains on underlying exposures. The Company does not engage in foreign currency speculation. Forward foreign exchange contracts have maturities of less than one year, unless they relate to long term sales contracts denominated in a foreign currency; these maturities are from one to three years.

At December 31, 1995, the Company had the following forward exchange contracts to buy U.S. dollars for foreign currencies, with notional amounts totaling \$66.3 million; \$38.8 million German deutschemark, \$13.8 million Japanese yen, and \$13.7 million various other European currencies. In addition, the Company had forward exchange contracts to sell U.S. dollars for German deutschemarks with notional amounts of \$22.9 million. At December 31, 1994 the face amount of forward exchange contracts outstanding was \$67.9 million. The fair value of these contracts as of December 31, 1995 and 1994, determined by applying the year end foreign currency exchange rates to the notional contract amounts, represented a net unrealized loss of \$4.4 million and \$2.0 million, respectively.

The Company's policy is to defer gains and losses on these contracts until the corresponding losses and gains are recognized on the items being hedged. During 1994, the Company recorded in other current assets a \$2.9 million loss on deferred forward foreign exchange contracts relating to a long term sales contract denominated in a foreign currency. At December 31, 1995, a net \$1.0 million loss remains in other current assets. This remaining net loss will serve to offset foreign exchange transaction gains to be recognized on the hedged items.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash investments, forward foreign exchange contracts, and accounts receivable. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of diverse and geographically dispersed customers. The Company maintains cash investments primarily in U.S. government obligations which essentially have no credit risk. Credit risk exposure from forward contracts is minimized as these instruments are contracted with high quality financial institutions.

E. DEBT

Long-term debt at December 31, 1995 and 1994 consisted of the following (in thousands):

	1995	1994
	-----	-----
Mortgage notes payable.....	\$10,452	\$5,040
Capital equipment notes payable.....	6,534	
Other long-term debt.....	3,775	4,387
	-----	-----

Total.....	20,761	9,427
Less current maturities.....	2,082	316
	-----	-----
	\$18,679	\$9,111
	=====	=====

The total maturities of long-term debt for the succeeding five years and thereafter are: 1996 -- \$2.1 million; 1997 -- \$2.1 million; 1998 -- \$2.3 million; 1999 -- 1.8 million; 2000 -- \$0.5 million and \$12.0 million thereafter.

TERADYNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

E. DEBT -- (CONTINUED)

Revolving Credit Agreement

On January 31, 1996, the Company increased its available revolving credit line to \$120.0 million from \$80.0 million. The revolving credit agreement is in effect through January 31, 1999. At expiration of the revolver, any amounts outstanding are converted into a two year term note. As of December 31, 1995, no amounts were outstanding under this agreement. The terms of this line of credit include restrictive covenants regarding working capital, tangible net worth, and leverage. Interest rates on borrowings are either at the stated prime rate or based upon Eurocurrency or certificate of deposit interest rates. Pursuant to the terms of the credit agreement, the Company may incur additional indebtedness of up to \$30.0 million provided that the liabilities of the Company, exclusive of deferred income taxes and subordinated debt, shall not exceed 100% of the Company's tangible net worth.

Mortgage Notes Payable

The Company received a loan of \$4.5 million from the Boston Redevelopment Authority in the form of a 3% mortgage loan maturing March 31, 2013. This loan is collateralized by a mortgage on the Company's property at 321 Harrison Avenue which may, at the Company's option, become subordinated to another mortgage up to a maximum of \$5.0 million. Interest for the first 4 1/2 years of the note was capitalized up to a principal amount of \$5.0 million. Since September 30, 1987, the Company has been making semi-annual interest payments.

In conjunction with the purchase of its general operating facilities Megatest received a \$5.5 million mortgage loan which matures on August 31, 2000. The loan is collateralized by a mortgage on Megatest's facilities in San Jose, California. The loan bears interest at 8.1% per annum and is payable in 59 consecutive monthly installments of \$0.05 million with a \$4.6 million balloon payment due at maturity. The terms of this mortgage note payable require compliance with certain restrictive financial covenants and principal prepayment clauses.

Equipment Notes Payable

During August 1995, Megatest entered into two capital equipment notes payable. The first note with an original amount of \$5.0 million is payable in 48 consecutive monthly installments of principal and interest at 9.5% per annum. The second note with an original amount of \$1.9 million is payable in 48 consecutive monthly installments of principal and interest at 8.7% with a \$0.4 million balloon payment due at maturity. The terms of these equipment notes payable require compliance with certain restrictive financial covenants and principal prepayment clauses.

Other Long-term Debt

At December 31, 1995, other long-term debt includes a Japanese yen-denominated note with an interest rate of 4.8%, secured by land in Kumamoto, Japan. Interest only payments were made through March 31, 1995. Monthly principal and interest payments began April 28, 1995 and continue until March 30, 2007.

Short-term Borrowings

The weighted average interest rate on short-term borrowings outstanding as of December 31, 1995 and 1994 was 4.2% and 3.2%, respectively.

TERADYNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

F. CONVERTIBLE SUBORDINATED DEBENTURES

During 1993, \$5.0 million principal amount of debentures was converted into 210,585 shares of common stock resulting in an increase of \$4.7 million of shareholders' equity (net of the related \$0.3 million unamortized debt issue costs). On November 19, 1993, the Company exercised its option to repurchase the remaining \$10.4 million outstanding debentures. The Company used \$10.8 million of available cash to repurchase the debentures at a premium of 103.7% of the principal amount. The premium amount and the write-off of the remaining unamortized debt issue cost resulted in a charge of \$1.0 million. This charge, net of the related taxes of \$0.3 million, is reflected as an extraordinary loss in the consolidated statements of income.

G. COMMITMENTS

Rental expense for the years ended December 31, 1995, 1994, and 1993 was \$13.1 million, \$11.1 million, and \$12.8 million, respectively. Minimum annual rentals under all noncancellable leases are: 1996 -- \$5.6 million; 1997 -- \$5.0 million; 1998 -- \$4.7 million; 1999 -- \$3.0 million; 2000 -- \$1.8 million; and \$8.8 million thereafter, totaling \$28.9 million.

H. PENSION PLANS

The Company has defined benefit pension plans covering substantially all domestic employees and employees of certain international subsidiaries. Benefits under these plans are based on the employees' years of service and compensation. The Company's funding policy is to make contributions to the plans in accordance with local laws and to the extent that such contributions are tax deductible. The assets of the plans consist primarily of equity and fixed income securities.

The components of net pension expense are summarized as follows (in thousands):

	1995	1994	1993
	-----	-----	-----
Service cost (benefits earned during the period).....	\$ 3,211	\$ 3,627	\$ 2,876
Interest cost on projected benefit obligation.....	4,012	3,708	3,065
Actual return on plan assets.....	(9,514)	1,537	(3,802)
Net amortization and deferral.....	5,853	(4,371)	863
	-----	-----	-----
	\$ 3,562	\$ 4,501	\$ 3,002
	=====	=====	=====

TERADYNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

H. PENSION PLANS -- (CONTINUED)

The following table sets forth the plans' funded status at December 31 (in thousands):

1995		1994	
-----	-----	-----	-----
DOMESTIC	FOREIGN	DOMESTIC	FOREIGN
-----	-----	-----	-----

Actuarial present value of projected benefit obligation:				
Vested benefits.....	\$ (45,273)	\$ (5,981)	\$ (32,673)	\$ (5,134)
Non-vested benefits.....	(2,634)	(695)	(2,254)	(603)
	-----	-----	-----	-----
Accumulated benefit obligation.....	(47,907)	(6,676)	(34,927)	(5,737)
Effect of projected future compensation levels...	(9,306)	(2,742)	(5,483)	(2,818)
	-----	-----	-----	-----
Total projected benefit obligation.....	(57,213)	(9,418)	(40,410)	(8,555)
Plan assets at fair market value.....	48,773	5,081	35,532	4,312
	-----	-----	-----	-----
Projected benefit obligation in excess of plan assets.....	(8,440)	(4,337)	(4,878)	(4,243)
Unrecognized prior service cost.....	3,076	1,766	3,613	2,000
Unrecognized net loss (gain).....	13,587	(821)	7,133	(465)
Unrecognized net (asset) liability at transition.....	(242)	(458)	(485)	(501)
Minimum pension liability adjustment.....		(214)		(219)
	-----	-----	-----	-----
Net pension asset (liability).....	\$ 7,981	\$ (4,064)	\$ 5,383	\$ (3,428)
	=====	=====	=====	=====
Actuarial assumptions:				
Discount rate.....	7.2 %	4.5%-8.0%	8.5 %	5.5%- 9.0%
Average increase in compensation levels.....	5.0 %	3.6%-5.5%	5.0 %	4.6%- 7.0%
Expected long-term return on assets.....	9.0 %	4.5%-9.5%	9.0 %	5.5%-10.5%

In addition to the above plans, the Company in 1993 established an unfunded supplemental defined benefit pension plan in the United States to provide retirement benefits in excess of levels allowed by the Employee Retirement Income Security Act (ERISA). The actuarial present value of accumulated plan benefits totaled \$1.9 million and \$1.3 million at December 31, 1995 and 1994, respectively. Net pension expense was \$0.5 million in 1995 and \$0.4 million in 1994 and 1993.

I. COMMON STOCK SPLIT

On July 24, 1995 the Company's Board of Directors authorized a two-for-one stock split effected in the form of a 100% stock dividend distributed on August 29, 1995 to shareholders of record as of August 8, 1995. As a result of the stock split, the accompanying consolidated financial statements reflect an increase in the number of outstanding shares of common stock and the transfer of the par value of these additional shares from paid-in capital. All share and per share amounts have been restated to reflect the retroactive effect of the stock split, except for the capitalization of the Company.

TERADYNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

J. STOCK OPTION PLANS

Under its stock option plans, the Company and Megatest granted options to certain directors, officers and employees entitling them to purchase common stock at 100% of market value at the date of grant.

Information with respect to options authorized, granted, exercised, and forfeited is set forth below:

	SHARES AVAILABLE FOR GRANT	OUTSTANDING OPTIONS	
		NUMBER OF SHARES	PRICE RANGE
	-----	-----	-----
Balance -- December 31, 1992.....	4,727,968	9,387,086	\$ 0.04-\$ 8.80
Options authorized.....	6,000,000		-- --
Options granted.....	(2,459,609)	2,459,609	\$ 4.40-\$23.37
Options exercised.....		(4,117,375)	\$ 0.04-\$ 4.40
Options canceled.....	213,492	(213,492)	\$ 0.04-\$ 4.40
Options terminated.....	(51,580)		-- --
	-----	-----	

Balance -- December 31, 1993.....	8,430,271	7,515,828	\$ 0.04-\$ 4.40
Options granted.....	(2,243,834)	2,243,834	\$12.88-\$23.92
Options exercised.....		(1,887,882)	\$ 1.10-\$11.00
Options canceled.....	234,975	(234,975)	\$ 1.10-\$23.37
Options terminated.....	(33,280)		-- --
	-----	-----	
Balance -- December 31, 1994.....	6,388,132	7,636,805	\$ 0.04-\$23.92
Options authorized.....	909,100		
Options granted.....	(2,717,190)	2,717,190	\$ 6.87-\$40.13
Options exercised.....		(2,790,259)	\$ 0.04-\$20.69
Options canceled.....	333,237	(333,237)	\$ 0.04-\$23.92
Options terminated.....	(1,400)		-- --
	-----	-----	
Balance -- December 31, 1995.....	4,911,879	7,230,499	\$ 1.10-\$40.13
	=====	=====	
Options exercisable on December 31, 1995.....		2,606,007	\$ 1.10-\$40.13
		=====	

There were no charges to operations in connection with these options other than incidental expenses related to the issuance of shares.

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation, (Statement 123). Statement 123 encourages but does not require the recognition of compensation expense for grants of stock, stock options, and other equity instruments based upon new fair value accounting rules (the "recognition method"). Companies that choose not to adopt the recognition method may continue to apply the existing accounting principles however, Statement 123 requires companies that choose not to adopt the new fair value accounting rules to disclose pro forma net income and earnings per share amounts under the new fair value method (the "disclosure method"). The Company plans to adopt the disclosure method in 1996 and will report the pro forma effect (which has not yet been determined) of applying fair value accounting rules to grants of stock-based awards on net income and earnings per share in its 1996 financial statements.

K. SAVINGS PLANS

The Company sponsors a Savings Plan covering substantially all domestic employees. Under this plan, employees may contribute up to 12% of their compensation (subject to Internal Revenue Service limitations). The Company annually matches employee contributions up to 6% of such compensation at rates ranging from

25

26

TERADYNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

K. SAVINGS PLANS -- (CONTINUED)

50% to 100%. The Company's contributions vest after two years, although contributions for those employees with five years of service vest immediately.

The trustees of the Savings Plan were granted an option to purchase 900,000 shares of the Company's common stock, exercisable at \$9.50 per share (the fair market value of the Company's common stock at the date of the grant) in five cumulative annual installments beginning in 1990. In 1994, the trustees exercised the remaining 265,000 shares. Under the terms of the Plan, any gains realized from the sale of option shares were first allocated to participants' accounts to fund up to one-half of the minimum Company contribution. Any excess was applied to additional funding.

In 1994, the Company established a Supplemental Savings Plan to provide savings benefits in excess of those allowed by ERISA. The provisions of which are the same as the Savings Plan.

Under these plans, the amounts charged to operations were \$8.3 million in 1995 and \$2.0 million in 1994 and 1993.

L. EMPLOYEE STOCK PURCHASE PLANS

Under the Company's 1979 Stock Purchase Plan, employees are entitled to

purchase shares of common stock through payroll deductions of up to 10% of their compensation. The price paid for the common stock is equal to 85% of the lower of the fair market value of the Company's common stock on either the first or last business day of the year. In January 1996, the Company issued 503,672 shares of common stock to employees who participated in the Plan during 1995 at a price of \$14.08 per share. Currently there are 617,608 shares reserved for issuance.

During 1995, Megatest sponsored a Stock Purchase Plan in which employees were able to purchase on a semi-annual basis shares of common stock through payroll deductions of up to 10% of their compensation. The price paid for the common stock was equal to 85% of the lower of the fair market value of Megatest's common stock on either the first or last business day of the semi-annual period. On June 30, 1995, employees purchased, as adjusted by the common stock exchange ratio, 84,546 shares at an equivalent price of \$5.81 per share. Immediately prior to the December 1, 1995 merger, employees purchased an additional 46,124 shares at a price of \$12.23 per share.

M. STOCKHOLDER RIGHTS PLAN

The Company's Board of Directors adopted a Stockholder Rights Plan on March 14, 1990, under which a dividend of one Common Stock Purchase Right was distributed for each outstanding share of Common Stock. The Plan entitles Stock Purchase Right holders to purchase shares of the Company's common stock for \$20 per share in certain events, such as a tender offer to acquire 30% or more of the Company's outstanding shares. Under some circumstances, such as a determination by continuing Directors, that an acquiring party's interests are adverse to those of the Company, the Plan entitles such holders (other than an acquiring party or adverse party) to purchase \$40 worth of Common Stock (or other securities or consideration owned by the Company) for \$20. The Plan will expire March 26, 2000 unless earlier redeemed by the Company.

TERADYNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

N. INCOME TAXES

The components of income before income taxes, extraordinary item, and cumulative effect of change in accounting for income taxes and the provision for income taxes as shown in the consolidated statement of income are as follows (in thousands):

	1995	1994	1993
	-----	-----	-----
Income before income taxes, extraordinary item, and cumulative effect of change in accounting for income taxes:			
Domestic.....	\$212,551	\$ 96,406	\$56,806
Foreign.....	37,374	17,619	477
	\$249,925	\$114,025	\$57,283
	=====	=====	=====
Provision (credit) for income taxes:			
Current:			
Federal.....	66,228	26,395	9,745
Foreign.....	12,604	2,924	1,314
State.....	7,889	4,441	1,985
	86,721	33,760	13,044
	-----	-----	-----
Deferred:			
Federal.....	(241)	3,834	2,486
Foreign.....	3,654	492	259
State.....	507	(451)	292
	3,920	3,875	3,037
	-----	-----	-----
	\$ 90,641	\$ 37,635	\$16,081
	=====	=====	=====

TERADYNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

N. INCOME TAXES -- (CONTINUED)

Significant components of the Company's deferred tax assets (liabilities) as of December 31, 1995 and 1994 are as follows (in thousands):

	1995	1994
	-----	-----
Deferred tax assets:		
Inventory valuations.....	\$ 4,863	\$ 4,054
Accruals.....	1,470	3,744
Vacation.....	4,324	3,121
In process research & development.....	3,374	
Deferred revenue.....	5,748	7,262
Federal net operating loss carryforwards.....	1,050	1,050
Foreign net operating loss carryforwards.....		1,041
Tax credits.....	4,097	2,698
Other.....	1,260	1,660
	-----	-----
Total deferred tax assets.....	26,186	24,630
	-----	-----
Deferred tax liabilities:		
Excess of tax over book depreciation.....	(14,871)	(9,014)
Amortization.....	(2,853)	(3,306)
Pension.....	(1,332)	(1,948)
Other.....	(3,295)	(563)
	-----	-----
Total deferred tax liabilities.....	(22,351)	(14,831)
	-----	-----
Valuation allowance.....		(2,044)
	-----	-----
Net deferred tax asset.....	\$ 3,835	\$ 7,755
	=====	=====

Effective January 1, 1993, the Company adopted Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes, (Statement 109). As permitted by Statement 109 the Company has elected not to restate its financial statements for any periods prior to 1993. The effect on operations for 1993 resulted in a one-time \$7.6 million credit. The Company also increased Additional Paid-in Capital by \$6.9 million relating to the tax benefits to be derived from the utilization of U.S. net operating loss carryforward amounts resulting from tax deductions pertaining to the issuance of the Company's stock to employees under its benefit plans.

Upon adoption of Statement 109 the Company established a valuation allowance of \$5.5 million related to the utilization of U.S. federal and foreign tax credit carryforwards and net operating loss carryforwards in certain foreign jurisdictions. During 1993, 1994, and 1995 the Company decreased the valuation allowance \$1.6 million, \$1.9 million, and \$2.0 million, respectively.

TERADYNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

N. INCOME TAXES -- (CONTINUED)

Below is a reconciliation of the effective tax rate for the three years indicated:

1995	1994	1993
----	----	----

U.S. statutory federal tax rate.....	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit.....	2.0	2.7	2.6
Utilization of operating loss carryforwards.....	0.3		(3.4)
Foreign losses not tax benefited.....			1.1
Tax credits.....	(0.6)	(2.6)	(3.1)
Foreign sales corporation.....	(2.3)	(2.6)	(2.2)
Non-deductible merger costs.....	0.8		
Change in valuation allowance.....	(0.8)	(1.7)	(2.8)
Other, net.....	1.9	2.2	0.9
	----	----	----
	36.3%	33.0%	28.1%
	=====	=====	=====

At December 31, 1995, the Company had net operating loss carryforwards of approximately \$3.0 million. These net operating loss carryforwards expire in the years 2000 through 2002. The Company has approximately \$4.1 million of U.S. business tax credit carryforwards. Approximately \$2.6 million of these credits expire in the years 1996 through 1999, and \$1.5 million expire in the years 2003 through 2007. All of these losses and credits are limited in their use by "change in ownership" rules as defined in the Internal Revenue Code of 1986.

29

30

TERADYNE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

O. INDUSTRY SEGMENT AND GEOGRAPHIC INFORMATION

The Company operates in two industry segments, which are the design, manufacturing and marketing of electronic test systems and backplane connection systems. Corporate assets consist of cash and cash equivalents, marketable securities, accounts receivable and certain other assets.

	ELECTRONIC TEST SYSTEMS INDUSTRY SEGMENT	BACKPLANE CONNECTION SYSTEMS INDUSTRY SEGMENT	CORPORATE AND ELIMINATIONS	CONSOLIDATED
	-----	-----	-----	-----
	(IN THOUSANDS)			
1995				
Sales to unaffiliated customers.....	\$1,035,721	\$155,301		\$1,191,022
Intersegment sales.....		12,325	\$(12,325)	
	-----	-----	-----	-----
Net sales.....	1,035,721	167,626	(12,325)	1,191,022
Operating income.....	237,101	22,778	(15,523)	244,356
Identifiable assets.....	640,597	91,205	292,029	1,023,831
Property additions.....	77,552	12,038	3,611	93,201
Depreciation and amortization expense.....	37,274	4,670	1,202	43,146
1994				
Sales to unaffiliated customers.....	\$ 645,929	\$131,802		\$ 777,731
Intersegment sales.....		5,050	\$(5,050)	
	-----	-----	-----	-----
Net sales.....	645,929	136,852	(5,050)	777,731
Operating income.....	102,884	18,449	(13,305)	108,028
Identifiable assets.....	440,117	82,820	236,543	759,480
Property additions.....	30,835	9,005	855	40,695
Depreciation and amortization expense.....	31,847	5,754	841	38,442
1993				
Sales to unaffiliated customers.....	\$ 544,710	\$ 88,429		\$ 633,139
Intersegment sales.....		4,185	\$(4,185)	
	-----	-----	-----	-----
Net sales.....	544,710	92,614	(4,185)	633,139
Operating income.....	63,596	7,652	(13,871)	57,377
Identifiable assets.....	390,101	64,705	166,801	621,607
Property additions.....	32,857	5,526	301	38,684
Depreciation and amortization expense.....	30,202	5,545	1,053	36,800

The Company's sales, including domestic export and foreign jurisdictional

sales (which amounted to less than 10% of total net sales in all periods presented) to unaffiliated customers for the three years ended December 31 were made to customers in the following geographic areas:

	1995	1994	1993
	-----	-----	-----
	(IN THOUSANDS)		
Sales to unaffiliated customers:			
United States.....	\$ 566,337	\$416,199	\$374,871
Asia Pacific region.....	256,901	138,458	92,411
Europe.....	222,194	133,127	100,299
Japan.....	94,706	68,019	50,539
Other.....	50,884	21,928	15,019
	-----	-----	-----
	\$1,191,022	\$777,731	\$633,139
	=====	=====	=====

See "Item 1: Business -- Marketing and Sales" elsewhere in this report for information on the Company's export and foreign jurisdictional activities, identifiable assets of foreign subsidiaries, and major customers.

30

31

SUPPLEMENTARY INFORMATION
(UNAUDITED)

The following sets forth certain unaudited consolidated quarterly statements of operations data for each of the Company's last eight quarters. In management's opinion, this quarterly information reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation for the periods presented. Such quarterly results are not necessarily indicative of future results of operations and should be read in conjunction with the audited consolidated financial statements of the Company and the notes thereto included elsewhere herein.

	1995*			
	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
	-----	-----	-----	-----
Net sales.....	\$ 232,158	\$ 284,849	\$ 322,658	\$ 351,357
Expenses:				
Cost of sales.....	131,625	152,683	172,316	189,758
Engineering and development.....	24,986	30,795	32,966	34,740
Selling and administrative.....	38,919	42,715	45,353	49,810
	-----	-----	-----	-----
	195,530	226,193	250,635	274,308
	-----	-----	-----	-----
Income from operations.....	36,628	58,656	72,023	77,049
Other income (expense):				
Merger expenses.....				(5,600)
Interest income.....	3,085	3,547	3,670	3,907
Interest expense.....	(533)	(730)	(715)	(1,062)
	-----	-----	-----	-----
Income before income taxes.....	39,180	61,473	74,978	74,294
Provision for income taxes.....	14,706	22,666	26,756	26,513
	-----	-----	-----	-----
Net income.....	\$ 24,474	\$ 38,807	\$ 48,222	\$ 47,781
	=====	=====	=====	=====
Net income per common share.....	\$ 0.30	\$ 0.46	\$ 0.57	\$ 0.56
	=====	=====	=====	=====

	1994*			
	1ST QUARTER	2ND QUARTER	3RD QUARTER	4TH QUARTER
	-----	-----	-----	-----
Net sales.....	\$ 174,459	\$ 179,788	\$ 205,849	\$ 217,635

Expenses:				
Cost of sales.....	97,707	100,162	115,883	121,377
Engineering and development.....	19,614	21,128	21,851	23,977
Selling and administrative.....	36,279	35,992	36,591	39,142
	-----	-----	-----	-----
	153,600	157,282	174,325	184,496
	-----	-----	-----	-----
Income from operations.....	20,859	22,506	31,524	33,139
Other income (expense):				
Interest income.....	1,324	1,611	2,039	2,853
Interest expense.....	(572)	(402)	(424)	(432)
	-----	-----	-----	-----
Income before income taxes.....	21,611	23,715	33,139	35,560
Provision for income taxes.....	7,215	7,826	11,099	11,495
	-----	-----	-----	-----
Net income.....	\$ 14,396	\$ 15,889	\$ 22,040	\$ 24,065
	=====	=====	=====	=====
Net income per common share.....	\$ 0.18	\$ 0.20	\$ 0.27	\$ 0.30
	=====	=====	=====	=====

- - - - -
*Note: Previously published quarterly financial data have been restated to reflect the pooling of interests with Megatest Corporation (see "Note C: Merger -- Pooling of Interests" in Notes to Consolidated Financial Statements) and to give effect to the two-for-one stock split effected in the form of a 100% stock dividend distributed on August 29, 1995.

31

32

REPORT OF INDEPENDENT ACCOUNTANTS

In our opinion, the consolidated balance sheet and related consolidated statements of operations, of stockholders' equity and of cash flows of Megatest Corporation (not presented separately herein) present fairly, in all material respects, the financial position of Megatest Corporation and its subsidiaries at August 31, 1994, and the results of their operations and their cash flows for the year ended August 31, 1994, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for the opinion expressed above.

As discussed in Note 1 to the consolidated financial statements referred to above (and not included herein), Megatest Corporation changed its method of accounting for income taxes effective September 1, 1993.

PRICE WATERHOUSE LLP

San Jose, California
September 20, 1995

32

33

INDEPENDENT AUDITORS' REPORT

To the Stockholders and Board of Directors of
Megatest Corporation:

We have audited the consolidated statements of operations, stockholders' equity and cash flows of Megatest Corporation and its subsidiaries for the year ended August 31, 1993 (not presented separately herein). These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects the results of operations and cash flows of Megatest Corporation and its subsidiaries for the year ended August 31, 1993 in conformity with generally accepted accounting principles.

DELOITTE & TOUCHE LLP

San Jose, California
September 21, 1993

33

34

ITEM 9: CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10: DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Certain information relating to directors and executive officers of the Company, executive compensation, security ownership of certain beneficial owners and management, and certain relationships and related transactions is incorporated by reference herein from the Company's definitive proxy statement in connection with its Annual Meeting of Shareholders to be held on May 23, 1996, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year. For this purpose, the Management Compensation and Development Committee Report and Performance Graph included in such proxy statement are specifically not incorporated herein. (Also see "Item 1 -- Executive Officers of the Company" elsewhere in this report)

ITEM 11: EXECUTIVE COMPENSATION.

Certain information relating to directors and executive officers of the Company, executive compensation, security ownership of certain beneficial owners and management, and certain relationships and related transactions is incorporated by reference herein from the Company's definitive proxy statement in connection with its Annual Meeting of Shareholders to be held on May 23, 1996, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year. For this purpose, the Management Compensation and Development Committee Report and Performance Graph included in such proxy statement are specifically not incorporated herein.

ITEM 12: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Certain information relating to directors and executive officers of the Company, executive compensation, security ownership of certain beneficial owners and management, and certain relationships and related transactions is incorporated by reference herein from the Company's definitive proxy statement in connection with its Annual Meeting of Shareholders to be held on May 23, 1996, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year. For this purpose, the Management Compensation and Development Committee Report and Performance Graph included in such proxy statement are specifically not incorporated herein.

ITEM 13: CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Certain information relating to directors and executive officers of the Company, executive compensation, security ownership of certain beneficial owners and management, and certain relationships and related transactions is

incorporated by reference herein from the Company's definitive proxy statement in connection with its Annual Meeting of Shareholders to be held on May 23, 1996, which proxy statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of the fiscal year. For this purpose, the Management Compensation and Development Committee Report and Performance Graph included in such proxy statement are specifically not incorporated herein.

34

35

PART IV

ITEM 14: EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K.

(A) 1. FINANCIAL STATEMENTS

The following consolidated financial statements are included in Item 8:

Balance Sheets as of December 31, 1995 and 1994
 Statements of Income for the years ended December 31, 1995, 1994, and 1993
 Statements of Cash Flows for the years ended December 31, 1995, 1994, and 1993
 Statements of Changes in Shareholders' Equity for the years ended December 31, 1995, 1994, and 1993

(A) 2. FINANCIAL STATEMENT SCHEDULES

Financial statement schedules have been omitted since either they are not required or the information is otherwise included.

(A) 3. LISTING OF EXHIBITS

The Exhibits which are filed with this report or which are incorporated by reference herein are set forth in the Exhibit Index.

(B) REPORT ON FORM 8-K

A current report on Form 8-K dated December 1, 1995, has been filed with the Securities and Exchange Commission relating to the Company's merger with Megatest Corporation.

35

36

EXHIBIT INDEX

The following designated exhibits are, as indicated below, either filed herewith or have heretofore been filed with the Securities and Exchange Commission and are referred to and incorporated by reference to such filings.

EXHIBIT NO.	DESCRIPTION	SEC DOCUMENT REFERENCE
2.0	Agreement and Plan of Merger and Reorganization, as amended, dated September 5, 1995, by and among the Company, M Merger Corp., and Megatest Corporation	Exhibit 2.0 to the Company's Registration Statement on Form S-4 (Registration Statement No. 33-63781)
3.1	Restated Articles of Organization of the Company, as amended	Exhibit 4.1 to the Company's Form S-3 Registration Statement No. 33-44347, effective December 12, 1991.
3.2	Amendment, dated May 24, 1995, to Restated Articles of Organization of the Company, as amended	
3.3	Amended and Restated Bylaws of the Company	Exhibit 3.3 (iii) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1990.
4.1	Indenture dated as of March 15, 1987 between Zehntel, Inc. and the Bank of California, National Association,	Exhibit 2.3 to the Company's Registration Statement on Form 8-A No. 0-16446, effective February 17, 1988.

Trustees

4.2	First Supplemental Indenture between the Company, Zehntel, Inc. and the Bank of California, National Association, Trustee, dated as of December 1, 1987	Exhibit 2.4 to the Company's Registration Statement on Form 8-A No. 0-16446, effective February 17, 1988.
4.3	Second Supplemental Indenture by and among the Company, Zehntel, Inc. and Bankers Trust Company of California, N.A.	Exhibit 3.4 (iii) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1989.
4.4	Instrument of Acknowledgment of Satisfaction and Discharge of Indenture and Securities executed by First Trust of California, National Association, successor trustee	Exhibit 3.4 (iv) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.
4.5	Rights Agreement between the Company and The First National Bank of Boston dated as of March 14, 1990	Exhibit 4.1 to the Company's Current Report on Form 8-K dated March 15, 1990.
10.1	Multicurrency Revolving Credit Agreement dated April 29, 1991	Exhibit to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 30, 1991.
10.2	First Amendment to Multicurrency Revolving Credit Agreement dated as of March 5, 1993	Exhibit 3.10 (ii) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1992.
10.3	Second Amendment to Multicurrency Revolving Credit Agreement dated as of January 31, 1996	
10.4	1987 Non-Employee Director Stock Option Plan	Exhibit 3.10 (iii) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1992.
10.5	Teradyne, Inc. Supplemental Executive Retirement Plan	Exhibit 3.10 (iv) to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1992.
10.6	1991 Employee Stock Option Plan, as amended	Exhibit 10.5 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.

EXHIBIT NO.	DESCRIPTION	SEC DOCUMENT REFERENCE
-----	-----	-----
10.7	1979 Stock Purchase Plan, as amended	Exhibit 10.6 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1994.
10.8	Megatest Corporation 1990 Stock Option Plan	Exhibit 4.1 to the Company's Registration Statement on Form S-8 (Registration Statement No. 33-64683).
10.9	Megatest Corporation Director Stock Option Plan	Exhibit 4.2 to the Company's Registration Statement on Form S-8 (Registration Statement No. 33-64683).
10.10	Master Lease Agreement between Megatest and General Electric Capital Corporation dated August 10, 1995	
10.11	Loan and Security Agreement between Megatest and the CIT Group/Equipment Financing, Inc. dated August 14, 1995	
10.12	Deed of Trust, Financing Statement, Security Agreement and Fixture Filing between Megatest and the Sun Life Assurance Company of Canada (U.S.) dated August 25, 1995	
22.1	Subsidiaries of the Company	
23.1	Consent of Coopers & Lybrand L.L.P.	
23.2	Consent of Price Waterhouse LLP	
23.3	Consent of Deloitte & Touche LLP	
27.0	Financial Data Schedule	

Pursuant to the requirements of Section 13 or 15(d) 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 this 26th day of March, 1996.

TERADYNE, INC.

OWEN W. ROBBINS
By:-----
Owen W. Robbins,
Executive Vice President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE: -----	TITLE -----	DATE ----
ALEXANDER V. D'ARBELOFF ----- Alexander V. d'Arbeloff	Chairman of the Board and Chief Executive Officer	March 26, 1996
----- James A. Prestridge	Vice Chairman of the Board and Executive Vice President	March , 1996
OWEN W. ROBBINS ----- Owen W. Robbins	Vice Chairman of the Board and Executive Vice President (Principal Financial Officer)	March 26, 1996
GEORGE W. CHAMILLARD ----- George W. Chamillard	President, Chief Operating Officer, and Member of the Board	March 26, 1996
DONALD J. HAMMAN ----- Donald J. Hamman	Controller	March 26, 1996
EDWIN L. ARTZT ----- Edwin L. Artzt	Director	March 26, 1996
JAMES W. BAGLEY ----- James W. Bagley	Director	March 26, 1996
ALBERT CARNESALE ----- Albert Carnesale	Director	March 26, 1996
DANIEL S. GREGORY ----- Daniel S. Gregory	Director	March 26, 1996
DWIGHT H. HIBBARD ----- Dwight H. Hibbard	Director	March 26, 1996
JOHN P. MULRONEY ----- John P. Mulroney	Director	March 26, 1996
RICHARD J. TESTA ----- Richard J. Testa	Director	March 26, 1996

THE COMMONWEALTH OF MASSACHUSETTS

William Francis Galvin

Secretary of the Commonwealth

ONE ASHBURTON PLACE, BOSTON, MASSACHUSETTS 02108

ARTICLES OF AMENDMENT

GENERAL LAWS, CHAPTER 156B, SECTION 72

We Owen W. Robbins Vice President and
Donald G. Leka Assistant Clerk of

Teradyne, Inc.

(EXACT Name of Corporation)

located at: 321 Harrison Avenue, Boston, Massachusetts 02118

(MASSACHUSETTS Address of Corporation)

do hereby certify that these ARTICLES OF AMENDMENT affecting Articles NUMBERED:
Article 3

(Number those articles 1, 2, 3, 4, 5 and/or 6 being amended hereby)

of the Articles of Organization were duly adopted at a meeting held on May 24,
1995, by vote of:

26,581,818 shares of Common Stock out of 37,173,315 shares outstanding,
type, class & series (if any)
shares of out of shares outstanding, and
type, class & series (if any)
shares of out of shares outstanding,
type, class & series (if any)

CROSS OUT being at least a majority of each type, class or series
INAPPLI- outstanding and entitled to vote thereon:1
CABLE
CLAUSE

- 1 For amendments adopted pursuant to Chapter 156B, Section 70.
2 For amendments adopted pursuant to Chapter 156B, Section 71.

Note: If the space provided under any Amendment or item on this form is
insufficient, additions shall be set forth on a separate 8 1/2 x 11 sheets of
paper leaving a left-hand margin of at least 1 inch for binding. Additions to
more than one Amendment may be continued on a single sheet so long as each
Amendment requiring each such addition is clearly indicated.

TO CHANGE the number of shares and the par value (if any) of any type, class or
series of stock which the corporation is authorized to issue, fill in the
following:

The total presently authorized is:

WITHOUT PAR VALUE STOCKS

TYPE NUMBER OF SHARES

COMMON:

PREFERRED:

WITH PAR VALUE STOCKS

TYPE NUMBER OF SHARES PAR VALUE

COMMON: 75,000,000 \$0.125

PREFERRED:

CHANGE the total authorized to:

WITHOUT PAR VALUE STOCKS

TYPE NUMBER OF SHARES

COMMON:

PREFERRED:

WITH PAR VALUE STOCKS

TYPE NUMBER OF SHARES PAR VALUE

COMMON: 125,000,000 \$0.125

PREFERRED:

THE COMMONWEALTH OF MASSACHUSETTS

ARTICLES OF AMENDMENT

GENERAL LAWS, CHAPTER 156B, section 72

I hereby approve the within articles of amendment and, the filing fee in the amount of \$50,000.00 having been paid, said articles are deemed to have been filed with me this 17th day of July, 1995

WILLIAM FRANCIS GALVIN

Secretary of the Commonwealth

TO BE FILLED IN BY CORPORATION

PHOTOCOPY OF ARTICLES OF AMENDMENT TO BE SENT

TO: Kevin M. Barry, Esq.

Testa, Hurwitz & Thibeault

53 State Street, Exchange Place
Boston, MA 02109

4

The foregoing amendment will become effective when these articles of amendment are filed in accordance with Chapter 156B, Section 6 of the General Laws unless these articles specify, in accordance with the vote adopting the amendment, a later effective date not more than thirty days after such filing, in which event the amendment will become effective on such later date. LATER EFFECTIVE

DATE: _____

IN WITNESS WHEREOF AND UNDER THE PENALTIES OF PERJURY, we have hereunto signed our names this 17th _____ day of July _____ in the year 1995.

/s/ Owen W. Robbins _____ Executive Vice President

/s/ Donald G. Leka _____ Assistant Clerk

AMENDED AND RESTATED
MULTICURRENCY REVOLVING CREDIT
AND TERM LOAN AGREEMENT

Among

TERADYNE, INC.,

THE FIRST NATIONAL BANK OF BOSTON,

BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION,

STATE STREET BANK AND TRUST COMPANY,

FLEET BANK OF MASSACHUSETTS, N.A.

and

THE FIRST NATIONAL BANK OF BOSTON,

As Agent

as of January 31, 1996

Table of Contents

	Page
1. INTERPRETATION	
1.1. General Provisions Pertaining to.....	1
1.2. Terms Defined.....	2
2. THE LOANS	
2.1. Obligations of the Banks to Make Advances.....	12
2.2. Termination of Commitment	12
2.3. Reduction or Termination by the Company of Banks' Commitment.....	12
2.4. Reduction of Optional Currency Borrowings.....	13
2.5. Fees.....	13
2.6. Making the Advances.....	14
2.7. Optional Currencies.....	15
2.8. Interest Payable on the Loans.....	17
2.9. Alternative Interest Rates.....	18
2.10. Repayments and Prepayments of the Loans, etc.....	19
2.11. Payments and Computations.....	21
2.12. Payments to be Free of Deductions.....	22
2.13. Additional Costs, Changes in Circumstances, etc.....	22
2.14. Indemnification for Losses.....	24
2.15. Increased Capital Requirements.....	24
2.16. HLT Classification.....	25
3. CONDITIONS OF LENDING	
3.1. Conditions Precedent to Each Advance.....	25
3.2. Conditions Precedent to First Advance.....	27
4. REPRESENTATIONS AND WARRANTIES	
4.1. Representations and Warranties of the Company.....	28
4.1.1. Organization, Good Standing, Authority, etc.....	28

4.1.2.	Governmental Approvals.....	28
4.1.3.	Subsidiaries.....	28
4.1.4.	Compliance with Other Instruments.....	29
4.1.5.	Litigation.....	29
4.1.6.	No Adverse Contracts, etc.....	29

3

(ii)

4.1.7.	Financial Statements.....	29
4.1.8.	Changes.....	29
4.1.9.	Business.....	29
4.1.10.	Taxes.....	30
4.1.11.	Loan as Senior Indebtedness.....	30
4.1.12.	No Defaults.....	30
4.1.13.	Regulation U.....	30
4.1.14.	Pension Plans.....	30
4.1.15.	Investment Company; Public Utility Holding Company.....	30
4.1.16.	Environmental Compliance.....	31
4.2.	Representations and Warranties of Each Borrowing Subsidiary.....	31
4.2.1.	Organization, Good Standing, Authority, etc.....	31
4.2.2.	Governmental Approvals.....	32
4.2.3.	Compliance with Other Instruments.....	32
4.2.4.	Litigation.....	32
4.2.5.	No Adverse Contracts, etc.....	32
4.2.6.	Regulation U.....	32
4.2.7.	Borrowing Subsidiary.....	32
4.2.8.	Investment Company; Public Utility Holding Company.....	32

5. CERTAIN AFFIRMATIVE COVENANTS

5.1.	Conduct of Business.....	33
5.2.	Payment of Taxes.....	33
5.3.	Notification of Significant Litigation, Default, etc.....	33
5.4.	Financial Statements, Certificates and Other Information.....	34
5.5.	Inspection of Properties and Books.....	35
5.6.	Employee Retirement Income Security Act of 1974.....	35
5.7.	Financial Covenants.....	36
5.8.	Pension Plans.....	36
5.9.	Further Assurances.....	36
5.10.	Borrowing Subsidiaries.....	37
5.11.	Environmental Matters.....	37

6. CERTAIN NEGATIVE COVENANTS

6.1.	Indebtedness.....	38
6.2.	Liens.....	39

4

(iii)

6.3.	Investments.....	39
6.4.	Merger and Sale of Assets.....	40
6.5.	Lines of Business.....	40
6.6.	Limitation on Stock Repurchases.....	41
6.7.	Leasebacks.....	41

7. GUARANTY

7.1.	Guaranty.....	41
7.2.	Guaranty Absolute.....	41
7.3.	Effectiveness, Enforcement.....	42
7.4.	Waiver.....	43
7.5.	Subrogation.....	43

8. EVENTS OF DEFAULT; ACCELERATION..... 44

9.	SET-OFF	46
10.	THE AGENT	47
11.	MISCELLANEOUS	
11.1.	Expenses.....	49
11.2.	Notices, etc.....	49
11.3.	Reliance, etc.....	50
11.4.	Captions.....	50
11.5.	Consents, Amendments, Waivers, etc.....	51
11.6.	Benefit, etc.....	52
11.7.	Exchange Rate.....	52
11.8.	Governing Law.....	52
11.9.	Counterparts.....	52
11.10.	Consent to Jurisdiction,	
	Waiver of Jury Trial.....	53
11.11.	Transitional Provisions.....	54
11.12.	Exempt Character of Transaction.....	54
11.	ASSIGNMENT AND PARTICIPATION	
12.1.	Conditions to Assignment by Banks.....	54
12.2.	Certain Representations and Warranties.....	55
12.3.	Register.....	56
12.4.	New Notes.....	56
12.5.	Participations.....	57
12.6.	Disclosure.....	57

5

(iv)

12.7.	Assignee or Participant Affiliate.....	57
12.8	Miscellaneous Assignment Provisions.....	58
12.9	Assignment by Company.....	58

<FN>

Exhibits

Exhibit A	Form of Assignment and Acceptance
Exhibit B	Form of Election for Borrowing
Exhibit C	Form of Notes

Schedules

Schedule 1	Commitment
Schedule 4.1.3	Subsidiaries
Schedule 4.1.5	Litigation
Schedule 4.1.16	Environmental Matters
Schedule 6.1	Existing Indebtedness

6

TERADYNE, INC.

AMENDED AND RESTATED
MULTICURRENCY REVOLVING CREDIT

AND TERM LOAN AGREEMENT

This AMENDED AND RESTATED MULTICURRENCY REVOLVING CREDIT AND TERM LOAN AGREEMENT (the "Agreement") is made as of January 31, 1996, by and among TERADYNE, INC. (the "Company"), THE FIRST NATIONAL BANK OF BOSTON, BANK OF AMERICA NATIONAL TRUST AND SAVINGS ASSOCIATION, STATE STREET BANK AND TRUST COMPANY, FLEET BANK OF MASSACHUSETTS, N.A., and the other lending institutions listed on Schedule 1 hereto (each of which are referred to individually, as a "Bank" and collectively, as the "Banks") and THE FIRST NATIONAL BANK OF BOSTON,

as agent for itself and the other Banks (in such capacity, the "Agent").

WHEREAS, the Company, the Banks and the Agent previously entered into a Multicurrency Revolving Credit and Term Loan Agreement dated as of April 29, 1991 (as amended and in effect from time to time, the "Original Credit Agreement"); and

WHEREAS, the Company, the Banks and the Agent desire to amend and restate the Original Credit Agreement in its entirety as set forth herein;

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Company, the Banks and the Agent hereby agree, subject to the terms and conditions set forth herein, to amend and restate the Original Credit Agreement in its entirety as follows:

SECTION 1. INTERPRETATION.

1.1. General Provisions Pertaining to Definitions. For all purposes of this Agreement, except as otherwise expressly provided herein or unless the context otherwise requires:

(a) terms specifically defined in Section 1.2 hereof have the meanings therein assigned to them, and other terms defined elsewhere in this Agreement shall have the meanings therein assigned to them, and all such definitions shall be applicable to both the singular and plural forms of the terms defined;

-2-

(b) accounting terms not otherwise defined herein have the meanings assigned to them in accordance with accounting principles generally accepted in the United States of America;

(c) "Agreement" or "this Agreement" means this Agreement as amended and restated on the date hereof, or if subsequently modified, amended or supplemented, as so modified, amended or supplemented and in effect at the time of reference thereto; and

(d) the words "herein," "hereof," "hereunder" and other words of similar import refer to this Agreement as a whole and not to any particular Section or other subdivision of this Agreement.

1.2. Terms Defined. Subject to the provisions of Section 1.1 hereof, the following terms shall have the respective meanings set forth below:

"Advance" shall mean any advance made or to be made by the Banks to any Borrower pursuant to Section 2.1 hereof.

"Affiliate" shall mean any Person that would be considered to be an affiliate of the Company under Rule 144(a) of the Rules and Regulations of the Securities and Exchange Commission, as in effect on the date hereof, if the Company was issuing securities.

"Agent" shall be as defined in the preamble hereto.

"Assessment Rate" shall mean, for any Interest Period, the net annual assessment rate (rounded upwards, if necessary to the next higher 1/16 of 1%) payable by the Agent to the Federal Deposit Insurance Corporation (or any successor) for such Corporation's (or such successor's) insuring time deposits made in Dollars at offices of the Agent in the United States of America during the most recent period for which such rate has been determined prior to the commencement of such Interest Period.

"Banks" shall be as defined in the preamble hereto, and any other Person who becomes an assignee of any rights and obligations of a Bank pursuant to ss.12.

"Base Rate" shall mean for any day, the higher of (a) the Federal Funds Effective Rate for such day plus 1/2 of 1% per annum and (b) the rate of interest announced from time to time by the Agent at its head office as its base rate. Any change in the Base Rate resulting from a change in the "base rate" or the Federal Funds Effective Rate is to be effective at the beginning of the day of such change.

"Base Rate Advance" shall mean any Advance denominated in Dollars upon which interest will accrue based on the Base Rate.

7

-3-

"Base Rate Loan" shall mean the principal or a relevant portion of the principal amount outstanding from time to time after the Commitment Expiry Date denominated in Dollars upon which interest will accrue based on the Base Rate.

"Borrower" shall mean the Company or any Borrowing Subsidiary, and "Borrowers" shall mean the Company and each Borrowing Subsidiary.

"Borrowing Base" as determined at any date, means (a) eighty percent (80%) of the aggregate amount of Eligible Accounts Receivable determined at such date, plus (b) ten percent (10%) of Eligible Inventory determined as of such date.

"Borrowing Date" shall mean, in relation to any Advance, the day on which that Advance is made or to be made to a Borrower.

"Borrowing Subsidiary" shall mean a wholly-owned Subsidiary of the Company which shall have delivered to each of the Banks an election to become a Borrower, in substantially the form of Exhibit B, duly executed by such Subsidiary and the Company, and a promissory note, in the form of Exhibit C, appropriately completed, duly executed by such Subsidiary.

"Business Day" shall mean a day on which banks are open for business in Boston, Massachusetts, New York, New York and San Francisco, California, and if (a) a Eurodollar Rate Advance is involved, a day on which dealings in Dollars and in foreign currency and exchange can be carried on in the relevant interbank Eurodollar market and dollar settlements of such dealings are able to be effected in New York City, and (b) if a CD Rate Advance is involved, a day on which the Agent may determine its CD Rate, and (c) if any currency other than Dollars is involved, a day on which dealings in Dollars and in foreign currency and exchange can be carried on in the principal financial center of the country in which such currency is legal tender.

"CD Rate" shall mean, for any Interest Period, an interest rate per annum determined by the Agent pursuant to the following formula:

$$\begin{array}{r} \text{Domestic CD Rate*} \qquad \qquad \qquad + \qquad \text{Assessment Rate} \\ \text{-----} \\ \text{CD Rate} = \qquad \qquad \qquad 1.00 - \text{CD Reserve Percentage} \end{array}$$

*The components of the fraction to be rounded upward, if necessary, to the next higher 1/16 of 1%.

"CD Rate Advance" shall mean any Advance denominated in Dollars upon which interest will accrue based on the CD Rate.

8

-4-

"CD Rate Loan" shall mean the principal or a relevant portion of the principal amount outstanding from time to time after the Commitment Expiry Date denominated in Dollars upon which interest will accrue based on the CD Rate.

"CD Reserve Percentage" shall mean 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 reserve requirement (including without limitation any marginal, emergency, supplemental, special or other reserves) for a member bank of the Federal Reserve System in Boston with deposits exceeding \$1 billion in respect of new time deposits in Boston having a maturity comparable to the Interest Period for a CD Rate Advance or CD Rate Loans in an amount of \$100,000 or more. The CD Rate shall be adjusted automatically on and as of the effective date of any change in the CD Reserve Percentage.

"Commitment" shall mean with respect to each Bank, the amount set forth on Schedule 1 hereto as the amount of such Bank's commitment to make Advances to the Borrower, as the same may be reduced from time to time, or if such commitment is terminated pursuant to the provisions hereof, zero.

"Commitment Expiry Date" shall have the meaning assigned to that term in Section 2.2. hereof.

"Commitment Fee" shall have the meaning assigned to that term in Section 2.5(a) hereof.

"Commitment Percentage" shall mean with respect to each Bank, the percentage set forth on Schedule 1 hereto as such Bank's percentage of the aggregate Commitment of all the Banks, and with respect to the Term Loan, the percentage amount set forth on Schedule 1 hereto of such Bank's commitment with respect to the Term Loan.

"Consolidated" shall mean, as applied to any term used in this Agreement, the relevant figures for the Company and its Subsidiaries on a consolidated basis determined in accordance with generally accepted accounting principles after eliminating all material inter-company items and minority interests.

"Consolidated Tangible Net Worth" shall mean the consolidated capital and retained earnings accounts of the Company and its Subsidiaries determined in accordance with generally accepted accounting principles, but deducting therefrom (without duplication of deductions) the net book value, after deducting reserves applicable thereto, of all intangible assets, including without limitation good will, trademarks, trade names, copyrights, patents and rights in any thereof and unamortized debt discount and expense.

9

-6-

"Contingent Liabilities" shall mean any guarantees, endorsements, agreements to purchase or provide funds for the payment of obligations of others, or other liabilities which would be classified as contingent in accordance with generally accepted accounting principles, excluding, however, (a) guarantees of the Indebtedness of consolidated Subsidiaries, (b) product warranties given in the ordinary course of business and (c) endorsement of checks or other negotiable instruments for deposit or collection in the ordinary course of business.

"Convert," "Conversion," and "Converted" refers to the conversion of CD Rate Advances, Base Rate Advances or Eurodollar Rate Advances into Advances of another type.

"Current Ratio" shall mean Consolidated current assets divided by Consolidated current liabilities.

"Default" shall have the meaning assigned to that term in Section 8 hereof.

"Discounted Trade Receivables" shall mean trade receivables, bills or notes discounted with banks.

"Dollar(s)" and "U.S.\$" shall mean dollars of the United States of America.

"Dollar Equivalent" shall mean with respect to an amount of any currency other than Dollars, the amount of Dollars equivalent thereto as calculated pursuant to Section 2.7(b) hereof.

"Domestic CD Rate" shall mean, with respect to any CD Rate Advance or CD Rate Loans for any Interest Period, the rate determined by the Agent to be the prevailing rate per annum bid at 10:00 a.m., Boston time, (or as soon thereafter as practicable) on the first day of any Interest Period for the purchase at face value from the Agent of its certificates of deposits in an amount comparable to the portion of the CD Rate Advance or CD Rate Loans to be made by the Agent to which such Interest Period applies and having a maturity comparable to such Interest Period.

"Eligible Accounts Receivable" as determined at any date, means rights of the Company and its Subsidiaries on a Consolidated basis to payment for the sale by the Company or its Subsidiaries of products or services sold and delivered or to be delivered within a reasonable time thereafter by the Company or its Subsidiaries and invoiced or to be invoiced within a reasonable time thereafter, all in the ordinary course of business prior to such date, except accounts receivable (a) owing by any Person which is an Affiliate of the Company or any Subsidiary of the Company or (b) which have not been paid within 120 days of the earlier to occur of the shipment date or the invoice date.

10

-6-

"Eligible Assignee" shall mean any of (a) a commercial bank or finance company organized under the laws of the United States, or any State thereof or the District of Columbia, which has an investment grade rating of A- or better by Standard & Poor's, Moody's or Duff & Phelps and having total assets in excess of \$1,000,000,000; (b) a savings and loan association or savings bank organized under the laws of the United States, or any State thereof or the District of Columbia, which has an investment grade rating of A- or better by Standard & Poor's, Moody's or Duff & Phelps, and having a net worth of at least \$100,000,000, calculated in accordance with generally accepted accounting principles; (c) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development (the "OECD"), or a political subdivision of any such country, which has an investment grade rating of A- or better by Standard & Poor's, Moody's or Duff & Phelps, and having total assets in excess of \$1,000,000,000, provided, that such bank is acting through a branch or agency located in the country in which it is organized or another country which is also a member of the OECD; (d) the central bank of any country which is a member of the OECD; and (e) if, but only if, any Event of Default has occurred and is continuing, any other bank, insurance company, commercial finance company or other financial institution or Person approved by the Agent, such approval not to be unreasonably withheld.

"Eligible Inventory" as determined at any date, means the net book value, as reflected on the books of the Company and its Subsidiaries on a Consolidated basis in accordance with generally accepted accounting principles, of raw materials, work-in-process and finished goods held by the Company or its Subsidiaries after taking into account charges and liens against or with respect to such inventory.

"Environmental Laws" shall mean any judgment, decree, order, law, license, rule or regulation pertaining to environmental matters, including without limitation, those arising under the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, the Superfund Amendments and Reauthorization Act of 1986, the Federal Clean Water Act, the Federal Clean Air Act, the Toxic Substances Control Act or any other federal, state or local statute, regulation, ordinance, order, or decree, or common law, whether in existence now or hereafter enacted, and as such may be amended from time to time, relating to health, safety or the environment.

"Eurodollar Rate" shall mean, in relation to each Interest Period relating to a Eurodollar Rate Advance or Eurodollar Rate Loan, the annual rate of interest determined by the Agent to be the sum of (a) the Eurodollar Reserve Charge plus (b) the percentage annual rate of interest determined by the Agent as being that rate at which deposits of the currency in which the relevant Advance or Eurodollar Rate Loan is to be denominated during such Interest Period

11

-7-

are being offered to the Agent by prime banks in any interbank Eurodollar market selected by the Agent in good faith, at or about the time of the quotation thereof to such Borrower, for delivery on the first day of such Interest Period, and for the number of days comprised therein, in amounts equal (as nearly as may be) to the principal amount of the Agent's portion of the Advance or Eurodollar Rate Loan to which such Interest Period relates.

"Eurodollar Rate Advance" shall mean any Advance denominated in an Optional Currency or in Dollars upon which interest will accrue based on the

Eurodollar Rate.

"Eurodollar Rate Loan" shall mean the principal or a relevant portion of the principal amount outstanding from time to time after the Commitment Expiry Date denominated in Dollars upon which interest will accrue based on the Eurodollar Rate.

"Eurodollar Reserve Charge" shall mean, subject to revision pursuant to Section 2.13(a), for any Interest Period to which the Eurodollar Rate is to be applicable an annual rate determined on the Rate-fixing Day pursuant to the following formula (with the Eurodollar Rate and the Reserve Rate expressed as a decimal):

Eurodollar Rate - Eurodollar Rate x 100

1.00 - Reserve Rate

"Event of Default" shall have the meaning assigned to that term in Section 8 hereof.

"Excess Amount" shall have the meaning specified in Section 2.5 hereof.

"Excess Utilization Amount" shall have the meaning specified in Section 2.5(b) hereof.

"Federal Funds Effective Rate" for any period, a fluctuating interest rate per annum equal for each day during such period to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Agent from three Federal funds brokers of recognized standing selected by the Agent.

"Final Payment Date" shall mean the date specified as such in Section 2.10(a) hereof.

12

-8-

"Guaranteed Obligation" shall have the meaning specified in Section 7.1 hereof.

"Indebtedness" shall mean all indebtedness for borrowed money or credit received other than trade debt or other similar obligations incurred in the ordinary course of business.

"Hazardous Substance" shall mean any hazardous waste as defined by 42 U.S.C. ss.6903(5), any hazardous substance as defined by 42 U.S.C. ss.9601(14), any pollutant or contaminant as defined by 42 U.S.C. ss.9601(33) and any toxic substances, oil or hazardous materials or other chemicals or substances regulated by any environmental law.

"Interest Payment Date" shall mean, with respect to CD Rate Advances, CD Rate Loans, Eurodollar Rate Advances or Eurodollar Rate Loans, the last day of any Interest Period, and with respect to Base Rate Advances or Base Rate Loans, any date when interest is due and payable as provided under Section 2.8(c) hereof.

"Interest Period" shall mean,

(a) With respect to each Eurodollar Rate Advance and Eurodollar Loan (i) initially as specified by a Borrower in its notice of borrowing, the period commencing on the Borrowing Date, or, in the case of a Conversion into Eurodollar Rate Advances and Eurodollar Rate Loans, commencing on the date of such Conversion, and expiring 1, 2 or 3 months thereafter and (ii) with respect to subsequent Eurodollar Rate Advances and Eurodollar Rate Loans as specified by such Borrower in a written notice furnished to the Agent no later than 10:00 a.m. Boston time three (3) Business Days prior to the Rate-fixing Day with respect to such Eurodollar Rate Advance, any successive periods of 1, 2 or 3 months commencing on the same day on which the next

preceding Interest Period with respect to such Eurodollar Rate Advance and Eurodollar Rate Loan shall have expired. If a Borrower does not elect otherwise, each Interest Period with respect to a Eurodollar Rate Advance and Eurodollar Rate Loan shall be three months. The number of days in each Interest Period and the particular day on which each Interest Period ends and the next begins shall be fixed by the Agent in accordance with the Agent's generally accepted practice in the relevant foreign currency deposits market. If any Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end and the next Interest Period shall commence on the next preceding or the next succeeding day which is a Business Day as determined conclusively by the Agent in accordance with the then current bank practice in the relevant interbank Eurodollar market.

(b) With respect to each CD Rate Advance and CD Rate Loan (i) initially as specified by a Borrower in its notice of borrowing, the period commencing on the Borrowing Date, or, in the case of a Conversion into CD Rate

13

-9-

Advances and CD Rate Loans, commencing on the date of such Conversion, and expiring 30, 60 or 90 days thereafter, and (ii) with respect to subsequent CD Rate Advances and CD Rate Loans, as specified by such Borrower in a written notice furnished to the Bank no later than 10:00 a.m. Boston time three (3) Business Days prior to the last day of the Interest Period with respect to such CD Rate Advance and CD Rate Loan, any successive periods of 30, 60 or 90 days commencing on the same day on which the next preceding Interest Period with respect to such CD Rate Advance and CD Rate Loan shall have expired. If a Borrower does not timely elect a new Interest Period with respect to a CD Rate Advance, such CD Rate Advance shall, on the last day of the current Interest Period, convert into a Base Rate Advance or Base Rate Loan. If any Interest Period would otherwise end on a day which is not a Business Day, such Interest Period shall end and the next Interest Period shall commence on the next succeeding Business Day.

(c) With respect to each Base Rate Advance or Base Rate Loan, the period commencing on the Borrowing Date of such Advance or Term Loan and expiring on the date when the Base Rate Advance or Base Rate Loan is repaid or, as the case may be, converted to a CD Rate Advance, CD Rate Loan, Eurodollar Rate Advance or Eurodollar Rate Loan.

No Interest Period shall have an Interest Payment Date which occurs after the Final Repayment Date or which is not on a Business Day.

"Investments" shall mean the aggregate of all expenditures made and all liabilities incurred (contingently or otherwise) for the acquisition of stock or Indebtedness of, or for loans, advances, capital contributions or transfers of property to, or obligations of, any Person.

"Lease Payments" shall mean payments paid or payable under operating or financial leases of real or personal property.

"Leverage Ratio" shall mean Consolidated Liabilities less deferred income taxes, divided by Consolidated Tangible Net Worth.

"Liabilities" shall mean liabilities of the Company and its Subsidiaries determined in accordance with generally accepted accounting principles but deducting therefrom Subordinated Indebtedness.

"Loan" shall mean with respect to each Borrower, collectively, the aggregate principal amount of all Advances or Term Loans, as the case may be, made or to be made by the Banks to the Borrowers upon the terms and subject to the conditions contained in this Agreement, and "Loans" shall mean all such loans.

"Loan Account(s)" shall have the meaning specified in Section 2.6(e) hereof.

14

-10-

"Loan Documents" shall mean this Agreement and the Notes.

"Majority Banks" shall mean Banks holding at least 51% of the aggregate outstanding principal amount of the Loans, or if no principal is outstanding, of the Commitment.

"Margin" shall mean the following percentage per annum, which shall be in effect for the following periods except as provided below: (i) during the period from the date hereof until the Commitment Expiry Date, (x) with respect to CD Rate Advances, three-quarters of one percent (3/4%) per annum, and (y) with respect to Eurodollar Rate Advances, one-half of one percent (1/2%) per annum, and (z) with respect to Base Rate Advances, zero percent (0%) per annum; and (ii) during the period commencing from the Commitment Expiry Date until all obligations of the Borrowers hereunder have been satisfied, (A) with respect to CD Rate Loans, one percent (1%) per annum, (B) with respect to Eurodollar Rate Loans, three-quarters of one percent (3/4%) per annum, and (C) with respect to Base Rate Loans, one quarter of one percent (1/4%) per annum.

"Money Market Instruments" shall mean direct obligations of the United States Government maturing within one year from the date of acquisition thereof, instruments issued or guaranteed by United States commercial banks or bank holding companies having total stockholders' equity in excess of \$100,000,000, or commercial paper rated A-1 or P-1 by Moody's Investors Service, Inc. or Standard & Poor's Corporation, respectively.

"Net Working Capital" shall mean Consolidated current assets less Consolidated current liabilities.

"Notes" shall have the meaning specified in Section 2.6(f) hereof.

"Obligations" shall mean all indebtedness, obligations and liabilities of the Company and any of its Subsidiaries to any of the Banks and the Agent, individually or collectively, existing on the date of this Agreement or arising thereafter, direct or indirect, joint or several, absolute or contingent, matured or unmatured, liquidated or unliquidated, secured or unsecured, arising by contract, operation of law or otherwise, arising or incurred under this Agreement or any of the other Loan Documents or in respect of any of the Advances or Loans made or any of the Notes, or arising or incurred in connection with any documents, agreements or instruments executed in connection therewith, or other instruments at any time evidencing any thereof.

"Optional Currency" shall mean any currency which is freely convertible into Dollars and which is traded on any interbank foreign currency deposits market selected by the Agent in good faith.

"Process Agent" shall have the meaning specified in Section 11.10 hereof.

15

-11-

"Property" shall mean, collectively, all properties owned or operated by the Company or any of its Subsidiaries from time to time.

"Rate-fixing Day" shall mean the second Business Day preceding the Business Day on which an Interest Period begins.

"Release" shall have the meaning specified in the Comprehensive Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C. ss.ss.9601 et seq. ("CERCLA") and the term "Disposal" (or "Disposed") shall have the meaning specified in the Resource Conservation and Recovery Act of 1976, 42 U.S.C. ss.ss.6901 et seq. ("RCRA") and regulations promulgated thereunder; provided, that in the event either CERCLA or RCRA is amended so as to broaden the meaning of any term defined thereby, such broader meaning shall apply as of the effective date of such amendment and provided further, to the extent that the laws of a state wherein the property lies establishes a meaning for "Release" or "Disposal" which is broader than specified in either CERCLA or RCRA, such broader meaning shall apply.

"Reserve Rate" means the reserve rate (including without limitation any marginal, emergency, supplemental, special or other reserves) for Eurocurrency Liabilities if such liabilities were outstanding (expressed as a decimal) set forth in Regulation D of the Board of Governors of the Federal Reserve System

(or any successor or similar regulation relating to such reserve requirements) determined by the Agent to be the rate or weighted average rate which would be applicable to an Interest Period.

"Subordinated Indebtedness" shall mean unsecured Indebtedness for money borrowed which have maturities and amounts and are subject to such covenants and subordination provisions as are satisfactory to the Majority Banks as evidenced by their written approval thereof.

"Subsidiary" shall mean any present or future corporation a majority of whose shares of stock of any class (however designated) having ordinary voting power for the election of a majority of the members of the board of directors or other governing body of such corporation (other than stock having such power only by reason of the happening of a contingency) shall at the time be owned by the Company or by one or more of the Company's Subsidiaries. A wholly-owned Subsidiary is a Subsidiary all of the capital stock (exclusive of directors' qualifying shares) of which is owned directly or indirectly by the Company.

"Total Commitment" shall mean the sum of the Commitments of the Banks, as in effect from time to time.

"Term Loan" shall mean either a Base Rate Loan, a CD Rate Loan or a Eurodollar Rate Loan.

16

-12-

"Total Loan" shall mean, with respect to each Borrower, the aggregate amount of the Loan outstanding to such Borrower, and "Total Loans" shall mean all such loans.

SECTION 2. THE LOANS.

2.1. Obligations of the Banks to Make Advances. Each of the Banks severally agrees, subject to the terms and conditions of this Agreement, to make its portion of Advances, in Dollars and/or, subject to Section 2.7 hereof, in an Optional Currency, to the Borrowers from time to time from the date hereof to and including the Commitment Expiry Date upon notice by the Borrower of the Advance to the Agent given in accordance with ss.2.6, such sums as are requested by such Borrower up to a maximum aggregate amount outstanding (after giving effect to all amounts requested) at any one time equal to such Bank's Commitment, provided, that the sum of the outstanding amount of the Advances (after giving effect to all amounts requested) shall not at any time exceed the lesser of (a) the Total Commitment and (b) the Borrowing Base. The Advances shall be made pro rata in accordance with each Bank's Commitment Percentage. Each request for an Advance hereunder shall constitute a representation and warranty by the Borrower that the conditions set forth in ss.3.2, in the case of the initial Advances to be made on the Closing Date, and ss.3.1 in the case of all other Advances, have been satisfied on the date of such request.

2.2. Termination of Commitment. The Total Commitment (and the Commitment of each Bank) will terminate in full at 10:00 a.m. Boston time, January 31, 1999 unless earlier terminated as provided in this Agreement (the "Commitment Expiry Date").

2.3. Reduction or Termination by the Company of Banks' Commitment. Subject to the terms and conditions of this Agreement, the Company may at any time on or prior to the Commitment Expiry Date reduce, or terminate entirely, the Total Commitment hereunder in a minimum principal amount of \$500,000 or any multiple thereof by giving at least two Business Days' prior written notice thereof to the Agent, whereupon the Commitments of the Banks shall be reduced pro rata in accordance with their respective Commitment Percentages of the amount specified in such notice or, as the case may be, terminated. Upon the effective date of any such reduction or termination, the Company shall pay to the Agent for the respective accounts of the Banks, or cause to be made, a payment against principal of the Loans in such amount as will reduce the unpaid principal balance thereof to an amount not in excess of the desired reduced amount of the Total Commitment or, if the Total Commitment is being terminated, pay, or cause to be paid, all obligations then due hereunder and accrued Commitment Fees. No reduction or termination of the Commitments may be reinstated.

17

2.4. Reduction of Optional Currency Borrowings. The principal amount available to the Borrowers in Optional Currencies pursuant to Section 2.7(a) hereof shall be reduced pro rata in accordance with each Bank's Commitment Percentage of the amount by which the Total Commitment is reduced under Section 2.3 hereof.

2.5. Fees.

(a) The Company agrees to pay to the Agent for the respective accounts of the Banks on the first day of each calendar quarter hereafter until the Commitment Expiry Date, and on the Commitment Expiry Date, a commitment fee (the "Commitment Fee") on the average daily amount by which the Total Commitment exceeds the aggregate outstanding and unpaid Loans during the preceding three-month period or portion thereof (such amount is referred to as the "Excess Amount"). The Commitment Fee payable to the Agent for the respective accounts of the Banks shall equal such Bank's Commitment Percentage of one-tenth of one percent (.10%) per annum computed on the Excess Amount. For purposes of determining the Excess Amount, the Dollar Equivalent of each Advance in an Optional Currency as determined on the date of the making of such Advance shall be the amount of the Total Commitment used in connection with such Advance, and no further adjustments shall be made with respect to the Excess Amount based upon fluctuations thereafter in the value of the Optional Currency of such Advance, subject, however, to the provisions of Section 2.7(c).

(b) The Company agrees to pay to the Agent for the account of each Bank a facility fee (the "Facility Fee") on January 31, 1996 and each January 31 thereafter through and including January 31, 1998 equal to one-eighth of one percent (1/8%) of the Total Commitment in effect on the day immediately preceding such date. The portion of the Facility Fee payable to each Bank shall equal such Bank's Commitment Percentage thereof.

(c) The Company agrees to pay to the Agent solely for the account of the Agent at the end of each calendar quarter commencing on March 31, 1996 until the date on which (i) all Loans and accrued interest thereon have been paid in full together with all other Obligations outstanding at the time of such payment and (ii) the Total Commitment has been terminated in full, whichever last occurs, an Agent's fee in the amount of \$6,250 per quarter, and if such date does not occur at the end of a calendar quarter, the Agent's Fee shall be prorated for that quarter.

18

2.6. Making the Advances.

(a) Subject to the terms and conditions of this Agreement, a Borrower may obtain Advances in the principal amount of \$1,000,000 or higher integral multiples of \$100,000 or the equivalent thereof in an Optional Currency from the Banks from time to time from and after the date hereof, but not after the Commitment Expiry Date up to a maximum aggregate amount outstanding (after giving effect to all Advances requested) at any one time equal to the lesser of (a) the Total Commitment or (b) the Borrowing Base.

(b) Whenever a Borrower desires and is entitled hereunder to receive any Advance, the Borrower shall notify the Agent in writing in the case of a Base Rate Advance not later than 10:00 a.m., Boston time, on the Business Day prior to the date of the Advance or in the case of a CD Rate Advance not later than 10:00 a.m. Boston time, three (3) Business Days prior to the proposed Borrowing Date with respect to such Advance, or in the case of a Eurodollar Rate Advance not later than 10:00 a.m., Boston time, five (5) Business Days prior to the Rate-fixing Day with respect to such Advance, of (i) the Borrowing Date (which must be a Business Day) and the amount of such Advance, stated either in Dollars or, subject to Section 2.7 hereof, in an Optional Currency, (ii) with respect to a CD Rate Advance or a Eurodollar Rate Advance, the initial Interest Period of such Advance, and (iii) the

Borrower's bank account to which payment of the proceeds thereof is to be made. The Agent will give the Banks prompt notice of each notice of borrowing, which in the case of a Eurodollar Rate Advance shall be at least four Business Days prior to the date of such Advance, and of each other notice received from the Borrowers hereunder.

(c) If, on or prior to the Borrowing Date of any requested Advance, the Total Commitment has not terminated in full and the applicable conditions of Section 3 hereof are satisfied, the Banks will advance to the Borrower making the request their respective Commitment Percentages of the requested Advance by credit to the Borrower's specified account with the Agent or by such other means as agreed upon by the Borrower and the Agent in immediately available funds not later than the close of business on such Borrowing Date.

(d) The failure of any Bank to make its pro rata share of any Advance shall not relieve any other Bank of its obligation, if any, hereunder to make its pro rata share of an Advance on the proposed Borrowing Date, but no Bank shall be responsible for the failure of the

19

-15-

other Bank to make the part of the Advance to be made by such other Bank on the Borrowing Date.

(e) The obligations of the Company to repay all amounts borrowed by it hereunder, all interest thereon and all fees and other amounts payable by it in respect thereto shall be evidenced by this Agreement and by individual loan accounts (collectively, the "Loan Accounts" and individually, a "Loan Account") maintained by each of the Banks, it being the intention of the parties hereto that the Company's obligation with respect to its Loan are to be evidenced only as stated herein and not by separate promissory notes. Each Bank shall render to the Company and the Agent, on or before the fifth Business Day of each calendar quarter, a statement of its Loan Account as of the last day of the prior calendar quarter, which statement shall, in the absence of manifest error, be considered correct and binding upon the Company unless the Company notifies such Bank and the Agent to the contrary within 45 days from the receipt of such statement; provided that the failure of any Bank to render any such statement in a timely fashion shall not affect or impair the validity or binding nature of any Loan Account.

(f) The obligations of each Borrowing Subsidiary to repay all amounts borrowed by it under this Agreement, all interest thereon and all fees and other amounts payable by it in respect thereto shall be evidenced by its promissory notes, substantially in the form of Exhibit C hereto, appropriately completed (collectively, the "Notes" and individually, a "Note") dated the applicable Borrowing Date and payable severally to the order of each of the Banks in a principal amount equal to such Bank's Commitment Percentage of the Total Commitment.

2.7. Optional Currencies.

(a) A Borrower may elect, prior to the Commitment Expiry Date, to draw down a portion of the Total Commitment in, or convert Loans outstanding to, an Optional Currency (if any), provided that the aggregate principal amount of Loans outstanding immediately following any such drawdown or conversion shall not exceed the Total Commitment then in effect. Amounts proposed to be converted at any one time under this Section 2.7 shall not be less than U.S. \$500,000 and shall be an integral multiple thereof, or the Dollar Equivalent in any Optional Currency. In order to exercise the foregoing option a Borrower must deliver to the Agent a written notice, subject to any other notice requirements under this Agreement, designating the currency into which the designated portion of the Borrower's Loan is to be drawn down or,

20

-16-

as the case may be, converted, at least five (5) Business Days prior to the commencement of the subsequent Interest Period relating to such portion of the Borrower's Loan and any such conversion shall be effected on such date. If any such notice is not delivered to the Agent by such Borrower within the required time, the Borrower shall be deemed to have elected that the relevant portion of the principal amount of the Borrower's Loan continue to be denominated in the currency in which it then currently stands denominated. No Interest Period during which a portion of the principal of a Borrower's Loan is to be denominated in any Optional Currency shall have an Interest Payment Date which occurs after the Commitment Expiry Date.

If any Bank determines (which determination shall be conclusive), and notifies the Agent on or prior to the second Business Day preceding the first day of any Interest Period during which a portion of the principal of a Borrower's Loan is to be denominated in any Optional Currency, that the Optional Currency is not freely transferable and convertible into Dollars or that it will be impracticable for such Bank to fund its portion of the Advance in such Optional Currency, then the Agent shall so notify the Borrower making the election, and that portion of the principal amount of the Borrower's Loan shall, notwithstanding any contrary election by such Borrower or any other provisions hereof, be denominated in Dollars and be in the form of a Base Rate Advance.

(b) For all purposes of this Agreement, the amount in one currency which shall be equivalent on any particular date to a specified amount in another currency shall be that amount (as conclusively ascertained by the Agent absent manifest error) in the first currency which is or could be purchased by the Agent (in accordance with its normal banking practices) with such specified amount in the second currency in any interbank foreign currency deposits market selected by the Agent in good faith for delivery on such date at the spot rate of exchange prevailing on such date.

(c) In the event that any portion of the funds available under the terms of this Agreement is denominated in one or more Optional Currencies, the Dollar Equivalent of such portion of the funds shall be calculated pursuant to paragraph (b) above. The amount so determined shall then be added to the amount already outstanding in Dollars for the purpose of determining the remaining availability of funds under Section 2.1 and Section 2.7(a) hereof and any required repayments under Section 2.10(c) hereof. Notwithstanding the foregoing, if at any time prior to the Commitment Expiry Date, the sum of (a) the aggregate

principal amounts outstanding hereunder denominated in Dollars plus (b) Dollar Equivalent of the aggregate principal amount outstanding hereunder shall exceed the lesser of the Total Commitment or the Borrowing Base as a result of fluctuations in respective conversion rates, each Borrower shall pay immediately, upon demand made by the Agent, all amounts required in order to reduce the Loans outstanding to the lesser of the Total Commitment and the Borrowing Base.

2.8. Interest Payable on the Loans.

(a) With respect to any Advance or Term Loan denominated in Dollars, the rate of interest which shall be jointly and severally payable by the Borrowers on the unpaid principal outstanding to the Borrowers shall be the annual percentage rate of interest determined by the Agent to be the sum of (i) the applicable Margin in effect plus (ii) the Base Rate, or if the Borrower has so elected pursuant to this paragraph (a), the Eurodollar or CD Rate relating to the Interest Period with respect to any such Advance or Term Loan. Any Borrower may elect, prior to the Commitment Expiry Date (A) to draw down a portion of the funds available under this Agreement in Dollars upon which interest will accrue based on the Eurodollar Rate or the CD Rate or (B) to convert any Base Rate Advance or Base Rate Loan, CD Rate Advance or CD Rate Loan or Eurodollar Rate Advance or Eurodollar Rate Loan denominated in Dollars to or from any other type of Advance or Term Loan, on the last day of the Interest Period with respect to the

Advance or Term Loan to be converted. In order to exercise the foregoing option, a Borrower must deliver to the Agent a written notice subject to any other notice requirements under this Agreement designating the election of the basis on which the interest rate will be determined at least five (5) Business Days prior to the commencement of the Interest Period relating to such portion of the Borrower's Loan on which such conversion is to occur.

(b) The rate of interest which shall be payable by a Borrower on any portion of the principal of the Loan extended to such Borrower which is denominated in an Optional Currency for the time being, and is outstanding during each Interest Period relating thereto, shall be the annual percentage rate of interest determined by the Agent to be the sum of (i) the applicable Margin in effect plus (ii) the Eurodollar Rate relating to such Interest Period.

(c) Interest shall be payable jointly and severally by the Borrower, and the Borrowers hereby absolutely and unconditionally

22

-18-

jointly and severally promises to pay, to the Agent for the account of the Banks in arrears in Dollars, or, as the case may be, in the Optional Currency in which that portion of the principal amount of the Loan extended to such Borrower, in respect of which payment is made, is denominated (i) with respect to CD Rate Advances or CD Rate Loans or Eurodollar Rate Advances or Eurodollar Rate Loans, on each Interest Payment Date, provided, however, that if the duration of any such Interest Period is longer than three months, the Borrower shall pay the accrued interest on the last Business Day of each successive three month period and (ii) with respect to Base Rate Advances or Base Rate Loans, quarterly on the last day of each calendar quarter hereafter, and on any earlier date when a Base Rate Advance or Base Rate Loan is converted to a CD Rate Advance or CD Rate Loan or Eurodollar Rate Advance or Eurodollar Rate Loan.

(d) Each determination of any interest rate by the Agent with respect to any Loan shall be conclusive in the absence of manifest error. Base Rate interest rates shall change as the Base Rate shall change, and any change in the interest rates shall become effective as of the beginning of the day during which such change in the Base Rate occurs.

(e) Overdue principal and, to the extent permitted by applicable law, overdue interest and other amounts overdue under any provision of this Agreement shall bear interest at the rate per annum determined by the Agent to be two per cent (2%) above (i) with respect to Loans denominated in an Optional Currency, the rate then applicable to the relevant Advances for funding periods not greater than six months established by the Agent, in its discretion, from time to time and (ii) with respect to Loans denominated in Dollars, the Base Rate. Such interest on overdue principal and overdue interest and other amounts overdue shall be payable on demand and shall continue to accrue from the due date of such principal, interest or amounts and shall be compounded monthly until the obligation of the Borrower in respect of the payment thereof is discharged (whether before or after judgment).

2.9. Alternative Interest Rates.

(a) Except as otherwise provided in this Agreement, if on any Rate-fixing Day on which the interest rate with respect to any Advance or Term Loan is to be based on the Eurodollar Rate, the Agent shall determine that it is unable to quote the Eurodollar Rate, or any Bank shall determine that such Bank is unable to or it is impracticable for it to fund the Advance or Term Loan for the requested Interest Period, the Borrower shall be deemed to have elected that the Advances or Term

23

-19-

Loans be denominated in Dollars as Base Rate Advances.

(b) If any Bank shall in good faith determine that, by reason of circumstances affecting the market for certificates of deposit maintained by New York dealers of recognized standing, adequate and reasonable means do not exist for such Bank to obtain bids for the purchase of certificates of deposit on the first day of an applicable Interest Period then (a) such Bank shall so notify the Agent and the Agent shall notify the Borrower and the Banks, and (b) any Advances or Term Loans which are the subject of such request by the Borrower shall be Base Rate Advances.

2.10. Repayments and Prepayments of the Loans, etc.

(a) On and as of the Commitment Expiry Date, the principal amount of the Loans then outstanding (the "Total Loan") shall be held by the Banks on a pro rata basis in accordance with their respective Commitment Percentages. Provided that no Event of Default has occurred and is continuing, the Total Loan shall be payable in installments over a term of two years as set forth in this paragraph (a). The Borrowers jointly and severally hereby absolutely and unconditionally promise to pay to the Agent for the accounts of the Banks ratably according to the then outstanding principal amount of the Total Loan, on the last day of April, July, October and January commencing on April 30, 1999, and ending on January 31, 2001 (each of such 8 dates hereinafter referred to as a "Repayment Date"), and there shall become absolutely due and payable on each Repayment Date, a fixed installment of principal in an amount equal to one-eighth of the Total Loan. All such repayments shall be made in the currency in which the Loan to be repaid or any portions thereof is denominated. The Borrowers jointly and severally hereby absolutely and unconditionally agree to pay to the Agent for the accounts of the Banks ratably according to the then outstanding principal amount of the Total Loan, on January 31, 2001 (the "Final Repayment Date"), and there shall become absolutely due and payable on the Final Repayment Date, the entire unpaid principal amount of the Total Loan outstanding on such date. In addition, the Borrowers each agree to execute and deliver to each Bank prior to the close of business on the Commitment Expiry Date, a term note (the "Term Note") containing the terms set forth herein, which Term Note shall be in form and substance satisfactory to the Banks.

(b) Each Borrower may, pursuant to this paragraph (b), elect to prepay the principal of any Base Rate Advance or Base Rate Loan outstanding at any time in full or in part without premium or penalty,

24

-20-

or to prepay the principal of any Eurodollar Rate Advance or Eurodollar Rate Loan or CD Rate Advance or CD Rate Loan outstanding in full or in part without premium or penalty on the Interest Payment Date of any Interest Period relating to the unpaid principal of such Eurodollar Rate Advance or Eurodollar Rate Loan or CD Rate Advance or CD Rate Loan to be prepaid, provided that the amount of any prepayment of the unpaid principal of any Advance pursuant to this paragraph (b) shall be in a principal amount of such Advance or not less than \$500,000 or the equivalent thereof in the Optional Currency in which that portion of the principal amount of the Advance in respect of which the payment is to be made is denominated. Any and all amounts of the Term Loans prepaid pursuant to this Section 2.10(b) shall be applied to the unpaid principal amount of such Borrower's Total Loan in the inverse order of maturity. Amounts prepaid pursuant to this paragraph (b) may, subject to the terms and conditions of this Agreement, be reborrowed on or before the Commitment Expiry Date.

(c) If at any time (i) on or prior to the Commitment Expiry Date the sum of (1) the aggregate principal amounts outstanding hereunder denominated in Dollars plus (2) the Dollar Equivalent of the aggregate principal amount outstanding hereunder shall exceed the lesser of (x) the Total Commitment and (y) the Borrowing Base (whether as a result of fluctuations in the currency rates or otherwise), there shall become absolutely due and payable, and one or more Borrowers, as determined by the Company, hereby promises to pay to the Agent all

amounts required in order to reduce the principal amount outstanding to the lesser of the Total Commitment and the Borrowing Base, or the equivalent thereof in one or more Optional Currencies; and (ii) after the Commitment Expiry Date the sum of (1) the aggregate principal amounts outstanding hereunder denominated in Dollars plus (2) the Dollar Equivalent of the aggregate principal amount outstanding hereunder shall exceed (whether as a result of fluctuations in the currency rates or otherwise) the permitted aggregate outstanding principal amount of the Term Loans determined in accordance with ss.2.10(a), there shall become absolutely due and payable, and one or more Borrowers, as determined by the Company, hereby promises to pay to the Agent all amounts required in order to reduce the principal amount outstanding to the principal amount permitted to be outstanding pursuant to ss.2.10(a).

(d) Upon each repayment or prepayment of any principal of any Advance or Term Loans pursuant to any of the provisions of this Agreement, each Borrower hereby absolutely and unconditionally promises

25

-21-

to pay to the Agent for the account of each Bank and there shall become absolutely due and payable on the date of each such repayment or prepayment, all of the unpaid interest accrued to such date on the amount of the principal of the Advance or Term Loans being repaid or prepaid on such date, together with all, if any, other sums then due and payable hereunder in respect of the principal of the Advance or Term Loans being repaid or prepaid on such date, including, but not limited to, any sums payable in accordance with Section 2.14 hereof which have been ascertained on or prior to the date of such repayment or prepayment. Whenever any interest on and any principal of an Advance or Term Loans is paid simultaneously hereunder, the whole amount paid shall be applied first to interest then due and payable.

(e) Each repayment or prepayment of principal of less than the entire unpaid principal amount owed by all of the Borrowers under this Agreement and the Notes shall be allocated among the Banks in proportion, as nearly as practicable, to the respective unpaid principal debit balances of the Banks' Loan Accounts and/or principal amounts of the Banks' Notes of the Borrowing Subsidiary which is the obligor thereunder, with adjustments to the extent practical to equalize any prior payments not exactly in proportion.

2.11. Payments and Computations.

(a) Each payment payable by a Borrower hereunder (i) if denominated in Dollars shall be made to the Agent at its head office at 100 Federal Street, Boston, Massachusetts, in immediately available funds, or, (ii) if denominated in any Optional Currency shall be made in such immediately available funds as shall then be customary for settlement at the place of payment of international transactions in such Optional Currency, for the account of the Agent at a depository designated by the Agent. Each Borrower authorizes the Agent and the Banks to charge any of its respective accounts, other than payroll accounts, with the Agent or the Banks for the amount of any payment due hereunder.

(b) If any sum would, but for the provisions of this Section 2.11(b), become due and payable hereunder on a day which is not a Business Day, then such sum shall become due and payable on either the Business Day next preceding or the Business Day next succeeding the day on which such sum would otherwise have become due and payable hereunder, such Business Day to be selected (which selection shall be conclusive and binding on each Borrower) by the Agent in accordance

26

-22-

with the then current banking practice in the relevant interbank Eurodollar market or Boston, as the case may be and interest and

commitment fees hereunder shall be adjusted accordingly.

(c) All computations of interest and commitment fees payable hereunder shall be made by the Agent on the basis of actual number of days elapsed and on a 360-day year.

(d) Each determination by the Agent of an amount of interest or commitment fee payable by the Borrower hereunder shall, save for manifest error, be conclusive and binding upon the Borrower.

(e) Promptly upon receipt of all payments under this Agreement or the Notes, the Agent shall pay to each of the Banks its pro rata share thereof.

2.12. Payments to be Free of Deductions. All payments by the Borrowers under this Agreement shall be made without set-off or counterclaim and free and clear of and without deduction for any taxes, levies, imposts, duties, charges, fees, deductions, withholdings, compulsory loans, restrictions or conditions of any nature now or hereafter imposed or levied by any country or any political subdivision thereof or taxing or other authority therein unless a Borrower is compelled by law to make such deduction or withholding. If any such obligation is imposed upon a Borrower with respect to any amount payable by it hereunder, the Borrower will pay to the Agent for the account of each Bank, on the date on which the said amount becomes due and payable hereunder, such additional amount as shall be necessary to enable each Bank to receive the same net amount which it would have received on such due date had no such obligation been imposed upon the Borrower. Each Borrower will deliver promptly to the Agent certificates or other valid vouchers for all taxes or other charges deducted from or paid with respect to payments made by such Borrower hereunder.

2.13. Additional Costs, Changes in Circumstances, etc.

(a) Anything hereinbefore to the contrary notwithstanding, if any present or future applicable law (which expression, as used in this Agreement, includes statutes and rules and regulations thereunder and interpretations thereof by any competent court or by any governmental or other regulatory body or official charged with the administration or the interpretation thereof and requests, directives, instructions and notices at any time or from time to time heretofore or hereafter made upon or otherwise issued to the Agent or any Bank by any central bank or other fiscal, monetary or other authority, whether or not having the

force of law) shall (i) subject the Agent or any Bank to any tax, levy, impost, duty, charge, fee, deduction or withholding of any nature with respect to this Agreement, the amount of such Banks' Commitment, or the payment to the Agent or either Bank of any amounts due to it hereunder, or (ii) materially change the basis of taxation of payments to the Agent or any Bank of the principal or the interest on or any other amounts payable to the Agent or any Bank hereunder, or (iii) impose or increase or render applicable any special or supplemental special deposit or reserve or similar requirements (whether or not having the force of law) against assets held by, or deposits in or for the account of, or any eligible liabilities of, or loans by an office of the Agent or either Bank, or (iv) impose on the Agent or any Bank any other condition or requirement with respect to this Agreement, the Commitments, and the result of any of the foregoing is (A) to increase the cost to any Bank of making, funding or maintaining all or any part of the Loans, or (B) to reduce the amount of principal, interest or other amount payable to any Bank hereunder, or (C) to require the Agent or any Bank to make any payment or to forego any interest or other sum payable hereunder, the amount of which payment or foregone interest or other sum is calculated by reference to the gross amount of any sum receivable or deemed received by the Agent or any Bank from any Borrower hereunder, then, and in each such case, such Borrower will, upon demand made by the Agent, pay to the Agent for its account or for the account of any such Bank, as the case may be, such additional amounts as will be sufficient to compensate them for such additional cost, reduction, payment or foregone interest or other sum, provided that the foregoing provisions of this sentence shall not apply in the case of any additional cost, reduction, payment or foregone interest or

other sum resulting from any taxes charged upon or by reference to the overall net income, profits or gains of the Agent or any Bank.

(b) If any Bank shall determine that any change in applicable law shall make it unlawful for such Bank to comply with or to maintain its obligations to fund Eurodollar Rate Advances or Eurodollar Rate Loans or Advances or Term Loans in any Optional Currency hereunder in the relevant interbank market, then such Bank shall notify the Agent and the Agent shall notify the requesting Borrower of such determination in writing. If the Agent so notifies such Borrower, then (i) the Commitment and obligations to fund the Advances as Eurodollar Rate Advances or Eurodollar Rate Loans or in such Optional Currency or Currencies, as the case may be, shall terminate in full on and as of the date of such notice, and (ii) such Advances or Term Loans shall on the Interest Payment Date of any Interest Period which is current when

28

-24-

the Borrower is so notified be converted to Base Rate Advances or Base Rate Loans.

2.14. Indemnification for Losses. Each Borrower will, on demand by any Bank at any time, indemnify such Bank against any losses, costs or expenses which such Bank may at any time incur as a consequence of (a) the breach by such Borrower of its obligations to borrow a CD Rate Advance or Eurodollar Rate Advance on the Borrowing Date thereof, (b) the failure by such Borrower to pay, punctually on the due date thereof, any amount payable hereunder, (c) the accelerated payment of any obligations of such Borrower hereunder as the result of an Event of Default, or (d) the repayment or prepayment of any principal under a CD Rate Advance, CD Rate Loan, Eurodollar Rate Advance or Eurodollar Rate Loan on a date other than an Interest Payment Date of an Interest Period relating to such principal, such losses, costs or expenses to include, but not to be limited to, (i) any costs incurred by such Bank in carrying funds which were to have been borrowed by such Borrower or in carrying funds to cover the amount of any overdue principal of or overdue interest on any Advance or Term Loan, (ii) any interest payable by such Bank to lenders of the funds borrowed by the Bank in order to carry the funds referred to in the immediately preceding sub-clause (i), and (iii) any losses (including losses of anticipated profit) incurred by such Bank in liquidating or re-employing funds acquired from third parties to effect or maintain all or any part of any Advance or any portion thereof.

2.15. Increased Capital Requirements. If (i) any change in law or any governmental rule, regulation, policy, guideline or directive (whether or not having the force of law) or the interpretation thereof by a court or governmental authority with appropriate jurisdiction or (ii) the implementation of any risk-based capital guideline or requirement (whether or not having the force of law) heretofore or hereafter issued by any government or governmental or supervisory authority, affects the amount of capital required or expected to be maintained by any of the Banks or any corporation controlling any of the Banks and any Bank determines that the amount of capital required is increased by or based upon the existence of the credit facility established hereunder or any Loans made pursuant hereto then such Bank may notify the Company and the Agent of such fact. To the extent that the costs of such increased capital requirements are not reflected in the interest rates charged on the Loans, the Company and the Bank shall thereafter attempt to negotiate in good faith an adjustment to the compensation payable hereunder which will adequately compensate such Bank in light of these circumstances. If the Company and the Bank are unable to agree to such adjustment within thirty days of the day on which the Company receives such notice, then commencing on the date of such notice (but not earlier than the effective date of any such change), the fees payable hereunder shall increase by an amount which will, in such Bank's reasonable determination, provide adequate compensation (such compensation to include, without limitation, an amount equal to any reduction of the rate of return on assets or equity of such Bank allocable by such Bank to its portion of

29

-25-

the Total Commitment or the Loans to a level below that which such Bank or any

controlling corporation could have achieved but for such requirements).

2.16. HLT Classification. In the event that after the date hereof the Loan or the Total Commitment hereunder are classified on the Agent's books as a "highly leveraged transaction" (an "HLT Classification") by the Agent or by any governmental authority, central bank or comparable agency having jurisdiction over the Agent, then the Agent shall promptly give notice of such HLT Classification to the Company and the Banks whereupon the Agent, the Banks and the Company shall commence negotiations in good faith to agree on a revised commitment fee, interest rates and/or margins hereunder reflecting such HLT Classification. In the event that the parties hereto fail to agree on such revised commitment fee, interest rates and/or margins within 30 days of the notice given by the Agent, then the Agent shall (i) if requested by the Majority Banks, by five Business Days' notice to the Borrowers terminate the unused portions of the Total Commitment and they shall thereupon terminate, and (ii) if requested by the Majority Banks, by five Business Days' notice to the Borrowers declare all outstanding Loans (together with accrued interest thereon and any other amounts payable hereunder) to be, and all such amounts shall thereupon become, absolutely and immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by each Borrower. Each of the Borrowers hereby absolutely and unconditionally agrees to pay to the Agent for the accounts of the Banks on the date of any such acceleration all amounts payable by it hereunder.

SECTION 3. CONDITIONS OF LENDING.

3.1. Conditions Precedent to Each Advance. The effectiveness of this Agreement and the obligations of the Banks to make any Advance or a Term Loan are subject to the performance by the Company or a Borrowing Subsidiary, as the case may be, of all its agreements theretofore to be performed by it hereunder and to the satisfaction, prior to or at the time of making such Advance or Term Loan, of the following conditions:

(a) The Agent shall have timely received from the Borrower any notice required under any provisions of this Agreement, signed by any one of the President, Treasurer, Controller or principal financial officer of the Company and if the Borrower is a Borrowing Subsidiary, an individual having comparable authority to any of such officers, which request without more will constitute certification by such officers as to the matters set forth in paragraphs (c), (d), (f) and (h) below;

(b) The Agent shall have received duly certified copies of all votes passed or other corporate action taken by the Board of Directors

30

-26-

of the Borrower with respect to the transactions contemplated by this Agreement;

(c) All necessary consents, waivers, approvals, amendments and other action on the part of holders of Indebtedness or shares of capital stock of any class or classes of the Company or any Subsidiary necessary to have been obtained or effected in order to carry out the transactions contemplated by this Agreement shall have been duly obtained or effected and shall be in full force and effect and adequate;

(d) Neither the consolidated financial position nor the business as a whole of the Company and its Subsidiaries nor any substantial portion of the properties and assets of the Company shall have been materially adversely affected as a result of any legislative or regulatory change or of any fire, explosion, tidal wave, flood, windstorm, earthquake, landslide, land subsidence, accident, condemnation or governmental intervention, order of any court or governmental agency or commission, invalidity or expiration of any patent or patent license, act of God or of the public enemy or of armed forces, rebellion, strike, labor disturbance or embargo, or otherwise, whether or not insured against, which would have a substantial likelihood to impair materially the ability of the Company to fulfill punctually its obligations under this Agreement;

(e) The making of an Advance or Term Loans shall not contravene any law or rule or regulations thereunder or any Presidential Executive Order binding on the Borrower or any Bank;

(f) The representations and warranties in Section 4 hereof and all other representations in writing made by or on behalf of the Company or any Subsidiary to the Banks in connection with the transactions contemplated by this Agreement shall be true as of the date on which they were made and shall also be true at and as of the time of the making of the Advance with the same effect as if made at and as of the time (except to the extent of changes resulting from transactions contemplated by this Agreement and changes occurring in the ordinary course of business which singly or in the aggregate are not materially adverse, and to the extent that such representations and warranties relate expressly to an earlier date) and no Event of Default or condition which with notice or the passage of time or both would constitute an Event of Default shall exist;

31

-27-

(g) All fees, and all expenses and other amounts due and payable pursuant hereto prior to or on the date of the Advance or Term Loans shall have been paid; and

(h) The aggregate principal amount of the Loans outstanding after giving effect to all Advances or converting to Term Loans requested shall not exceed the lesser of the Total Commitment and the Borrowing Base as determined on the date of the making of any requested Advances or converting to Term Loans.

3.2. Conditions Precedent to First Advance.

(a) The obligation of the Banks to make the first Advance to the Company or any other Borrower hereunder is subject to all of the conditions set forth in Section 3.1 hereof and to the following further conditions:

(i) The Company shall have certified to the Agent the name and a specimen signature of each officer of the Company authorized to sign requests for Advances on behalf of the Company. The Agent and the Banks may rely conclusively on such certification until the Agent receives notice in writing to the contrary from the Company; and

(ii) The Agent shall have received an opinion addressed to the Banks from Testa, Hurwitz & Thibault, counsel for the Company in form and substance satisfactory to the Agent as to the matters specified in Sections 4.1.1, 4.1.2, 4.1.3, 4.1.5 and 4.1.14 and as to such other matters as the Agent may reasonably request.

(b) The obligation of the Banks to make the first Advance to a Borrowing Subsidiary is subject to all of the conditions set forth in Section 3.1 hereof and to the following further conditions:

(i) The Borrowing Subsidiary shall have certified to the Agent the name and a specimen signature of each officer of the Borrowing Subsidiary authorized to sign requests for Advances on behalf of the Borrowing Subsidiary. The Agent and the Banks may rely conclusively on such certification until the Agent receives notice in writing to the contrary from the Borrowing Subsidiary;

32

-28-

(ii) The Agent shall have received an opinion addressed to the Banks from counsel to such Borrowing Subsidiary who is reasonably acceptable to the Agent, in form and substance satisfactory to the Agent, as to matters

specified in Sections 4.2.1, 4.2.2, 4.2.4 and 4.2.7 and as to such other matters as the Agent may reasonably request; and

(iii) The Borrowing Subsidiary shall have executed and delivered to the Agent a duly executed Note of such Borrowing Subsidiary.

SECTION 4. REPRESENTATIONS AND WARRANTIES.

4.1. Representations and Warranties of the Company. The Company represents and warrants to the Banks that:

4.1.1. Organization, Good Standing, Authority, etc. The Company and each Subsidiary (a) is a corporation duly organized, existing and in good standing under the laws of the jurisdiction of its incorporation, (b) has all requisite corporate power to own its property and conduct its business as now conducted and as presently contemplated and (c) to the best of the Company's knowledge, is duly qualified to do business and in good standing as a foreign corporation in each jurisdiction where the nature of its properties or its business requires such qualification except where the failure to so qualify will not have a materially adverse effect on the Company and its Subsidiaries. The execution, delivery and performance of this Agreement and the transactions contemplated hereby are within the corporate authority of the Company, have been authorized by proper corporate proceedings and do not and will not contravene any provisions of its charter, other incorporation papers, by-laws or any stock provision or any amendment thereof or, to the best of the Company's knowledge, any provisions of law or of any indenture, agreement, instrument or undertaking binding upon the Company or any Subsidiary. The execution, delivery and performance of this Agreement by the Company will result in valid and legally binding obligations of the Company, enforceable in accordance with their respective terms, except as limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting generally the enforcement of creditor's rights.

4.1.2. Governmental Approvals. No approval or consent of, or filing with, any governmental agency or authority is required to make valid and legally binding the execution, delivery and performance of this Agreement by the Company and consummation of the transactions between the parties hereto contemplated hereby by the Company.

4.1.3. Subsidiaries. Attached hereto as Schedule 4.1.3 is a schedule which correctly identifies all present Subsidiaries. All of the issued and

33

-29-

outstanding shares of stock of each Subsidiary have been validly issued and are fully paid and non-assessable and, except for directors' qualifying shares and as otherwise noted on Schedule 4.1.3, are owned by the Company or a Subsidiary free and clear of any mortgage, pledge, lien, encumbrance, charge or restriction on transfer. No rights to subscribe to additional shares of stock of any Subsidiary have been granted.

4.1.4. Compliance with Other Instruments. Neither the Company nor any Subsidiary is in material default under any provisions of its charter, other incorporation papers, by-laws or stock provisions or any amendment thereof or of any indenture or agreement or of any order, regulation, ruling or requirement of a court or public body or authority by which it is bound.

4.1.5. Litigation. Except as disclosed in Schedule 4.1.5 attached hereto, no action, suit, investigation or proceeding is pending or known to be threatened against the Company or any Subsidiary before any court or administrative agency which, if adversely determined, would materially impair the ability of the Borrower and its Subsidiaries to carry on their consolidated business substantially as now conducted or would materially adversely affect the consolidated financial condition of the Borrower and its Subsidiaries.

4.1.6. No Adverse Contracts, etc. Neither the Company nor any Subsidiary is subject to any provision of its charter, other incorporation papers, by-laws or stock provisions or any amendment thereof or a party to or otherwise bound by any indenture or agreement or bound by any order, regulation, ruling or requirement of a court or public body or authority which will, under current or foreseeable conditions, materially adversely affect its normal

operations or impair its financial condition or prospects.

4.1.7. Financial Statements. The Company has furnished to the Bank a consolidated balance sheet as at December 31, 1994 and related consolidated statements of income (loss), changes in stockholders' equity and cash flows of the Company and its Subsidiaries for the fiscal year then ended, certified by Coopers & Lybrand, independent accountants. The balance sheet and statements described above have been prepared in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods specified and present fairly in all material respects the financial position of the Company and its Subsidiaries as at the date thereof.

4.1.8. Changes. Since December 31, 1994, there has been no change in the assets, liabilities, financial condition or business of the Company or any Subsidiary, other than changes the effect of which has not been in any case, or in the aggregate, materially adverse.

4.1.9. Business. The Company and each Subsidiary has good and marketable title to its properties and assets, including such properties and

34

-30-

assets as are reflected in the consolidated balance sheet referred to in Section 4.1.7 hereof (except such assets as have been disposed of in the ordinary course of business subsequent to the date thereof) subject to no security interests, except as is permitted by Section 6.2. The Company and each Subsidiary enjoys peaceful and undisturbed possession under all leases of real or personal property of which it is lessee, none of which contains any unusual or burdensome provision which will materially adversely affect or impair the operation of the Company or any Subsidiary, and all such leases are valid and subsisting and in full force and effect. To the best of the Company's knowledge, the Company and each Subsidiary owns or possesses the right to use all the franchises, rights and licenses, necessary for the conduct of its business as now conducted and as proposed to be conducted, without any known conflict with the rights of others.

4.1.10. Taxes. The Company and its Subsidiaries have filed all federal, state and local tax returns which are required to be filed, except where the time to file has been extended, and all taxes, assessments and other governmental charges due from the Company and its Subsidiaries are not delinquent. All deficiencies finally resulting from examinations of any such returns by the respective taxing authorities have been discharged or provided for. To the best of their knowledge, the Company and its Subsidiaries have adequately provided for the payment of all federal, state and local taxes for the years that have not been audited by the respective tax authorities.

4.1.11. Loan as Senior Indebtedness. The Indebtedness hereunder evidenced by this Agreement will constitute "Senior Indebtedness" or "Senior Debt" in any instrument evidencing Indebtedness which purports to be Subordinated Indebtedness.

4.1.12. No Defaults. No event has occurred and is continuing and no condition exists which constitutes or which after notice or lapse of time, or both, would constitute an Event of Default.

4.1.13. Regulation U. The Company and each of its Subsidiaries is not engaged in the business of owning or carrying margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and no part of the proceeds of any Loan or Advance will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing and carrying any margin stock.

4.1.14. Pension Plans. The funding of any pension plan of the Company and its Subsidiaries, or any of them, the benefits under which are guaranteed in whole or in part by the Pension Benefit Guaranty Corporation, complies with the minimum funding standards of Section 412 of the Internal Revenue Code of 1954, as amended.

4.1.15. Investment Company; Public Utility Holding Company. Neither the Company nor any Subsidiary is an "investment company" or a "company controlled"

by an "investment company" or an "affiliate" of an "investment company" within the meaning of the Investment Company Act of 1940, as amended. Neither the Company nor any Subsidiary is a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", as such terms are defined in the Public Utility Holding Company Act of 1935, as amended.

4.1.16. Environmental Compliance. Except as set forth in Schedule 4.1.16 hereto,

(a) none of the Company, its Subsidiaries or any operator of its Property is in violation, or to the Company's knowledge alleged violation, of any Environmental Laws, which violation would have a material adverse effect on the business, assets or financial condition of any of the Borrowers or of the Company and its Subsidiaries taken as a whole.

(b) none of the Company or its Subsidiaries has received notice that it is a potential responsible party under any Environmental Law under circumstances which will, under current or foreseeable conditions, have a material adverse effect on the business, assets or financial condition of any of the Borrowers or of the Company and its Subsidiaries taken as a whole.

4.2. Representations and Warranties of Each Borrowing Subsidiary. Each Borrowing Subsidiary shall be deemed by the execution and delivery of its election to become a Borrower to have represented and warranted to the Banks as of the date thereof as follows:

4.2.1. Organization, Good Standing, Authority etc. It (a) is a corporation duly organized, validly existing and in good standing under the laws of the jurisdiction of its incorporation, (b) has all requisite corporate power to own its property and conduct its business as now conducted and as currently contemplated, and (c) to the best of its knowledge, is duly qualified to do business and in good standing as a foreign corporation in each jurisdiction where the nature of its property or business requires such qualification except where the failure to so qualify will not have a materially adverse effect on it. The execution, delivery and performance of the election to become a Borrower and its Note, and the performance of its Note and the provisions of the Agreement applicable to it are within the corporate authority of the Borrowing Subsidiary, have been duly authorized by all necessary corporate proceedings, and do not and will not contravene any provisions of its charter, other incorporation papers, by-laws or any stock provision or any amendment thereof, or, to the best of its knowledge, any provisions of law or any indenture, agreement, instrument or undertaking binding upon it. The execution, delivery and performance of the election to become a Borrower and its Note will result in valid and legally

binding obligations of the Borrowing Subsidiary, enforceable against it in accordance with the terms and provisions thereof and hereof, except as limited by bankruptcy, insolvency, reorganization, moratorium or other similar laws relating to or affecting generally the enforcement of creditor's rights.

4.2.2. Governmental Approvals. No approval or consent of, or filing with, any governmental agency or authority is required to make valid and legally binding the execution, delivery and performance of the election to become a Borrower, its Note and this Agreement and consummation of the transactions contemplated hereby.

4.2.3. Compliance with Other Instruments. The Borrowing Subsidiary is not in material default under any provisions of its charter, other incorporation papers, by-laws or stock provisions or any amendment thereof or of any indenture or agreement or of any order, regulation, ruling or requirement of a court or public body or authority by which it is bound.

4.2.4. Litigation. No action, suit, investigation or proceeding is pending or known to be threatened against the Borrowing Subsidiary before any

court or administrative agency which, if adversely determined, would materially impair the ability of the Borrower and its Subsidiaries to carry on their consolidated business substantially as now conducted or would materially adversely affect the consolidated financial condition of the Borrower and its Subsidiaries.

4.2.5. No Adverse Contracts, etc. The Borrowing Subsidiary is not subject to any provision of its charter, other incorporation papers, by-laws or stock provisions or any amendment thereof or a party to or otherwise bound by any indenture or agreement or bound by any order, regulation, ruling or requirement of a court or public body or authority which will, under current or foreseeable conditions, materially adversely affect its normal operations or impair its financial condition or prospects.

4.2.6. Regulation U. The Borrowing Subsidiary is not engaged in the business of owning or carrying margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and no part of the proceeds of any Loan or Advance will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing and carrying any margin stock.

4.2.7. Borrowing Subsidiary. It qualifies as a Borrowing Subsidiary under the Agreement.

4.2.8. Investment Company; Public Utility Holding Company. The Borrowing Subsidiary is not an "investment company" or a "company controlled" by an "investment company" or an "affiliate" of an "investment company" within the meaning of the Investment Company Act of 1940, as amended. The Borrowing

37

-33-

Subsidiary is not a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", as such terms are defined in the Public Utility Holding Company Act of 1935, as amended.

SECTION 5. CERTAIN AFFIRMATIVE COVENANTS.

The Company covenants and agrees that, so long as any amounts are owing with respect to this Agreement or the Notes or the Banks are committed to extend credit under this Agreement:

5.1. Conduct of Business. The Company and each of its Subsidiaries will:

(a) duly observe and conform to all valid requirements of all governmental authorities in any way relating to it or the conduct of its business where failure to do so would materially affect the Company and its Subsidiaries on a Consolidated basis,

(b) perform or comply with the terms and conditions of each material contract, agreement or obligation to which it is a party,

(c) maintain and insure its properties so that its business may be properly conducted at all times and so that it will be adequately protected against loss, and

(d) keep true records and books of account.

5.2. Payment of Taxes. The Company and each of its Subsidiaries will promptly pay and discharge all lawful taxes, assessments and governmental charges or levies imposed upon it or upon its income or profit or upon any property, real, personal or mixed, belonging to it; provided, however, that neither the Company nor any of its Subsidiaries shall be required to pay any such tax, assessment, charge or levy if the same shall not at the time be due and payable or can be paid thereafter without penalty or if the validity thereof shall currently be contested in good faith by appropriate proceedings and if the Company or its Subsidiaries shall have made adequate provision on their respective books for the payment of such tax, assessment, charge or levy.

5.3. Notification of Significant Litigation, Default, etc. The Company will promptly notify the Agent of the commencement of any material litigation or

administrative proceeding initiated against it or any of its Subsidiaries and of the occurrence of any Default or Event of Default hereunder.

38

-34-

5.4. Financial Statements, Certificates and Other Information. The Company will furnish to each of the Banks:

(a) as soon as available but in any event within forty-five days after the end of the first three quarters in each fiscal year, unaudited consolidated financial statements of the Company and its Subsidiaries, prepared in accordance with generally accepted accounting principles consistent with those used in the preparation of the financial statements for the preceding quarter, except in instances when changes to such principles are required by authoritative rule-making bodies or adopted as preferable methods of accounting and reported as such by the Company's independent accountants, in each case certified by the chief financial officer, Controller or Treasurer of the Company, subject, however, to audit and year-end adjustments;

(b) as soon as available but in any event within ninety days after the end of each fiscal year, consolidated financial statements of the Company and its Subsidiaries, all prepared in accordance with generally accepted accounting principles consistent with those used in the preparation of the financial statements for the preceding fiscal year, except in instances when changes to such principles are required by authoritative rule-making bodies or adopted as preferable methods of accounting and reported as such by the Company's independent accountants, in each case certified by Coopers & Lybrand or other independent accountants of nationally recognized standing selected by the Company and acceptable to the Banks;

(c) accompanying each set of financial statements furnished pursuant to clauses (a) and (b) above, a certificate signed by the President, Chief Financial Officer, or Treasurer of the Company setting forth calculations showing compliance or noncompliance, at the end of the quarter or year being reported on, with Sections 5.7 and 6.1 hereof and stating that a review of the activities of the Company during the period covered by such financial statements has been made under the immediate supervision of the signer with a view to determining whether, during such period, the Company and its Subsidiaries have kept, observed, performed and fulfilled each and every covenant and condition of this Agreement and either (i) stating that, to the best of his knowledge and belief, there neither exists on the date of such certificate, nor existed during such period, any Default or Event of Default, or (ii) if any such Default or Event of Default existed or exists, specifying the nature thereof, the period of existence thereof and what action the Company has taken, is taking or proposes to take with respect thereto;

39

-35-

(d) upon request of any Bank and promptly upon receipt by the Company, copies of all material management letters or other reports submitted to it by independent accountants in connection with any annual or interim audit of the books of the Company made by such accountants;

(e) contemporaneously with the mailing, filing, submission or other distribution thereof, copies of all financial statements, reports, notices, proxy statements and other documents sent by the Company to its stockholders or filed with or submitted by the Company to the Securities and Exchange Commission;

(f) within forty-five days after the beginning of each calendar quarter, a borrowing base certificate, including a summary of agings of accounts receivable and categories of inventory, in a form satisfactory to the Agent and signed by an authorized officer of the Company, containing all information as shall be necessary to enable the

Agent to determine the Borrowing Base as of such date; and

(g) with reasonable promptness, such other information relating to the business or financial affairs of the Company and its Subsidiaries as any of the Banks, through the Agent, may reasonably request.

The Company authorizes the Agent and the Banks to disclose any information obtained pursuant to this Agreement to all appropriate governmental or regulatory authorities where required by law.

5.5. Inspection of Properties and Books. The Banks, through the Agent or any of its designated representatives, shall have the right, upon prior notice to the Company, to visit and inspect any of the properties of the Company and its Subsidiaries, to examine the books of account of the Company and its Subsidiaries, to make all such examinations and inquiries as are necessary to determine the Borrowing Base and to discuss the affairs, finances and accounts of the Company and its Subsidiaries with, and to be advised as to the same by, their officers, all at such reasonable times and intervals as the Banks may desire.

5.6. Employee Retirement Income Security Act of 1974. The Company will promptly notify the Agent of any "reportable event" as defined in Section 4043 of the Employee Retirement Income Security Act of 1974, as amended, or any notice of termination of any plan under Sections 4041 or 4042 of such Act.

40

-36-

5.7. Financial Covenants. The Company and its Subsidiaries will comply with the following covenants:

(a) Net Working Capital; Current Ratio. The Company and its Subsidiaries will at all times maintain (i) Net Working Capital of at least \$50,000,000, and (ii) a Current Ratio of at least 200%.

(b) Maintenance of Consolidated Tangible Net Worth. The Company and its Subsidiaries will at all times maintain Consolidated Tangible Net Worth of at least the Base Amount plus (i) all amounts hereafter added to the capital accounts of the Company and its Subsidiaries, whether by way of contribution, purchase of equity or otherwise, plus (ii) exclusive of any amounts included under clause (i), 50% of consolidated net income of the Company and its Subsidiaries earned in each fiscal year commencing on or after December 31, 1990, adjusted quarterly. (For purposes of the adjustment made pursuant to clause (ii) above, consolidated net losses in any fiscal quarter are to be disregarded.) The Base Amount shall, at all times when the aggregate principal amount outstanding under this Agreement is equal to an amount within a range specified below, be equal to the Base Amount set forth opposite such range:

Range of Amounts Outstanding	Base Amount
\$0 - \$19,999,999	\$251,000,000
\$20,000,000 - \$39,999,999	\$261,000,000
\$40,000,000 - \$59,999,999	\$266,000,000
\$60,000,000 and above	\$274,000,000

(c) Leverage Ratio. The Company shall not permit the Leverage Ratio to exceed 100% at any time after the date hereof.

5.8. Pension Plans. The Company will, and will cause each Subsidiary to, keep its private pension plans in full force and effect, make contributions to each of such plans in a timely and sufficient amount, and acquire, promptly upon its availability, and maintain contingent liability coverage insurance under Section 4023 of the Employee Retirement Income Security Act of 1974, as amended, obtained either from the Pension Benefit Guaranty Corporation or from authorized private insurers.

5.9. Further Assurances. The Company will execute and deliver any and

all such instruments and documents, and take all such other action, as may

41

-37-

reasonably be required by the Agent or any Bank in order to perfect, insure and continue the rights and interests of the Banks under this Agreement.

5.10. Borrowing Subsidiaries. The Company (a) will permit only a wholly-owned Subsidiary, which will be qualified as a Borrowing Subsidiary as defined in this Agreement, to execute and deliver an election to become a Borrower and to request Loans from the Banks, and (b) will maintain a 100% ownership interest (except for directors' qualifying shares), whether directly or indirectly, free and clear of all liens and encumbrances, in each Borrowing Subsidiary.

5.11. Environmental Matters. The Company and its Subsidiaries will comply with the following covenants:

(a) Notice. The Company covenants and agrees promptly to provide the Agent and each of the Banks with written notice: (i) upon the Company's obtaining knowledge of any violation of any Environmental Law regarding the Property or the Company's operations which violation could have a material adverse effect on the business, assets or financial condition of any of the Borrowers or of the Company and its Subsidiaries taken as a whole; (ii) upon the Company's obtaining knowledge of any potential or known Release, or threat of Release, of any Hazardous Substances at, from, or into the Property which it reports in writing or is reportable by it in writing to any governmental authority which Release could have a material adverse effect on the business, assets or financial condition of any of the Borrowers or of the Company and its Subsidiaries taken as a whole; (iii) upon the Company's receipt of any notice of violation of any Environmental Laws or of any Release or threatened Release of Hazardous Substances, including a notice or claim of liability or potential responsibility from any third party (including without limitation any federal, state or local governmental officials) and including notice of any formal inquiry, proceeding, demand, investigation or other action with regard to (A) the Company's or any person's operation of the Property, (B) contamination on, from or into the Property, or (C) investigation or remediation of offsite locations at which the Company or its predecessor are alleged to have directly or indirectly disposed of Hazardous Substances, under circumstances which will, under current or foreseeable conditions, have a material adverse effect on the business, assets or financial condition of any of the Borrowers or of the Company and its Subsidiaries taken as a whole; or (D) upon the Company's obtaining knowledge that any expense or loss has been incurred by such governmental authority in connection with the assessment, containment, removal or remediation of any Hazardous Substances with respect to which the Company may be liable or for which

42

-38-

a lien may be imposed on the Property under circumstances which will, under current or foreseeable conditions, have a material adverse effect on the business, assets or financial condition of any of the Borrowers or of the Company and its Subsidiaries taken as a whole.

(b) Response Actions. The Company covenants and agrees that if any Release or disposal of Hazardous Substances shall occur or shall have occurred on the Property, Company will cause the prompt containment and removal of such Hazardous Substances and remediation of the Property as necessary to comply with all Environmental Laws.

(c) Indemnification. The Company covenants and agrees that it will indemnify and hold the Agent and each of the Banks harmless from and against any and all claims which allege that the actions or transactions of the Agent and the Banks undertaken in conformity with this Agreement create any liability under the Environmental Laws, provided that the Agent or the Bank, as the case may be, furnish prompt

notice of the claim and permits the Company to conduct the defense against, and approve any settlement for, such claim. The Agent or any Bank will be entitled to participate in such defense with counsel of its own choosing, at its own expense.

SECTION 6. CERTAIN NEGATIVE COVENANTS.

The Company covenants and agrees that, so long as the Notes are outstanding or the Banks are committed to extend credit under this Agreement, neither it nor any Subsidiary will:

6.1. Indebtedness. Create, incur, assume, guarantee, agree to purchase, repurchase or provide funds in respect of, or otherwise become or be or remain liable with respect to, any Indebtedness of any type whatsoever owed to any person, except:

(a) Indebtedness incurred pursuant to the Notes and any other Indebtedness incurred pursuant to the terms of this Agreement;

(b) existing Indebtedness, as set forth on Schedule 6.1 hereto, including any extension, renewal or modification thereof which does not increase the principal amount of such Indebtedness outstanding;

43

-39-

(c) in addition to Indebtedness permitted by paragraphs (a) and (b) of this Section 6.1, other Indebtedness of not more than \$30,000,000 in the aggregate at any one time outstanding; and

(d) Indebtedness of the Company to any Subsidiary and Indebtedness of any Subsidiary to the Company or another Subsidiary.

6.2. Liens. Create, incur, assume or permit to exist any mortgage, lien, charge, security interest or other encumbrance on any properties or assets owned by it, except:

(a) liens in respect of taxes, fees, assessments and other governmental charges to the extent that payment of the same may be postponed or is not required in accordance with the provisions of Section 5.2 hereof;

(b) landlord's liens in respect of rent not in default or liens in respect of pledges or deposits under workmen's compensation, unemployment insurance, social security laws or similar legislation or in connection with appeal and similar bonds incidental to litigation, mechanics', laborers' and materialmen's and similar liens, if the obligations secured by such liens are not then delinquent, and liens securing statutory obligations incidental to the conduct of the business of the Company and its Subsidiaries and which do not in the aggregate materially detract from the value of the property of the Company and its Subsidiaries or materially impair the use thereof in the operation of their business;

(c) judgment liens which shall not have been in existence for a period longer than sixty days after the creation thereof, or if a stay of execution shall have been obtained, for a period longer than sixty days after the expiration of such stay; and

(d) in addition to the foregoing, liens voluntarily created by the Company or its Subsidiaries from time to time on assets having an aggregate book value not exceeding 10% of Consolidated Tangible Net Worth; provided, however, that no such lien shall attach to accounts receivable or inventory of the Company or any of its Subsidiaries.

6.3. Investments. Make or permit to exist, any Investments, directly or indirectly, other than:

(a) demand deposits maintained in accounts with United States commercial banks;

(b) Money Market Instruments;

(c) Investments in Subsidiaries;

(d) Investments in persons which are not Subsidiaries the cost of which does not at any time exceed in the aggregate for all such Investments 10% of Consolidated Tangible Net Worth; and

(e) other Investments not exceeding \$10,000,000 in the aggregate.

6.4. Merger and Sale of Assets. Consolidate or merge with or into any other corporation or sell, lease (as lessor), transfer or otherwise dispose of any substantial portion of its assets other than in the ordinary course of business; provided that

(a) a Subsidiary may be merged or consolidated with the Company if the Company shall be the surviving corporation or with any one or more other Subsidiaries if the successor formed by or resulting from such merger or consolidation shall be a Subsidiary;

(b) any Subsidiary may sell, lease (as lessor), transfer or otherwise dispose of its assets to the Company or another Subsidiary if, after giving effect to such merger, consolidation, sale, lease, transfer or other disposition, no Default or Event of Default exists;

(c) the Company or any Subsidiary may consolidate or merge with any other corporation if (i) the Company or the Subsidiary is the survivor in such transaction and (ii) after giving effect to such transaction no Default or Event of Default exists; and

(d) the Company or any of its Subsidiaries may sell or lease (as lessor) assets other than in the ordinary course of business, provided that the aggregate book value of such assets at any time sold or leased (taken at the time of sale or lease) shall not exceed 10% of the aggregate book value of all assets other than Discounted Trade Receivables, as shown on the December 31, 1990, consolidated balance sheet of the Company and its Subsidiaries.

6.5. Lines of Business. Engage in any business other than those in which they are now engaged or any business directly related thereto.

6.6. Limitation on Stock Repurchases. Make any payments on account of the purchase or other acquisition, redemption or retirement of any shares in the Company's capital of any class or any warrants or options to purchase any such shares; excluding, however, from the operation of the foregoing provisions of this Section 6.6 payments for the repurchase of the capital stock of the Company which in the aggregate for all such payments made after December 31, 1994, do not exceed \$60,000,000.

6.7. Leasebacks. Directly or indirectly first become liable after the date of this Agreement, as lessee or guarantor or other surety, with respect to any lease of real or personal property, whether now owned or hereafter acquired, (a) which is to be sold or transferred by the Company or a Subsidiary to any Person, or (b) which the Company or a Subsidiary intends to use for substantially the same purpose as any other property which has been or is to be sold or transferred by the Company or a Subsidiary to any Person in connection with such lease (either of the foregoing transactions being hereinafter referred to as a "Leaseback"), except Leasebacks involving property, the aggregate value of which for all Leasebacks after December 31, 1990 is not in excess of 10% of Consolidated Tangible Net Worth on the date of any such Leaseback. For purposes of this section the value of property shall be the greater of the fair market value of the property or the book value of the property prior to the transfer as determined in accordance with generally accepted accounting principles.

7.1. Guaranty. For value received and hereby acknowledged and as an inducement to the Banks to make Loans or Advances to the Borrowing Subsidiaries, the Company hereby unconditionally and irrevocably guarantees: (i) the full punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of each Borrowing Subsidiary now or hereafter existing hereunder and under its Notes whether for principal, interest, fees, expenses or otherwise, and (ii) the strict performance and observance by each such Borrowing Subsidiary of all agreements, warranties and covenants in the Notes and in the Agreement applicable to each such Borrowing Subsidiary (such obligations collectively being the "Guaranteed Obligations").

7.2. Guaranty Absolute. The Company guarantees that the Guaranteed Obligations will be paid strictly in accordance with the terms hereof, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the Banks with respect thereto. The liability of the Company under this guaranty with regard to the Guaranteed Obligations of each Borrowing Subsidiary shall be absolute and unconditional irrespective of:

46

-42-

(i) any lack of validity or enforceability or any illegality of such Borrowing Subsidiary's election to become a Borrower, its Notes, the Agreement and any amendment thereof (with regard to such Guaranteed Obligations), or any other obligation, agreement or instrument relating thereto;

(ii) any change in the time, manner or place of payment of, or in any other term of, all or any of the Guaranteed Obligations of such Borrowing Subsidiary or any other amendment or waiver of or any consent to departure from the Agreement (with regard to such Guaranteed Obligations);

(iii) any exchange, release or non-perfection of any collateral, or any release or amendment or waiver of or consent to departure from any other guaranty, for all or any of the Guaranteed Obligations of such Borrowing Subsidiary;

(iv) any change in ownership of such Borrowing Subsidiary;

(v) any acceptance of any partial payment(s) from such

Borrowing Subsidiary; or

(vi) any other circumstance other than payment which might otherwise constitute a defense available to, or a discharge of, such Borrowing Subsidiary in respect of its Guaranteed Obligations provided that the Company may assert defenses arising from any Bank's breach of the Agreement to the same extent that a Borrowing Subsidiary would be able to do so.

This guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any Guaranteed Obligation is rescinded or must otherwise be returned by the Banks upon the insolvency, bankruptcy or reorganization of any Borrowing Subsidiary or otherwise, all as though such payment had not been made.

7.3. Effectiveness, Enforcement. The guaranty herein of the Company shall be effective and shall be deemed to be made with respect to each Advance made to a Borrowing Subsidiary as of the time it is made. No invalidity, irregularity or unenforceability by reason of any bankruptcy or similar law, or any law or order of any government or agency thereof purporting to reduce, amend or otherwise affect any liability of a Borrowing Subsidiary, and no defect in or insufficiency or want of powers of any Borrowing Subsidiary or irregular or improperly recorded exercise thereof, shall impair, affect, be a defense to or claim against such guaranty. This guaranty is a continuing guaranty and shall (i) survive any termination of the Agreement and (ii) remain in full force and effect until payment in full and performance of all Guaranteed Obligations and

47

all other amounts payable under this guaranty. This guaranty is made for the benefit of the Banks and their respective successors and assigns, and may be enforced from time to time as often as occasion therefor may arise and without requirement on the part of any Bank first to exercise any rights against any Borrowing Subsidiary or to exhaust any remedies available to it against any Borrowing Subsidiary or to resort to any other source or means of obtaining payment of any of the Guaranteed Obligations or to elect any other remedy. Upon any default by any Borrowing Subsidiary in the full and punctual performance of any of the Guaranteed Obligations, the liabilities and obligations of the Company hereunder shall, at the option of the Agent, become forthwith due and payable.

7.4. Waiver. The Company hereby waives promptness, diligence, protest, notice of protest, all suretyship defenses, notice of acceptance and any other notice with respect to any of the Guaranteed Obligations and this guaranty and any requirement that the Banks protect, secure, perfect to ensure any security interest or lien or any property subject thereto or exhaust any right or take any action against any Borrowing Subsidiary or any other Person or any collateral. The Company also irrevocably waives, to the fullest extent permitted by law, all defenses which at any time may be available to it in respect of the Guaranteed Obligations by virtue of any statute of limitations, valuation, stay, moratorium law or other similar law now or hereafter in effect.

7.5. Subrogation; Subordination.

(a) Until the final payment and performance in full of all of the Obligations, the Company shall not exercise and hereby waives any rights against a Borrowing Subsidiary arising as a result of payment by the Company hereunder by way of subrogation, reimbursement, restitution, contribution or otherwise, and will not prove any claim in competition with the Agent or any Bank or any other creditor of a Borrowing Subsidiary whether now or hereafter existing or arising in respect of any payment hereunder in any bankruptcy, insolvency or reorganization case or proceeding of any nature; the Company will not claim any setoff, recoupment or counterclaim against a Borrowing Subsidiary in respect of any liability of the Borrowing Subsidiary to the Company; and the Company waives any benefit of and any right to participate in any collateral security which may be held by the Agent or any Bank.

(b) The payment of any amounts due with respect to any indebtedness of a Borrowing Subsidiary for money borrowed or credit received now or hereafter owed to the Company is hereby subordinated to the prior payment in full of all of the Guaranteed Obligations. The Company agrees that, after the occurrence of any default in the payment or performance of any of the Guaranteed Obligations, the Company will

48

not demand, sue or otherwise attempt to collect any such indebtedness of a Borrowing Subsidiary to the Company until all of the Guaranteed Obligations shall have been paid in full. If, notwithstanding the foregoing sentence, the Company shall collect, enforce or receive any amounts in respect of such indebtedness while any Guaranteed Obligations are still outstanding, such amounts shall be collected, enforced and received by the Company as trustee for the Banks and the Agent and be paid over to the Agent, for the benefit of the Banks and the Agent on account of the Guaranteed Obligations without affecting in any manner the liability of the Company under the other provisions of this Agreement.

(c) The provisions of this Section 7.5 shall be supplemental to and not in derogation of any rights and remedies of the Banks and the Agent under any separate subordination agreement which the Agent may at any time and from time to time enter into with the Company for the benefit of the Banks and the Agent.

SECTION 8. EVENTS OF DEFAULT; ACCELERATION.

If any of the following events ("Events of Default" or if either or

both notice or lapse of time is required, then, prior to such notice and/or lapse of time, "Defaults") shall occur:

(a) if the Company or any Borrowing Subsidiary shall default in any payment of any principal amount outstanding hereunder or under the Notes when the same shall become due and payable, whether at maturity or at any date fixed for payment or prepayment or by declaration or otherwise other than due to a failure of a Bank or the Agent to charge an account of the Company or such Borrowing Subsidiary having a sufficient credit balance; or

(b) if the Company or any Borrowing Subsidiary shall fail to pay any interest with respect to principal outstanding hereunder or under the Notes or any commitment fee within two (2) Business Days after written notice by the Agent thereof shall have been given to the Company whether at maturity or at any date fixed for payment or prepayment or by declaration or otherwise; or

(c) if the Company or any Borrowing Subsidiary shall default in any material respect in the performance of or compliance with any term contained herein and such default shall not have been remedied within 15 days after written notice thereof shall have been given to

49

-45-

the Company or such Borrowing Subsidiary by the Agent; or

(d) if any representation or warranty made in writing by or on behalf of the Company or any Borrowing Subsidiary herein or in connection with any of the transactions contemplated hereby shall prove to have been false or incorrect in any material respect on the date as of which made or deemed made; or

(e) if the Company or any Subsidiary shall fail to pay at maturity, or within any applicable period of grace, any obligation for money borrowed or credit advanced in an amount in excess of \$250,000 in any one case or in aggregate for all obligations in default at such time, or shall have received notice of the existence of a default resulting from its failure to observe or perform any term, covenant or agreement contained in any agreement by which it is bound, evidencing or securing such money borrowed or credit advanced, and such default shall continue without waiver thereof beyond any period of grace provided with respect thereto; or

(f) if any Borrower, or any Subsidiary owning assets having a fair market value of \$250,000 or more, shall make a general assignment for the benefit of creditors or shall petition or apply for the appointment of a liquidator or receiver of any Borrower or any such Subsidiary or of any substantial part of the assets of any Borrower or any such Subsidiary or shall commence any proceeding relating to any Borrower under any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation law or similar law of any jurisdiction, now or hereafter in effect; or

(g) if any such petition or application shall be filed or any such proceeding shall be commenced against any Borrower, or any Subsidiary owning assets having a fair market value of \$250,000 or more, and such Borrower or such Subsidiary shall indicate its approval thereof, consent thereto or acquiescence therein or an order shall be entered appointing any liquidator or receiver, or adjudicating any Borrower or any such Subsidiary a bankrupt or insolvent, or approving a petition in any such proceeding, and such order shall remain in effect for more than thirty days, whether or not consecutive; or

(h) if any order shall be entered in any proceeding by or against any Borrower or any Subsidiary decreeing or permitting the dissolution or split-up of any Borrower or such Subsidiary or the winding up of its affairs and such order shall remain in effect for more than thirty days, whether or not consecutive; or

50

(i) if there shall remain in force, undischarged, unsatisfied and unstayed, for more than thirty days after the date on which payment is due thereon, whether or not consecutive, any final judgment against any Borrower or any Subsidiary which, with other outstanding final judgments, undischarged, against the Company and its Subsidiaries exceeds in the aggregate \$250,000 after taking into account any insurance coverage;

then and in any such event the Agent may at any time, and upon written request of the Majority Banks, shall, by written notice to the Borrower, and if the Borrower is a Borrowing Subsidiary, the Company, declare: (i) the obligation of each Bank to make Advances or Term Loans to the Borrowers to be terminated, whereupon the same shall terminate, and/or (ii) the right of any Subsidiary to become a Borrowing Subsidiary and the obligation of each Bank to make Advances or Term Loans to such Subsidiary to be terminated, whereupon the same shall forthwith terminate, and/or (iii) the principal amount of the Loan Accounts, in the case of the Company and the Notes, in the case of all other Borrowers, all interest thereon and all other amounts payable under this Agreement and the Notes to be forthwith due and payable, whereupon the same shall become and be forthwith due and payable without presentment, demand, protest or notice, all of which are hereby expressly waived by each of the Borrowers. If any of the events described in clauses (f), (g) or (h) above shall occur, and if such event involves the Company (rather than a Subsidiary), the actions described in clauses (i), (ii) and (iii) above shall occur automatically without requests by the Banks, notice to the Company, or declaration by the Agent.

SECTION 9. SET-OFF.

Any deposits or other sums at any time credited by or due from any Bank to the Company or any Subsidiary and any securities or other property of the Company or any Subsidiary in any Bank's possession may at all times be held and treated as collateral security for the payment of the principal and interest and any other amounts due hereunder or under the Notes, and any and all other liabilities, direct or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, of any Borrower to the Banks. Regardless of the adequacy of any collateral, any deposits (other than accounts used solely for payroll or employee benefit plans) or other sums credited by or due from any of the Banks to the Company or any Subsidiary may be appropriately applied to or set-off against any principal, interest and any other amounts due hereunder or under the Notes, and such other liabilities by the Banks at any time without notice to any Borrower or compliance with any other condition precedent now or hereafter imposed by statute, rule of law or otherwise (all of which are hereby expressly waived by each Borrower). Each Bank agrees with the other Banks that (i) if an amount to be set off is to be applied to indebtedness of a Borrower

hereunder to a Bank, other than the indebtedness evidenced by this Agreement or the Notes, such amount shall be applied ratably to such other indebtedness and to the indebtedness evidenced by this Agreement, and (ii) if a Bank shall receive from any Borrower or from the Company with respect to such Borrower, whether by voluntary payment, exercise of the right of setoff, counterclaim, cross action, enforcement of the claim evidenced by this Agreement and/or the Notes by proceedings against such Borrower or enforcement of any claim against the Company in respect of its guaranty, in either case whether at law or in equity or by proof thereof in bankruptcy, reorganization, liquidation, receivership or similar proceedings, or otherwise, and shall retain and apply to the payment of the indebtedness to it hereunder and/or under the Notes of such Borrower, any amount in excess of such Bank's ratable portion of the payments received by the Banks, such Bank will promptly make such disposition and arrangements with the other Banks with respect to such excess, either by way of distribution, pro tanto assignment of claims, subrogation or otherwise as shall result in each Bank receiving in respect of the indebtedness to it hereunder and/or under the Notes of such Borrower such Bank's proportionate payment; provided, however, that if all or any part of such excess payment is thereafter recovered from such Bank, such disposition and arrangements shall be rescinded and the amount restored to the extent of such recovery, but without interest.

SECTION 10. THE AGENT.

(a) The Agent is authorized to take such action on behalf of each of the Banks and to exercise all such powers as are hereunder and in related documents delegated to the Agent, together with such powers as are reasonably incidental thereto.

(b) The Agent may exercise its powers and execute its duties by or through employees or agents and shall be entitled to take, and to rely on, advice of counsel concerning all matters pertaining to its rights and duties under this Agreement and the Notes. The Agent may utilize the services of such persons as the Agent in its sole discretion may reasonably determine, and all reasonable fees and expenses of any such persons (other than salaries of employees of the Agent) shall be paid by the Company.

(c) Neither the Agent nor any of its shareholders, directors, officers or employees nor any other person assisting them in their duties nor any agent or employee thereof, shall be liable to the Banks for any waiver, consent or approval given or any action taken, or omitted to be taken, in good faith by it or them hereunder or under the Notes, or in connection herewith or therewith or be responsible to the Banks for the consequences of any oversight or error of judgment whatsoever, except that the Agent or such other person, as the case may be, may be liable for losses due to its willful misconduct or gross negligence.

52

-48-

(d) The Agent shall not be responsible for the execution or validity or enforceability of this Agreement, the Notes, or any instrument at any time constituting, or intended to constitute, collateral security for this Agreement or the Notes, or for the value of any such collateral security or for the validity, enforceability or collectibility of any such amounts owing with respect to this Agreement or the Notes, or for any recitals or statements, warranties or representations herein or made in any certificate or instrument hereafter furnished to it by or on behalf of any of the Borrowers or be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or in any instrument at any time constituting, or intended to constitute, collateral security for this Agreement or the Notes. The Agent shall not be bound to ascertain whether any notice, consent, waiver or request delivered to it by any of the Borrowers or any holder of any of the Notes shall have been duly authorized or is true, accurate and complete. The Agent has not made nor does it now make any representations or warranties, express or implied, nor does it assume any liability to the Banks with respect to the creditworthiness or financial conditions of the Company or any of its Subsidiaries, and each Bank represents and warrants to the Agent that it has made its own independent evaluation of the creditworthiness of the Company and its Subsidiaries and has not relied upon the Agent or any material or information furnished by the Agent in making such evaluation.

(e) If in the opinion of the Agent the distribution of any amount received by it in such capacity hereunder or under the Notes might involve it in liability, it may refrain from making such distribution until its right to make such distribution shall have been adjudicated by a court of competent jurisdiction. If a court of competent jurisdiction shall adjudge that any amount received and distributed by the Agent is to be repaid, each person to whom any such distribution shall have been made shall either repay to the Agent its proportionate share of the amount so adjudged to be repaid or shall pay over the same in such manner and to such persons as shall be determined by such court. With respect to obligations of any of the Borrowers hereunder, a payment to the Agent shall be deemed to be a payment to the Banks.

(f) The Agent may deem and treat the payee of any Note as the absolute owner thereof for all purposes hereof until it shall have been furnished in writing with a different name by such payee or by a subsequent holder.

(g) In its individual capacity, The First National Bank of Boston shall have the same obligations and the same rights, powers and privileges in respect to its Commitment and the Loans made by it hereunder, and as the holder of any of the Notes, as it would have were it not also the Agent.

(h) The Company agrees to reimburse the Agent from time to time on demand for its reasonable out-of-pocket expenses (including reasonable fees and

expenses of counsel) incurred in connection with the administration of this Agreement.

(i) The Agent may resign at any time upon ten (10) days' prior written notice to the Banks and the Company. In such event, a successor Agent shall be designated by the Banks, provided that the Company shall have the right to approve such successor.

SECTION 11. MISCELLANEOUS.

11.1. Expenses. Whether or not the transactions contemplated hereby shall be consummated, the Company will on demand (a) pay any taxes or filing fees in connection with the transactions contemplated by this Agreement and save the Banks harmless from and against any and all liabilities resulting from any delay in paying or omission to pay any such fee or tax, (b) pay the reasonable fees, expenses and disbursements of Counsel to the Agent incurred in connection with the negotiation, preparation and completion of this Agreement and the transactions and other documents contemplated by this Agreement, or any subsequent waivers, consents or amendments in connection therewith, (c) pay the reasonable costs and expenses of the Agent's examinations conducted in accordance with Section 5.5 hereof, and (d) pay all reasonable out-of-pocket expenses (including, without limitation, reasonable attorney's fees and costs, costs of consultants, accountants, investment bankers and other experts) incurred by the Banks in connection with the enforcement of this Agreement. The Company's obligation to pay any amount pursuant to this Section 11.1 shall survive payment or satisfaction of all other amounts owing under this Agreement.

11.2. Notices, etc. All notices, requests and other communications pursuant to this Agreement shall be in writing and shall be mailed by first-class mail, postage prepaid, or sent by telegraph confirmed by letter, addressed as follows or to such other address as the party shall have furnished to the communicating party in writing:

(a) If to the Company, at 321 Harrison Avenue, Boston, Massachusetts 02118, marked Attention: Stuart M. Osattin, Treasurer.

(b) If to a Borrowing Subsidiary at its address as set forth in its election to become a Borrower, with a copy delivered to the Company.

(c) If to The First National Bank of Boston, as a Bank or Agent, at its head office at 100 Federal Street, Boston, Massachusetts 02110, marked Attention: Daniel G. Head, Jr., Vice President, with a copy to David J. Murphy, Esq., Bingham, Dana & Gould, 150 Federal Street, Boston, Massachusetts 02110.

(d) If to Bank of America National Trust and Savings Association at its office at 555 California Street, Department 3697, 41st floor, San Francisco, California 94101, marked Attention: Douglas Watson, Assistant Vice President and Peter Tomei, Managing Director;

(e) if to Fleet Bank of Massachusetts, N.A. at 75 State Street, Boston, Massachusetts 02109, Attention: Catherine M. Bruton, Vice President; or

(f) if to State Street Bank and Trust Company, at Large Corporations, 225 Franklin Street, M-2, Boston, Massachusetts 02110, Attention: Lise Anne Boutiette, Vice President.

Any notice, request or communication so addressed and mailed by registered or certified mail shall be deemed to have been given when mailed.

Any notice of borrowing under Section 2.6(a) or notices under Section

2.7 or 2.8(a) hereof shall be signed on behalf of a Borrower by one of its duly authorized officers and shall not be revocable by such Borrower and shall obligate such Borrower to borrow a requested Advance or Term Loan for, or to convert an Advance to, a currency, Borrowing Day, Interest Period or interest rate as may be so specified. Any election made by a Borrower pursuant to Sections 2.3 or 2.10(b) shall be binding upon such Borrower and irrevocable. Notice of any prepayment having been given as required and all of the other conditions to such prepayment having been satisfied by such Borrower in compliance with the provisions of Sections 2.3 or 2.10(b), that amount of the principal of any Advance or Term Loan which shall have been designated for prepayment in such notice shall, on the date specified in such notice, become absolutely due and payable by such Borrower.

11.3. Reliance, etc. All covenants, agreements, representations and warranties made herein, in certificates delivered pursuant hereto or otherwise in writing in connection with the transactions evidenced hereby shall be deemed to have been material and relied upon by the Banks, notwithstanding any investigation made by the Banks or on the Banks' behalf and shall survive the execution of this Agreement and the making of each Advance or Term Loan hereunder and shall continue in full force and effect until all of the obligations of the Company and each Borrowing Subsidiary hereunder have been paid and satisfied in full and all commitments of the Banks to extend credit hereunder have terminated.

11.4. Captions. The captions in this Agreement are for convenience of reference only and shall not define or limit the provisions hereof.

55

-51-

11.5. Consents, Amendments, Waivers, etc. Except as otherwise expressly set forth in any particular provision of this Agreement, any consent or approval required or permitted by this Agreement to be given by the Banks may be given, and any term of this Agreement or of any other instrument related hereto or mentioned herein may be amended, and the performance or observance by any Borrowers of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) with, but only with, the written consent of the Borrowers and the Majority Banks, provided, however, that:

(a) Without the written consent of such Banks as hold 100% of the aggregate outstanding principal amount of the Loan Accounts and all Notes, or if no principal is outstanding, of the Total Commitment,

(i) no reduction in the principal amount of, interest rate on, Commitment Fees relating to the Advances or Term Loans or the Facility Fee shall be made; and

(ii) no extension or postponement of the stated time of payment of the principal amount of, interest on, Commitment Fees relating to, the Advances or Term Loans or the Facility Fee shall be made; and

(iii) no increase in the amount, or extension of the term, of the Total Commitment beyond those provided for hereunder shall be made;

(iv) no modification of, or amendment to, or waiver of compliance with, the provisions of Sections 8(a), (b), (f), (g) or (h) or 11.5 hereof shall be made.

No modification or waiver of any provision of this Agreement, and no consent to departure by any Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the required percentage of the Banks, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on any Borrower in any case shall entitle any such Borrower or any other Borrower to any other or further notice or demand in similar or other circumstances or constitute a waiver of the Banks' right to take any other or further action in any circumstances without notice or demand. No failure or delay on the Agent's or the Banks' part in exercising any right hereunder 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. No right, power or remedy conferred

hereby upon Agent or the Banks shall be exclusive of any other right, power or remedy referred to herein or now or hereafter available at law, in equity, by statute or otherwise.

11.6. Benefit, etc. The rights of the Borrowers under this Agreement shall not be assignable by the Borrowers without the prior written consent of the Banks. This Agreement shall be binding upon the successors and assigns of the Borrowers and, except as otherwise provided in Section 11.12, shall inure to the benefit of and be binding upon each Bank and its successors and assigns.

11.7. Exchange Rate. If, for the purpose of obtaining judgment in any court or obtaining an order enforcing a judgment, it becomes necessary to convert any amount due under this Agreement (including, without limitation, amounts due under Section 7.1 hereof) in Dollars or in any other currency (hereinafter in this Section 11.7 called the "first currency") into any other currency (hereinafter in this Section 11.7 called the "second currency"), then the conversion shall be made at the Agent's spot rate of exchange for buying the first currency with the second currency prevailing at the Agent's close of business on the Business Day next preceding the day on which the judgment is given or (as the case may be) the order is made. In the event that there is a difference between the rate of exchange on the basis of which the amount of such judgment or order is determined and the rate of exchange prevailing on the date of payment, each Borrower hereby agrees to pay such additional amount as may be necessary to ensure that the amount paid on such date in the second currency is the amount in such second currency which, when converted at the Agent's spot rate of exchange for buying the first currency with the second currency prevailing at the Agent's opening of business on the date of payment, is the amount which was due under this Agreement in the first currency before such judgment was obtained or made. Any amount due from any Borrower to the Banks under the second sentence of this Section 11.7 will be due as a separate debt of such Borrower to the Banks and shall not be affected by judgment or order being obtained for any other sum due under or in respect of this Agreement. The covenant contained in this Section 11.7 shall survive the payment in full of all of the other obligations of the Borrowers under this Agreement.

11.8. Governing Law. This Agreement shall be governed by the laws of the Commonwealth of Massachusetts and is intended to take effect as a sealed instrument.

11.9. Counterparts. This Agreement may be executed in one or more counterparts each of which shall constitute an original but which taken together shall constitute but one agreement. In proving this Agreement it shall not be necessary to produce or account for more than one such counterpart.

11.10. Consent To Jurisdiction, Waiver of Jury Trial.

(a) Each Borrowing Subsidiary hereby irrevocably submits to the jurisdiction of any Massachusetts state or federal court sitting in Boston over any action or proceeding arising out of or relating to this Agreement and each Borrowing Subsidiary hereby irrevocably agrees that all claims in respect of such action or proceeding may be heard and determined in such Massachusetts state or federal court. Each Borrowing Subsidiary hereby appoints the Company as its process agent (the "Process Agent"), and the Company hereby agrees to act as its agent at its office specified in Section 11.2(a) to receive on its behalf and its property service of copies of the summons and complaint and any other process which may be served in any such action or proceeding. Such service may be made to any Borrowing Subsidiary by mailing or delivering a copy of such process to such Borrowing Subsidiary in care of the Process Agent at the Process Agent's address set forth above, and each Borrowing Subsidiary hereby irrevocably authorizes and directs the Process Agent to accept such service on its behalf. As an alternative method of service, each Borrowing Subsidiary also

irrevocably consents to the service of any and all process in any such action or proceeding by the hand delivery or mailing of copies of such process to such Borrowing Subsidiary at its address specified in its election to become a Borrowing Subsidiary. Each Borrowing Subsidiary agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(b) Each Borrowing Subsidiary may change its Process Agent hereunder by substituting and appointing as its Process Agent another Person approved by the Agent, such substitution and appointment to be made pursuant to a written instrument executed by such Borrowing Subsidiary and such Person in form and substance approved by the Agent, which approval will not be unreasonably withheld; provided, however, that each Borrowing Subsidiary shall have a Process Agent at all times.

(c) Nothing in this Section 11.10 shall affect the right of the Banks to serve legal process in any other manner permitted by law or affect the right of the Banks to bring any action of proceeding against any Borrowing Subsidiary of its property in the courts of any other jurisdiction.

(d) Each Borrower hereby waives its right to a jury trial with respect to any action or claim arising out of any dispute in connection with this Agreement or the Notes or any rights or obligations hereunder

58

-54-

or thereunder or the performance of such rights and obligations. Except as prohibited by law, each Borrower hereby waives any right which it may have to claim or recover in any litigation referred to in the preceding sentence any special, exemplary, punitive or consequential damages or any damages other than, or in addition to, actual damages.

11.11. Transitional Provisions. All "Loans", as defined in this Agreement, which were outstanding hereunder as of the date hereof, shall for purposes of this Agreement be deemed Advances made under and subject to the terms and conditions of this Agreement, even if such Advances are not in accordance with the Commitment Percentages of the Banks hereunder and shall bear interest at the rate determined under this Agreement. Upon the termination of the Interest Period determined in accordance with this Agreement with respect to such Advances, the Company shall repay such Advances and may, subject to the terms and conditions of this Agreement, reborrow such amounts in accordance with the Banks' Commitment Percentages. The Commitment Fee payable to each Bank shall be determined on the basis of each Bank's portion of the unused Total Commitment rather than its Commitment Percentage until the Advances are made in accordance with the Commitment Percentages. This Agreement shall not become effective until the Company shall have paid the Agent's fees and expenses in accordance with Section 11.1(b) hereof in connection with the completion of this Agreement.

11.12. Exempt Character of Transaction. This Agreement is made with the Banks in reliance upon their several representations to the Company, which by their execution of this Agreement they hereby confirm, that each Bank for itself and not for any other Bank has no present intention of selling or otherwise disposing of any interest in the Loan Accounts or the Notes other than participations by banking institutions. The Company represents to the Banks that it has not, either directly or through any agent, offered any interest in the Notes (or similar instruments) for sale to or solicited any offers to buy any interest therein from, or otherwise approached or negotiated in respect of any interest therein with, any person or persons other than the Banks. If any Bank is not incorporated under the laws of the United States of America or any state thereof, it shall, prior to the date on which any interest or fees are payable hereunder for its account, deliver to the Borrower and the Agent certification as to its exemption from deduction or withholding of any United States federal income taxes.

12. ASSIGNMENT AND PARTICIPATION.

12.1. Conditions to Assignment by Banks. Except as provided herein, each Bank may assign to one or more Eligible Assignees all of its interest, rights and obligations under this Agreement (including all of its Commitment Percentage and Commitment and the all of the Loans at the time owing to it and

the Notes held by it); provided that (a) each of the Agent and, unless a Default

59

-55-

or Event of Default shall have occurred and be continuing, the Company shall have given its prior written consent to such assignment, which consent, in the case of the Company, will not be unreasonably withheld, (b) each such assignment shall be constant, and not a varying, percentage of all the assigning Bank's rights and obligations under this Agreement (c) each assignment shall be in an amount that is equal to 100% of such assigning Bank's Commitment and (d) the parties to such assignment shall execute and deliver to the Agent, for recording in the Register (as hereinafter defined), an Assignment and Acceptance, substantially in the form of Exhibit A hereto (an "Assignment and Acceptance"), together with any Note subject to such assignment. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five (5) Business Days after the execution thereof, (i) the assignee thereunder shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Bank hereunder, and (ii) the assigning Bank shall, to the extent provided in such assignment and upon payment to the Agent of the registration fee referred to in Section 12.3, be released from its obligations under this Agreement.

12.2 Certain Representations and Warranties; Limitations; Covenants. By executing and delivering an Assignment and Acceptance, the parties to the assignment thereunder confirm to and agree with each other and the other parties hereto as follows:

(a) other than the representation and warranty that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim, the assigning Bank makes no representation or warranty, express or implied, and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, the other Loan Documents or any other instrument or document furnished pursuant hereto or the attachment, perfection or priority of any security interest or mortgage,

(b) the assigning Bank makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Company and its Subsidiaries or any other Person primarily or secondarily liable in respect of any of the Obligations, or the performance or observance by the Company and its Subsidiaries or any other Person primarily or secondarily liable in respect of any of the Obligations of any of their obligations under this Agreement or any of the other Loan Documents or any other instrument or document furnished pursuant hereto or thereto;

60

-56-

(c) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements referred to in Section 4.1.7 and Section 5.4 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance;

(d) such assignee will, independently and without reliance upon the assigning Bank, the 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 action under this Agreement;

(e) such assignee represents and warrants that it is an Eligible Assignee;

(f) such assignee appoints and authorizes the Agent 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 the

Agent by the terms hereof or thereof, together with such powers as are reasonably incidental thereto;

(g) such assignee agrees that it will perform in accordance with their terms all of the obligations that by the terms of this Agreement are required to be performed by it as a Bank; and

(h) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance.

12.3. Register. The Agent shall maintain a copy of each Assignment and Acceptance delivered to it and a register or similar list (the "Register") for the recordation of the names and addresses of the Banks and the Commitment Percentage of, and principal amount of the Loans owing to the Banks from time to time. The entries in the Register shall be conclusive, in the absence of manifest error, and the Company, the Agent and the Banks may treat each Person whose name is recorded in the Register as a Bank hereunder for all purposes of this Agreement. The Register shall be available for inspection by the Company and the Banks at any reasonable time and from time to time upon reasonable prior notice. Upon each recordation, the assigning Bank agrees to pay to the Agent a registration fee in the sum of \$3,000.

12.4. New Notes. Upon its receipt of an Assignment and Acceptance executed by the parties to such assignment, together with each Note subject to such assignment, the Agent shall (a) record the information contained therein in the Register, and (b) give prompt notice thereof to the Company and the Banks (other than the assigning Bank). Within five (5) Business Days after receipt of such notice, each Borrowing Subsidiary, at its own expense, shall execute and

61

-57-

deliver to the Agent, in exchange for each surrendered Note, a new Note to the order of such Eligible Assignee in an amount equal to the amount assumed by such Eligible Assignee pursuant to such Assignment and Acceptance. Such new Notes shall provide that they are replacements for the surrendered Notes, shall be in an aggregate principal amount equal to the aggregate principal amount of the surrendered Notes, shall be dated the effective date of such in Assignment and Acceptance and shall otherwise be substantially the form of the assigned Notes. The surrendered Notes shall be cancelled and returned to the Company.

12.5. Participations. Each Bank may sell participations to one or more banks or other entities in all or a portion of such Bank's rights and obligations under this Agreement and the other Loan Documents; provided that (a) each such participation shall be in an amount of not less than \$5,000,000, or, if such Bank's Commitment is less than \$5,000,000, the amount of such Bank's Commitment, (b) any such sale or participation shall not affect the rights and duties of the selling Bank hereunder to the Company and (c) the only rights granted to the participant pursuant to such participation arrangements with respect to waivers, amendments or modifications of the Loan Documents shall be the rights to approve waivers, amendments or modifications that would reduce the principal of or the interest rate on any Loans, extend the term or increase the amount of the Commitment of such Bank as it relates to such participant, reduce the amount of any commitment fees to which such participant is entitled or extend any regularly scheduled payment date for principal or interest.

12.6. Disclosure. The Company agrees that in addition to disclosures made in accordance with standard and customary banking practices any Bank may disclose information obtained by such Bank pursuant to this Agreement to assignees and potential assignees hereunder; provided that such assignees or potential assignees shall agree (a) to treat in confidence such information unless such information otherwise becomes public knowledge, (b) not to disclose such information to a third party, except as required by law or legal process and (c) not to make use of such information for purposes of transactions unrelated to such contemplated assignment. In addition, the parties hereto hereby agree that any Bank may disclose information obtained by such Bank pursuant to this Agreement to participants and potential participants hereunder, provided that such information is public information. Such Bank shall not disclose any non-public information to any participant or potential participant hereunder without the Company's prior written consent. In addition, such participant or potential participant shall agree (a) to treat in confidence such information unless such information otherwise becomes public knowledge, (b) not to disclose such information to a third party, except as required by law or

legal process and (c) not to make use of such information for purposes of transactions unrelated to such contemplated participation

12.7. Assignee or Participant Affiliated with the Company. If any assignee Bank is an Affiliate of the Company, then any such assignee Bank

62

-58-

shall have no right to vote as a Bank hereunder or under any of the other Loan Documents for purposes of granting consents or waivers or for purposes of agreeing to amendments or other modifications to any of the Loan Documents or for purposes of making requests to the Agent pursuant to Section 8, and the determination of the Majority Banks shall for all purposes of this Agreement and the other Loan Documents be made without regard to such assignee Bank's interest in any of the Loans. If any Bank sells a participating interest in any of the Loans to a participant, and such participant is the Company or an Affiliate of the Company, then such transferor Bank shall promptly notify the Agent of the sale of such participation. A transferor Bank shall have no right to vote as a Bank hereunder or under any of the other Loan Documents for purposes of granting consents or waivers or for purposes of agreeing to amendments or modifications to any of the Loan Documents or for purposes of making requests to the Agent pursuant to Section 8 to the extent that such participation is beneficially owned by the Company or any Affiliate of the Company, and the determination of the Majority Banks shall for all purposes of this Agreement and the other Loan Documents be made without regard to the interest of such transferor Bank in the Loans to the extent of such participation.

12.8. Miscellaneous Assignment Provisions. Any assigning Bank shall retain its rights to be indemnified pursuant to the Agreement with respect to any claims or actions arising prior to the date of such assignment. If any assignee Bank is not incorporated under the laws of the United States of America or any state thereof, it shall, prior to the date on which any interest or fees are payable hereunder or under any of the other Loan Documents for its account, deliver to the Company and the Agent certification as to its exemption from deduction or withholding of any United States federal income taxes. Anything contained in this Section 12 to the contrary notwithstanding, any Bank may at any time pledge all or any portion of its interest and rights under this Agreement (including all or any portion of its Notes) to any of the twelve Federal Reserve Banks organized under ss.4 of the Federal Reserve Act, 12 U.S.C. ss.341. No such pledge or the enforcement thereof shall release the pledgor Bank from its obligations hereunder or under any of the other Loan Documents.

12.9. Assignment by Company. Neither the Company nor any Subsidiary shall assign or transfer any of its rights or obligations under any of the Loan Documents without the prior written consent of each of the Banks.

63

-59-

IN WITNESS WHEREOF, this Agreement has been executed by or on behalf of the parties hereto on the day first above written.

TERADYNE, INC.

By:/s/ Stuart M. Osattin _____
Title:Treasurer

THE FIRST NATIONAL BANK

OF BOSTON, individually and,

as Agent

By:/s/ Daniel G. Head, Jr. _____
Title:Vice President

BANK OF AMERICA NATIONAL

TRUST AND SAVINGS

ASSOCIATION

By:/s/ Peter Tomei_____

Title: Managing Director

STATE STREET BANK AND
TRUST COMPANY, N.A.

By:/s/ Lisa Anne Boutiette_____

Title: Vice President

FLEET BANK OF
MASSACHUSETTS, N.A.

By:/s/ Catherine M. Bruton_____

Title: Vice President

64

-60-

Schedule 1

Bank	Commitment	Commitment Percentage of Loans
The First National Bank of Boston	\$54,000,000	45.00%
Bank of America	\$39,000,000	32.50%
Fleet Bank of Massachusetts, N.A.	\$16,500,000	13.75%
State Street Bank	\$10,500,000	8.75%
Totals	\$120,000,000	100.00%

(1)MASTER LEASE AGREEMENT

THIS MASTER LEASE AGREEMENT, dated as of 8/10, 1995 ("Agreement"), between General Electric Capital Corporation, with an office at 2200 Powell Street, Suite 600, Emeryville, CA 94608-1809 (hereinafter called, together with its successors and assigns, if any, "Lessor"), and Megatest Corporation, a corporation organized and existing under the laws of the State of Delaware with its mailing address and chief place of business at 1321 Ridder Park Drive, San Jose, CA 95131, (hereinafter called "Lessee").

WITNESSETH:

I. LEASING:

(a) Subject to the terms and conditions set forth below, Lessor agrees to lease to Lessee, and Lessee agrees to lease from Lessor, the equipment ("Equipment") described in Annex A to any schedule hereto ("Schedule"). Terms defined in a Schedule and not otherwise defined herein shall have the meanings ascribed to them in such Schedule. (b) The obligation of Lessor to purchase Equipment from the manufacturer or supplier thereof ("Supplier") and to lease the same to Lessee under any Schedule shall be subject to receipt by Lessor, prior to the Lease Commencement Date (with respect to such Equipment), of each of the following documents in form and substance satisfactory to Lessor: (i) a Schedule relating to the Equipment then to be leased hereunder, (ii) a Purchase Order Assignment and Consent in the form of Annex B to the applicable Schedule, unless Lessor shall have delivered its purchase order for such Equipment, (iii) evidence of insurance which complies with the requirements of Section IX, and (iv) such other documents as Lessor may reasonably request. As a further condition to such obligations of Lessor, Lessee shall, upon delivery of such Equipment (but not later than the Last Delivery Date specified in the applicable Schedule) execute and deliver to Lessor a Certificate of Acceptance (in the form of Annex C to the applicable Schedule) covering such Equipment, and deliver to Lessor a bill of sale therefor (in form and substance satisfactory to Lessor). Lessor hereby appoints Lessee its agent for inspection and acceptance of the Equipment from the Supplier. Upon execution by Lessee of any Certificate of Acceptance, the Equipment described thereon shall be deemed to have been delivered to, and irrevocably accepted by, Lessee for lease hereunder.

II. TERM, RENT AND PAYMENT:

(a) The rent payable hereunder and Lessee's right to use the Equipment shall commence on the date of execution by Lessee of the Certificate of Acceptance for such Equipment ("Lease Commencement Date"). The term of this Agreement shall be the period specified in the applicable Schedule. If any term is extended, the word "term" shall be deemed to refer to a extended terms, and all provisions of this Agreement shall apply during any extended terms, except as may be otherwise specifically provided in writing. (b) Rent shall be paid to Lessor at its address stated above, except as otherwise directed by Lessor. Payments of rent shall be in the amount set forth in, and due in accordance with, the provisions of the applicable Schedule. If one or more Advance Rentals are payable, such Advance Rental shall be (i) set forth on the applicable Schedule, (ii) due upon acceptance by Lessor of such Schedule, and (iii) when received by Lessor, applied to the first rent payment and the balance, if any, to the final rental payment(s) under such Schedule. In no event shall any Advance Rental or any other rent payments be refunded to Lessee. If rent is not paid within ten days of its due date, Lessee agrees to pay a late charge of five cents (\$.05) per dollar on, and in addition to, the amount of such rent but not exceeding the lawful maximum, if any.

- - -----
(1) Non-standard document.

III. TAXES:

Lessee shall have no liability for taxes imposed by the United States

of America or any State or political subdivision thereof or any other jurisdiction which are on or measured by the net income of Lessor. Lessee shall report (to the extent that it is legally permissible) and pay promptly all other taxes, fees and assessments due, imposed, assessed or levied against any Equipment (or the purchase, ownership, delivery, leasing, possession, use or operation thereof), this Agreement (or any rentals or receipts hereunder), any Schedule, Lessor or Lessee by any foreign, federal, state or local government or taxing authority during or related to the term of this Agreement, including, without limitation, all license and registration fees, and all sales, use, personal property, excise, gross receipts, franchise, stamp or other taxes, imposts, duties and charges, together with any penalties, fines or interest thereon (all hereinafter called "Taxes"). Lessee shall (i) reimburse Lessor upon receipt of written request for reimbursement for any Taxes charged to or assessed against Lessor, (ii) on request of Lessor, submit to Lessor written evidence of Lessee's payment of Taxes, (iii) on all reports or returns show the ownership of the Equipment by Lessee, and (iv) send a copy thereof to Lessor.

IV. REPORTS:

(a) Lessee will notify Lessor in writing, within ten days after any tax or other lien shall attach to any Equipment, of the full particulars thereof and of the location of such Equipment on the date of such notification. (b) Lessee will within 90 days of the close of each fiscal year of Lessee, deliver to Lessor, Lessee's balance sheet and profit and loss statement, certified by a recognized firm of certified public accountants. Upon request Lessee will deliver to Lessor quarterly, within 90 days of the close of each fiscal quarter of Lessee, in reasonable detail, copies of Lessee's quarterly financial report certified by the chief financial officer of Lessee. (c) Lessee will permit Lessor, upon one business day's notice, to inspect any Equipment during normal business hours. (d) Lessee will keep the Equipment at the Equipment Location (specified in the applicable Schedule) and will promptly notify Lessor of any relocation of Equipment. Upon the written request of Lessor, Lessee will notify Lessor forthwith in writing of the location of any Equipment as of the date of such notification. (e) Lessee will promptly and fully report to Lessor in writing if any Equipment is lost or damaged (where the estimated repair costs would exceed 10% of its then fair market value), or is otherwise involved in an accident causing personal injury or property damage. (f) Within 60 days after any request by Lessor, Lessee will furnish a certificate of an authorized officer of Lessee stating that he has reviewed the activities of Lessee and that, to the best of his knowledge, there exists no default (as described in Section XI) or event which with notice or lapse of time (or both) would become such a default.

V. DELIVERY, USE AND OPERATION:

(a) All Equipment shall be shipped directly from the Supplier to Lessee. (b) Lessee agrees that the Equipment will be used by Lessee solely in the conduct of its business and in a manner complying with all applicable federal, state, and local laws and regulations. (c) LESSEE SHALL NOT ASSIGN, MORTGAGE, SUBLET OR HYPOTHECATE ANY EQUIPMENT, OR THE INTEREST OF LESSEE HEREUNDER, NOR SHALL LESSEE REMOVE ANY EQUIPMENT FROM THE CONTINENTAL UNITED STATES, WITHOUT THE PRIOR WRITTEN CONSENT OF THE LESSOR. (d) Lessee will keep the Equipment free and clear of all liens and encumbrances other than those which result from acts of Lessor.

VI. SERVICE:

(a) Lessee will, at its sole expense, maintain each unit of Equipment in good operating order, repair, condition and appearance in accordance with manufacturer's recommendations, normal

-2-

3

wear and tear excepted. Lessee shall, if at any time requested by Lessor, affix in a prominent position on each unit of Equipment plates, tags or other identifying labels showing the interest therein of Lessor. (b) Lessee will not, without the prior consent of Lessor, affix or install any accessory, equipment or device on any Equipment if such addition will impair the originally intended function or use of such Equipment. All additions, repairs, parts, supplies, accessories, equipment, and devices furnished, attached or affixed to any Equipment which are not readily removable shall be made only in compliance with applicable law, and shall become the property of Lessor. Lessee will not,

without the prior written consent of Lessor and subject to such conditions as Lessor may impose for its protection, affix or install any Equipment to or in any other personal or real property. (c) Any alterations or modifications to the Equipment that may, at any time during the term of this Agreement, be required to comply with any applicable law, rule or regulation shall be made at the expense of Lessee.

VII. STIPULATED LOSS VALUE:

Lessee shall promptly and fully notify Lessor in writing if any unit of Equipment shall be or become worn out, lost, stolen, destroyed, irreparably damaged in the reasonable determination of Lessee, or permanently rendered unfit for use from any cause whatsoever (such occurrences being hereinafter called "Casualty Occurrences"). On the rental payment date next succeeding a Casualty Occurrence (the "Payment Date"), Lessee shall pay Lessor the sum of (x) the Stipulated Loss Value of such unit calculated as of the rental payment date next preceding such Casualty Occurrence ("Calculation Date",); and (y) all rental and other amounts which are due hereunder as of the Payment Date. Upon payment of all sums due hereunder, the term of this lease as to such unit shall terminate and (except in the case of the loss, theft or complete destruction of such unit) Lessee shall be entitled to retain possession of such unit.

VIII. LOSS OR DAMAGE:

Lessee hereby assumes and shall bear the entire risk of any loss, theft, damage to, or destruction of, any unit of Equipment from any cause whatsoever from the time the Equipment is shipped to Lessee until it is returned to Lessor.

IX. INSURANCE:

Lessee agrees, at its own expense, to keep all Equipment insured for such amounts and against such hazards as Lessor may require, including, but not limited to, insurance for damage to or loss of such Equipment and liability coverage for personal injuries, death or property damage, with Lessor named as additional insured and with a loss payable clause in favor of Lessor, as its interest may appear, irrespective of any breach of warranty or other act or omission of Lessee. All such policies shall be with companies, and on terms, satisfactory to Lessor. Lessee agrees to deliver to Lessor evidence of insurance satisfactory to Lessor. No insurance shall be subject to any co-insurance clause. Lessee hereby appoints Lessor as Lessee's attorney-in-fact to make proof of loss and claim for insurance, and to make adjustments with insurers and to receive payment of and execute or endorse all documents, checks or drafts in connection with payments made as a result of such insurance policies. Any expense of Lessor in adjusting or collecting insurance shall be borne by Lessee. Lessee will not make adjustments with insurers except (i) with respect to claims for damage to any unit of Equipment where the repair costs do not exceed 10% of such unit's fair market value, or (ii) with Lessor's written consent. Said policies shall provide that the insurance may not be altered or canceled by the insurer until after thirty (30) days written notice to Lessor. Lessor may, at its option, apply proceeds of insurance, in whole or in part, to (i) repair or replace Equipment or any portion thereof, or (ii) satisfy any obligation of Lessee to Lessor hereunder.

-3-

4

X. RETURN OF EQUIPMENT:

(a) Upon any expiration or termination of this Agreement or any Schedule, Lessee shall promptly, at its own cost and expense: (i) perform any testing and repairs required to place the affected units of Equipment in the same condition and appearance as when received by Lessee (reasonable wear and tear excepted) and in good working order for their originally intended purpose; (ii) if deinstallation, disassembly or crating is required, cause such units to be deinstalled, disassembled and crated by an authorized manufacturer's representative or such other service person as is satisfactory to Lessor; and (iii) return such units to a location within the continental United States as Lessor shall direct. (b) Until Lessee has fully complied with the requirements of Section X(a) above, Lessee's rent payment obligation and all other obligations under this Agreement shall continue from month to month notwithstanding any expiration or termination of the lease term. Lessor may terminate such continued leasehold interest upon ten (10) days notice to Lessee.

XI. DEFAULT:

(a) Lessor may in writing declare this Agreement in default if: Lessee breaches its obligation to pay rent or any other sum when due and fails to cure the breach within ten (10) days; Lessee breaches any of its insurance obligations under Section IX; Lessee breaches any of its other obligations and fails to cure that breach within thirty (30) days after written notice thereof; any representation or warranty made by Lessee in connection with this Agreement shall be false or misleading in any material respect; Lessee becomes insolvent or ceases to do business as a going concern; any Equipment is illegally used; or a petition is filed by or against Lessee under any bankruptcy or insolvency laws and is not dismissed within 60 days if such petition is involuntarily filed. Such declaration shall apply to all Schedules except as specifically excepted by Lessor. (b) After default, at the request of Lessor, Lessee shall comply with the provisions of Section X(a). Lessee hereby authorizes Lessor to enter, with or without legal process, any premises where any Equipment is believed to be and take possession thereof. Lessee shall, without further demand, forthwith pay to Lessor (i) as liquidated damages for loss of a bargain and not as a penalty, the Stipulated Loss Value of the Equipment (calculated as of the rental next preceding the declaration of default), and (ii) all rentals and other sums then due hereunder. Lessor may, but shall not be required to, sell Equipment at private or public sale, in bulk or in parcels, with or without notice, and without having the Equipment present at the place of sale; or Lessor may, but shall not be required to, lease, otherwise dispose of or keep idle all or part of the Equipment; and Lessor may use Lessee's premises for any or all of the foregoing without liability for rent, costs, damages or otherwise. The proceeds of sale, lease or other disposition, if any, shall be applied in the following order of priorities: (1) to pay all of Lessor's reasonable costs, charges and expenses incurred in taking, removing, holding, repairing and selling, leasing or otherwise disposing of Equipment; then, (2) to the extent not previously paid by Lessee, to pay Lessor all sums due from Lessee hereunder; then (3) to reimburse to Lessee any sums previously paid by Lessee as liquidated damages; and (4) any surplus shall be paid to Lessee. Lessee shall pay any deficiency in (1) and (2) forthwith. (c) The foregoing remedies are cumulative, and any or all thereof may be exercised in lieu of or in addition to each other or any remedies at law, in equity, or under statute. Lessee waives notice of sale or other disposition (and the time and place thereof), and the manner and place of any advertising. If permitted by law, Lessee shall pay reasonable attorney's fees actually incurred by Lessor in enforcing the provisions of this Lease and any ancillary documents. Waiver of any default shall not be a waiver of any other or subsequent default. (d) Any default under the terms of this or any other agreement between Lessor and Lessee may be declared by Lessor a default under this and any such other agreement.

-4-

5

XII. ASSIGNMENT:

Lessor may, without the consent of Lessee, assign this Agreement or any Schedule. Lessee agrees that if Lessee receives written notice of an assignment from Lessor, Lessee will pay all rent and other amounts payable under any assigned Equipment Schedule to such assignee or as instructed by Lessor. Lessee further agrees to confirm in writing receipt of a notice of assignment as may be reasonably requested by assignee. Lessee hereby waives and agrees not to assert against any such assignee any defense, set-off, recoupment claim or counterclaim which Lessee has or may at any time have against Lessor for any reason whatsoever. Notwithstanding such assignment or any provision hereof to the contrary, Lessee may assert directly against Lessor any such claims that arise on account of any act, omission, event or occurrence that shall have taken place before such assignment.

XIII. NET LEASE; NO SET-OFF, ETC.:

This Agreement is a net lease. Lessee's obligation to pay rent and other amounts due hereunder shall be absolute and unconditional. Lessee shall not be entitled to any abatement or reductions of, or set-offs against, said rent or other amounts, including, without limitation, those arising or allegedly arising out of claims (present or future, alleged or actual, and including claims arising out of strict tort or negligence of Lessor) of Lessee against Lessor under this Agreement or otherwise. Nor shall this Agreement terminate or the obligations of Lessee be affected by reason of any defect in or damage to, or loss of possession, use or destruction of, any Equipment from whatsoever cause. It is the intention of the parties that rents and other amounts due hereunder shall continue to be payable in all events in the manner and at the

times set forth herein unless the obligation to do so shall have been terminated pursuant to the express terms hereof.

XIV. INDEMNIFICATION:

(a) Lessee hereby agrees to indemnify, save and keep harmless Lessor, its agents, employees, successors and assigns from and against any and all losses, damages, penalties, injuries, claims, actions and suits, including legal expenses ("Damages"), of whatsoever kind and nature, in contract or tort, whether caused by the active or passive negligence of Lessor or otherwise, and including, but not limited to, Lessor's strict liability in tort, arising out of (i) the selection, manufacture, purchase, acceptance or rejection of Equipment, the ownership of Equipment during the term of this Agreement, and the delivery, lease, possession, maintenance, uses, condition, return or operation of Equipment (including, without limitation, latent and other defects, whether or not discoverable by Lessor or Lessee and any claim for patent, trademark or copyright infringement or environmental damage) or (ii) the condition of Equipment sold or disposed of after use by Lessee, any sublessee or employees of Lessee. Lessee shall, upon request, defend any actions based on, or arising out of, any of the foregoing. (b) All of Lessor's rights, privileges and indemnities contained in this Section XIV shall survive the expiration or other termination of this Agreement and the rights, privileges and indemnities contained herein are expressly made for the benefit of, and shall be enforceable by Lessor, its successors and assigns. Notwithstanding any provision hereof to the contrary, Lessee shall have no obligations to indemnify Lessor against any Damages to the extent they are suffered or incurred on account of Lessor's gross negligence or willful misconduct.

XV. DISCLAIMER:

LESSEE ACKNOWLEDGES THAT IT HAS SELECTED THE EQUIPMENT WITHOUT ANY ASSISTANCE FROM LESSOR, ITS AGENTS OR EMPLOYEES. LESSOR DOES NOT MAKE, HAS NOT MADE, NOR SHALL BE DEEMED TO MAKE OR HAVE MADE, ANY WARRANTY OR REPRESENTATION, EITHER EXPRESS OR IMPLIED, WRITTEN OR ORAL,

-5-

6

WITH RESPECT TO THE EQUIPMENT LEASED HEREUNDER OR ANY COMPONENT THEREOF, INCLUDING, WITHOUT LIMITATION, ANY WARRANTY AS TO DESIGN, COMPLIANCE WITH SPECIFICATIONS, QUALITY OF MATERIALS OR WORKMANSHIP, MERCHANTABILITY, FITNESS FOR ANY PURPOSE, USE OR OPERATION, SAFETY, PATENT, TRADEMARK OR COPYRIGHT INFRINGEMENT, OR TITLE. All such risks, as between Lessor and Lessee, are to be borne by Lessee. Without limiting the foregoing, Lessor shall have no responsibility or liability to Lessee or any other person with respect to any of the following, except to the extent caused by the gross negligence or willful misconduct of Lessor (i) any liability, loss or damage caused or alleged to be caused directly or indirectly by any Equipment, any inadequacy thereof, any deficiency or defect (latent or otherwise) therein, or any other circumstance in connection therewith; (ii) the use, operation or performance of any Equipment or any risks relating thereto; (iii) any interruption of service, loss of business or anticipated profits or consequential damages; or (iv) the delivery, operation, servicing, maintenance, repair, improvement or replacement of any Equipment. If, and so long as, no default exists under this Lease, Lessee shall be, and hereby is, authorized during the term of this Lease to assert and enforce, at Lessee's sole cost and expense, from time to time, in the name of and for the account of Lessor and/or Lessee, as their interests may appear, whatever claims and rights Lessor may have against any Supplier of the Equipment.

XVI. REPRESENTATIONS AND WARRANTIES OF LESSEE:

Lessee hereby represents and warrants to Lessor that on the date hereof and on the date of execution of each Schedule: (a) Lessee has adequate power and capacity to enter into, and perform under, this Agreement and all related documents (together, the "Documents") and is duly qualified to do business wherever necessary to carry on its present business and operations, including the jurisdiction(s) where the Equipment is or is to be located. (b) The Documents have been duly authorized, executed and delivered by Lessee and constitute valid, legal and binding agreements, enforceable in accordance with their terms, except to the extent that the enforcement of remedies therein provided may be limited under applicable bankruptcy and insolvency laws. (c) No approval, consent or withholding of objections is required from any governmental

authority or instrumentality with respect to the entry into or performance by Lessee of the Documents except such as have already been obtained. (d) The entry into and performance by Lessee of the Documents will not: (i) violate any judgment, order, law or regulation applicable to Lessee or any provision of Lessee's Certificate of Incorporation or By-Laws; or (ii) result in any breach of, constitute a default under or result in the creation of any lien, charge, security interest or other encumbrance upon any Equipment pursuant to any indenture, mortgage, deed of trust, bank loan or credit agreement or other instrument (other than this Agreement) to which Lessee is a party. (e) There are no suits or proceedings pending or threatened in court or before any commission, board or other administrative agency against or affecting Lessee, which will have a material adverse effect on the ability of Lessee to fulfill its obligations under this Agreement. (f) The Equipment accepted under any Certificate of Acceptance is and will remain tangible personal property. (g) Each Balance Sheet and Statement of Income delivered to Lessor has been prepared in accordance with generally accepted accounting principles, and since the date of the most recent such Balance Sheet and Statement of Income, there has been no material adverse change in the financial condition of Lessee and its subsidiaries taken as a whole. (h) Lessee is and will be at all times validly existing and in good standing under the laws of the State of its incorporation (specified in the first sentence of this Agreement). (i) The Equipment will at all times be used for commercial or business purposes.

XVII. OWNERSHIP FOR TAX PURPOSES, GRANT OF SECURITY INTEREST; USURY SAVINGS:

-6-

7

(a) For income tax purposes, Lessor will treat Lessee as the owner of the Equipment. Accordingly, Lessor will not claim any tax benefits available to an owner of the Equipment. (b) Lessee hereby grants to Lessor a first security interest in the Equipment, together with all additions, attachments, accessions, accessories and accessions thereto whether or not furnished by the Supplier of the Equipment and any and all substitutions, replacements or exchanges therefor, and any and all insurance and/or other proceeds of the property in and against which a security interest is granted hereunder. (c) It is the intention of the parties hereto to comply with any applicable usury laws to the extent that any Schedule is determined to be subject to such laws; accordingly, it is agreed that, notwithstanding any provision to the contrary in any Schedule or the Lease, in no event shall any Schedule require the payment or permit the collection of interest in excess of the maximum amount permitted by applicable law. If any such excess interest is contracted for, charged or received under any Schedule or the Lease, or in the event that all of the principal balance shall be prepaid, so that under any of such circumstances the amount of interest contracted for, charged or received under any Schedule or the Lease shall exceed the maximum amount of interest permitted by applicable law, then in such event (a) the provisions of this paragraph shall govern and control, (b) neither Lessee nor any other person or entity now or hereafter liable for the payment hereof shall be obligated to pay the amount of such interest to the extent that it is in excess of the maximum amount of interest permitted by applicable law, (c) any such excess which may have been collected shall be either applied as a credit against the then unpaid principal balance or refunded to Lessee, at the option of the Lessor, and (d) the effective rate of interest shall be automatically reduced to the maximum lawful contract rate allowed under applicable law as now or hereafter construed by the courts having jurisdiction thereof. It is further agreed that without limitation of the foregoing, all calculations of the rate of interest contracted for, charged or received under any Schedule or the Lease which are made for the purpose of determining whether such rate exceeds the maximum lawful contract rate, shall be made, to the extent permitted by applicable law, by amortizing, prorating, allocating and spreading in equal parts during the period of the full stated term of the indebtedness evidenced hereby, all interest at any time contracted for, charged or received from Lessee or otherwise by Lessor in connection with such indebtedness; provided, however, that if any applicable state law is amended or the law of the United States of America preempts any applicable state law, so that it becomes lawful for Lessor to receive a greater interest per annum rate than is presently allowed, the Lessee agrees that, on the effective date of such amendment or preemption, as the case may be, the lawful maximum hereunder shall be increased to the maximum interest per annum rate allowed by the amended state law or the law of the United States of America.

XVIII. EARLY TERMINATION:

(a) On or after the First Termination Date (specified in the applicable Schedule), Lessee may, so long as no default exists hereunder, terminate this Agreement as to all (but not less than all) of the Equipment on such Schedule as of a rent payment date ("Termination Date") upon at least 90 days prior written notice to Lessor. (b) Lessee shall, and Lessor may, solicit cash bids for the Equipment on an AS IS, WHERE IS BASIS without recourse to or warranty from Lessor, express or implied ("AS IS BASIS"). On or prior to the Termination Date, Lessee shall (i) certify to Lessor any bids received by Lessee and (ii) pay to Lessor (A) the Termination Value (calculated as of the rental due on the Termination Date) for the Equipment, and (B) all rent and other sums due and unpaid as of the Termination Date. (c) Provided that all amounts due hereunder have been paid on the Termination Date, Lessor and Lessee shall (i) sell the Equipment on an AS IS BASIS, for cash to the highest bidder and (ii) the proceeds of such sale (net of any related expenses) shall be refunded to Lessee. If such sale is not consummated, no termination shall occur and Lessor shall refund the Termination Value (less

-7-

8

any expenses incurred by Lessor) to Lessee. (d) Notwithstanding the foregoing, Lessor may elect by written notice, at any time prior to the Termination Date, not to sell the Equipment. In that event, on the Termination Date Lessee shall (i) return the Equipment (in accordance with Section X) and (ii) pay to Lessor all amounts required under Section XVIII(b) less the amount of the highest bid certified by Lessee to Lessor.

XIX. EARLY PURCHASE OPTION:

(a) Provided that the Lease has not been earlier terminated and provided, further that Lessee is not in default under the Lease or any other agreement between Lessor and Lessee, Lessee may, UPON AT LEAST 30 DAYS BUT NOT MORE THAN 270 DAYS PRIOR WRITTEN NOTICE TO LESSOR OF LESSEE'S IRREVOCABLE ELECTION TO EXERCISE SUCH OPTION, purchase all (but not less than all) of the Equipment listed and described in any Schedule on an AS IS BASIS on any Rent Payment Date following the First Termination Date as set forth in such Schedule, and prior to the date which is the scheduled expiration of such Schedule (the "Early Purchase Date"), for a price equal to the sum of (i) the Termination Value (calculated as of the Early Purchase Date) for the Equipment, and (ii) all rent and other sums due and unpaid as of the Early Purchase Date (such sum being the "Early Option Price"), plus all applicable sales taxes. (The purchase option granted by this subsection shall be referred to herein as the "Early Purchase Option".)

(b) If Lessee exercises its Early Purchase Option with respect to the Equipment leased under any Schedule, then on the Early Purchase Date Lessee shall pay to Lessor in immediately available funds the Early Option Price, plus all applicable sales taxes.

XX. END OF LEASE OPTIONS:

So long as Lessee shall not have exercised its option to terminate this Lease pursuant to Section XVIII hereof or exercise its Early Purchase Option pursuant to Section XIX hereof, and provided that Lessee is not in default under this Lease or any other agreement between Lessor and Lessee, Lessee shall have the option, upon the scheduled expiration of the term of any Schedule, to return or to purchase, for the applicable Realized Value (as defined below), all (but not less than all) of the Equipment leased under such Schedule upon the following terms and conditions:

(a) Determination of Realized Value. The Realized Value for each item of Equipment on the Schedule shall be determined as follows:

(i) If Lessee elects to purchase the Equipment, the Realized Value of each item of Equipment shall be its Estimated Residual Value.

(ii) If Lessee elects not to purchase the Equipment, Lessee and Lessor shall arrange for the sale of such Equipment on an AS IS BASIS, provided that Lessee may not bid, directly or indirectly. Each item of Equipment shall be sold by Lessor for its then determined fair market value. If any item of Equipment is not sold within 30 days after Schedule Expiration, then Lessee and Lessor agree, in view of the uncertainties of market conditions and the parties' inability to predict what the actual sale price of such item would be, that the

Realized Value of such item shall be deemed to equal zero, for purposes of computing Lessee's liability as provided in paragraph (b) below. Upon the sale of the item at any time after the expiration of such 30 day period, Lessor will apply the Realized Value (i) to refund to Lessee, without interest, any amount which Lessee may have previously paid to Lessor with respect to such item as required under paragraph (b) and (ii) to pay to Lessee the amount by which the Realized Value exceeds the Estimated Residual Value.

-8-

9

(b) Lessee Liability. If the Realized Value of the Equipment is less than the Estimated Residual Value thereof, Lessor shall notify Lessee of such fact in writing and Lessee shall, within 10 days after receipt of such notice, pay to Lessor, as an adjustment to the rental payable under the Lease, an amount equal to the difference between the Realized Value and the Estimated Residual Value; provided, however, Lessee's Liability shall be limited to *% of Lessor's Cost of the Equipment as set forth in the Schedule.

* REFER TO TABLE I TO SCHEDULE NO. 001 ("LESSEE OBLIGATION") FOR APPLICABLE PERCENTAGES.

(c) Lessor Liability. If the Realized Value of the Equipment exceeds the Estimated Residual Value thereof, and provided that Lessee is not then in default under the Lease, Lessor shall pay to Lessee, as an adjustment to the rent payable under the Lease, an amount equal to 100% of such excess, but only to the extent Lessor actually receives the Realized Value in available funds.

(d) Definitions of Certain Terms. For purposes of this Section XX:

(i) "Equipment" means all but not less than all of the items of Equipment described on the Schedule;

(ii) "Estimated Residual Value" means **% of Lessor's Cost of the Equipment as set out on the Schedule;

** REFER TO TABLE I TO SCHEDULE NO. 001 ("LESSOR RESIDUAL RISK AMOUNT") FOR APPLICABLE PERCENTAGES.

(iii) "Realized Value" means the net proceeds realized by Lessor from sale of the Equipment after deduction of (x) expenses of such sale, if any, and (y) all sums due under the Lease as of Schedule Expiration that remain unpaid as of the date of the sale;

(iv) "Schedule Expiration" means the last day of the Basic Term of the Lease as to the Equipment.

XXI. MISCELLANEOUS:

(a) EACH OF LESSEE AND LESSOR HEREBY UNCONDITIONALLY WAIVES ITS RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF, DIRECTLY OR INDIRECTLY, THIS LEASE, ANY OF THE RELATED DOCUMENTS, ANY DEALINGS BETWEEN LESSEE AND LESSOR RELATING TO THE SUBJECT MATTER OF THIS TRANSACTION OR ANY RELATED TRANSACTIONS, AND/OR THE RELATIONSHIP THAT IS BEING ESTABLISHED BETWEEN LESSEE AND LESSOR. The scope of this waiver is intended to be all encompassing of any and all disputes that may be filed in any court (including, without limitation, contract claims, tort claims, breach of duty claims, and all other common law and statutory claims). THIS WAIVER IS IRREVOCABLE MEANING THAT IT MAY NOT BE MODIFIED EITHER ORALLY OR IN WRITING, AND THE WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS LEASE, ANY RELATED DOCUMENTS, OR TO ANY OTHER DOCUMENTS OR AGREEMENTS RELATING TO THIS TRANSACTION OR ANY RELATED TRANSACTION. In the event of litigation, this Lease may be filed as a written consent to a trial by the court.

PWE Initials

(b) Any cancellation or termination by Lessor, pursuant to the provisions of this Agreement, any Schedule, supplement or amendment hereto, or the lease of any Equipment hereunder, shall not release Lessee from any then outstanding obligations to Lessor hereunder. All Equipment shall at all times

remain personal property of Lessor regardless of the degree of its annexation to any real property and shall not by reason of any installation in, or affixation to, real or personal property become a part thereof (c) Time is of the essence of this Agreement. Lessor's failure at any time to require strict performance by Lessee of any of the provisions hereof shall not waive or diminish Lessor's right thereafter to demand strict compliance therewith. Lessee agrees, upon Lessor's request, to execute any instrument necessary or expedient for filing, recording or perfecting the interest of Lessor. All notices required to be given hereunder shall be deemed adequately given if sent by registered or certified mail to the addressee at its address stated herein, or at such other place as such addressee may have designated in writing. This Agreement and any Schedule and Annexes thereto constitute the entire agreement of the parties with respect to the subject matter hereof. NO VARIATION OR MODIFICATION OF THIS AGREEMENT OR ANY WAIVER OF ANY OF ITS PROVISIONS OR CONDITIONS, SHALL BE VALID UNLESS IN WRITING AND SIGNED BY AN AUTHORIZED REPRESENTATIVE OF THE PARTIES HERETO.

PWE Initials

(d) In case of a failure of Lessee to comply with any provision of this Agreement, Lessor shall have the right, but shall not be obligated to, effect such compliance, in whole or in part; and reasonable expenses and obligations incurred or assumed by Lessor in effecting such compliance shall constitute additional rent due to Lessor within five days after the date Lessor sends notice to Lessee requesting payment. Lessor's effecting such compliance shall not be a waiver of Lessee's default. (e) Any rent or other amount not paid to Lessor when due hereunder shall bear interest, both before and after any judgment or termination hereof, at the lesser of eighteen percent (18%) per annum or the maximum rate allowed by law. Any provisions in this Agreement and any Schedule which are in conflict with any statute, law or applicable rule shall be deemed omitted, modified or altered to conform thereto.

IN WITNESS WHEREOF, Lessee and Lessor have caused this Agreement to be executed by their duly authorized representatives as of the date first above written.

LESSOR:

LESSEE:

GENERAL ELECTRIC CAPITAL
CORPORATION

MEGATEST CORPORATION

By: /s/ DENNIS J. BICKERSTAFF

By: /s/ PAUL W. EMERY II

Name: Dennis J. Bickerstaff

Name: Paul W. Emery II

Title: Credit Manager

Title: CFO/VP

AMENDMENT NO. 01

TO

MASTER LEASE AGREEMENT
DATED AUG 10, 1995 (THE "LEASE")

BY AND BETWEEN
MEGATEST CORPORATION ("LESSEE")

AND

GENERAL ELECTRIC CAPITAL CORPORATION ("LESSOR")
DATED AUG 10, 1995

WHEREAS, Lessor and Lessee desire to amend a certain provision of the Lease as hereinafter provided;

NOW THEREFORE, for good and valuable consideration, receipt and sufficiency of which are hereby acknowledged, Lessor and Lessee hereby agree to amend the Lease by adding the following language to Section XI of the Lease:

Any declared event of default, not cured in sixty (60) days by Lessee under any loan, lease, note, contract or other monetary obligation which is now or may hereafter be in effect as to any obligee, which permits that obligee to accelerate payment of the obligation with or without first giving notice to Lessee, shall constitute a material default under this Lease. Lessee hereby agrees to notify the Lessor immediately upon receipt of any declared default by any obligee. Failure to do so shall constitute an immediate material default under this Lease.

This Amendment shall be deemed to have been entered into contemporaneously with and integrated into the terms and conditions of the Lease.

Except as set out herein, the terms and conditions of the Lease shall remain in full force and effect as entered into by the parties on or prior to the date hereof

Dated: August 10, 1995

LESSOR:

LESSEE:

GENERAL ELECTRIC CAPITAL
CORPORATION

MEGATEST CORPORATION

By: /s/ DENNIS J. BICKERSTAFF

By: /s/ PAUL W. EMERY II

Name: Dennis J. Bickerstaff

Name: Paul W. Emery II

Title: Credit Manager

Title: CFO/VP

12

(1)EQUIPMENT SCHEDULE
SCHEDULE NO. 001

DATED THIS 10TH DAY OF AUG., 1995
TO MASTER LEASE AGREEMENT

DATED AS OF AUGUST 10, 1995

LESSOR & MAILING ADDRESS:

LESSEE & MAILING ADDRESS:

GENERAL ELECTRIC CAPITAL
CORPORATION

MEGATEST CORPORATION

2200 Powell Street
Suite 600

1321 Ridder Park Drive
San Jose, CA 95131

Emeryville, CA 94608

Capitalized terms not defined herein shall have the meanings assigned to them in the Master Lease Agreement identified above ("Agreement;" said Agreement and this Schedule being collectively referred to as "Lease").

A. Equipment,

Pursuant to the terms of the Lease, Lessor agrees to acquire and lease to Lessee the Equipment listed on Annex A attached hereto and made a part hereof.

B. Financial Terms,

1. Advance Rent (if any): \$39,406.00.
2. Lessor's Cost: \$1,900,000.00.
3. Basic Term Lease Rate Factor: 2.07400%.
4. Daily Lease Rate Factor: .069133%.
5. Basic Term (No. of Months): 12.
6. Basic Term Commencement Date: 09/01/95.
7. Equipment Location: See Annex A attached hereto and made a part hereof,
8. Lessee Federal Tax ID No.: 94-2422195
9. Supplier: Megatest Corporation
10. Last Delivery Date: 08/08/95
11. First Termination Date: N/A.
12. Option Payment: see attached Table 1.

- - - - -
(1) Non-standard document.

1

13

13. Interest rate: 8.67%.

14. Lessee agrees and acknowledges that the Lessor's Cost of the Equipment as stated on the Schedule is equal to the fair market value of the Equipment on the date hereof.

C. Term and Rent,

1. Interim Rent. For the period from and including the Lease Commencement Date to the Basic Term Commencement Date ("Interim Period"), Lessee shall pay as rent ("Interim Rent") for each unit of Equipment, the product of the Daily Lease Rate Factor times the Lessor's Cost of such unit times the number of days in the Interim Period. Interim Rent shall be due on 08/31/95.

2. Basic Term Rent. Commencing on 09/01/95, and on the same day of each month thereafter (each, a "Rent Payment Date")

during the Basic Term, Lessee shall pay as rent ("Basic Term Rent") the product of the Basic Term Lease Rate Factor times the Lessor's Cost of all Equipment on this Schedule.

D. Insurance,

1. Public Liability: \$1,000,000.00, total liability per occurrence.

2. Casualty and Property Damage: An amount equal to the Stipulated Loss Value or higher.

E. Modifications and Additions to Agreement,

For purposes of this Schedule only, the Agreement is amended as follows:

1. Section I(b) of the Agreement is hereby deleted in its entirety and the following substituted in its stead:

(b) The obligation of Lessor to purchase the Equipment from Lessee and to lease the same to Lessee shall be subject to receipt by Lessor, on or prior to the earlier of the Lease Commencement Date or Last Delivery Date therefor, of each of the following documents in form and substance satisfactory to Lessor: (i) a Schedule relating to the Equipment then to be leased hereunder, (ii) a Bill of Sale, in the form of Annex B to the applicable Schedule, in favor of Lessor, (iii) evidence of insurance which complies with the requirements of Section X, and (iv) such other documents as Lessor may reasonably request. Simultaneously with the execution of the Bill of Sale, Lessee shall also execute a Certificate of Acceptance, in the form of Annex C to the applicable Schedule, covering all of the Equipment described in the Bill of Sale.

2. Section VI(a) shall be deleted and the following substituted in its stead:

(a) The parties acknowledge that this is a sale/leaseback transaction and the Equipment is in Lessee's possession as of the Lease Commencement Date.

3. Clause (b) of Section XVII is deleted in its entirety and the following substituted in its stead:

(b) Lessee grants to Lessor to secure the prompt payment and performance as and when due of all obligations and indebtedness of Lessee now existing or hereafter created pursuant to this Lease: (i) a first priority security interest in the Equipment and all additions, attachments,

2

14

accessories and accessions thereto and any and all substitutions, replacements or exchanges therefor, and all proceeds (cash and non-cash), including insurance proceeds, thereof; and (ii) to the extent the Equipment may constitute or be deemed to be Lessee's inventory, as such term is defined in the Uniform Commercial Code of any applicable jurisdiction (the "Inventory"), a first priority security interest in such Inventory, which shall mean any and all Equipment, offered or furnished under any contract of service or intended for sale or lease, any and all additions, attachments, accessories and accessions thereto, any and all substitutions, replacements or exchanges therefor, any and all leases, subleases, rentals, accounts and contracts with respect to the Equipment which may now exist or hereafter arise, together with all rights thereunder and all rental and other payments and purchase options due and to become due thereunder, any and all sales proceeds payable for such property, all insurance, bonds and/or other proceeds of the property and all returned or repossessed Equipment now or at any time or times hereafter in the possession or under the control of Lessee or Lessor; PROVIDED, HOWEVER, THAT LESSEE IS NOT AUTHORIZED TO SELL THE EQUIPMENT OR THE INVENTORY; and (iii) a first priority security interest in all accounts (as such term is defined in the Uniform Commercial Code of any applicable jurisdiction) now owned by Lessee or hereafter acquired or owned by Lessee that might arise or result from any lease or other disposition of any of the Equipment or the Inventory, including, but not limited to, any right of Lessee to payment for Equipment sold or leased or under any contract for services whether or not evidenced by an instrument or chattel paper, and whether or not such right has been earned by performance.

4. Section XX shall be deleted in its entirety and the following substituted in its stead:

XX. END OF BASIC TERM OPTIONS. At the end of the Basic Term, Lessee shall have only the options specified in this

Section XX:

(a) So long as Lessee shall not have exercised its option to terminate this Lease pursuant to Section XVIII hereof nor exercised its Early Purchase Option pursuant to Section XIX hereof, and

provided that Lessee is not then in default under this Lease or any other agreement between Lessor and Lessee, Lessee shall have the option, upon the expiration of the Basic Term of any Schedule, to renew the Lease with respect to all, but not less than all, of the Equipment leased thereunder for an additional term of twelve (12) months (the "Renewal Term") at a lease rate factor of 2.0740%. If Lessee desires to exercise this option, it shall give Lessor written notice of its election to renew not less than 90 days nor more than 180 days before the expiration of the Basic Term of such Schedule.

(b) So long as Lessee shall not have exercised its option to terminate this Lease pursuant to Section XVIII hereof nor exercised its Early Purchase Option pursuant to Section XIX hereof, nor exercised its option to renew pursuant to subparagraph (a) of this Section, and provided that Lessee is not then in default under this Lease or any other agreement between Lessor and Lessee, Lessee shall have the option, upon the expiration of the Basic Term of any Schedule, to return or to purchase, for the applicable Realized Value (as defined below), all (but not less than all) of the Equipment leased under such Schedule upon the following terms and conditions:

3

15

(1) Determination of Realized Value. The Realized Value for each item of Equipment on the Schedule shall be determined as follows:

(A) If Lessee elects to purchase the Equipment, the Realized Value of each item of Equipment shall be its Estimated Residual Value.

(B) If lessee elects not to purchase the Equipment, Lessee and Lessor shall arrange for the sale of such Equipment on an AS IS BASIS, provided that Lessee may not bid, directly or indirectly. Each item of Equipment shall be sold by Lessor for its then determined Fair Market Value. If any item of Equipment is not sold within 90 days after Schedule Expiration, then Lessee and Lessor agree, in view of the uncertainties of market conditions and the parties' inability to predict what the actual sale price of such item would be, that the Realized Value of such item shall be deemed to equal zero, for purposes of computing Lessee's liability as provided in paragraph (b) below. Upon the sale of the item at any time after the expiration of such 90 day period, Lessor will apply the Realized Value (i) to refund to Lessee, without interest, any amount which Lessee may have previously paid to Lessor with respect to such item as required under paragraph (b) and (ii) to pay to Lessee the amount by which the Realized Value exceeds the Estimated Residual Value.

(2) Lessee Liability. If the Realized Value of the Equipment is less than the Estimated Residual Value thereof, Lessor shall notify Lessee of such fact in writing and Lessee shall, within 10 days after receipt of such notice, pay to Lessor, as an adjustment to the rental payable under the Lease, an amount equal to the difference between the Realized Value and the Estimated Residual Value; provided, however, Lessee's Liability shall be limited to the applicable percentage of Capitalized Lessor's Cost listed under "Lessee Obligation" in Table 1.

(3) Lessor Liability. If the Realized Value of the Equipment exceeds the Estimated Residual Value thereof, and provided that Lessee is not then in default under the Lease, Lessor shall pay to Lessee, as an adjustment to the rent payable under the Lease, an amount equal to 100% of such excess, but only to the extent Lessor actually receives the Realized Value in available funds.

(4) Definitions of Certain Terms. For purposes of this Section XX:

(A) "Equipment" means all but not less than all of the items of Equipment described on the Schedule;

(B) "Estimated Residual Value" means the applicable percentage of Capitalized Lessor's Cost listed under "TRAC Amount" in Table I;

(C) "Realized Value" means the net proceeds realized by Lessor from sale of the Equipment after deduction of (x) expenses of such sale, if any, and (y) all sums due under the Lease as of Schedule Expiration that remain unpaid as of the date of the sale;

4

16

(D) "Schedule Expiration" means the last day of the Basic Term or applicable Renewal Term of the Lease as to the Equipment.

(5) Notice of Election. Lessee shall give Lessor written notice of its election to purchase the Equipment (or not) not less than 90 days nor more than 180 days before the expiration of the Basic Term of such Schedule.

4. Section XXI shall be added as follows:

XXI. END OF RENEWAL TERM OPTIONS. At the end of each Renewal Term, Lessee shall have only the options specified in this Section XXI:

(a) So long as Lessee shall not have exercised its option to terminate this Lease pursuant to Section XVIII hereof nor exercised its Early Purchase Option pursuant to Section XX hereof, nor exercised its purchase option pursuant to Section XX hereof, and provided that Lessee is not then in default under this Lease or any other agreement between Lessor and Lessee, Lessee shall have the option, upon the expiration of the first Renewal Term of any Schedule, to renew the Lease with respect to all, but not less than all, of the Equipment leased thereunder for an additional term of twelve (12) months at a lease rate factor of 2.07400%, and upon the expiration of the second Renewal Term to renew the Lease with respect to all, but not less than all, of the Equipment leased thereunder for an additional term of thirteen (13) months (the "Third Renewal Term"). At the end of any Renewal Term, provided that Lessee is not then in default under this Lease or any other agreement between Lessor and Lessee, Lessee may purchase all, and not less than all, of such Equipment for a cash price calculated as set out in paragraph (b) of Section XX, using the appropriate TRAC Amount from Table I for the time the option is exercised. If Lessee desires to exercise this option, it shall give Lessor written notice of its election to renew not less than 90 days nor more than 180 days before the expiration of the Basic Term of such Schedule.

(b) So long as Lessee shall not have exercised its option to terminate this Lease pursuant to Section XVIII hereof nor exercised its Early Purchase Option pursuant to Section XIX hereof, nor exercised its option to renew pursuant to subparagraph (a) of this Section, and provided that Lessee is not then in default under this Lease or any other agreement between Lessor and Lessee, Lessee shall have the option, upon the expiration of any Renewal Term of any Schedule, to return or to purchase, for the applicable Realized Value (as defined below), all (but not less than all) of the Equipment leased under such Schedule upon the terms and conditions set out in paragraph XX(b).

(c) Notwithstanding any provision hereof to the contrary, Lessee shall have no right to extend or renew the lease at the end of the Third Renewal Term.

5. Section XXII shall be added as follows:

XXII. SUBSTITUTION OF EQUIPMENT.

(a) So long as no event of default hereunder shall have occurred and be continuing, and upon not less than 90 days prior written notice from Lessee to Lessor of

5

17

Lessee's intent to substitute equipment, Lessee may at its own cost and expense, including all reasonable and documented costs and expenses of Lessor, replace any item of Equipment which may from time to time suffer a Casualty Occurrence or otherwise become worn out, inoperable or technologically obsolete for Lessee's purposes with an item of equivalent value as determined by Lessor in the reasonable exercise of its business judgment, such approval not to be unreasonably withheld. All such replacement Equipment shall be free and clear of all liens and shall be in at least as good operating condition and have a value, utility and remaining useful life at least equal to the Equipment being replaced, assuming such replaced Equipment was in the condition and repair required by the terms of this Lease.

(b) Prior to the time of any replacement of an item of Equipment pursuant to Section XVIII (a) hereof, Lessee will at its sole cost and expense, including all reasonable and documented costs and expenses of Lessor:

(i) furnish Lessor with a Bill of Sale with respect to such replacement Equipment;

(ii) cause an Equipment Schedule amendment covering such replacement Equipment to be duly executed and delivered;

(iii) furnish Lessor with such evidence of compliance with the insurance provisions of Section IX hereof with respect to such replacement Equipment as Lessor may request;

(iv) At Lessor's request furnish Lessor with a certificate of an equipment appraiser satisfactory to Lessor certifying that such replacement Equipment is new, has a value, utility and useful life at least equal to that of the Equipment replaced, assuming such replaced Equipment was in the condition required by this Lease;

(v) take such other action, including the filing of UCC financing statements as Lessor may reasonably request, in order that such replacement Equipment is duly and properly titled in Lessor and leased under this Lease.

(c) Upon satisfaction of the conditions specified in Section XXII(a) and (b) above Lessor will transfer to Lessee without recourse or warranty all of Lessor's right, title and interest in and to the replaced Equipment. Lessor shall not be required to make and may specifically disclaim any representation or warranty as to the condition of the replaced Equipment and other matters. Each replacement item of Equipment shall, after such conveyance, be deemed part of the property leased under this Lease. No such replacement shall result in any change in rent, Stipulated Loss Value, Termination Value, Contingent Rental Amount or any Fixed Purchase Price or any other amount payable

hereunder.

(d) Lessee shall be permitted to replace any number of items of Equipment in accordance with this Section XXII not more than once during any fiscal quarter during the term of this Lease.

(e) The notice required by this Section XXII shall specify the item of Equipment that is to be replaced, identify the item with which it is to be replaced setting out

the name of the manufacturer, the model number, the serial number, if available, and state the date on which the substitution is to take effect.

Except as expressly modified hereby, all terms and provisions of the Agreement shall remain in full force and effect as previously agreed by the parties. This Schedule is not binding or effective with respect to the Agreement or Equipment until executed on behalf of Lessor and Lessee by authorized representatives of Lessor and Lessee, respectively.

IN WITNESS WHEREOF, Lessee and Lessor have caused this Schedule to be executed by their duly authorized representatives as of the date first above written.

MEGATEST CORPORATION

GENERAL ELECTRIC CAPITAL

CORPORATION

By: /s/ PAUL W. EMERY, II

By: /s/ DENNIS J. BICKERSTAFF

Paul W. Emery, II

Dennis J. Bickerstaff

- - - - -
(Typed or printed name)

(Typed or printed name)

Title: CFO/VP

Title: Credit Manager

ATTEST: /s/ MEL FLANIGAN

Signature

Name: MEL FLANIGAN

Title: CORP CONTROLLER

TABLE NO. I

TO
EQUIPMENT SCHEDULE NO. 001
TO MASTER LEASE AGREEMENT

DATED AUGUST 10, 1995

TABLE 1
 (% of Equipment Cost)

LESSOR

END OF MONTH	TRAC AMOUNT	LESSEE OBLIGATION	RESIDUAL RISK AMOUNT
12	82.93%	70.94%	11.99%
24	64.32%	54.38%	9.94%
36	44.04%	36.32%	7.72%
49	20.00%	14.68%	5.32%

INITIAL: DJB

PWE

LESSOR

LESSEE

LOAN AND SECURITY AGREEMENT

SECTION 1. DEFINITIONS.

All capitalized terms which are not defined herein are defined in Rider A attached hereto and made a part hereof ("Rider A"). Accounting terms not specifically defined shall be construed in accordance with generally accepted accounting principles.

SECTION 2. AMOUNT AND TERMS OF LOANS; GRANT OF SECURITY INTEREST.

Subject to the terms and conditions hereof, CIT agrees to make Loans to Debtor from time to time, in the amount described in paragraph 2 of Rider A. Each Loan shall be evidenced by Debtor's Note, which Note shall set forth the repayment terms and Interest Rate for such Loan.

AS security for the prompt and complete payment and performance when due of all the Obligations and in order to induce CIT to enter into this Agreement and make the Loans and to extend other credit from time to time to Debtor, whether under this Agreement or otherwise, Debtor hereby grants to CIT a first priority security interest in all Debtor's right, title and interest in, to and under the Collateral.

SECTION 3. CONDITIONS OF BORROWING.

CIT shall not be required to make any Loan hereunder unless on the Closing Date thereof all legal matters with respect to, and all legal documents executed in connection with, the contemplated transactions are satisfactory to CIT and all of the following conditions are met to the satisfaction of CIT (except that (a) and (b) are required in connection with the initial Loan only): (a) CIT has received a satisfactory Secretary's Certificate certified by Debtor's Secretary or Assistant Secretary; (b) if requested by CIT, CIT shall have received the written opinion addressed to it of counsel for Debtor satisfactory to CIT as matters contained in Section 4(a)-(e), (g) and (i) hereof, and as to such other matters as CIT may reasonably request; (c) Debtor has executed and delivered to CIT the Note evidencing, and a Supplement describing the Equipment to be financed by, such Loan; (d) the Equipment being financed by such Loan has been delivered to, and accepted by, Debtor and CIT has received satisfactory evidence that the Equipment is insured in accordance with the provisions hereof and that the Cost thereof has been, or concurrently with the making of the Loan shall be, fully paid; (e) Intentionally Left Blank; (f) all filings, recordings and other actions (including the obtaining of landlord and/or mortgagee waivers) deemed necessary or desirable by CIT in order to perfect a first (and only) priority security interest in the Equipment being financed by such Loan have been duly effected, and all fees, taxes and other charges relating to such filings and recordings have been paid by Debtor; (g) the representations and warranties contained in this Agreement are true and correct with the same effect as if made on and as of such date, and no Default or Event of Default is in existence on such date or shall occur as a result of such Loan; (h) in the sole judgment of CIT, there has been no material adverse change in the financial condition, business or operations of Debtor from the date referred to in Section 4(j) hereof; (i) CIT has received from Debtor such other documents and information as CIT has reasonably requested; (j) CIT has inspected and appraised the Equipment and found it satisfactory in value and condition; and (k) CIT has received and found satisfactory Debtor's most recent quarterly financial statement.

SECTION 4. REPRESENTATIONS AND WARRANTIES.

In order to induce CIT to enter into this Agreement and to make each Loan, Debtor represents and warrants to CIT that: (a) Debtor is a corporation duly organized, validly existing and in good standing under the laws of its State of incorporation, has the necessary authority and power to own the Equipment and its other assets and to transact the business in which it is engaged, is duly qualified to do business in each jurisdiction where the Equipment is located and in each other jurisdiction in which the conduct of its business or the ownership of its assets requires such qualification, and its chief executive office is located at the address set forth in paragraph 5 of Rider A; (b) Debtor has

2

full power, authority and legal right to execute and deliver this Agreement and the Notes, to perform its obligations hereunder and thereunder, to borrow hereunder and to grant the security interest created hereby; (c) this Agreement has been (and each Note when executed and delivered shall have been) duly authorized, executed and delivered by Debtor and constitutes (and each Note when executed and delivered shall constitute) a legal, valid and binding obligation of Debtor enforceable in accordance with its terms except as such rights may be limited by bankruptcy, insolvency or other similar laws affecting the enforcement of creditors' rights generally; (d) the execution, delivery and performance by Debtor of this Agreement and the Notes do not and will not violate any provision of any applicable law or regulation or of any judgment or order of any court or governmental instrumentality, and will not violate any provision of, or cause a default under, any loan, other agreement, contract or judgment to which Debtor is a party and do not and will not require the consent, license, approval or authorization of, or registration with, any Person; (e) Debtor is not in default under any material agreement, contract or judgment to which Debtor is a party; (f) Debtor has filed all tax returns that are required to be filed and has paid all taxes as shown on said returns and all assessments received by it to the extent such taxes and assessments have become due other than those which are being contested in good faith by appropriate proceedings and as to which appropriate reserves are being maintained by Debtor in accordance with generally accepted accounting principles and so long as such proceedings operate during the pendency thereof to prevent the sale, forfeiture, or loss of the Collateral, and Debtor does not have any knowledge of any actual or proposed deficiency or additional assessment in connection therewith; (g) there is no action, audit, investigation or proceeding pending or threatened against or affecting Debtor or any of its assets which involves any of the Equipment or any of the contemplated transactions hereunder or which, if adversely determined, could have a material adverse effect on Debtor's business, operations or financial condition; (h) on each Closing Date, Debtor shall have good and marketable title to the Equipment being financed on such date and CIT shall have a perfected first (and only) Lien on such Equipment; and (i) (i) the operations of Debtor comply in all material respects with all applicable Environmental Laws; and (ii) except as disclosed to CIT, (A) none of the operations of Debtor are subject to any judicial or administrative proceeding alleging the violation of any Environmental Laws; (B) none of the operations of Debtor is the subject of an investigation to determine whether any remedial action is needed to respond to a release of any Hazardous Material into the environment; and (C) Debtor has no known material contingent liability in connection with any release of any Hazardous Material into the environment: (j) all financial statements of Debtor which have been delivered to CIT have been prepared in accordance with generally accepted accounting principles consistently applied, and present fairly Debtor's financial position as at, and the results of its operations for, the periods ended on the dates set forth on such financial statements, and there has been no material adverse change in Debtor's financial condition, business or operations since May 31, 1995, as reflected in such financial statements; and (k) Debtor has not changed its name in the last five years or done business under any other name except as previously disclosed in writing to CIT.

SECTION 5. COVENANTS.

Debtor covenants and agrees that from and after the date hereof and so long as the Commitment or any of the Notes is outstanding:

A. It will: (1) promptly give written notice to CIT of the occurrence of any Event of Loss; (2) observe all material requirements of any governmental authorities relating to the conduct of its business, to the performance of its obligations hereunder, to the use, operation or ownership of the Equipment, or to its other properties or assets, maintain its existence as a legal entity and obtain and keep in full force and effect all rights, franchises, licenses and permits which are necessary to the proper conduct of its business, and pay all fees, taxes, assessments and governmental charges or levies imposed upon any of the Equipment; (3) at any reasonable time or times, and upon reasonable notice, permit CIT or its authorized representative to inspect the Equipment and, following the occurrence and during the continuation of an Event of Default, to inspect the books and records of Debtor as they pertain to the Equipment; (4) in accordance with generally accepted accounting principles, keep proper books of record and account in which entries will be made of all dealings or transactions

in relation to its business and activities; (5) furnish to CIT the following financial statements, all in reasonable detail, prepared in accordance with generally accepted accounting principles applied on a basis consistently maintained throughout the period involved, (a) not later than 120 days after the end of each fiscal year, its consolidated balance sheet as at the end of such fiscal year, and its consolidated statements of income and consolidated statements of cash flow and all footnotes of such fiscal year together with comparative information for the prior fiscal year, audited by a "Big Six" certified public accounting firm; and (b) not later than 90 days after the end of each of the first three quarterly periods of each fiscal year, its consolidated balance

Page 2 of 6

3

sheet as at the end of such quarterly period and its consolidated statements of income and consolidated statements of cash flow for such quarterly period and for the portion of the fiscal year then ended together with comparative information for the prior comparable period, certified by its chief financial officer as fairly presenting the results of operations and financial position of Debtor for the periods then ended and as of the date thereof, respectively; (6) (i) furnish to CIT, together with the financial statements described in clauses 5(a) and 5(b) above, a statement signed by Debtor's chief financial officer certifying that Debtor is in compliance with all financial covenants contained in any documents evidencing a financial obligation to which Debtor is a party, or if Debtor is not in compliance, the nature of such noncompliance or default, and the status thereof (such statement shall set forth the actual calculations of any financial covenants and the details of any amendments or modifications of any financial covenants), and (ii) promptly, such additional financial and other information as CIT may from time to time reasonably request; (7) promptly, at Debtor's expense, execute and deliver to CIT such instruments and documents, and take such action, as CIT may from time to time reasonably request in order to carry out the intent and purpose of this Agreement and to establish and protect the rights, interest and remedies created, or intended to be created, in favor of CIT hereby, including, without limitation, the execution, delivery, recordation and filing of financing statements (hereby authorizing CIT, in such jurisdictions where such action is authorized by law, to effect any such recordation or filing of financing statements without Debtor's signature, and to file as valid financing statements in the applicable financing statement records, photocopies hereof, of the Supplements and of any other financing statement executed in connection herewith); (8) warrant and defend its good and marketable title to the Equipment, and CIT's perfected first (and only) priority security interest in the Collateral, against all claims and demands whatsoever (hereby agreeing that the Equipment shall be and at all times remain separately identifiable personal property, and shall not become part of any real estate), and will, at its expense, take such action as may be necessary to prevent any other Person from acquiring any right or interest in the Equipment; (9) at Debtor's expense, if requested by CIT in writing, attach to the Equipment a notice satisfactory to CIT disclosing CIT's security interest in the Equipment; (10) at Debtor's expense, maintain the Equipment in good condition and working order (and, where applicable, in full configuration as listed on the (i) Appraisal of Fixed Assets and Equipment, dated August 2, 1995, prepared by Asset Reliance, Inc. for Equipment located at 5301 East River Road, Suite 106, Fridley, Minnesota, and (ii) Appraisal of Fixed Assets and Equipment, dated July 28, 1995, prepared by Asset Reliance, Inc. for Equipment located at 1321 Ridder Park Drive, San Jose, California 95131-2306) and furnish all parts, replacements and servicing required therefor so that the value, condition and operating efficiency thereof will at all times be maintained, normal wear and tear excepted, and any repairs, replacements and parts added to the Equipment in connection with any repair or maintenance or with any improvement, change, addition or alteration of a permanent nature shall immediately, without further act, become part of the Equipment and subject to the security interest created by this Agreement; and (11) obtain and maintain at all times on the Collateral, at Debtor's expense, "All-Risk" physical damage and, if required by CIT, liability insurance (including bodily injury and property damage) in such amounts, against such risks, in such form and with such insurers as shall be reasonably satisfactory to CIT; provided, however, that the amount of physical damage insurance shall not be less than the then aggregate outstanding principal amount of the Notes. All physical damage insurance policies shall be made payable to CIT as its interest may appear; if liability insurance is required by CIT, the liability insurance policies shall name CIT as an additional insured. Debtor shall maintain and deliver to CIT the original certificates of insurance or other documents reasonably satisfactory to CIT prior to policy expiration or

upon CIT's request, but CIT shall bear no duty or liability to ascertain the existence or adequacy of such insurance. Each insurance policy shall, among other things, require that the insurer give CIT at least 30 days' prior written notice of any alteration in the terms of such policy or the cancellation thereof and that the interests of CIT be continued insured regardless of any breach of or violation by Debtor of any warranties, declarations or conditions contained in such insurance policy. The insurance maintained by the Debtor shall be primary with no other insurance maintained by CIT (if any) contributory.

B. Without the prior written consent of CIT, it will not: (1) sell, convey, transfer, exchange, lease or otherwise relinquish possession or dispose of any of the Collateral or attempt or offer to do any of the foregoing; (2) create, assume or suffer to exist any Lien upon the Collateral except for the security interest created hereby; (3) liquidate or dissolve; (4) change the form of organization of its business; or (5) without thirty (30) days prior written notice to CIT, change its name or its chief executive office; (6) move (or in the case of titled vehicles, change the principal base of) any of the Equipment from the location specified on the Supplement relating thereto without the prior written consent of CIT; or (7) make or authorize any improvement, change, addition or alteration to the Equipment which would impair its originally intended function or use or its value. Notwithstanding anything set forth above, CIT hereby agrees that Debtor may substitute as Collateral for items of Equipment that are redundant to Debtor's needs items of equipment of similar type and value which are in as good or better condition as the items of Equipment that are redundant to

Page 3 of 6

4

Debtor's needs, which substitute equipment must be acceptable to CIT.

SECTION 6. EVENTS OF DEFAULT; REMEDIES.

The following events shall each constitute an "Event of Default" hereunder: (a) Debtor shall fail to pay any Obligation within 5 Business Days after Debtor's receipt of notice that timely payment has not been received (whether at the stated maturity, by acceleration or otherwise); (b) any representation or warranty made by Debtor in this Agreement or in any document, certificate or financial or other statement now or hereafter furnished by Debtor in connection with this Agreement or any Loan shall at any time prove to be untrue or misleading in any material respect as of the time when made; (c) Debtor shall fail to observe any covenant, condition or agreement contained in Sections 5.A(11) or 5.B hereof or in paragraph 4(b) of Rider A; (d) Debtor shall fail to observe or perform any other covenant or condition contained in this Agreement, and such failure shall continue unremedied for a period of 30 days after the earlier of the date on which Debtor obtains knowledge of such failure or the date on which notice thereof shall be given by CIT to Debtor; (e) Debtor or any affiliate of Debtor shall default in the payment of, or other performance under, any obligation for payment or lease (whether or not capitalized) or any guarantee (i) to CIT, any affiliate of CIT or to Debtor's main bank, beyond the period of grace, if any, provided with respect thereto, or (ii) to any other Person beyond the period of grace, if any, provided with respect thereto, where such obligation or amount guaranteed is in excess of \$1,000,000.00; or (f) a complaint in bankruptcy or for arrangement or reorganization or for relief under any insolvency law is filed by or against Debtor (and when filed against Debtor is in effect for 60 days) or Debtor admits its inability to pay its debts as they mature.

If an Event of Default shall occur, CIT may, by notice of default given to Debtor, do any one or more of the following: (a) terminate the Commitment and/or (b) declare the Notes to be due and payable, whereupon the principal amount of the Notes, together with accrued interest thereon and all other amounts owing under this Agreement and the Notes, shall become immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived (and in the case of any Event of Default specified in clause (f) of the above paragraph, such acceleration of the Notes shall be automatic, without any notice by CIT). In addition, if an Event of Default shall occur and be continuing, CIT may exercise all other rights and remedies available to it, whether under this Agreement, under any other instrument or agreement securing, evidencing or relating to the Obligations, under the Code, or otherwise available at law or in equity. Without limiting the generality of the foregoing, Debtor agrees that in any such event, CIT, without demand of performance or other demand, advertisement or notice of any kind

(except the notice specified below of time and place of public or private sale) to or upon Debtor or any other Person (all and each of which demands, advertisements and notices are hereby expressly waived), may forthwith do any one or more of the following: collect, receive, appropriate and realize upon the Collateral or any part thereof, and sell, lease, assign, give an option or options to purchase or otherwise dispose of and deliver, the Collateral (or contract to do so), or any part thereof, in one or more parcels at public or private sale or sales at such places and at such prices as it may deem best, for cash or on credit or for future delivery without the assumption of any credit risk. CIT shall have the right upon any such public sale or sales, and, to the extent permitted by law, upon any such private sale or sales, to purchase the whole or any part of the Collateral so sold, free of any right or equity of redemption of Debtor, which right or equity is hereby expressly released. Debtor further agrees, at CIT's request, to assemble (at Debtor's expense) the Collateral and make it available to CIT at such places which CIT shall select, whether at Debtor's premises or elsewhere. CIT shall apply the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale (after deducting all reasonable costs and expenses of every kind incurred therein or incidental to the care, safekeeping or otherwise of any or all of the Collateral or in any way relating to the rights of CIT hereunder, including reasonable attorney's fees and legal expenses) to the payment in whole or in part of the Obligations, in such order as CIT may elect. Debtor agrees that CIT need not give more than 10 days' notice of the time and place of any public sale or of the time after which a private sale may take place and that such notice is reasonable notification of such matters. Debtor shall be liable for any deficiency if the proceeds of any sale or disposition of the Collateral are insufficient to pay all amounts to which CIT is entitled. Debtor agrees to pay all costs of CIT, including reasonable attorneys' fees, incurred with respect to collection of any of the Obligations and enforcement of any of CIT's rights hereunder. To the extent permitted by law, Debtor hereby waives presentment, demand, protest or any notice (except as expressly provided in this Section 6) of any kind in connection with this Agreement or any Collateral.

Page 4 of 6

5

SECTION 7. MISCELLANEOUS.

No failure or delay by CIT in exercising any right, remedy or privilege hereunder or under any Note shall operate as a waiver thereof, nor shall any single or partial exercise of any right, remedy or privilege hereunder or thereunder preclude any other or further exercise thereof or the exercise of any other right, remedy or privilege. No right or remedy in this Agreement is intended to be exclusive but each shall be cumulative and in addition to any other remedy referred to herein or otherwise available to CIT at law or in equity; and the exercise by CIT of any one or more of such remedies shall not preclude the simultaneous or later exercise by CIT of any or all such other remedies. No express or implied waiver by CIT of an Event of Default shall in any way be, or be construed to be, a waiver of any other or subsequent Event of Default. The acceptance by CIT of any regular installment payment or any other sum owing hereunder shall not (a) constitute a waiver of any Event of Default in existence at the time, regardless of CIT's knowledge or lack of knowledge thereof at the time of such acceptance, or (b) constitute a waiver of any Event of Default unless CIT shall have agreed in writing to waive the Event of Default.

All notices, requests and demands to or upon any party hereto shall be deemed duly given or made when sent, if given by telecopier, when delivered, if given by personal delivery or overnight commercial carrier, upon receipt, after deposit in the United States mail, certified mail, return receipt requested, addressed to such party at its address (or telecopier number) set forth in paragraph 5 of Rider A or such other address or telecopier number as may be hereafter designated in writing by such party to the other party hereto.

Debtor agrees, whether or not the contemplated transactions are consummated, (A) to pay or reimburse CIT for (i) all expenses of CIT in connection with the documentation thereof; (ii) all fees, taxes and expenses of whatever nature incurred in connection with the creation, preservation and protection of CIT's security interest in the Collateral, including, without limitation, all filing and lien search fees, payment or discharge of any taxes or Liens upon, or in respect to, the Collateral, and all other fees and expenses in connection with protecting or maintaining the Collateral or in connection with defending or prosecuting any actions, suits or proceedings arising out of, or related to, the Collateral; and (iii) all costs and expenses (including

reasonable legal fees and disbursements) of CIT in connection with the enforcement of this Agreement and the Notes, and (B) to pay, and to indemnify and hold CIT harmless from and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, judgments, suits, out-of-pocket costs, expenses (including reasonable legal expenses) or disbursements of any kind or nature whatsoever arising out of or with respect to (a) this Agreement, the Collateral or CIT's interest therein, including, without limitation, the execution, delivery, enforcement, performance or administration of this Agreement and the Notes and the manufacture, purchase, ownership, possession, use, selection, operation or condition of the Collateral or any part thereof, or (b) Debtor's violation or alleged violation of any Environmental Laws or any law or regulation relating to Hazardous Materials (the foregoing being referred to as the "indemnified liabilities"), provided, that Debtor shall have no obligation hereunder with respect to indemnified liabilities arising from the gross negligence or willful misconduct of CIT. CIT hereby agrees that the fees, costs and expenses set forth in A(i) and (ii) above shall not exceed \$2,500.00 without Debtor's prior written consent. If Debtor fails to perform or comply with any of its agreements contained in this Agreement and CIT shall itself perform, comply or cause performance or compliance, the expenses of CIT so incurred, together with interest thereon at the Late Charge Rate, shall be payable by Debtor to CIT on demand and until such payment is made shall constitute Obligations hereunder. The agreements and indemnities contained in this paragraph shall survive termination of this Agreement and payment of the Notes.

This Agreement contains the complete, final and exclusive statement of the terms of the agreement between CIT and Debtor related to the contemplated transactions, and neither this Agreement, nor any terms hereof, may be changed, waived, discharged or terminated orally, but only by an instrument in writing signed by the party against which enforcement of a change, waiver, discharge or termination is sought.

This Agreement shall be binding upon, and inure to the benefit of, Debtor and CIT and their respective successors and assigns, except that Debtor may not assign or transfer its rights hereunder or any interest herein without the prior written consent of CIT.

Headings of sections and paragraphs are for convenience only, are not part of this Agreement and shall not be deemed to affect the meaning or construction of any of the provisions hereof. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such

Page 5 of 6

6

prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability shall not invalidate or render unenforceable such provision in any other jurisdiction.

Debtor hereby authorizes CIT to correct patent errors and to fill in such blanks as serial numbers and dates herein and in the Notes, Supplements and in any document executed in connection herewith.

THIS AGREEMENT AND THE NOTES SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK. DEBTOR HEREBY IRREVOCABLY CONSENTS AND AGREES THAT ANY LEGAL ACTION IN CONNECTION WITH THIS AGREEMENT MAY BE INSTITUTED IN THE COURTS OF THE STATE OF NEW YORK, IN THE COUNTY OF NEW YORK OR THE UNITED STATES COURTS FOR THE SOUTHERN DISTRICT OF NEW YORK, AS CIT MAY ELECT, AND BY EXECUTION AND DELIVERY OF THIS AGREEMENT, DEBTOR HEREBY IRREVOCABLY ACCEPTS AND SUBMITS TO, FOR ITSELF AND IN RESPECT OF ITS PROPERTY, THE NON-EXCLUSIVE JURISDICTION OF ANY SUCH COURT, AND TO ALL PROCEEDINGS IN SUCH COURTS. DEBTOR AND CIT ACKNOWLEDGE THAT JURY TRIALS OFTEN ENTAIL ADDITIONAL EXPENSES AND DELAYS NOT OCCASIONED BY NONJURY TRIALS. DEBTOR AND CIT AGREE AND STIPULATE THAT A FAIR TRIAL MAY BE HAD BEFORE A STATE OR FEDERAL JUDGE BY MEANS OF A BENCH TRIAL WITHOUT A JURY. IN VIEW OF THE FOREGOING, AND AS A SPECIFICALLY NEGOTIATED PROVISION OF THIS AGREEMENT, DEBTOR AND CIT HEREBY EXPRESSLY WAIVE ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER THIS AGREEMENT, OR THE TRANSACTIONS RELATED HERETO, WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND DEBTOR AND CIT HEREBY AGREE AND CONSENT THAT DEBTOR OR CIT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE PARTIES HERETO TO THE

WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed and delivered by their duly authorized officers as of August 14, 1995.

CIT:
THE CIT GROUP/EQUIPMENT
FINANCING, INC.,
A NEW YORK CORPORATION

DEBTOR:
MEGATEST CORPORATION
A DELAWARE CO

By: /s/ WALTER IMPEY

By: /s/ PAUL W. EMERY, II

Title: Senior Vice President

Title: VP Finance & CFO

Page 6 of 6

7
[LOGO]

RIDER A TO
LOAN AND SECURITY AGREEMENT

DATED AUGUST 14, 1995
BETWEEN THE CIT GROUP/EQUIPMENT FINANCING, INC. ("CIT") AND
MEGATEST CORPORATION ("DEBTOR").

1. DEFINITIONS. As used in the Loan and Security Agreement, the following terms shall have the following defined meanings (applicable to both singular and plural forms), unless the context otherwise requires:

"Agreement": "hereof", "hereto", "hereunder" and words of similar meaning: the Loan and Security Agreement of even date herewith between Debtor and CIT including this Rider A and any other rider, schedule and exhibit executed by Debtor and CIT in connection herewith, as from time to time amended, modified or supplemented.

"Business Day": a day other than a Saturday, Sunday or legal holiday under the laws of the State of New York.

"Closing Date": each date on which a Loan is made.

"Code": the Uniform Commercial Code as from time to time in effect in any applicable jurisdiction.

"Collateral": the Equipment and the Proceeds thereof.

"Commitment": CIT's obligation to make Loans in the aggregate principal amount stated in paragraph 2 of this Rider A.

"Cost": with respect to any item of Equipment, the orderly liquidation value of such Equipment, which orderly liquidation value shall be set forth in the applicable Supplement.

"Default": any event which with notice, lapse of time, or both would constitute an Event of Default.

"Equipment": any and all items of property which are listed on Supplements, together with all now owned or hereafter acquired accessories, parts, repairs, replacements, substitutions, attachments, modifications, additions, improvements, upgrades and accessions of a permanent nature, to or upon such items of property.

"Environmental Laws": the Resource Conservation and Recovery Act, the Comprehensive Environmental Response, Compensation and Liability Act, any so-called "Superfund" or "Superlien" law, the Toxic Substances Control Act, or any other federal, state or local statute, law, ordinance, code, rule,

regulation, order or decree regulating, relating to, or imposing liability or standards of conduct concerning, any hazardous, toxic or dangerous waste, substance or material, as now or at any time hereafter in effect.

"Event of Default": as set forth in Section 6 of the Agreement.

"Event of Loss": with respect to any item of Equipment, (i) the actual or constructive loss or loss of use thereof, due to theft, destruction, damage beyond repair or to an extent which makes repair uneconomical, or (ii) the condemnation, confiscation or seizure thereof, or requisition of title thereto, or use thereof, by any Person.

"Hazardous Materials": any pollutant or contaminant defined as such in (or for the purposes of) any Environmental Laws including, but not limited to, petroleum, any radioactive material, and asbestos in any form or condition.

"Installment Payment Date": with respect to any Note, each date on which a regular installment of principal is due.

"Interest Rate": as set forth in paragraph 3 of this Rider A.

"Late Charge Rate": a rate per annum equal to 3% over the applicable Interest Rate, but not to exceed the highest rate permitted by applicable law.

"Liens": liens, mortgages, security interests, financing statements or other encumbrances of any kind whatsoever.

"Loan": each loan made pursuant to the Agreement.

"Note": each promissory note executed and delivered by Debtor pursuant hereto, satisfactory in form and substance to CIT.

"Obligations": all indebtedness, obligations, liabilities and performance of Debtor to CIT, now existing or hereafter incurred under, arising out of, or in connection with, the Agreement or any Note; and any and all other present and future indebtedness, obligations, liabilities and performance of any kind whatsoever of Debtor to CIT, whether direct or indirect, joint or several, absolute or contingent, liquidated or unliquidated, secured or unsecured, matured or unmatured and whether originally contracted with CIT or otherwise acquired by CIT.

Page 1 of 3

8

"Person": an individual, partnership, corporation, trust, unincorporated association, joint venture, governmental authority or other entity of whatever nature.

"Proceeds": the meaning assigned to it in the Code, and in any event, including, without limitation, (i) any and all proceeds of any insurance, indemnity, warranty or guaranty payable to Debtor from time to time with respect to any of the Equipment; (ii) any and all payments made, or due and payable from time to time, in connection with any requisition, confiscation, condemnation, seizure or forfeiture of all or any part of the Equipment by any Person; (iii) any and all accounts arising out of, or chattel paper evidencing a lease of, any of the Equipment; and (iv) any and all other rents or profits or other amounts from time to time paid or payable in connection with any of the Equipment.

"Prohibited Transaction": a transaction in which: (i) Debtor enters into any transaction of merger or consolidation where after giving effect to such merger or consolidation its tangible net worth does not equal or exceed that which existed prior to such merger or consolidation; or (ii) Debtor sells, transfers or otherwise disposes of all or any substantial part of its assets; or (iii) any Person, or group of Persons acting together, becomes or agrees to become the beneficial owner (directly or indirectly) of 50% or more of Debtor's shares of voting stock (excluding current shareholders as of the date of this Agreement owning 50% or more of Debtor's shares of voting stock).

"Supplement": each supplement executed and delivered by Debtor pursuant hereto, satisfactory in form and substance to CIT.

"Treasury Rate": with respect to any Loan made hereunder, the rate per

annum equal to the yield to maturity for the U.S. Treasury Security having a remaining term to maturity closest to 4 years as at (and shall be fixed as of) the close of business on the 3rd Business Day prior to the making of such Loan as reported on page 5 ("U.S. Treasury and Money Markets") of the information ordinarily provided by Telerate Systems Incorporated.

2. LOAN AND COMMITMENT. The aggregate principal amount of all Loans shall not exceed \$5,000,000.00. Each Loan shall be in a principal amount of not less than \$250,000.00. CIT's Commitment shall terminate on September 30, 1995.

3. INTEREST RATE. The interest rate per annum on the unpaid principal amount of each Loan shall be equal to the Treasury Rate plus 3.32%.

4. PREPAYMENT. (a) Should any item of Equipment suffer an Event of Loss, Debtor shall either (i) make a prepayment on the corresponding Note within 30 days thereafter, or (ii) substitute as Collateral for the item of Equipment which was subject to an Event of Loss an item of equipment of similar type and value which is in as good or better condition as the item which suffered an Event of Loss, and is acceptable to CIT. The amount to be prepaid shall be (i) the unpaid principal amount of such Note multiplied by a fraction the numerator of which is the Cost of the item of Equipment which suffered the Event of Loss and the denominator of which is the original Cost of all Equipment less the Cost of each item of Equipment which previously suffered an Event of Loss or for which a prepayment has otherwise previously been made (the "Prepaid Principal Amount"), and (ii) all other amounts then due and owing hereunder and under the Notes.

(b) Not less than twenty (20) Business Days prior to the date the proposed Prohibited Transaction is expected to be consummated, Debtor shall give CIT written notice of the proposed Prohibited Transaction. In the event CIT does not consent to the Prohibited Transaction and the Prohibited Transaction is nonetheless to be consummated, Debtor shall, on or prior to the date the Prohibited Transaction is to be consummated, prepay the outstanding principal under all Notes together with (1) all interest accrued thereon, and (2) all other amounts then due and owing hereunder and under the Notes.

(c) On any Installment Payment Date occurring on or after the 13th Installment Payment Date with respect to the Note executed hereunder, Debtor may, at its option, on at least 30 days' prior written notice to CIT, prepay all, or any part of, the outstanding principal under all Notes executed hereunder together with (i) interest accrued thereon to the date of prepayment, and (ii) all other amounts then due and owing hereunder or under the Notes. In addition, upon any prepayment pursuant to this paragraph 4(c), Debtor shall pay to CIT a prepayment fee in an amount equal to 3% of the principal being prepaid at month 13 and declining rateably thereafter over the remaining Loan term.

(d) Except as provided in (a), (b) or (c) of this paragraph 4, the Notes may not be prepaid in whole or in part.

Page 2 of 3

9

5. ADDRESSES FOR NOTICE PURPOSES AND DEBTOR'S CHIEF EXECUTIVE OFFICE.

CIT:	DEBTOR:
THE CIT GROUP/EQUIPMENT FINANCING, INC.	MEGATEST CORPORATION
Address: 1211 Avenue of the Americas 21st Floor New York, New York 10036	Address: 1321 Ridder Park Drive San Jose, California 95131-2306
Telecopier No. (212) 536-1385	Telecopier No. (408) 451-3202
Attention: Senior Vice President/Credit	Attention: Vice President - Finance

6. COMMITMENT FEE. CIT acknowledges receipt from Debtor of a commitment fee in the amount of \$10,000.00 (the "Commitment Fee"). CIT agrees to refund to Debtor after the expiration of the commitment period hereunder and completion by CIT of all follow-up matters related to the transactions contemplated hereby, as the refundable portion of the Commitment Fee, the amount determined in accordance with the following formula:

Refund = \$10,000.00 Aggregate principal amount of all Loans made
X hereunder - not to exceed \$5,000,000.00

\$5,000,000.00

Such refund shall be net, however, of any out-of-pocket fees, costs, disbursements and expenses incurred by CIT (not to exceed \$2,500.00) in connection with the transactions contemplated hereby. Debtor agrees that the difference, if any, between the amount of the Commitment Fee and the amount determined in accordance with the foregoing formula shall be retained by CIT. In the event no Loan is made hereunder, CIT shall retain the entire Commitment Fee.

THE PROVISIONS SET FORTH IN THIS RIDER A ARE INCORPORATED IN AND MADE A PART OF THE LOAN AND SECURITY AGREEMENT BETWEEN CIT AND DEBTOR DATED AS OF AUGUST 14, 1995.

CIT:	DEBTOR:
THE CIT GROUP/EQUIPMENT FINANCING, INC., A NEW YORK CORPORATION	MEGATEST CORPORATION, A DELAWARE CORPORATION
By: /s/ WALTER IMPEY	By: /s/ PAUL W. EMERY, II

Title: Senior Vice President

Title: VP Finance & CFO

Page 3 of 3

10

PROMISSORY NOTE

\$5,000,000.00

August 15, 1995

FOR VALUE RECEIVED, MEGATEST CORPORATION ("Debtor") promises to pay to the order of THE CIT GROUP/EQUIPMENT FINANCING, INC. ("CIT"), at such address as CIT may designate, in lawful money of the United States, the principal sum of FIVE MILLION AND 00/100 DOLLARS (\$5,000,000.00) together with interest in like money on the principal sum remaining unpaid from time to time from the date of this Note until due and payable (whether as stated, by acceleration or otherwise) at the rate of nine and .4735/100 percent (9.4735%) per annum, said principal and interest to be paid in forty-eight (48) consecutive monthly installments, commencing on September 15, 1995 with the following installments on the same day of each month thereafter until payment in full of this Note. Each such installment shall be a level payment of principal and interest in the amount of \$125,552.42. Each such installment shall be applied first to the payment of any unpaid interest on the principal sum and then to payment of principal. Interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months. Any amount not paid when due under this Note shall bear late charges thereon, calculated at the Late Charge Rate, from the due date thereof until such amount shall be paid in full. Any payment received after the maturity of any installment of principal shall be applied first to the payment of unpaid late charges, second to the payment of any unpaid interest on said principal, and third to the payment of principal.

This Note is one of the Notes referred to in the Loan and Security Agreement dated as of August 14, 1995 between Debtor and CIT (herein, as the same may from time to time be amended, supplemented or otherwise modified, called the "Agreement"), is secured as provided in the Agreement, and is subject to prepayment only as provided therein, and the holder hereof is entitled to the benefits thereof.

Terms defined in the Agreement shall have the same meaning when used in this Note, unless the context shall otherwise require.

Except as provided in the Agreement, Debtor hereby waives presentment, demand of payment, notice of dishonor, and any and all other notices or demands in connection with the delivery, acceptance, performance, default or enforcement

of this Note and hereby consents to any extensions of time, renewals, releases of any party to this Note, waivers or modifications that may be granted or consented to by the holder of this Note.

Upon the occurrence of any one or more of the Events of Default specified in the Agreement, the amounts then remaining unpaid on this Note, together with any interest accrued, may be declared to be (or, with respect to certain Events of Default, automatically shall become) immediately due and payable as provided therein.

In the event that any holder shall institute any action for the enforcement or the collection of this Note, there shall be immediately due and payable, in addition to the unpaid balance hereof, all late charges and all costs and expenses of such action, including reasonable attorneys' fees. In accordance with the provisions of the Agreement, Debtor and CIT waive trial by jury in any litigation relating to or in connection with this Note in which they shall be adverse parties, and

Page 1 of 2

11

Debtor hereby waives the right to interpose any setoff, counterclaim or defense of any nature or description whatsoever.

Debtor agrees that its liabilities hereunder are absolute and unconditional without regard to the liability of any other party, and that no delay on the part of the holder hereof in exercising any power or right hereunder shall operate a waiver thereof; nor shall any single or partial exercise of any power or right hereunder preclude other or further exercise thereof or the exercise of any other power or right.

If at any time this transaction would be usurious under applicable law, then regardless of any provision contained in the Agreement, in this Note or in any other agreement made in connection with this transaction, it is agreed that (a) the total of all consideration which constitutes interest under applicable law that is contracted for, charged or received upon the Agreement, this Note or any such other agreement shall under no circumstances exceed the maximum rate of interest authorized by applicable law and any excess shall be credited to Debtor and (b) if CIT elects to accelerate the maturity of, or if CIT permits Debtor to prepay the indebtedness described in, this Note, any amounts which because of such action would constitute interest may never include more than the maximum rate of interest authorized by applicable law and any excess interest, if any, shall be credited to Debtor automatically as of the date of acceleration or prepayment.

THIS NOTE SHALL BE GOVERNED BY, AND CONSTRUED AND INTERPRETED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF NEW YORK.

MEGATEST CORPORATION

By: /s/ PAUL W. EMERY II

Title: VP Finance & CFO

Page 2 of 2

RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.), a Delaware corporation c/o Landels,
Ripley & Diamond 350 Steuart Street

San Francisco, CA 94105-1250
Attn: Bruce W. Hyman, Esq.

DEED OF TRUST, FINANCING STATEMENT, SECURITY AGREEMENT
AND FIXTURE FILING (WITH ASSIGNMENT OF RENTS AND LEASES)

BY

MEGATEST CORPORATION, a Delaware corporation
as Trustor,

TO

CHICAGO TITLE COMPANY, a corporation,
as Trustee,

for the benefit of

SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.),

a Delaware Corporation
as Beneficiary

August 25, 1995

TABLE OF CONTENTS

	Page
GRANTING CLAUSE ONE	2
GRANTING CLAUSE TWO	2
GRANTING CLAUSE THREE	3
GRANTING CLAUSE FOUR	3
GRANTING CLAUSE FIVE	3
GRANTING CLAUSE SIX	3
GRANTING CLAUSE	3
GRANTING CLAUSE	4
GRANTING CLAUSE NINE	4
GRANTING CLAUSE	4
GRANTING CLAUSE	4
ARTICLE I	
COVENANTS AND AGREEMENTS	
1.1 Performance by Trustor	5
1.2 Payment of Taxes, Assessments, Etc.	5
A. Impositions	5
B. Installments	6
C. Receipts	6
D. Evidence of Payment	6
E. Payment by Beneficiary	6
F. Change in Law	6
G. Permitted Contest	7
H. No Lease Default	8
I. Joint Assessment	8
1.3 Insurance	8
A. Extended Coverage	8
B. Additional Coverage	8
C. Separate Insurance	9
D. Insurers;	9
Policies	10
E. Beneficiary's Right to Provide Coverage	10
F. Damage or Destruction	10
G. Trustor's Use of Proceeds	11
H. Transfer of Interest in Policies	14
1.4 Escrow Deposits	14
1.5 Care and Use of Premises	16
A. Maintenance and Repairs	16
B. Standard of Repairs	16

C.	Notice to Trustor	16
D.	Removal of Equipment	16
E.	Compliance With Laws and Insurance	17
F.	Permitted Contests	17
G.	Compliance With Instruments of Record	18
H.	Alteration of Secured Property	18
I.	Parking	18

3

J.	Entry on Secured Property	18
K.	No Consent to Alterations or Repairs	18
L.	Mechanics Liens	19
M.	Use of Secured Property by Trustor	19
N.	Use of Secured Property by Public	19
1.6	Financial Information	19
A.	Audit	19
B.	Right to Inspect Books and Records	20
1.7	Condemnation	20
A.	Beneficiary's Right to Participate in Proceedings	20
B.	Application of Condemnation Award	20
C.	Reimbursement of Costs	21
D.	Existing Obligations	21
E.	Application of Award	22
1.8	Leases	23
A.	Performance of Lessor's Covenants	23
B.	Notice of Default	23
C.	Covenants Regarding Leases	23
D.	Application of Rents	24
1.9	Assignment of Leases, Rents, Income, and Cash Collateral	24
A.	Assignment; Discharge of Obligations	24
B.	Entry Onto Secured Property; Lease of Secured Property	25
C.	License to Manage Secured Property	25
D.	Delivery of Assignments	26
E.	Indemnity	26
1.10	Further Assurances	26
A.	General; Appointment of Attorney-in-Fact	26
B.	Statement Regarding Obligations	27
C.	Additional Security Instruments	27
D.	Security Agreement	28
E.	Preservation of Trustor's Existence	31
F.	Further Indemnities	31
G.	Absence of Insurance	32
1.11	Further Sales or Encumbrances	32
A.	Continuing Ownership and Management	32
B.	Transfer or Encumbrance of Secured Property	32
C.	Acceleration of Obligations	34
D.	Wrap-Around Financing	34
1.12	Expenses	34

ARTICLE II

WARRANTIES AND REPRESENTATIONS

2.1	Warranty of Title	35
2.2	Ownership Of Improvements And Personal Property	35
2.3	No Pending Material Litigation or Proceeding; No Hazardous Materials	35

4

A.	Proceedings Affecting Trustor	35
B.	Proceedings Affecting Secured Property	36
C.	No Litigation Regarding Hazardous Materials	36
2.4	Valid Organization, Good Standing and Qualification of Trustor	36
2.5	Authorization; No Legal Restrictions on Performance	37
2.6	Compliance With Laws	37
2.7	Tax Status	38
2.8	Absence of Foreign or Enemy Status	38
2.9	Federal Reserve Board Regulations	38
2.10	Investment Company Act and Public Utility Holding Company Act	38
2.11	Exempt Status of Transactions Under Securities Act and Representations Relating Thereto	38
2.12	Employee Benefit Plans	39

ARTICLE III

DEFAULTS

3.1	Events of Default	40
-----	-----------------------------	----

ARTICLE IV

REMEDIES

4.1	Remedies	42
4.2	Expenses	45
4.3	Rights Pertaining to Sales	45
4.4	Application of Proceeds	48
4.5	Prepayment Charge	48
4.6	Environmental Defaults and Remedies	50

ARTICLE V

MISCELLANEOUS

5.1	Non-Waiver	50
5.2	Sole Discretion of Beneficiary	51
5.3	Recovery of Sums Required To Be Paid	52
5.4	Legal Tender	52
5.5	No Merger	52
5.6	Discontinuance of Actions	52
5.7	Headings	52
5.8	Notice to Parties	53
5.9	Non-Recourse	53
5.10	Successors and Assigns Included In Parties	54
5.11	Number and Gender	54
5.12	Changes and Modifications	55
5.13	Applicable Law	55
5.14	Invalid Provisions to Affect No Others	55
5.15	Usury Savings Clause	55

-iii-

5

5.16	No Statute of Limitations	56
5.17	Late Charges	56
5.18	Continuing Effectiveness	56

-iv-

6

DEED OF TRUST, FINANCING STATEMENT, SECURITY AGREEMENT
AND FIXTURE FILING (WITH ASSIGNMENT OF RENTS AND LEASES)

THIS DEED OF TRUST, FINANCING STATEMENT, SECURITY AGREEMENT AND FIXTURE FILING (WITH ASSIGNMENT OF RENTS AND LEASES) (this "Deed of Trust") is made as of the 25th day of August, 1995 by MEGATEST CORPORATION, a Delaware corporation ("Trustor"), having an office at 1321 Ridder Park Drive, San Jose, California 95131-2306 ("Trustor") in favor of CHICAGO TITLE COMPANY, a Delaware corporation ("Trustee") for the benefit of SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.), a Delaware corporation ("Beneficiary") having an office at One Sun Life Executive Park, Wellesley Hills, MA 02181.

W I T N E S S E T H :

WHEREAS, Trustor has executed and delivered to Beneficiary that certain Promissory Note (the "Note") dated the date hereof made by Trustor and payable to Beneficiary in the original principal amount of FIVE MILLION FOUR HUNDRED FIFTY THOUSAND and No/100 Dollars (\$5,450,000.00) lawful money of the United States, which Note is secured by this Deed of Trust and the terms, covenants and conditions of which Note are hereby incorporated herein and made a part hereof (the "Loan");

NOW, THEREFORE, in consideration of the sum of One Dollar (\$1.00) this day paid and other good and lawful consideration, the receipt and sufficiency of which is hereby acknowledged, Trustor does hereby irrevocably bargain, sell, transfer, grant, convey, assign and warrant to Trustee, the property described in the Granting Clauses below in order to secure the following obligations (collectively, the "Obligations"): the full and prompt payment and performance of all of the indebtedness, obligations, covenants, agreements and liabilities of Trustor to Beneficiary, together with all interest and other charges thereon, whether direct or indirect, existing, future, contingent or otherwise, due or to become due, under or arising out of or in connection with the Note, this Deed of Trust, the Absolute Assignment of Leases, Rents, Income and Cash Collateral dated the date hereof from Trustor as assignor, to Beneficiary, as assignee, (the "Assignment"), the Environmental Agreement and Indemnity (the "Indemnity"), and any other instrument now or hereafter given to evidence or secure or guaranty Trustor's obligations hereunder (the Note, this Deed of Trust, the Assignment, the Indemnity and such other instruments are herein collectively called the "Loan Documents"); and all modifications, extensions and renewals of any of the foregoing; and any and all expenses and costs of collection or enforcement, including, without limitation, attorneys' fees incurred by

Beneficiary in the collection or enforcement of any of the foregoing, or in the exercise of any of the rights or remedies under the Loan Documents or applicable law.

GRANTING CLAUSE ONE

All that tract or parcel of land more particularly described in Schedule A hereto and made a part hereof (the "Land").

GRANTING CLAUSE TWO

TOGETHER WITH, any and all buildings and real property improvements now or hereafter located or erected on the Land, including, without limitation, any and all machinery, apparatus, equipment and fixtures now or hereafter used or procured for use in connection with the operation of building utilities and/or maintenance of, any building, structure or other real property improvement (including, without limitation, all shades, awnings, venetian blinds, screens, screen doors, storm doors and windows, curtain fixtures, attached floor coverings, or articles used to supply sprinkler protection and office area heating, ventilation and cooling equipment, but excluding trade fixtures and personal property of tenants under Leases (as hereinafter defined) which do not become the property of Trustor upon expiration or termination of the term of such Leases), and all renewals and replacements thereof and articles in substitution therefor used or procured for use in the operation of any and all such buildings, structures and improvements, provided, in all cases, that, whether or not any of the foregoing are attached to said buildings, structures or other improvements in any manner, all such items shall be deemed to be fixtures, part of the real estate and security for the obligations (collectively, the "Improvements", and the Land and Improvements are herein collectively called the "Premises"). Notwithstanding anything to the contrary herein or in any other Loan Document the term "Improvements" shall not include and in no event shall Beneficiary have any lien, interest or other right whatsoever in any item of process heating, ventilating, cooling, plumbing, or electrical equipment, communications equipment, production machinery or equipment, moveable partitions, or any other equipment, machinery, inventory, furniture or fixtures located within the building improvements which may be removed from the Premises without any material permanent damage to the Premises or the building systems thereof. Upon request Beneficiary shall execute such documents as Trustor shall reasonably request to evidence the foregoing to any prospective purchaser or lender of Trustor of such property. To the extent any of the Improvements are not deemed real estate under the laws of the State of California they shall be deemed personal property ("Personal Property") and this Deed of Trust is and shall be deemed to be a

-2-

7

Security Agreement for the purposes of creating hereby a security interest under the California Commercial Code in Beneficiary as Secured Party in the Personal Property as hereinafter provided.

GRANTING CLAUSE THREE

TOGETHER WITH, all easements, rights-of-way, strips and gores of land, streets, ways, alleys, passages, sewer rights, waters, water courses, water rights and powers, and all estates, rights, titles, interests, privileges, liberties, tenements, hereditaments, air rights, development rights and credits and appurtenances of any nature whatsoever, in any way belonging, relating or pertaining to, or above or below the Premises.

GRANTING CLAUSE FOUR

TOGETHER WITH, all right, title and interest of Trustor, now owned or hereafter acquired, in and to any land lying within the right-of-way of any street, opened or proposed, adjoining the Premises, and any and all sidewalks, alleys and strips and gores of land adjacent to or used in connection with the Premises.

GRANTING CLAUSE FIVE

TOGETHER WITH, all right, title and interest of Trustor in and to all options to purchase or lease the Premises or any portion thereof or interest therein, and any greater estate in the Premises owned or hereafter acquired by Trustor.

GRANTING CLAUSE SIX

TOGETHER WITH, all the estate, interest, right, title and other claim

or demand which Trustor now has or may hereafter acquire in any and all awards or payments made for the taking by eminent domain, or by any proceeding or purchase in lieu thereof, of the whole or any part of the Premises, including, without limitation, any awards resulting from a change or grade of streets and awards for severance damages to the Secured Property together, in all cases, with any interest thereon.

GRANTING CLAUSE SEVEN

TOGETHER WITH, all proceeds of and any unearned premiums on any insurance policies covering the Premises, including, without limitation, the right to receive and apply the proceeds of any insurance or judgments, or settlements made in lieu thereof, for damage to the Premises.

-3-

8

GRANTING CLAUSE EIGHT

TOGETHER WITH, all the estate, interest, right, title and other claim or demand which Trustor now has or may hereafter acquire against anyone with respect to any damage to all or any part of the Premises, including, without limitation, damage arising or resulting from any defect in or with respect to the design or construction of all or any part of the Improvements.

GRANTING CLAUSE NINE

TOGETHER WITH, all deposits or other security or advance payments, including rental payments, made by or on behalf of Trustor to others in connection with the ownership or operation of all or any part of the Premises including, without limitation, any such deposits or payments made with respect to (i) insurance policies, (ii) utility service, (iii) cleaning, maintenance, repair or similar services supplied for the Premises, (iv) refuse removal or sewer service, (v) rental of equipment, if any, used by or on behalf of Trustor, and (vi) parking or similar services or rights.

GRANTING CLAUSE TEN

TOGETHER WITH, all remainders, reversions, leasehold estate, other estate, right, title, interest and other claim or demand of Trustor in and to all leases or subleases covering the Premises or any portion thereof now or hereafter existing or entered into, and all right, title and interest of Trustor thereunder, including, without limitation, all cash or security deposits, advance rentals and deposits or payments of similar nature (including, without limitation, termination payments, damages or other payments in lieu thereof).

GRANTING CLAUSE ELEVEN

TOGETHER WITH, absolutely and presently, all rents, issues, profits, cash collateral, royalties, income and other benefits, including, without limitation, benefits accruing from all present and future oil, gas and mineral leases and agreements derived from the Premises (collectively, the "Rents"), subject to the right, power and authority hereinafter given to Trustor as a licensee to collect and apply such Rents prior to the occurrence of an Event of Default. The foregoing Premises, Personal Property and the real property and personal property rights set forth in Granting Clause Three through Granting Clause Eleven inclusive, hereinabove described or mentioned are hereinafter collectively referred to as the "Secured Property".

-4-

9

TO HAVE AND TO HOLD the Secured Property unto Trustee, its successors and assigns, in trust, for the benefit of Beneficiary, its successors and assigns, subject, however, to the terms, covenants and conditions contained herein.

PROVIDED, HOWEVER, if Trustor shall pay or cause to be paid to Beneficiary in full the Obligations, at the times and in the manner stipulated in the Loan Documents, and shall keep, perform and observe all and singular the covenants and promises of Trustor in the Loan Documents, then this Deed of Trust

and all the properties, interests and rights hereby granted, encumbered, transferred or assigned shall be released by Trustee and/or Beneficiary in accordance with the laws of the State of California.

ARTICLE I

COVENANTS AND AGREEMENTS

Trustor hereby covenants and agrees for the benefit of Beneficiary and Trustee as follows:

1.1 Performance by Trustor. Trustor shall pay the Obligations evidenced by the Note to Beneficiary and shall keep and perform each and every other Obligation.

1.2 Payment of Taxes, Assessments, Etc.

A. Impositions. Trustor shall pay when due and payable, before any fine, penalty, interest or cost for the non-payment thereof may be added thereto, all taxes, assessments, water and sewer rents, rates and charges, transit taxes, county taxes, charges for public utilities, excises, levies, vault and all other license and permit fees and other governmental charges, general and special, ordinary and extraordinary, unforeseen and foreseen, of any kind and nature whatsoever which at any time prior to or during the term of this Deed of Trust may be assessed, levied, confirmed, imposed upon or become due and payable out of or in respect to, or become a lien on, the Secured Property or any part thereof or any appurtenance thereto, prior to or on a parity with the obligations or the lien of this Deed of Trust, as the case may be (all such taxes, assessments, water and sewer rents, rates and charges, transit taxes, county taxes, charges for public utilities, excises, levies, vault and all other license and permit fees and other governmental charges including all interest, penalties, costs and charges accrued or accumulated thereon, are herein collectively called "Impositions", and individually, an "Imposition").

-5-

10

B. Installments. Notwithstanding anything to the contrary contained in subsection A of this Section 1.2, if by law any Impositions may at the option of the taxpayer be paid in installments (whether or not interest shall accrue on the unpaid balance of such Impositions), Trustor may exercise the option to pay the same (and any accrued interest on the unpaid balance of such Impositions) in installments and, in such event, shall pay such installments as the same respectively become due and before any fine, penalty, further interest or cost may be added thereto.

C. Receipts. Trustor, upon request of Beneficiary, will furnish to Beneficiary within five (5) days after the date when any Imposition would become delinquent, official receipts of the appropriate taxing authority, or other evidence reasonably satisfactory to Beneficiary evidencing the payment thereof.

D. Evidence of Payment. The certificate, advice or bill issued by the appropriate official (designated by law either to make or issue the same or to receive payment of any Imposition) of non-payment of an Imposition shall be prima facie evidence that such Imposition is due and unpaid at the time of the making or issuance of such certificate, advice or bill. Trustor agrees to pay Beneficiary, on demand, all charges, costs and expenses of every kind incurred by Beneficiary in connection with obtaining evidence satisfactory to Beneficiary that the payment of all Impositions is current and that there is no Imposition due and owing or which has become or given rise to a lien on the Secured Property or any part thereof or any appurtenance thereto.

E. Payment by Beneficiary. Subject to subsection G of this Section 1.2, if Trustor shall fail to pay any Imposition in accordance with the provisions of this Section 1.2, Beneficiary may, at its option (but shall be under no obligation to do so), pay such Imposition and Trustor will repay to Beneficiary on demand any amount so paid by Beneficiary, with interest thereon at the rate of five percent (5%) per annum greater than the interest rate set forth in the Note (the "Increased Rate") to the date of repayment and all such amounts shall be secured by this Deed of Trust. In no event shall the Increased Rate be greater than the highest applicable interest rate permissible by law, if

any.

F. Change in Law. In the event of the passage after the date of this Deed of Trust of any law of the State of California deducting the Obligations from the value of the Secured Property or any part thereof for the purpose of taxation or resulting in any lien thereon, or changing in any way the laws now in force for the taxation of this Deed of Trust or the Obligations for state or local purposes, or the manner of the

-6-

11

operation of any such taxes so as to affect the interest of Beneficiary, then, and in such event, Trustor shall bear and pay the full amount of such taxes, provided that if for any reason payment by Trustor of any such new or additional taxes would be unlawful or if the payment thereof would constitute usury or render the loan or Obligations wholly or partially usurious under any of the terms or provisions of the Note, this Deed of Trust or otherwise, Beneficiary may, at its option, declare the whole sum secured by this Deed of Trust with interest thereon to be immediately due and payable, or Beneficiary may, at its option, pay that amount or portion of such taxes as renders the loan or obligations unlawful or usurious, in which event Trustor shall concurrently therewith pay the remaining lawful and non-usurious portion or balance of said taxes.

G. Permitted Contest. Provided that Trustor shall not be in default under any of the Loan Documents, Trustor shall have the right to contest the amount or the validity, in whole or in part, of any Imposition by appropriate proceedings diligently conducted in good faith. Notwithstanding the provisions of this Section 1.2, but subject to the provisions of subsection 1.2H, Trustor may postpone or defer payment of such Imposition if Trustor, on or before the due date thereof, shall (1) deposit or cause to be deposited with Beneficiary a surety bond issued by a surety company of recognized responsibility acceptable to Beneficiary conditioned upon and securing the payment in full of such Imposition, pending the determination of such contest, or (2) deposit or cause to be deposited with Beneficiary an amount equal to one hundred (100%) percent of such Imposition or any balance thereof remaining unpaid, and from time to time, but not more frequently than quarterly, deposit amounts in order to keep in deposit at all such times an amount equal to one hundred (100%) percent of the Imposition remaining unpaid, or (3) furnish or cause to be furnished to Beneficiary other security reasonably satisfactory to Beneficiary. If such deposit is made or such security furnished and Trustor continues in good faith to contest the validity of such Imposition by appropriate legal proceedings which shall operate to prevent the collection of such Imposition so contested and the sale of the Secured Property or any part thereof to satisfy such Imposition, Trustor shall be under no obligation to pay such Imposition until such time as it has been finally determined to be a valid lien on the Secured Property. Upon termination of any such proceedings, Trustor shall pay in full the amount of such Imposition or part thereof as shall have been finally determined in such proceedings together with any liabilities in connection therewith. Beneficiary shall have the full power and authority to apply or require the application of any amounts that may have been deposited pursuant to this subsection 1.2G to payment of any unpaid Imposition without liability, however, for any failure to apply any amount so

-7-

12

deposited unless Trustor or the person making such deposit had requested in writing the application of such amount to the payment of the particular Imposition with respect to which it was deposited in which event Beneficiary shall apply such amounts in accordance with such request. Any surplus remaining in the hand of the Beneficiary after the Imposition for which the deposit was made has been paid in full shall be repaid to Trustor or the person making such deposit unless Trustor shall be in default under any of the Loan Documents, and in case of such default such surplus shall be applied to cure such default, and the remainder of such surplus, if any, shall be repaid to Trustor.

H. No Lease Default. If contesting the validity or amount of any Imposition shall cause a breach of any of the terms, conditions or covenants required to be performed by Trustor as lessor under any Lease (as

hereinafter defined), then Trustor shall not have the right to contest the same as provided in subsection 1.2G, and payment of such Imposition shall be made pursuant to subsection 1.2A of this Section 1.2.

I. Joint Assessment. Trustor covenants and agrees not to suffer, permit or initiate the joint assessment of the Premises and Personal Property, or any other procedure whereby the lien of the personal property taxes shall be assessed or levied or charged to the Secured Property together with real property taxes.

1.3 Insurance.

A. Extended Coverage. Trustor, at its sole cost and expense, shall keep the Personal Property and the Improvements insured during the term of this Deed of Trust against loss or damage by fire and against loss or damage by other risks now embraced by "Extended Coverage," so called, in amounts, forms and substance satisfactory to Beneficiary, but in no event shall the amounts be less than the greater of (1) 100% of the full replacement cost of the Personal Property and the Improvements, including work performed for tenants, without deduction for depreciation; (2) the amounts required to prevent any insured from becoming a co-insurer; or (3) the amounts required under any Lease.

B. Additional Coverage. Trustor, at its sole cost and expense, shall also maintain:

(1) Personal injury and property damage liability

insurance against claims for bodily injury, death or property damage, occurring on, in or about the Secured Property or in or about the adjoining streets, sidewalks and passageways; such insurance to afford protection, during the term of this Deed of

-8-

13

Trust, in amounts and in form and substance reasonably satisfactory to Beneficiary;

(2) If there are any Leases, rent or business

interruption insurance in an amount equal to one year's aggregate rentals (including, without limitation, minimum rentals, escalation charges, percentage rents, based on sales projections acceptable to Beneficiary, and other additional rentals, and any other amounts payable by tenants or other occupants under Leases or otherwise) payable by all tenants and other occupants at the Premises, which amount shall be increased from time to time upon the leasing of space at the Premises or upon the increase in aggregate rentals (including the other items referred to above);

(3) War risk insurance upon the building and other

Improvements as and when such insurance is obtainable from the United States of America or any agency or instrumentality thereof for the maximum amount of insurance obtainable;

(4) Such other insurance, including, without

limitation, all risk in such amounts and in form and substance as may from time to time be reasonably required by Beneficiary against other insurable hazards, including, but not limited to, malicious mischief, vandalism, windstorm, nuclear reaction or radioactive contamination, which at the time are commonly insured against and generally available in the case of premises similarly situated, due regard being or to be given to the height and type of Improvement, its location, construction, use and occupancy;

(5) If the Improvements are located in a flood

hazard area, flood insurance on the Improvements in an amount equal to the lesser of "full replacement cost" thereof or the maximum amount of insurance obtainable; and

(6) Insurance against loss or damage from (a)

leakage of sprinkler systems and (b) explosion of steam boilers, air conditioning equipment, pressure vessels or similar apparatus now or hereafter installed in or on the Premises in such amounts as Beneficiary shall from time to time require.

(7) Trustor shall pay all premiums and other

charges required to maintain or replace Beneficiary's title insurance policy insuring the lien of this Deed of Trust in an amount equal to the Obligations.

C. Separate Insurance. Trustor shall not carry separate insurance, concurrent in kind or form, and contributing, in the event of loss, with any insurance required hereunder. Trustor may, however, effect for its own account any insurance not required under the provisions of this Deed of Trust but any

-9-

14

such insurance effected by Trustor on the Secured Property whether or not required under this Section 1.3 shall be for the mutual benefit of Trustor and Beneficiary, as their respective interests may appear, and shall be subject to all other provisions of this Section 1.3.

D. Insurers; Policies. All insurance provided for in this Section 1.3 shall be effected under valid and enforceable policies issued by financially responsible insurers authorized to do business in the State of California, which are approved in writing by Beneficiary. All such policies shall be deposited with and held by Beneficiary. All casualty insurance policies and rent insurance policies shall be payable to Beneficiary pursuant to a standard non-contributory mortgage endorsement in favor of Beneficiary, and such policies shall contain a waiver of subrogation endorsement, all in form and content satisfactory to Beneficiary. All original policies shall contain a provision that such policies will not be canceled or materially amended, which term shall include any reduction in the scope or limits of coverage, without at least thirty (30) days' prior written notice to Beneficiary. Not less than thirty (30) days prior to the expiration dates of the policies theretofore furnished pursuant to this Deed of Trust, originals of the policies bearing notations evidencing the payment of premiums or accompanied by other evidence satisfactory to Beneficiary of such payment, shall be delivered by Trustor to Beneficiary. In the event of a change in ownership of the Secured Property immediate notice thereof shall be delivered to all insurers by Trustor.

E. Beneficiary's Right to Provide Coverage. In the event Trustor fails to provide, maintain, keep in force or deliver and furnish to Beneficiary the original policies of insurance required by this Section 1.3, Beneficiary may, at its sole option, procure such insurance and Trustor will pay all premiums thereon promptly upon demand by Beneficiary with interest thereon at the Increased Rate to the date of repayment and all such amounts shall be secured by this Deed of Trust.

F. Damage or Destruction. After the happening of any casualty to the Secured Property or any part thereof, Trustor shall give prompt written notice thereof to Beneficiary and the following shall apply:

(1) In the event of any damage or destruction of

all or any part of the Secured Property, all proceeds of insurance shall be payable to Beneficiary, and Trustor hereby authorizes and directs any affected insurance company to make payment of such proceeds directly to Beneficiary. Insurance proceeds held by Beneficiary may be commingled with other funds in Beneficiary's possession, shall constitute additional security

-10-

15

for the Obligations and Trustor shall not be entitled to the payment of interest thereon. So long as no Event of Default exists, Trustor is hereby authorized and empowered by Beneficiary, subject to the approval of Beneficiary, to settle, adjust or compromise any claims for loss, damage or destruction under any policy

or policies of insurance; provided, however, that Trustor shall give notice to and consult with Beneficiary prior to any such action.

(2) In the event of any such damage or destruction, subject to subsection 1.3G Beneficiary shall have the option in its sole and absolute discretion and without regard to the adequacy of its security hereunder, of applying all or part of the insurance proceeds (a) to the repayment of principal, whether or not then due, in the inverse order of maturity, or (b) to the repair or restoration of the Secured Property, or (c) to cure any then current default under any of the Loan Documents, or (d) to reimburse the Beneficiary for its costs and expenses in connection with the recovery of such insurance proceeds, or (e) any combination of the foregoing.

(3) Nothing herein contained shall be deemed to excuse Trustor from repairing or maintaining the Secured Property as provided in Section 1.5 hereof or restoring all damage or destruction to the Secured Property, regardless of whether there are insurance proceeds available or whether such proceeds are sufficient in amount; provided, however, if Beneficiary elects to apply all of the proceeds to repayment of principal as set forth in subsection (2) above, Trustor shall be excused from such restoration.

G. Trustor's Use of Proceeds.

(1) Notwithstanding the provisions of Section 1.3(F)(2) above (except for any destruction which occurs during the last six (6) months of the loan term), upon full satisfaction of all of the conditions set forth below, the insurance proceeds shall be made available to Trustor for repair and restoration after deducting and payment to Beneficiary of Beneficiary's costs of collection and disbursement of such proceeds (which costs shall not include Beneficiary's overhead or the compensation of Beneficiary's employees), provided:

(a) The proceeds are deposited with Beneficiary;

(b) No default shall have occurred and be continuing under the terms of any of the Loan Documents;

-11-

16

(c) The insurance carrier does not deny liability to any named insured;

(d) If Beneficiary so requests, Beneficiary is furnished with an estimate of the cost of restoration accompanied by a certificate of an architect or registered engineer approved by Beneficiary ("Beneficiary's Architect") as to such costs;

(e) The value of the Secured Property so restored or rebuilt shall be at least equal to what was originally erected;

(f) Trustor furnishes Beneficiary with evidence reasonably satisfactory to Beneficiary that all Improvements to be restored and/or reconstructed and their use shall fully comply with all (i) applicable easements, covenants, conditions, restrictions or other private agreements affecting the Premises, (ii) zoning and building laws, ordinances and regulations and (iii) all other applicable federal, state and municipal laws, regulations and requirements;

(g) If the estimated cost of reconstruction exceeds the proceeds available, at Beneficiary's option, Trustor shall (i) furnish a bond of completion or provide such other evidence satisfactory to Beneficiary of Trustor's ability to meet such excess costs or (ii) deposit with Beneficiary additional funds equal to such

excess;

(h) If such damage is in excess of \$10,000, Beneficiary shall have received notice of destruction caused by such fire or other hazard from the Trustor within ten (10) days from the date thereof, which notice shall state the date of such fire or other hazard and a request to Beneficiary to make the insurance proceeds available to Trustor; and

(i) Beneficiary shall have reasonably determined that such damage or destruction is fully reparable prior to the Maturity Date (as defined in the Note).

(2) Disbursement of the proceeds during the course

of reconstruction shall be conditioned upon the certification of Beneficiary's Architect as to the cost of the

-12-

17

work done and the conformity of the work to plans and specifications approved by Beneficiary, and evidence supplied by a title insurance company acceptable to Beneficiary that there are no liens arising out of the reconstruction or otherwise. Notwithstanding the above, a portion of the proceeds may be released prior to the commencement of reconstruction to pay for items approved by Beneficiary in its sole discretion. Disbursements shall be made within ten (10) business days after a request by Trustor. No payment made prior to the final completion of work shall exceed ninety percent (90%) of the value of the work performed from time to time, and at all times the undisbursed balance of said proceeds remaining with the Beneficiary must be at least sufficient to pay for the cost of completion of the work free and clear of liens. Final payment shall be upon a certification of Beneficiary's Architect as to completion in accordance with plans and specifications approved by Beneficiary.

(3) At such time as Beneficiary's Architect shall

certify to Beneficiary that the damaged or destroyed portion of the Secured Property has been put in a state of repair equivalent to or better than that existing prior to the date of such fire or other casualty, the work shall be deemed completed. With Beneficiary's prior written consent, which may be granted or withheld in Beneficiary's sole discretion, any certification required to be made by an architect or registered engineer may be made by a reputable contractor approved by Beneficiary. The balance of the insurance proceeds so deposited with Beneficiary after full disbursement in accordance with subsection 1.3G, at the sole option of Beneficiary, shall be either (a) returned to Trustor, it being understood that such obligation or reimbursement shall not exceed the amount of insurance proceeds for such restoration and/or repair, or (b) applied to the payment of installments of the Obligations in inverse order of maturity whether or not such installments shall be due and payable.

(4) In all cases where any destruction to the

Secured Property by fire or other casualty occurs during the last six (6) months of the loan term, or in Beneficiary's reasonable judgment, Trustor is not proceeding with the repair or restoration in a manner that would entitle Trustor to have the proceeds disbursed to it, or for any other reason Beneficiary determines in its reasonable judgment that Trustor shall not be entitled to such proceeds pursuant to the terms of this Deed of Trust, Beneficiary shall have the options set forth in subsection F(2) above.

(5) Under no circumstances shall Beneficiary

become personally liable for the fulfillment of the terms,

-13-

18

covenants and conditions contained in any of the Leases or obligated to take any action to restore the Secured Property.

H. Transfer of Interest in Policies. In the event of foreclosure of this Deed of Trust or other transfer of title or assignment of the Secured Property in extinguishment, in whole or in part, of the Obligations, all right, title and interest of Trustor in and to all policies of insurance required by this Section 1.3 shall inure to the benefit of and pass to the successor in interest to Trustor or the purchaser or grantee of the Secured Property. If any claim under any insurance policy shall be paid after the extinguishment of the Obligations, and if such foreclosure of this Deed of Trust, or other transfer of title to or assignment of the Secured Property, shall have resulted in extinguishing the Obligations for an amount less than the total of the amount of the unpaid Obligations, with interest thereon at the Increased Rate, plus counsel fees, costs and other disbursements incurred by Beneficiary at the time of the extinguishment of the Obligations, then the portion of the payment in satisfaction of the claim which is equal to the difference between the total amount above referred to and the amount theretofore paid to Beneficiary shall belong to and be the property of Beneficiary and shall be paid to said Beneficiary, and Trustor hereby assigns, transfers and sets over to Beneficiary all of Trustor's right, title and interest in and to said sum. The balance, if any, shall be paid to Trustor. Notwithstanding the above, Trustor shall retain an interest in the insurance policies above-described during any redemption period.

1.4 Escrow Deposits. To further secure the payment of the Impositions and the premiums for the insurance required by this Deed of Trust, Trustor will deposit with Beneficiary, or its designee, on the due date of each monthly installment of principal and interest under the Note, a sum which shall be equal to one-twelfth (1/12) of the annual total of the Impositions and such insurance premiums required to pay the next installment of Impositions or insurance premiums, as estimated by Beneficiary, one month prior to the date when such Impositions and insurance premiums shall become due and payable. Such deposits shall be held by Beneficiary, or its designee, without obligation for the payment of interest thereon to Trustor, free of any liens or claims on the part of creditors of Trustor and as a part of the security of Beneficiary, and shall be used by Beneficiary, or its designee, to pay current Impositions and insurance premiums as the same shall become payable. Said deposits shall not be, nor be deemed to be, trust funds but may, be commingled with general funds of Beneficiary, or its designee. If at any time and for any reason Beneficiary determines that said deposits are insufficient to pay the Impositions and insurance premiums in

-14-

19

full as they become payable, Trustor will deposit with Beneficiary, or its designee, within ten (10) days after demand therefor, such additional sum or sums as may be required in order for Beneficiary, or its designee, to pay such Impositions and insurance premiums in full. It shall be the responsibility of Trustor to furnish bills to Beneficiary in sufficient time for Beneficiary to pay the Impositions and insurance premiums before any penalty attaches and before the policies lapse. Transfer of legal title to the Secured Property shall automatically transfer to the new owner of the beneficial interest in all sums deposited under the provisions of this Section 1.4.

This Section 1.4 is intended to provide additional security for the payment of all amounts now and in the future payable for the items set forth above. To that end, Trustor hereby grants, pledges, transfers and assigns to Beneficiary a continuing security interest in and right of set-off against the following, whether now existing or hereafter acquired or arising: all right, title and interest, in, to and under (i) all instruments, securities, documents, accounts, general intangibles, money, and other property and contents therein and thereof, and all rights relating thereto and proceeds therefrom and thereof, including, without limitation, the deposits made into any account from time to time at any time or from time to time in the possession or control of the agent of Beneficiary, (ii) all books and records relating to the types and items of property described in the foregoing clause (i), and (iii) all proceeds (whether cash or non-cash, and including, without limitation, insurance proceeds) and products of the property described in the foregoing clause (i), and all replacements and substitutions therefor and all additions and accessions thereto.

In addition to all rights and remedies given to Beneficiary by this Deed of Trust, Beneficiary shall have the rights and remedies of a secured party

under the Uniform Commercial Code and any other applicable law. Upon notice from Beneficiary, Trustor will promptly execute such financing statements, continuation statements and other documents as may be necessary or convenient to perfect, continue or otherwise evidence said security interest and pay all expenses and fees for the preparation and filing thereof.

Upon occurrence of an Event of Default (as defined herein), all funds held in any such account shall immediately be paid over to Beneficiary. Beneficiary and Trustor agree that Beneficiary shall be entitled to apply such funds to the balance of the Loan in its sole discretion.

-15-

20

1.5 Care and Use of Premises.

A. Maintenance and Repairs. Trustor, at its sole cost and expense, will take good care of the Secured Property and the sidewalks and curbs adjoining the Secured Property and will keep the same in good order and condition, and make all necessary repairs thereto, interior and exterior, structural and nonstructural, ordinary and extraordinary, unforeseen and foreseen, and will not commit or suffer to be committed any waste of the Secured Property and will not do or suffer to be done anything which will increase the risk of fire or other hazard to the Secured Property or any part thereof.

B. Standard of Repairs. The necessity for and adequacy of repairs to the Improvements pursuant to subsection 1.5A shall be measured by the standard which is appropriate for a office, research and development buildings containing 121,071 square feet and related facilities of similar construction and class, provided that Trustor shall in any event make all repairs necessary to avoid any structural damage to the Improvements and to keep the Improvements in a proper condition for their intended use. When used in this Section 1.5, the terms "repair" and "repairs" shall include all necessary renewals and replacements. All repairs made by Trustor shall be made with first-class materials and in a good, substantial and workmanlike manner and shall be equal or better in quality and class to the original work.

C. Notice to Trustor. Trustor will notify Beneficiary promptly of any damage to the Secured Property in excess of \$10,000.00.

D. Removal of Equipment. Trustor shall have the right, at any time and from time to time, to remove and dispose of equipment which is Secured Property and which may have become obsolete or unfit for use or which is no longer useful in the operation of the Secured Property. Trustor will promptly replace any such equipment so disposed of or removed with other equipment of a value and serviceability equal to or greater than the original value and serviceability of the equipment so disposed of or removed, free of superior title, liens and claims; except that, if by reasons of technological or other developments in the operation and maintenance of buildings of the general character of the Improvements, no replacement of the building equipment so removed or disposed of is necessary or desirable in the proper operation or maintenance of said Improvements, Trustor shall not be required to replace same. All such replacements or additional equipment shall be covered by the security interest herein granted.

-16-

21

E. Compliance With Laws and Insurance. Trustor shall promptly comply with all present and future laws, ordinances, orders, rules, regulations and requirements of all federal, state and municipal governments, courts, departments, commissions, boards and officers, any national or local Board of Fire Underwriters, including, without limitation, all zoning, building code, environmental protection and equal employment opportunity statutes, ordinances, regulations, orders and restrictions, foreseen or unforeseen, ordinary as well as extraordinary, which may be applicable to the Secured Property and the sidewalks and curbs adjoining the Secured Property or to the use or manner of use of the Secured Property (collectively, "Regulations") whether or not such Regulations shall necessitate structural changes or improvements. Trustor shall not bring or keep any article upon any of the Secured Property or cause or permit any condition to exist thereon which would be prohibited by or could

invalidate any insurance coverage maintained, or required hereunder to be maintained, by Trustor on or with respect to any part of the Secured Property, and further shall do all other acts which from the character or use of the Secured Property may be necessary to protect the security hereof, the specific enumerations herein not excluding the general.

F. Permitted Contests. Trustor shall have the right, after prior notice to Beneficiary, to contest by appropriate legal proceedings diligently conducted in good faith, without cost or expense to Beneficiary, the validity or application of any Hazardous Materials Law (as defined in the Indemnity) and any other Regulation, and which does not subject Beneficiary to any civil or criminal liability, subject to the following:

(1) If by the terms of any such Hazardous

Materials Law (as defined in the Indemnity) or any applicable Regulation, compliance therewith pending the prosecution of any such proceeding may legally be delayed without incurring any lien or charge of any kind against the Secured Property, Trustor may delay compliance therewith until the final determination of such proceeding.

(2) If any lien or charge against the Secured

Property would be incurred by reason of any such delay, Trustor, may contest as aforesaid and delay as aforesaid, provided Trustor (a) furnishes to Beneficiary-security, satisfactory to Beneficiary, against any loss or injury by reason of such contest or delay, and (b) prosecutes the contest with due diligence, Anything in subsection 1.5E or this subsection 1.5F to the contrary notwithstanding, if the contesting of the validity or legality of any such Hazardous Materials Law (as defined in the Indemnity) or any other Regulation shall cause a breach of-any of the terms, conditions or covenants of any Lease on Trustor's

-17-

22

part, as lessor therein, to be performed, then Trustor shall not have the right to contest the same as herein provided but compliance therewith must be made pursuant to subsection 1.5E hereof.

G. Compliance With Instruments of Record. Trustor will promptly perform and observe, or cause to be performed and observed, all of the terms, covenants and conditions of all instruments of record affecting the Secured Property, non-compliance with which may affect the priority of the lien of this Deed of Trust, or which may impose any duty or obligation upon Trustor or any lessee or other occupant of the Secured Property or any part thereof, and Trustor shall do or cause to be done all things necessary to preserve intact and unimpaired any and all easements, appurtenances and other interests and rights in favor of or constituting any portion of the Secured Property.

H. Alteration of Secured Property. Trustor will not demolish, remove, construct, restore, add to or alter any Improvement or any extension thereof, nor consent to or permit any such demolition, removal, construction, restoration, addition or alteration without Beneficiary's prior written consent, except for (1) tenant improvement work and tenant alterations provided for in any Lease approved by Beneficiary in writing, (2) ordinary, non-structural maintenance or other work, and (3) structural repairs and restorations having a cost of less than \$100,000.

I. Parking. Trustor will grant no parking rights in the Secured Property except with Beneficiary's prior written consent. The Secured Property shall contain at all times not less than 401 on-site parking spaces for standard-size American automobiles, said parking spaces to be located upon the Land. if any part of the automobile parking areas included within said Secured Property is taken by condemnation or said areas are otherwise reduced, Trustor will provide parking facilities in kind, size and location to comply with all Leases, and before making any contract therefor will furnish to Beneficiary satisfactory assurance of completion thereof free of liens and in conformity with all governmental zoning ordinances and regulations.

J. Entry on Secured Property. Beneficiary or its representative is hereby authorized to enter upon and inspect the Secured

Property at all reasonable times.

K. No Consent to Alterations or Repairs. Nothing contained in this Deed of Trust shall be deemed or construed in any way as constituting the consent or request of Beneficiary, express or implied by inference or otherwise to any contractor,

-18-

23

subcontractor, laborer or materialman for the performance of any labor or the furnishing of any materials for any specific improvement, alteration to or repair of the Secured Property or any part thereof.

L. Mechanics Liens. Trustor will discharge, pay, or bond, or cause to be discharged, paid or bonded, from time to time when the same shall become due, all lawful claims and demands of mechanics, materialmen, laborers and others which, if unpaid, might result in, or permit the creation of, a lien on the Secured Property or any part thereof, or on the revenues, rents, issues, income and profits arising therefrom, and Trustor will do or cause to be done everything necessary so that the lien of this Deed of Trust shall be fully preserved, at the cost of Trustor without expense to Beneficiary.

M. Use of Secured Property by Trustor. Trustor will use, or cause to be used, the Secured Property principally and continuously as and for office, research and development and light manufacturing uses. Trustor shall not use, or permit the use of the Secured Property or any part thereof for any other principal use without the prior written consent of Beneficiary.

N. Use of Secured Property by Public. Trustor shall not suffer or permit the Secured Property, or any portion thereof, to be used by the public as such, without restriction or in such manner as might impair Trustor's title to the Secured Property or any portion thereof, or in such manner as might make possible a claim or claims of adverse usage or adverse possession by the public, or of implied dedication of the Secured Property or any portion thereof.

1.6 Financial Information.

A. Audit. Trustor will keep and maintain complete and accurate books and records of the earnings and expenses of the Secured Property and, without expense to Beneficiary, furnish to Beneficiary, within ninety (90) days after the end of each fiscal year of Trustor, an annual audit prepared and certified by Trustor reasonably satisfactory to Beneficiary, and prepared by an independent certified public accountant in accordance with generally accepted accounting principles relating to real estate consistently applied, which shall include, with respect to the prior fiscal year: (1) a statement of assets and liabilities of Trustor with respect to the Secured Property only, (2) a statement of the source and application of funds by Trustor with respect to the Secured Property, (3) a detailed profit and loss statement relating to the ownership and operation of the Secured Property, including, without limitation, all rents and other income derived therefrom and all expenses paid or incurred in

-19-

24

connection therewith, and (4) such interim balance sheets and profit and loss statements and income and expense reports as may be reasonably required by Beneficiary. The audit shall also include annual sales figures for all tenants in the Secured Property who are required by their respective lease to provide same to Trustor. In addition to and simultaneously with the financial statements Trustor shall deliver to Beneficiary a statement reflecting the complete rental status of the Secured Property showing the name of each tenant, the area in square feet occupied, the remaining term of the lease and the rental being paid.

B. Right to Inspect Books and Records. Beneficiary or its representative shall have the right to examine and make copies of such books and records and all supporting vouchers and data at the Premises or at Trustor's principal place of business at Trustor's expense.

1.7 Condemnation.

A. Beneficiary's Right to Participate in Proceedings. If the Secured Property, or any part thereof, shall be taken in condemnation proceedings or by exercise of any right of eminent domain (collectively, "Condemnation Proceedings"), Beneficiary shall have the right to participate in any such Condemnation Proceedings and the award or payment that may be made in any such Condemnation Proceedings is hereby assigned to Beneficiary and shall be deposited with Beneficiary and disbursed in the manner set forth in this Section 1.7. Trustor will give Beneficiary immediate notice of the actual or threatened commencement of any Condemnation Proceedings affecting all or any part of the Secured Property, including severance and consequential damage and change in grade in streets, and will deliver to Beneficiary copies of any and all papers served in connection with any such proceedings. Notwithstanding the foregoing, Beneficiary is hereby authorized, at its option, to commence, appear in and prosecute in its own or Trustor's name any action or proceeding relating to any such condemnation and to settle or compromise any claim in connection therewith; provided however that Beneficiary shall give notice to and consult with Trustor prior to any action. No settlement for the damages sustained thereby shall be made by Trustor without Beneficiary's prior written approval thereof. Trustor agrees to execute any and all further documents that may be required in order to facilitate the collection of any award or awards and the making of any such deposit.

B. Application of Condemnation Award. If at any time title or temporary title to the whole or any part of the Secured Property shall be taken in Condemnation Proceedings or pursuant to any agreement between Trustor, Beneficiary and those

-20-

25

authorized to exercise the right to condemnation, Beneficiary, at its option in its sole and absolute discretion and without regard to the adequacy of its security hereunder, shall have the right to apply such award or proceeds which it receives to payment of the Obligations in inverse order of maturity. In the event that all or substantially all of the Secured Property is taken and the amount of the award or proceeds received by Beneficiary shall not be sufficient to pay the then unpaid balance of the Obligations, then the balance of the Obligations shall, at the option of Beneficiary, become immediately due and payable and Trustor shall, within ten (10) days after the application of the award or proceeds as aforesaid, pay such deficiency to Beneficiary. "Substantially all of the Secured Property" shall be deemed to have been taken if the remainder of the Secured Property (1) in the sole opinion of Beneficiary's Architect, cannot be capable of being restored to a self-contained and architecturally complete unit or units or (2) in the sole opinion of Beneficiary, the balance of the Secured Property as restored will not be economically viable and capable of supporting all carrying charges and operation and maintenance expenses.

C. Reimbursement of Costs. In the case of any taking covered by the provisions of this Section 1.7, Beneficiary (to the extent that Beneficiary has not been reimbursed therefor by Trustor) shall be entitled, as a first priority, to the reimbursement out of any award or awards for all reasonable costs, fees, reimbursements to Beneficiary and expenses incurred in the determination and collection of any such awards.

D. Existing Obligations. Notwithstanding any taking by Condemnation Proceedings, Trustor shall continue to pay the monthly installments due under the Note as well as all other sums secured by this Deed of Trust at the rate provided therein until any such award or payment shall have been actually received by Beneficiary and applied to the Obligations. Any reduction in the Obligations resulting from Beneficiary's application of such award or payment as hereinabove set forth shall be deemed to take effect only on the date of receipt by Beneficiary. If prior to Beneficiary's receipt of such award or payment the Secured Property shall have been sold on foreclosure of this Deed of Trust, Beneficiary shall have the right to receive said award or payment to the extent of any portion of the Obligations still unpaid after application of the proceeds of the foreclosure sale, with interest thereon at the Increased Rate, plus attorneys' fees and other costs and disbursements incurred by Beneficiary in connection with the collection of such award or payment and in establishing the deficiency. The application of condemnation proceeds to the obligations

secured by this Deed of Trust, whether or not then due or payable, shall not postpone, abate or reduce any of the periodic installments of principal and/or

-21-

26

interest thereafter to become due under this Deed of Trust until the Obligations are paid in full.

E. Application of Award. Notwithstanding the provisions of Section 1.7B above (except for a taking which occurs during the last six months of the loan term), upon full satisfaction of all of the following conditions, Beneficiary shall, after deducting Beneficiary's costs in connection with the disbursement of funds, apply the award or payment to the cost to restore, repair or alter the remaining portion of the Secured Property, subject to the provisions of subsection 1.3F (which shall apply in all respects except that any reference therein to insurance proceeds shall be deemed to refer to the award or payment in the taking), and Trustor will promptly restore, repair or alter the remaining Secured Property. The provisions of this subsection 1.7E shall not apply unless (1) the balance of the Improvements shall, in the opinion of Beneficiary's Architect, be capable of being restored to a self-contained and architecturally complete unit or units, (2) the balance of the Improvements after restoration to a self-contained and architecturally complete unit or units shall, in the opinion of Beneficiary, be economically viable and capable of supporting all carrying charges and operating and maintenance expenses of the Secured Property, after reduction, if any, of the Obligations in accordance with the following sentence, and (3) Trustor shall furnish to Beneficiary evidence satisfactory to Beneficiary that the Improvements so restored or reconstructed and their use would fully comply with all zoning and building laws, ordinances and regulations, and with all other applicable federal, state and municipal laws and requirements. The balance of the condemnation award or payment so deposited with Beneficiary, after disbursement in accordance with this subsection 1.7E, shall be applied to the Obligations in inverse order of maturity, whether or not the same shall then be due and payable. All awards and payments and other sums deposited with Beneficiary, until expended or applied as provided in this subsection 1.7E, may be commingled with the general funds of Beneficiary and shall constitute additional security for the Obligations and shall not bear interest. In all cases where a taking occurs during the last six months of the loan term, or in Beneficiary's sole judgment Trustor is not proceeding with the repair or restoration in a manner that would entitle Trustor to have the awards or payments disbursed to it or for any other reason Beneficiary determines in its sole judgment that Trustor shall not be entitled to such awards or payments pursuant to the terms of this Deed of Trust, Beneficiary, at its option in its sole and absolute discretion and without regard to the adequacy of its security hereunder, shall have the right to apply such award or proceeds which it receives to payment of the Obligations in the inverse order of maturity, whether or not the same shall then be due and payable.

-22-

27

1.8 Leases.

A. Performance of Lessor's Covenants. Trustor, as lessor, may, in accordance with the Assignment, enter into leases with space tenants, as lessees, for parts or all of the Secured Property (all such leases for parts or all of the Secured Property are hereinafter referred to individually as a "Lease" and collectively as "Leases" and the lessees under such Leases are hereinafter referred to individually as a "Lessee" and collectively as "Lessees"). Trustor shall faithfully perform the lessor's covenants under any subsisting and future Leases affecting the Secured Property or any part thereof, and neither do, nor neglect to do, nor permit to be done (other than enforce the terms of such Leases and exercise the lessor's remedies thereunder following a default or event of default on the part of any Lessee in the performance of its prescribed obligations), anything which may cause the modification or termination of any of said Leases, or of the obligations of any Lessee or any other person claiming through such Lessee, or which may diminish or impair the value of any Lease or the rents provided for therein, or the interest of the lessor or of Beneficiary therein or thereunder.

B. Notice of Default. Trustor will give Beneficiary immediate notice, by certified mail, of any notice of default, event of default

or cancellation given to or received from any Lessee.

C. Covenants Regarding Leases. Except as otherwise required under any such Lease, Trustor covenants it will not, without the prior written consent of the Beneficiary obtained in each instance:

(1) lease to any person, firm or corporation,

except for actual occupancy by such person, firm or corporation all or any part of the space in any of the Improvements;

(2) cancel, terminate or accept a surrender or

suffer or permit any cancellation, termination or surrender of any Lease, except in accordance with the term of any Lease which as been pre-approved in writing by Beneficiary;

(3) modify any Lease so as to reduce the term

thereof or the rent payable thereunder, or to change any renewal provision contained therein;

(4) commence any summary proceeding or other

action to recover possession of any space demised pursuant to any Lease, other than a proceeding brought in good faith by reason of a default of any Lessee;

-23-

28

(5) receive or collect or permit the receipt or

collection of any rental payments of more than one monthly installment of rent under any Lease in advance of the due dates of such rental payments;

(6) take any other action with respect to any

Lease which would tend to impair the security of the Beneficiary under this Deed of Trust;

(7) extend any present Lease other than in the

manner presently provided for therein, or enter into any future Lease with any person, firm or corporation, except on the best terms reasonably obtainable, under Leases which shall in all respects be satisfactory to the Beneficiary as to the form and substance thereof and the credit standing of the respective Lessee thereunder;

(8) execute an Agreement or create or permit a

lien which may be or become superior to any existing Leases affecting the Secured Property; or

(9) sell, assign, transfer, mortgage, pledge or

otherwise dispose of or encumber, whether by operation of law or otherwise, any Lease or any rentals under any Lease or any rents, income, profits or cash collateral issuing from the Secured Property.

D. Application of Rents. Trustor shall use and apply all rents, income and profits from the Secured Property first to the payment of the Obligations in accordance with the terms of the Loan Documents, and then to the payment of all Impositions and costs and expenses of management, operation, repair, maintenance, preservation, reconstruction and restoration of the Secured Property in accordance with the requirements of this Deed of Trust and the obligations of Trustor as the lessor under any Lease, and shall not use such rents, income or profits for purposes unrelated to the Secured Property unless and until all current payments on the Obligations, Impositions, and such costs and expenses have been paid or provided for and reasonably adequate cash reserves have been set aside to ensure the timely payment of all future payments on such Obligations prior to the maturity thereof, Impositions and such costs

and expenses.

1.9 Assignment of Leases, Rents, Income, and Cash Collateral.

A. Assignment; Discharge of Obligations. Trustor does hereby absolutely and presently bargain, sell, assign and set over unto Beneficiary, all Leases, rents, income, profits cancellation fees, damages, or similar payments in lieu of rents,

-24-

29

and any and all cash collateral which, whether before or after foreclosure or during the full period of redemption, shall be made upon or accrue and be owing for the use or occupation of the Secured Property and of the buildings and fixtures thereon, or any part thereof. For the aforesaid purpose, Trustor does hereby constitute and appoint Beneficiary its attorney-in-fact, irrevocably in its name, to receive, collect and receipt all sums due or owing for such use and occupation, as the same accrue and, out of the amount so collected, Beneficiary, its successors and assigns, are hereby authorized (but not obligated) to pay and discharge all obligations of Trustor hereunder, including, but not being limited to, the obligation to pay the Obligations (and including any accelerated Obligations) in such order as Beneficiary, its successors or assigns, may determine and whether due or not, and to pay the remainder, if any, to Trustor, but neither this assignment nor any such action shall constitute Beneficiary as a "mortgagee in possession". The assignments of Leases, rents, income, profits and any and all cash collateral of the Secured Property in this Section 1.9 is intended to be an absolute and present assignment from Trustor to Beneficiary and not merely the passing of a security interest. Trustor shall, at any time or from time to time, upon request of Beneficiary, execute and deliver any instrument as may be requested by Beneficiary to further evidence the assignment and transfer to Beneficiary of Trustor's interest in any Lease. Nothing herein shall in any way limit Beneficiary's remedies or Trustor's obligations under the Assignment to Beneficiary.

B. Entry Onto Secured Property; Lease of Secured Property. Upon the occurrence of an Event of Default (as hereinafter defined); Beneficiary at its sole option shall have the right to enter and take possession of the Secured Property and manage and operate the same as further provided in subsection 4.1C, including, without limitation, the right to enter into Leases and new agreements extending said termination dates beyond the maturity set forth in the Note and take any action which, in Beneficiary's judgment, is necessary or proper to conserve the value of the Secured Property. The expenses (including any receiver's fees, attorneys' fees, costs and agent's compensation) incurred pursuant to the powers herein contained shall be secured hereby. Beneficiary shall not be liable to account to Trustor for any action taken pursuant hereto other than to account for any rents actually received by Beneficiary.

C. License to Manage Secured Property. Notwithstanding anything to the contrary contained in subsection A of this Section 1.9, as long as there shall exist no default hereunder, Trustor shall have the license to manage and operate the Secured Property, including without limitation, the

-25-

30

right to enter into Leases, and collect, as they accrue, all such rents, income, profits and cash collateral.

D. Delivery of Assignments. Trustor will, as requested from time to time by Beneficiary, execute such additional documents to evidence the assignment to Beneficiary or its nominee of any Leases now or hereafter made upon said Secured Property, such assignment documents to be in form and content acceptable to Beneficiary. For the aforesaid purposes, Trustor agrees to deliver to Beneficiary within thirty (30) days after Beneficiary's request, a duplicate original of every Lease which is at the time of such request outstanding upon the said Secured Property and in addition thereto shall supply Beneficiary at its request a complete list of each and every Lease certified by (1) an officer of Trustor, if Trustor is a corporation, or (2) a general partner of Trustor (or an officer of any such general partner which is a corporation) if Trustor is a

partnership or (3) a trustee of Trustor (or an officer of any such trustee which is a corporation) if Trustor is a trust, or (4) Trustor if Trustor is an individual or individuals, showing unit number, type, name of each Lessee, monthly rental, date to which rents have been paid, term of Lease, date of occupancy, date of expiration and any and every special provision, concession or inducement granted to Lessee.

E. Indemnity. Notwithstanding anything to the contrary set forth in this Section 1.9, Trustor agrees that in the exercise of the rights of Beneficiary contained in this Section 1.9, no liability shall be asserted against Beneficiary, all such liability being expressly waived and released by Trustor. Trustor hereby holds Beneficiary harmless from and against any and all claims, liabilities and expenses of any kind or nature against or incurred by Beneficiary arising out of such management, operation or maintenance of the Secured Property or the collection and disposition of rents, income, profits or cash collateral therefrom, except for any claim, liability or expense arising out of Beneficiary's fraud, bad faith, willful misconduct or gross negligence.

1.10 Further Assurances.

A. General; Appointment of Attorney-in-Fact. At any time, and from time to time, upon request by Beneficiary, Trustor will make, execute, and deliver or cause to be made, executed and delivered to Beneficiary, any and all other instruments, certificates and other documents as may, in the opinion of Beneficiary, be reasonably necessary or desirable in order to effectuate, complete, perfect or continue and preserve the obligations of Trustor under the Note and the Loan Documents. Upon any failure by Trustor to do so, Beneficiary may make,

-26-

31

execute and record any and all such instruments, certificates and documents for and in the name of Trustor and Trustor hereby irrevocably appoints Beneficiary the agent and attorney-in-fact of Trustor for such purposes. Trustor will reimburse Beneficiary for any sums expended by Beneficiary in making, executing and recording such instruments, certificates and documents and such sums shall be secured by this Deed of Trust.

B. Statement Regarding Obligations. Trustor from time to time, within ten (10) days after request by Beneficiary, shall furnish Beneficiary with a written statement, duly acknowledged, setting forth the unpaid principal of, and interest on, the Obligations secured hereby and whether or not any set-offs or defenses exist against such principal and interest, and, if so, the particulars thereof.

C. Additional Security Instruments. Trustor shall from time to time, within fifteen (15) days after request by Beneficiary, execute, acknowledge and deliver to Beneficiary such chattel mortgages, security agreements or other similar security instruments, in form and substance satisfactory to Beneficiary, covering all property of any kind whatsoever owned by Trustor or in which Trustor may have any interest which in the sole opinion of Beneficiary, is essential to the operation and maintenance of the Secured Property. Trustor shall further from time to time within fifteen (15) days after request by Beneficiary, execute, acknowledge and deliver any financing statement, renewal, affidavit, certificate, continuation statement or other document as Beneficiary may request in order to perfect, preserve, continue, extend or maintain the security interest under, and the priority of, this Deed of Trust or such chattel Deed of Trust or other security instrument as a first lien. Trustor further agrees to pay to Beneficiary on demand all costs and expenses incurred by Beneficiary in connection with the preparation, execution, recording, filing and refiling of any such instrument or document, including the charges for examining title and the attorneys' fee for rendering an opinion as to the priority of this Deed of Trust and of such chattel Deed of Trust or other security instrument as a valid first and subsisting lien. However, neither a request so made by Beneficiary nor the failure of Beneficiary to make such a request shall be construed as a release of such property, or any part thereof, from the lien of this Deed of Trust, it being understood and agreed that this covenant and any such chattel Deed of Trust, security agreement or other similar security instrument, delivered to Beneficiary, are cumulative and given as additional security. Trustor shall also pay all premiums and related costs in connection with any title insurance policy or policies in full or partial replacement of the title policy now insuring or which will insure the lien of

D. Security Agreement.

(1) THIS DEED OF TRUST CREATES A LIEN ON THE

SECURED PROPERTY, AND TO THE EXTENT THE PROPERTY IS PERSONAL PROPERTY UNDER APPLICABLE LAW, THIS DEED OF TRUST CONSTITUTES A SECURITY AGREEMENT UNDER THE CALIFORNIA UNIFORM COMMERCIAL CODE (THE "U.C.C.") AND ANY OTHER APPLICABLE LAW AND IS FILED AS A FIXTURE FILING. UPON THE OCCURRENCE OF AN EVENT OF DEFAULT, BENEFICIARY MAY, AT ITS OPTION, PURSUE ANY AND ALL RIGHTS AND REMEDIES AVAILABLE TO A SECURED PARTY WITH RESPECT TO ANY PORTION OF THE SECURED PROPERTY, AND/OR BENEFICIARY MAY, AT ITS OPTION, PROCEED AS TO ALL OR ANY PART OF THE SECURED PROPERTY IN ACCORDANCE WITH BENEFICIARY'S RIGHTS AND REMEDIES WITH RESPECT TO THE LIEN CREATED BY THIS DEED OF TRUST.

(2) The grant of a security interest to

Beneficiary in the granting clauses of this Deed of Trust shall not be construed to derogate from or impair the lien or provisions of or the rights of Beneficiary under this Deed of Trust with respect to any property described therein which is real property or which the parties have agreed to treat as real property. The hereby stated intention of Trustor and Beneficiary is that everything used in connection with the production of income from such real property or adapted for use thereon is, and at all times and for all purposes and in all proceedings, both legal and equitable, shall be regarded as real property, irrespective of whether or not the same is physically attached to the Land and/or Improvements.

(3) If reasonably required by Beneficiary, at any

time during the term of this Deed of Trust, Trustor will execute and deliver to Beneficiary, in form satisfactory to Beneficiary, additional security agreements, financing statements and/or other instruments covering all Personal Property included in the Secured Property.

(4) Trustor hereby irrevocably constitutes and

appoints Beneficiary as its attorney-in-fact and such appointment is coupled with an interest, to execute, deliver and file with the appropriate filing officer or office such security agreements, financing statements and/or other instruments as Beneficiary may request or require in order to impose and perfect the lien and security interest created hereby more specifically on such Personal Property.

(5) If Trustor enters into a separate security

agreement with Beneficiary relating to any of the Personal Property or fixtures, the terms of such security agreement shall govern the rights and remedies of Beneficiary after an Event of Default thereunder.

(6) It is understood and agreed that, in order to

protect Beneficiary from the effect of U.C.C. Section 9313, as amended from time to time, in the event that Trustor intends to purchase any goods which may become Secured Property, or any part thereof, and such goods will be subject to a purchase money security interest held by a seller or any other party:

(a) Trustor shall, before executing any security

agreement or other document evidencing or perfecting such security interest, obtain the prior written approval of Beneficiary, and all requests for such written approval shall be in writing and contain the following information:

(i) a description of the Secured Property

to be replaced, added to, installed or substituted;

(ii) the address at which the Secured

Property will be replaced, added to, installed or substituted; and

(iii) the name and address of the proposed

holder and proposed amount of the security interest.

(b) Trustor's execution of any such security

agreement or other document evidencing or perfecting such security interest without Beneficiary's prior written approval shall constitute an Event of Default. No consent by Beneficiary pursuant to this subparagraph shall be deemed to constitute an agreement to subordinate any right of Beneficiary in property covered by this Deed of Trust.

(7) If at any time Trustor fails to make any

payment on an obligation secured by a purchase money security interest in the Personal Property, Beneficiary, at its option, may at any time pay the amount secured by such security interest. Any money paid by Beneficiary under this Subparagraph, including any expenses, costs, charges and attorney's fees incurred by Beneficiary, shall be reimbursed to Beneficiary in accordance with Section 1.2E hereof. Beneficiary shall be subrogated to the rights of the holder of any such purchase money security interest in the Personal Property.

(8) Beneficiary shall have the right to acquire by

assignment from the holder of such security interest any and all contract rights, accounts receivable, negotiable or non-negotiable instruments, or other evidence of Trustor's indebtedness for such Personal Property, and, upon acquiring such interest by assignment, shall have the right to enforce the security interest as assignee thereof, in accordance with the

-29-

34

terms and provisions of the U.C.C. and in accordance with any other provisions of law.

(9) Whether or not Beneficiary has paid the

indebtedness secured by, or taken an assignment of, such security interest, Trustor covenants to pay all sums and perform all obligations secured thereby, and if Trustor at any time shall be in default under such security agreement, it shall constitute an Event of Default.

(10) The provisions of this Section 1.10D shall not

apply if the goods which may become fixtures are of at least equivalent value and quality as any property being replaced and if the rights of the party holding such security interest have been expressly subordinated, at no cost to Beneficiary, to the lien and security interest of this Deed of Trust in a manner satisfactory to Beneficiary, including without limitation, at the option of Beneficiary, providing to Beneficiary a satisfactory opinion of counsel to the effect that this Deed of Trust constitutes a valid and subsisting first lien on such fixtures which is not subordinate to the lien of such security interest under any applicable law, including without limitation, the provisions of Section 9313 of the U.C.C.

(11) Trustor hereby warrants, represents and

covenants as follows:

(a) To the best of Trustor's knowledge,

Trustor is the sole owner of the Personal Property free from any lien, security interest, encumbrance or adverse claim thereon of any kind whatsoever. Trustor will notify Beneficiary of, and will protect, defend and indemnify Beneficiary against, all claims and demands of all persons at any time claiming any rights

or interest therein.

(b) The Personal Property is not used or bought and shall not be used or bought for personal, family, or household purposes, but shall be bought and used solely for the purpose of the Secured Property.

(c) To the best of Trustor's knowledge, the Personal Property is located on the Land and/or Improvements and will be kept on or at the Land or the Improvements and Trustor will not remove the Personal Property therefrom without the prior written consent of Beneficiary, except such portions or items of Personal Property which are consumed or worn out in ordinary usage, all of which shall be promptly replaced by Trustor with other Personal Property of value equal to or greater than the value of the replaced Personal Property when new, and except such portions or items of Personal Property temporarily stored

-30-

35

elsewhere to facilitate refurbishing or repair thereof or of the Improvements.

(d) Trustor maintains a place of business in the State and Trustor will immediately notify Beneficiary in writing of any change in its principal place of business as set forth in the beginning of this Deed of Trust.

E. Preservation of Trustor's Existence. If Trustor is a partnership or a corporation, it shall do all things necessary to preserve and keep in full force and effect its existence, franchise, rights and privileges under the laws of the state of its formation or incorporation and the state in which the Secured Property is located, if required by the laws of such state, and shall comply with all regulations, rules, ordinances, statutes, orders and decrees of any governmental or quasi-governmental authority or court applicable to it.

F. Further Indemnities. In addition to any other indemnities to Beneficiary specifically provided for in this Deed of Trust, Trustor hereby indemnifies and saves Beneficiary harmless from and against any and all losses, liabilities, suits, obligations, fines, damages, penalties, claims, costs, charges, and expenses, including, without limitation, reasonable architects', engineers' and attorneys' fees and all disbursements which may be imposed upon, incurred or asserted against Beneficiary by reason of: (1) the construction of the Improvements, (2) any capital improvements, other work or things, done in, on or about the Secured Property or any part thereof, (3) any use, non-use, misuse, possession, occupation, alteration, repair, condition, operation, maintenance or management of the Secured Property or any part thereof or any street, drive, sidewalk, curb, passageway or space comprising a part thereof or adjacent thereto, (4) any negligence or wilful act or omission on the part of Trustor, any Lessee under a Lease or their agents, contractors, servants, employees, licensees or invitees, (5) any accident, injury (including death) or damage to any person or property occurring in, on or about the Secured Property or any part thereof or in, on or about any street, drive, sidewalk, curb, passageway or space adjacent thereto, (6) any default or Event of Default (as herein defined), (7) any lien or claim which may be alleged to have arisen on or against the Secured Property or any part thereof under the laws of the local or state government or any other governmental or quasi-governmental authority or any liability asserted against Beneficiary with respect thereto, (8) any tax attributable to the execution, delivery, filing or recording of this Deed of Trust, the Note, any Lease, or any other Loan Documents, or (9) any contest permitted pursuant to the provisions of this Deed of Trust.

-31-

36

G. Absence of Insurance. The obligations of Trustor under this Section 1.10 shall not in any way be affected by the absence in any case of covering insurance, by the amount of the insurance or by the failure or refusal

of any insurance carrier to perform any obligation on its part under insurance policies affecting the Secured Property. If any claim, action or proceeding is made or brought against Beneficiary by reason of any event as to which Trustor is obligated to indemnify Beneficiary, then, upon demand by Beneficiary, Trustor, at its sole cost and expense, shall resist or defend such claim, action or proceeding in Beneficiary's name, if necessary, by the attorneys for Trustor's insurance carrier, if such claim, action or proceeding is covered by insurance, otherwise by such attorneys as Beneficiary shall reasonably approve. Notwithstanding the foregoing, Beneficiary may engage its own attorneys in its reasonable discretion to defend it or to assist in its defense and Trustor shall pay the reasonable fees and disbursements of such attorneys and such amounts shall bear interest at the Increased Rate and shall be secured by this Deed of Trust.

1.11 Further Sales or Encumbrances.

A. Continuing Ownership and Management. Trustor acknowledges that the continuous ownership of the Secured Property and the continuous management and/or control of the operation of same by Trustor is of a material nature to the transaction and the making of the loan evidenced by the Note and secured by this Deed of Trust.

B. Transfer or Encumbrance of Secured Property. Trustor shall not, without the prior written consent of Beneficiary being first had and obtained (which consent may be granted or denied in Beneficiary's sole discretion), voluntarily or involuntarily, by operation of law or otherwise, transfer or dispose of, or suffer any third party to transfer or dispose of, all or any portion of the Secured Property or any interest therein or the management and/or operation by Trustor of the Secured Property. For purposes of this Section 1.11, a transfer or disposition of the Secured Property or any part thereof or interest therein shall include, without limitation, the sale of the Secured Property or any portion thereof to a residential cooperative corporation, conversion of all or any part of the Secured Property to a condominium form of ownership, execution of a contract to sell or option to purchase all or any portion of the Secured Property or any interest therein, any transfer of or agreement to transfer air rights, any lease for space in any Improvements on the Secured Property for purposes other than occupancy by the tenant, any lease for space in Improvements containing an option to purchase, or any direct or indirect sale,

-32-

37

assignment, conveyance, transfer (including a transfer as a result of or in lieu of condemnation), or other alienation of all or any portion of the Secured Property or any interest therein, including, but not limited to, the creation of a lien or other encumbrance on the Secured Property or any part thereof or interest therein, and further including any assignment, pledge, grant of security interest in, conditional sale, or the execution of a title retention agreement with regard to any personalty included in the Secured Property. Any such action described in this subsection 1.11B is herein called a "Transfer." A Transfer shall also include, without limitation, any of the following events, whether made directly or through an intermediary, and whether made in one transaction or effected in more than one transaction:

(1) If Trustor is or becomes a corporation, a

transfer or disposition of more than 50% of the outstanding voting stock of such corporation or of any other corporation directly or indirectly owning or controlling 50% or more of the voting stock of Trustor;

(2) If Trustor is or becomes a partnership, a

transfer or disposition of any interest of any general partner in Trustor; or

(3) If Trustor is a trust or other entity, a

transfer or disposition of more than 50% of the beneficial interests in Trustor.

For purposes of the foregoing, a "transfer or disposition" of such stock or interests shall include, without limitation, any direct or indirect sale thereof, any execution of a contract or other agreement to sell or option to

purchase such stock or interests, or any assignment of such stock or interests, including any assignment for security purposes.

In no event shall the following be deemed a Transfer or disposition of the Secured Property in violation of this Section 1.11(B):

(1) The transfer of the Secured Property to any corporation which controls, is controlled by or is under common control with Trustor, so long as Trustor continues to be liable for performance of the Obligations after the transfer,

(2) The merger or consolidation of Trustor with any other company, so long as the net worth of the combined company after consummation of the transaction is not less than the net worth of Trustor immediately prior to the merger or consolidation; or

-33-

38

(3) The issuance or trading of the stock or debt securities of Trustor or any parent of Trustor through any public exchange, in one transaction or a series of transactions.

C. Acceleration of Obligations. In the event of a Transfer without the prior written consent of Beneficiary, Beneficiary may, without limiting any other right or remedy available to Beneficiary at law, in equity or by agreement with Trustor, and in Beneficiary's absolute discretion and without regard to the adequacy of its security, accelerate the maturity of the Note and require the payment of the then existing outstanding principal balance and all other sums due under the Note and under this Deed of Trust, including, but not limited to, the prepayment charge provided in Section 4.6 herein. The giving of consent by Beneficiary to a Transfer in any one or more instances shall not limit or waive the need for such consent in any other or subsequent instances.

D. Wrap-Around Financing. Should the Secured Property at any time be or become subject to the lien of any agreement, deed of trust or mortgage or similar instrument in connection with which payments on account of the obligations secured hereby are to be made directly or indirectly by or through a mortgagee, grantee or beneficiary thereunder, regardless of whether or not payment of the obligations secured hereby is assumed by such mortgagee, grantee or beneficiary, the whole of the principal sum and interest and other sums hereby secured, at the option of Beneficiary, shall immediately become due and payable.

1.12 Expenses. Trustor will pay or reimburse Beneficiary for all reasonable attorneys' fees, costs and expenses incurred by Beneficiary in any proceedings affecting the Obligations or the Secured Property, (A) involving the estate of a decedent or an insolvent, or (B) in any action, legal proceeding or dispute of any kind in which Beneficiary is made a party, or appears as party plaintiff or defendant, including, but not limited to, any exercise of the power of sale or judicial foreclosure as set forth in this Deed of Trust, any condemnation action involving the Secured Property or any action to protect the security hereof or upon the reasonable concern of Beneficiary with the condition of the Secured Property, and any such amounts paid by Beneficiary shall be added to the obligations and secured by this Deed of Trust. If the obligations are referred to attorneys for collection, foreclosure or for any cause set forth in Article III hereof, Trustor shall pay all expenses incurred by Beneficiary, including reasonable attorneys' fees, all costs of collection, litigation costs, and costs (which may be estimated as to items

-34-

39

to be expended after entry of the decree) of procuring title insurance policies, whether or not obtained, Torrens certificates, and similar assurances with respect to title and value as Beneficiary may deem reasonably necessary together with all statutory costs, with or without the institution of an action or proceeding. All such costs and expenses with interest thereon at the Increased

Rate shall be deemed to be secured by this Deed of Trust.

ARTICLE II

WARRANTIES AND REPRESENTATIONS

Trustor makes the following warranties and representations:

2.1 Warranty of Title. Trustor (A) is lawfully seized and possessed of the Secured Property, in fee simple, subject to no mortgage, lien, charge or encumbrance, except as specifically set forth in the title insurance policy issued to Beneficiary upon recordation of this Deed of Trust, (B) has full power and lawful authority to grant, bargain, sell, convey, assign, transfer and mortgage the Secured Property in the manner and form hereby mortgaged and conveyed, (C) is the fee owner of the Improvements, (D) is the owner of the Personal Property, and (E) does warrant and will defend the title to the Secured Property against all claims and demands whatsoever.

2.2 Ownership Of Improvements And Personal Property. All Improvements and Personal Property now or hereafter affixed, placed or used by Trustor are and will hereafter be owned by Trustor free from any prior liens or encumbrances, provided, however, that if any of the foregoing Improvements or Personal Property shall be subject to a conditional bill of sale, chattel mortgage or other agreement creating a security interest, then all of the right, title and interest of Trustor in and to such Improvements and Personal Property together with the benefits of any deposits or payments now or hereafter made thereon shall be covered by and subject to this Deed of Trust.

2.3 No Pending Material-Litigation or Proceeding; No Hazardous Materials.

A. Proceedings Affecting Trustor. Except as disclosed in the Affidavit being delivered concurrently herewith, to the best knowledge and belief of Trustor, there are no actions, suits or proceedings pending, and, there are no actions, suits, investigations or proceedings threatened, against or affecting Trustor, or the business, operations, properties or assets of Trustor, or before or by any governmental department, commission, board, regulatory authority, bureau, agency or

-35-

40

instrumentality, domestic, foreign, federal, state or municipal (collectively, "Governmental Agency") , or any court, arbitrator or grand jury, which may result in any material adverse change in the business, operations, properties or assets or in the condition, financial or otherwise, of Trustor, or in the ability of Trustor to perform its obligations under the Note or this Deed of Trust. To the best knowledge and belief of Trustor, Trustor is not in default, and there is no other default, with respect to any judgment, order, writ, injunction, decree, demand, rule or regulation of any court, arbitrator, grand jury or of any Governmental Agency, default under which might have consequences which would materially and adversely affect the business, operations, properties or assets or the condition, financial or otherwise, of Trustor or the ability of Trustor to perform its obligations under the Note or this Deed of Trust.

B. Proceedings Affecting Secured Property. There are no proceedings of any kind pending, or, to the best of Trustor's knowledge, threatened against or affecting Trustor, the Secured Property (including any attempt or threat by any Governmental Agency to condemn or rezone all or any portion of the Secured Property), any party constituting Trustor in any such party, or involving the validity, enforceability or priority of this Deed of Trust, the Note or any of the other Loan Documents or enjoining or preventing or threatening to enjoin or prevent the use and occupancy of the Secured Property or the performance by Beneficiary of its obligations hereunder, and there are no rent controls, governmental moratoria or environmental controls (other than those generally imposed by federal or state law upon property in the State of California) presently in existence, or to the best knowledge of Trustor, threatened, affecting the Secured Property, except as identified in writing to, and approved by, Beneficiary.

C. No Litigation Regarding Hazardous Materials. No litigation, administrative enforcement actions or proceedings have been brought, threatened nor have any settlements been reached by or with any party or parties, public or

private, in disputes in which the presence, disposal, release or threatened release of any Hazardous Material (as defined in the Indemnity) on, from, or under any of the Secured Property had been alleged.

2.4 Valid organization, Good Standing and Qualification of Trustor.

Trustor is a duly and validly organized and existing Corporation under the laws of the State of Delaware and is entitled to own its properties and assets, and to carry on its business, all as, and in the places where, such properties and assets are now owned or operated or such business is now conducted or proposed to be conducted.

-36-

41

2.5 Authorization; No Legal Restrictions on Performance. The execution and delivery by Trustor of this Deed of Trust and the other Loan Documents and its compliance with the terms and conditions hereof and thereof have been duly and validly authorized by all necessary partnership action, including, without limitation, all necessary corporate action of all of Trustor's corporate general partners, if any. The Loan Documents are valid and enforceable obligations of Trustor in accordance with the terms hereof and thereof. Neither the execution and delivery by Trustor of this Deed of Trust or any of the other Loan Documents nor the consummation of the transactions contemplated herein or therein, nor compliance with the terms and conditions hereof and thereof will, to Trustor's current and actual knowledge, (A) conflict with or result in a material breach of, or constitute a default under, any of the terms, obligations, covenants, conditions or provisions of (1) Trustor's articles of incorporation, bylaws or any indenture, mortgage, deed of trust, pledge, bank loan or credit agreement, agreement creating, evidencing or securing any indebtedness of Trustor or any other agreement or instrument to which Trustor is now a party or by which its properties may be bound or affected, or (2) any judgment, order, writ, injunction, decree or demand of any court, arbitrator, grand jury or Governmental Agency, or (B) result in the creation or imposition of any lien, charge or encumbrance of any nature whatsoever upon any property or asset of Trustor under the terms or provisions of any of the foregoing. Trustor is not in default in the performance, observance or fulfillment of any of the terms, obligations, covenants, conditions or provisions contained in any indenture or other agreement creating, evidencing or securing indebtedness of Trustor or pursuant to which Trustor is a party or by which Trustor or its properties may be bound or affected, which may result in any material adverse change in the business, operations, properties, or assets or in the condition, financial or otherwise, of Trustor, or in the ability of Trustor to perform its obligations under the Note or this Deed of Trust.

2.6 Compliance With Laws., Trustor has complied, and at all future times shall comply, with all applicable statutes, rules, regulations, orders and restrictions of any domestic or foreign government or any instrumentality or agency thereof, in respect of the conduct of its business and ownership of its properties (including, without limitation, applicable statutes, rules, regulations, orders and restrictions relating to equal employment opportunities or environmental standards or controls). No governmental orders, permissions, consents, approvals or authorizations are required to be obtained and no registrations or declarations are required to be filed in connection with the execution and delivery or performance of this Deed of Trust or any of the other Loan Documents.

-37-

42

2.7 Tax Status. Trustor has filed all United States income tax returns and all state and municipal tax returns which are required to be filed, and has paid, or made provision for the payment of, all taxes which have become due pursuant to said returns or pursuant to any assessment received by Trustor, except such filings and taxes, if any, as are being contested in good faith and as to which adequate reserves have been provided.

2.8 Absence of Foreign or Enemy Status. Trustor is not a "national" of a "designated foreign country" (or a person defined as a "designated foreign country") within the definitions in the Foreign or Cuban Assets Control Regulations of the United States Treasury Department, 31 CFR, Subtitle B, Chapter V, as amended, or any regulation or ruling issued thereunder.

2.9 Federal Reserve Board Regulations. Trustor does not own any "margin security" as such term is defined in Regulation G of the Board of Governors of the Federal Reserve System (12 CFR Part 207), as amended, except margin securities owned or which may be acquired by Trustor which do not and would not in the aggregate constitute a substantial part of the assets of Trustor within the meaning of Section 207.2(i) of the aforesaid Regulation G, and Trustor will not use any part of the proceeds from the loans to be made under this Agreement (A) directly or indirectly, to purchase or carry any such security or to reduce or retire any indebtedness originally incurred to purchase any such security within the meaning of such Regulation, (B) so as to involve Trustor in a violation of Regulation T, U or X of such Board (12 CFR Parts 220, 221 and 224), or (C) for any other purpose not permitted by Section 7 of the Securities Exchange Act of 1934, as amended, or any of the rules and regulations respecting the extension of credit promulgated thereunder.

2.10 Investment Company Act and Public Utility Holding Company Act. Trustor is not an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended, and Trustor is not a "holding company" or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company," as such terms are defined in the Public Utility Holding Company Act of 1935, as amended.

2.11 Exempt Status of Transactions Under Securities Act and Representations Relating Thereto. Trustor has not, either directly or through any agent, offered all or any part of the loan made or to be made by Beneficiary and secured by this Deed of Trust to, or solicited any offers to make all or any part of such loan from, or otherwise approached or negotiated or communicated in respect of all or any part of such loan with

-38-

43

anyone other than Beneficiary. Neither Trustor nor any agent on its behalf will offer to obtain all or any part of such loan from, or solicit any offers to make all or any part of such loan from, or otherwise approach or negotiate or communicate in respect of all or any part of such loan with, any person or persons so as thereby to bring the obtaining of such loan by Trustor and the delivery of the Note within the registration provisions of the Securities Act of 1933, as amended.

2.12 Employee Benefit Plans.

A. None of the employee benefit plans maintained at any time by Trustor (herein called "Employee Benefit Plans") or the trusts created thereunder has engaged in a prohibited transaction which could subject any such Employee Benefit Plan or trust to a tax or penalty on prohibited transactions imposed under Internal Revenue Code Section 4975 or the Employee Retirement Income Security Act of 1974 and the regulations thereunder (herein called "ERISA").

B. None of the Employee Benefit Plans which are employee pension benefit plans or the trusts created thereunder has been terminated; nor has any such Employee Benefit Plan incurred any liability to the Pension Benefit Guaranty Corporation established pursuant to ERISA which would be material to Trustor, other than for required insurance premiums which have been paid when due, or incurred any accumulated funding deficiency which would be material to Trustor, whether or not waived; nor has there been any reportable event, or other event or condition, which presents a risk of termination of any such Employee Benefit Plan by such Pension Benefit Guaranty Corporation which termination would be material to Trustor.

C. The present value of all benefits vested under the Employee Benefit Plans which are employee pension benefit plans did not, as of the most recent valuation date, exceed the then current value of the assets of such Employee Benefit Plans allocable to such vested benefits by an amount that would materially affect the financial condition of Trustor or the ability of Trustor to perform under the Loan Documents.

D. The consummation of the loan from Beneficiary referred to in this Deed of Trust, and the execution and delivery of the Note hereunder and the performance by Trustor of its obligations under the Loan Documents, will not

involve any prohibited transaction.

E. As used in this Section 2.12, the terms "employee benefit plans," "employee pension benefit plans," "accumulated funding deficiency," "reportable event," "accrued benefits,"

-39-

44

"separate account" and "multiemployer plan" shall have the respective meanings assigned to them in ERISA, and the term "prohibited transaction" shall have the meaning assigned to it in Internal Revenue Code Section 4975 and ERISA.

ARTICLE III

DEFAULTS

3.1 Events of Default. Any of the following events shall be deemed an Event of Default or a default hereunder:

A. if default shall be made in the payment of any installment of the principal of, or interest on the Obligations or any other sum which is payable hereunder as and when the same shall become due and

payable as in the Note or herein provided; or

B. if Trustor fails to perform or observe any material term, provision, covenant or agreement in the Note, this Deed of Trust or in any other Loan Documents; provided, however in the event of any default other than a default which can be cured by the payment of money (a "non-monetary default"), the Beneficiary shall be entitled to enforce the remedies therefor provided herein only after giving notice thereof to Trustor and such default shall have continued uncorrected for thirty (30) days, unless such non-monetary default is of such a character as to require more than thirty (30) days to cure and the Trustor shall, prior to the expiration of said thirty (30) days, promptly commence and diligently and continuously proceed with due diligence to cure such default, in which event such period shall be extended for a reasonable time necessary to cure such default, but in no event more than ninety (90) days after such default; provided, however, that the foregoing opportunity to cure shall not apply to (a) any default under any letter of credit agreement made by the Beneficiary and the Trustor, if any, or the Beneficiary's rights under the letter(s) of credit delivered to the Beneficiary in connection therewith; (b) any sale, assignment, transfer, encumbrance, or lien in violation of this Note or the Deed of Trust; or (c) the Beneficiary's right to (i) charge interest at the Default Rate as provided herein, (ii) impose a late charge as provided herein, or (iii) make payments and cure defaults of the Trustor under the Note as provided therein, all of which amounts shall be immediately due and payable without any obligation on the part of the Beneficiary to notify any party and whether or not such default is cured; or

C. if any warranty, representation, certification, financial statement or other information made or furnished at any time pursuant to the terms of this Deed of Trust or otherwise, by

-40-

45

Trustor, or by any person or entity liable for the Obligations in connection with the loan transaction, shall prove to be materially false and to have been made or furnished with knowledge of the false nature thereof; or

D. if Trustor shall:

(1) apply for, consent to or acquiesce in the

appointment of a receiver, trustee or liquidator of it or of all or a substantial part of its assets, or the Secured Property or any interest in any part thereof (the term "acquiesce" includes, but is not limited to, the failure to file a petition or motion to vacate or discharge any order, judgment or decree providing for such appointment within ten (10) days after the

appointment); or

(2) commence a voluntary case or other proceeding in bankruptcy, or admit in writing its inability to pay its debts as they come due; or

(3) make a general assignment for the benefit of creditors; or

(4) file a petition or an answer seeking reorganization, arrangement, composition, readjustment, liquidation, dissolution, or similar relief for itself under the present or any future federal bankruptcy act or any other statute or law relative to bankruptcy, insolvency, or other relief for debtors; or

(5) file an answer admitting the material allegations of, or consent to, or default in answering, a petition filed against it in any bankruptcy, reorganization or insolvency case or proceeding; or

E. if an order for relief shall be entered against Trustor by a court of competent jurisdiction under any present or future bankruptcy law, which order shall continue unstayed and in effect for any period of forty-five (45) consecutive days; or

F. if an order, judgment or decree shall be entered by any court of competent jurisdiction, adjudicating Trustor insolvent, approving a petition seeking reorganization or arrangement of Trustor or appointing a receiver, trustee or liquidator of it or of all or a substantial part of its assets, and such order, judgment or decree shall continue unstayed and in effect for any period of forty-five (45) consecutive days; or

G. if Trustor has assigned or purports to assign the whole or any part of the rents, income or profits arising from

-41-

46

the Secured Property, without the prior written consent of Beneficiary; or

H. if a Transfer not consented to by Beneficiary shall have occurred; or

I. if Trustor shall enter into a mortgage or other security instrument with respect to the Secured Property which does not comply with the requirements of Section 1.11; or

J. if Trustor shall be in default beyond any applicable grace period under any other mortgage or security instrument affecting all or any part of the Secured Property; or

K. if any mechanic's, laborer's or materialman's lien, federal tax lien, broker's lien or other lien not permitted hereunder and affecting the Secured Property or any part thereof is not discharged, by payment, bonding, order of a court of competent jurisdiction or otherwise, within twenty (20) days after Trustor receives notice thereof from the lienor or from Beneficiary.

ARTICLE IV

REMEDIES

4.1 Remedies. Upon the occurrence of any one or more Events of Default, Trustee and/or Beneficiary may (but shall not be obligated), in addition to any rights or remedies available to them hereunder or under the other Loan Documents, take such action personally or by their agents or attorneys, with or without entry, and without notice, demand, presentment or protest (each and all of which are hereby waived to the extent permitted by law) as they deem necessary or advisable to protect and enforce Beneficiary's rights and remedies

against Trustor and Secured Property, including the following actions, each of which may be pursued concurrently or otherwise, at such time and in such order as Trustee and/or Beneficiary may determine, in their sole discretion, without impairing or otherwise affecting its or their other rights or remedies:

(a) declare the entire balance of the Obligations (including the entire principal balance thereof, all accrued and unpaid interest and any premium thereon and all other such sums secured hereby) to be immediately due and payable and upon any such declaration the entire unpaid balance of the Obligations shall become and be immediately due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by Trustor anything in the Loan Documents to the contrary notwithstanding; or

-42-

47

(b) institute a proceeding or proceedings, judicial or otherwise, for the complete foreclosure of this Deed of Trust under any applicable provision of law; or

(c) institute a proceeding or proceedings for the partial foreclosure of this Deed of Trust under any applicable provision of law for the portion of the Obligations then due and payable, subject to the lien of this Deed of Trust continuing unimpaired and without loss of priority so as to secure the balance of the Obligations not then due and payable; or

(d) cause any or all of the Secured Property to be sold under the power of sale granted by this Deed of Trust or any of the other Loan Documents in any manner permitted by applicable law. For any sale under the power of sale granted by this Deed of Trust, Trustee or Beneficiary must record and give all notices required by law and then, upon the expiration of such time as is required by law, may sell the Secured Property, and all estate, right, title, interest, claim and demand of Trustor therein, and all rights of redemption thereof, at one or more sales, as an entirety or in parcels, with such elements of real and/or personal property (and, to the extent permitted by applicable law, may elect to deem all of the Secured Property to be real property for purposes thereof), and at such time or place and upon such terms as Trustee and Beneficiary may determine and shall execute and deliver to the purchaser or purchasers thereof a deed or deeds conveying the property sold, but without any covenant or warranty, express or implied, and the recitals in the deed or deeds of any facts affecting the regularity or validity of the sale will be conclusive against all persons. In the event of a sale, by foreclosure or otherwise, of less than all of the Secured Property, this Deed of Trust shall continue as a lien and security interest on the remaining portion of the Secured Property; or

(e) institute an action, suit or proceeding in equity for the specific performance of any of the provisions contained in the Loan Documents; or

(f) apply for the appointment of a receiver custodian, trustee, liquidator or conservator of the Secured Property, to be vested with the fullest powers permitted under applicable law, as a matter of right and without regard to or the necessity to disprove the adequacy of the security for the Obligations or the solvency of Trustor or any other person liable for the payment of the Obligations, and Trustor and each other person so liable waives or shall be deemed to have waived such necessity and consents or shall be deemed to have consented to such appointment; or

-43-

48

(g) subject to the provisions and restrictions of any applicable law, enter upon the Premises, and exclude Trustor and its agents and servants wholly therefrom, without liability for trespass, damages or otherwise, and take possession of all books, records and accounts relating thereto and all other Secured Property, and Trustor agrees to surrender possession of the Secured Property and of such books, records and accounts to Trustor or Beneficiary on demand after the happening of any Event of Default; and having and holding the same may use, operate, manage, preserve, control and otherwise deal therewith

and conduct the business thereof, either personally or by its superintendents, managers, agents, servants, attorneys or receivers, without interference from Trustor; and upon each such entry and from time to time thereafter may, at the expense of Trustor and the Secured Property, without interference by Trustor and as Beneficiary may deem advisable, (i) either by purchase, repair or construction, maintain and restore the Premises, (ii) insure or reinsure the same, (iii) make all necessary or proper repairs, renewals, replacements, alterations, additions, betterments and improvements thereto and thereon, (iv) complete the construction of the Improvements and, in the course of such completion, may make such changes in the contemplated or completed Improvements as it may deem advisable, (v) in every such case in connection with the foregoing have the right to exercise all rights and powers of Trustee with respect to the Secured Property, either in Trustor's name or otherwise, including the right to make, terminate, cancel, enforce or modify Leases, obtain and evict Lessees and sublessees on such terms as Beneficiary shall deem advisable and to take any actions described in subsection (i) of this Section 4.1; or

(h) subject to the provisions and restrictions of any applicable law, may, with or without the entrance upon the Premises, collect, receive, sue for and recover in its own name all Rents and cash collateral derived from the Premises, and after deducting therefrom all costs, expenses and liabilities of every character incurred by Trustee and/or Beneficiary in collecting the same and in using, operating, managing, preserving and controlling the Premises, and otherwise in exercising Trustee's and/or Beneficiary's rights under subsection (g) of this Section 4.1, including all amounts necessary to pay Impositions, insurance premiums and other charges in connection with the Premises, as well as compensation for the services of Trustee and Beneficiary and their respective attorneys, agents and employees, to apply the remainder as provided in Section 4.5; or

(i) release any portion of the Secured Property for such consideration as Beneficiary may require without, as to the remainder of the Secured Property, in any way impairing or

-44-

49

affecting the lien or priority of this Deed of Trust, or improving the position of any subordinate lienholder with respect thereto, except to the extent that the Obligations shall have been reduced by the actual monetary consideration, if any, received by Trustee and/or Beneficiary for such release, and may accept by assignment, pledge or otherwise any other property in place thereof as Trustee and/or Beneficiary may require without being accountable for so doing to any other lienholder; or

(j) may take all actions permitted under the Uniform Commercial Code of the State of California; or

(k) may take any other action, or pursue any other right or remedy, as Trustee and/or Beneficiary may have under applicable law, and Trustor does hereby grant the same to Trustee and Beneficiary.

In the event that Trustee and/or Beneficiary shall exercise any of the rights or remedies set forth in subsections (g) and (h) of this Section 4.1, neither Trustee nor Beneficiary shall be deemed to have entered upon or taken possession of the Secured Property except upon the exercise of its option to do so, evidenced by its demand and overt act for such purpose, nor shall it be deemed a beneficiary or mortgagee in possession by reason of such entry or taking possession, unless applicable law requires that it be deemed to be a beneficiary or mortgagee in possession. Neither Trustee nor Beneficiary shall be liable to account for any action taken pursuant to any such exercise other than for rents actually received by such party, nor liable for any loss sustained by Trustor resulting from any failure to let the Premises, or from any other act or omission of Trustee and/or Beneficiary, except to the extent such loss is caused by the willful misconduct or bad faith of such party or such liability may not be waived under applicable law. Trustor hereby consents to, ratifies and confirms the exercise by Trustee and/or Beneficiary of said rights and remedies.

4.2 Expenses. If any action is commenced to foreclose this Deed of Trust, or to enforce any other remedy of Trustee and/or Beneficiary under any of the Loan Documents, whether such action is judicial or pursuant to the power of

sale contained herein or otherwise, there shall be added to the Obligations secured by this Deed of Trust all costs and expenses, including attorney's fees, plus interest thereon at the Default Rate (as defined in the Note) until paid, in the commencement and prosecution of such action, whether or not such action results in a foreclosure sale, foreclosure or other judicial decree or judgment.

4.3 Rights Pertaining to Sales. Subject to the provisions or other requirements of law, the following provisions shall

-45-

50

apply to any sale or sales of the Secured Property under or by virtue of this Article IV, whether made under the power of sale herein granted or by virtue of judicial proceedings or of a judgment or decree of foreclosure and sale:

(a) Trustee, at the request of Beneficiary, may conduct any number of sales from time to time. The power of sale set forth in Section 4.1(d) hereof shall not be exhausted by any one or more such sales as to any part of the Secured Property which shall not have been sold, nor by any sale which is not completed or is defective in Trustee's or Beneficiary's opinion, until the Obligations shall have been paid in full.

(b) Any sale may be postponed or adjourned by public announcement at the time and place appointed for such sale or for such postponed or adjourned sale without further notice.

(c) After each sale, Trustee, or an officer of any court empowered to do so, shall execute and deliver to the purchaser or purchasers at such sale a good and sufficient instrument or instruments granting, conveying, assigning and transferring all right, title and interest of Trustor in and to the property and rights sold and shall receive the proceeds of said sale or sales and apply the same as herein provided. Trustee is hereby appointed the true and lawful attorney-in-fact of Trustor, which appointment is irrevocable and shall be deemed to be coupled with an interest, in Trustor's name and stead, to make all necessary conveyances, assignments, transfers and deliveries of the property and rights so sold, and for that purpose Trustee may execute all necessary instruments of conveyance, assignment, transfer and delivery, and may substitute one or more persons with like power, Trustor hereby ratifying and confirming all that said attorney or such substitute or substitutes shall lawfully do by virtue thereof. Nevertheless, Trustor, if requested by Trustee or Beneficiary, shall ratify and confirm any such sale or sales by executing and delivering to Trustee or such purchaser or purchasers all such instruments as may be advisable, in Trustee's or Beneficiary's judgment, for the purposes as may be designated in such request.

(d) Any and all statements of fact or other recitals made in any of the instruments referred to in subsection (c) of this Section 4.3 given by Trustee and/or Beneficiary as to nonpayment of the Obligations, or as to the occurrence of any Event of Default, or as to Beneficiary having declared all or any of the Obligations to be due and payable, or as to the request to sell, or as to notice of time, place and terms of sale and of the property or rights to be sold having been duly given, or as to the refusal, failure or inability to act of Trustee, or as to the

-46-

51

appointment of any substitute or successor Trustee, or as to any other act or thing having been duly done by Trustor, Beneficiary, or by such Trustee, shall be taken as conclusive and binding against all persons as to evidence of the truth of the facts so stated and recited. Trustee and/or Beneficiary may appoint or delegate any one or more persons as agent to perform any act or acts necessary or incident to any sale so held, including the posting of notices and the conduct of sale, but in the name and behalf of Trustee or Beneficiary, as applicable.

(e) receipt of Trustee for the purchase money paid at any such sale, or the receipt of any other person authorized to receive the same, shall be sufficient discharge therefor to any purchaser of any property or rights sold as aforesaid, and no such purchaser, or its representatives, grantees or

assigns, after paying such purchase price and receiving such receipt, shall be bound to see to the application of such purchase price of any part thereof upon or for any trust or purpose of this Deed of Trust or, in any manner whatsoever, be answerable for any loss, misapplication or non-application of any such purchase money, or part thereof, or be bound to inquire as to the authorization, necessity, expediency or regularity of any such sale.

(f) Any such sale or sales shall operate to divest all of the estate, right, title, interest, claim and demand whatsoever, whether at law or in equity, of Trustor in and to the properties and rights so sold, and shall be a perpetual bar both at law and in equity against Trustor and any and all persons claiming or who may claim the same, or any part thereof or any interest therein, by, through or under Trustor to the fullest extent permitted by applicable law.

(g) Upon any such sale or sales, Beneficiary may bid for and acquire the Secured Property and, in lieu of paying cash therefor, may make settlement for the purchase price by crediting against the Obligations the amount of the bid made therefor, after deducting therefrom the expenses of the sale, the cost of any enforcement proceeding hereunder and any other sums which Trustee or Beneficiary is authorized to deduct under the terms hereof, to the extent necessary to satisfy such bid.

(h) In the event that Trustor, or any person claiming by, through or under Trustor, shall transfer or refuse or fail to surrender possession of the Secured Property after any sale thereof, then Trustor, or such person shall be deemed a tenant at sufferance of the purchaser at such sale, subject to eviction by means of forcible entry and detainer proceedings, or subject to any other right or remedy available hereunder or under applicable law.

-47-

52

(i) Upon any such sale, it shall not be necessary for Trustee, Beneficiary or any public officer acting under execution or order of court to have present or constructively in its possession any of the Secured Property.

(j) In the event a foreclosure hereunder shall be commenced by Trustee at the request of Beneficiary, Trustee or Beneficiary may at any time before the sale of the Secured Property abandon the sale, and may institute suit for the collection of the Obligations and for the foreclosure of this Deed of Trust, or in the event that Trustee or Beneficiary should institute a suit for collection of the Obligations, and for the foreclosure of this Deed of Trust, Beneficiary may at any time before the entry of final judgment in said suit dismiss the same and sell or require Trustee to sell the Secured Property in accordance with the provisions of this Deed of Trust.

4.4 Application of Proceeds. The purchase money, proceeds or avails of any sale referred to in Section 4.3, together with any other sums which may be held by Trustee or Beneficiary hereunder, whether under the provisions of this Article IV or otherwise, shall, except as herein expressly provided to the contrary, be applied as follows:

First: To the payment of the costs and expenses of any such sale, including compensation to Trustee and/or Beneficiary, their agents and counsel, and of any judicial proceeding wherein the same may be made, and of all expenses, liabilities and advances made or incurred by Trustee and/or Beneficiary hereunder, together with interest thereon as provided herein, and all taxes, assessments and other charges, except any taxes, assessments or other charges subject to which the Secured Property shall have been sold.

Second: To the payment in full of the Obligations (including principal, interest, premium and fees) in such order as Beneficiary may elect.

Third: To the payment of any other sums secured hereunder or required to be paid by Trustor pursuant to any provision of the Loan Documents.

Fourth: To the payment of the surplus, if any, to whomsoever may be lawfully entitled to receive the same.

4.5 Prepayment Charge. Trustor hereby agrees to pay the charge provided in the Note for prepayment of the Obligations, if for any reason any of said Obligations shall be paid prior to the stated maturity date thereof, even if and notwithstanding that an

-48-

53

Event of Default shall have occurred and Beneficiary, by reason thereof, shall have declared said Obligations due and payable, and whether or not said payment is made prior to or at any sale held under or by virtue of this Article IV. Trustor acknowledges that Beneficiary, in making the loan evidenced by the Note and entering into this Deed of Trust, is relying on Trustor's credit worthiness and its agreement to repay the Obligations in strict accordance with the terms set forth in the Note. Trustor acknowledges that Beneficiary would not make the loan without full and complete assurance by Trustor of its agreement to make regular payments of principal and interest under the Note and its further agreement not to prepay all or any part of the principal of the Note prior to the final maturity date thereof, except on the terms expressly set forth herein and in the Note. Therefore, any prepayment of the Note, whether occurring as a voluntary prepayment by Trustor or occurring upon an acceleration of the principal balance of the Note by Beneficiary on account of any default by Trustor (including, but not limited to, the making or suffering by Trustor, of any transfer or disposition of all or any portion of the Secured Property or any interest therein as prohibited by Section 1.11 of this Deed of Trust) will prejudice Beneficiary's ability to meet its obligations and to earn the return on the funds advanced to Trustor, which Beneficiary intended and expected to earn when it agreed to make the subject loan and will also result in other loss and additional expenses to Beneficiary. Accordingly, in recognition of the foregoing and in consideration of Beneficiary making the loan secured by this Deed of Trust at the interest rate and for the term set forth in the Note, Trustor hereby expressly (A) waives any and all rights it may have under applicable law to prepay without charge or premium all or any part of the Note, either voluntarily or upon an acceleration of the maturity date of the Note on account of any default of Trustor (including, but not limited to, the making or suffering by Trustor of any transfer or disposition prohibited by Section 1.11 of this Deed of Trust) and (B) agrees that if, for any reason, whether due to the voluntary acceptance by Beneficiary of a prepayment tendered by Trustor or the acceleration by Beneficiary of the maturity date of the Note, as aforesaid, on account of any such default by Trustor, a prepayment of all or any part of the principal of the Note is made by or on behalf of Trustor, or is otherwise made or occurs in connection with any reinstatement of the Loan Documents under any foreclosure proceedings, or any right of redemption exercised by Trustor or any other party having the right to redeem or to prevent any foreclosure of this Deed of Trust, or upon the consummation of any foreclosure sale, then Trustor or any other party making any such prepayment shall be obligated to pay, concurrently therewith, the prepayment charge set forth in the Note, and the payment of such premium shall be a condition to the making of such prepayment and shall be secured by this Deed of

-49-

54

Trust. Such prepayment charge shall be paid without prejudice to the right of Beneficiary to collect any other amounts provided to be paid or to declare a default hereunder. Nothing herein shall be construed as permitting any partial prepayment except with Beneficiary's prior written consent thereto obtained in each instance.

4.6 Environmental Defaults and Remedies. In the event that any portion of the Secured Property is determined to be "environmentally impaired" (as "environmentally impaired" is defined in California Code of Civil Procedure Section 726.5(e)(3)) or to be an "affected parcel" (as "affected parcel" is defined California Code of Civil Procedure Section 726.5(e)(1)), then, without otherwise limiting or in any way affecting Beneficiary's or Trustee's rights and remedies under this Deed of Trust, Beneficiary may elect to exercise its right under California Code of Civil Procedure Section 726.5(a) to (1) waive its lien on such environmentally impaired or affected parcel portion of the Secured

Property and (2) exercise (i) the rights and remedies of an unsecured creditor, including reduction of its claim against Trustor to judgment, and (ii) any other rights and remedies permitted by law. All costs and expenses, including, but not limited to, attorneys' fees, incurred by Beneficiary in connection with any action commenced under this Section 4.6, including any action required by California Code of Civil Procedure Section 726.5(b) to determine the degree to which the Secured Property is environmentally impaired, plus interest thereon at the Default Rate (as defined in the Note) until paid, shall be added to the Obligations secured by this Deed of Trust and shall be due and payable to Beneficiary upon its demand made at any time following the conclusion of such action.

ARTICLE V

MISCELLANEOUS

5.1 Non-Waiver. The failure of Beneficiary to insist upon strict performance of any term of this Deed of Trust shall not be deemed to be a waiver of any term of this Deed of Trust. Trustor shall not be relieved of its obligation to pay the Obligations at any time and in the manner provided for its payment in the Note and this Deed of Trust by reason of (A) a failure by Beneficiary to comply with any request of Trustor to take any action to foreclose this Deed of Trust or otherwise enforce any of the provisions of this Deed of Trust or of the Note or any other Loan Document, (B) the release, regardless of consideration, of the whole or any part of the Secured Property or any other security for the Obligations, or (C) any agreement or stipulation between Beneficiary and any subsequent owner or owners of the Secured

-50-

55

Property or other person extending the time of payment or otherwise modifying or supplementing the terms of the Note, this Deed of Trust or any Loan Document securing or guaranteeing the Obligations or any portion thereof, without first having obtained the consent of Trustor and, in the latter event, Trustor shall continue to be obligated to pay the Obligations at the time and in the manner provided in the Note and this Deed of Trust, as so extended, modified and supplemented, unless expressly released and discharged by Beneficiary. Regardless of consideration, and without the necessity for any notice to or consent by the holder of any subordinate lien, encumbrance, right, title or interest in or to the Secured Property, Beneficiary may release any person at any time liable for the payment of the Obligations or any portion thereof or any part of the security held for the Obligations and may extend the time of payment or otherwise modify the terms of any Loan Documents, including, without limitation, a modification of the interest rate payable on the principal balance of the Note, without in any manner impairing or affecting any of the Loan Documents or the lien thereof or the priority of this Deed of Trust, as so extended and modified, as security for the Obligations over any such subordinate lien, encumbrance, right, title or interest. Beneficiary may resort for the payment of the Obligations to any other security held by Beneficiary in such order and manner as Beneficiary, in its discretion, may elect. Beneficiary may take action to recover the Obligations, or any portion thereof, or to enforce any covenant of this Deed of Trust without prejudice to the right of Beneficiary thereafter to foreclose this Deed of Trust. Beneficiary shall not be limited exclusively to the rights and remedies stated in this Deed of Trust but shall be entitled to every additional right and remedy now or hereafter afforded by law. The rights of Beneficiary under this Deed of Trust shall be separate, distinct and cumulative and none shall be given effect to the exclusion of the others. No act of Beneficiary shall be construed as an election to proceed under any one provision of this Deed of Trust to the exclusion of any other provision.

5.2 Sole Discretion of Beneficiary. Wherever, pursuant to this Deed of Trust, Beneficiary's consent or approval is required, the decision as to whether or not to consent or approve shall be in the sole discretion of Beneficiary and Beneficiary's decision shall be final and conclusive, except where this Deed of Trust expressly provides to the contrary. If Trustor shall seek the approval by or consent of Beneficiary under this Deed of Trust and Beneficiary shall fail or refuse to give such consent or approval, Trustor shall not be entitled to any damages for any withholding of such approval or consent by Beneficiary, it being intended that Trustor's sole remedy shall be an action for injunctive or declaratory relief, which remedy shall be available

-51-

only in those cases where Beneficiary has expressly agreed not to unreasonably withhold its consent or approval.

5.3 Recovery of Sums Required To Be Paid. Beneficiary shall have the right from time to time to take action to recover any sum or sums which constitute a part of the Obligations as such sums shall become due, without regard to whether or not the balance of the Obligations shall be due, and without prejudice to the right of Beneficiary thereafter to bring an action of foreclosure or any other action for a default or defaults by Trustor existing at the time such earlier action was commenced.

5.4 Legal Tender. All payments of principal, interest and any and all other payments required or provided herein shall be paid in lawful money of the United States of America which shall be legal tender in payment of all debts and dues, public and private, at the time of payment, at the office of Beneficiary or at such other place either within or without the State of California as Beneficiary may from time to time designate.

5.5 No Merger. If both the lessor's and lessee's estates under any lease or any portion thereof which constitutes a part of the Secured Property shall at any time become vested in one owner, this Deed of Trust and the lien created hereby shall not be destroyed or terminated by the application of the doctrine of merger and in such event, Beneficiary shall continue to have and enjoy all of the rights and privileges of Beneficiary as to the separate estates. In addition, upon the foreclosure of the lien created by this Deed of Trust on the Secured Property pursuant to the provisions hereof, any leases or subleases then existing and created by Trustor shall not be destroyed or terminated by application of the law of merger or as a matter of law or as a result of such foreclosure unless Beneficiary or any purchaser at any such foreclosure sale shall so elect. No act by or on behalf of Beneficiary or any such purchaser shall constitute a termination of any lease or sublease unless Beneficiary or such purchaser shall give written notice thereof to such lessee or sublessee.

5.6 Discontinuance of Actions. In case Beneficiary shall have proceeded to enforce any right under this Deed of Trust by foreclosure, sale or entry or otherwise, and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely, then, in every such case, Trustor and Beneficiary shall be restored to their former positions and rights hereunder with respect to the Secured Property which shall remain subject to the lien of this Deed of Trust.

5.7 Headings. The headings of the sections, paragraphs and subdivisions of this Deed of Trust are for the convenience of

-52-

reference only, are not to be considered a part hereof and shall not limit or otherwise affect any of the terms hereof.

5.8 Notice to Parties. All notices and demands hereunder shall be in writing and shall be deemed to have been sufficiently given or served for all purposes when presented personally or sent by certified or registered mail with return receipt requested or generally recognized overnight delivery service, addressed to the parties at the addresses stated below, or at such other address as either party may hereafter notify the other in writing as aforesaid:

Trustor:	Megatest Corporation 1321 Ridder Park Drive San Jose, California 95131-2306 Attn: Patrick J. Ryan
with a copy to:	Halgrimson, McNichols, et. al. 40 South Market Street, Suite 700 San Jose, California 95113 Attn: Eric Wong, Esq.
Beneficiary:	SUN LIFE ASSURANCE COMPANY OF CANADA

(U.S.), a Delaware corporation

One Sun Life Executive Park
Wellesley Hills, MA 02181
Attn: Property Investments

with a copy to:

Landels, Ripley & Diamond
350 Steuart Street
San Francisco, CA 94105
Attn: Bruce W. Hyman, Esq.

Service of any such notice or demand so made shall be deemed effective on the day of actual delivery as shown by the addressee's return receipt or the expiration of forty-eight (48) hours after the date sent by generally recognized overnight delivery service or mailed, whichever is the earlier in time, except that service of any notice of default or notice of sale provided or required by law shall, if mailed, be deemed effective on the date of mailing.

5.9 Non-Recourse. If an Event of Default has occurred, Beneficiary shall have all rights reserved in the Note, this Deed of Trust and every other Loan Document and shall have full recourse to the Secured Property and to the other collateral given by Trustor to secure the Note, provided, however, that any judgment obtained by Beneficiary in any proceeding to enforce such rights shall be enforced only against the Secured Property and such other collateral.

Notwithstanding the foregoing,

-53-

58

Beneficiary shall not in any way be prohibited from naming Trustor or any of its successors or assigns or any person holding under or through them as parties to any actions, suits or other proceedings initiated by Beneficiary to enforce such rights or to foreclose its mortgage lien or otherwise realize upon any other lien or security interest created in any other collateral given to secure the payment of the Obligations. The foregoing restriction shall not apply to, and Trustor shall be personally liable for, any losses, damages, costs and expenses incurred by Beneficiary as a result of (A) any material misstatement of fact (1) made by Trustor or any person or entity constituting Trustor to induce Beneficiary to advance the principal amount evidenced hereby or (2) contained in any Loan Document, (B) fraud committed by Trustor or any person or entity constituting Trustor, (C) misapplication of rents, income, insurance proceeds, condemnation awards or trust funds, (D) any loss, damage, expense or liability on the part of Beneficiary (including, without limitations, attorneys fees and disbursements) not reimbursable to Beneficiary pursuant to the Indemnity executed on even date herewith including, but not limited to the diminution in value of the Secured Property due to the existence of Hazardous Substances (as defined in the Indemnity), or if required in the reasonable judgment of Beneficiary, the preparation of an environmental audit on the Secured Property, whether conducted or authorized by Trustor, Beneficiary or a third party or the implementation of any environmental audit's recommendations, (E) all losses, damages or liability suffered by Beneficiary arising from any acts of commission or omission by Trustor that result in waste upon the Secured Property, (F) failure to pay real property taxes when due, (G) taking of any rents prepaid for more than one month in advance, (H) cost of any property repair as a result of a casualty not reimbursed by insurance to the extent insurance is required pursuant to this Deed of Trust, or (I) failure to fully comply with the provisions of the Americans With Disabilities Act.

5.10 Successors and Assigns Included In Parties. Subject to the provisions of Section 1.11, whenever in this Deed of Trust one of the parties hereto is named or referred to, the heirs, legal representatives, successors and assigns of such party shall be included and all covenants and agreements contained in this Deed of Trust by or on behalf of Trustor or by or on behalf of Beneficiary shall bind and inure to the benefit of their respective heirs, legal representatives, successors and assigns, whether so expressed or not.

5.11 Number and Gender. Whenever the singular or plural number, masculine or feminine or neuter gender is used herein, it shall equally include the other.

-54-

5.12 Changes and Modifications. This Deed of Trust cannot be changed except by an agreement in writing, signed by the party against whom enforcement of any change or modification is sought.

5.13 Applicable Law. This Deed of Trust shall be construed and enforced according to the laws of the State of California.

5.14 Invalid Provisions to Affect No Others. The unenforceability or invalidity of any provision or provisions of this Deed of Trust as to any persons or circumstances shall not render that provision or those provisions unenforceable or invalid as to any other persons or circumstances, and all provisions hereof, in all other respects, shall remain valid and enforceable.

5.15 Usury Savings Clause. It is the intention of Trustor and Beneficiary to conform strictly to the usury laws now or hereafter in force in the State of California and any interest payable under the Note, this Deed of Trust, or any of the other Loan Documents executed by Trustor, to the extent that any sums secured hereby or the advancing of such sums by Beneficiary shall not be exempt from such laws, shall be subject to reduction to the amount equal to the maximum non-usurious amount allowed under the usury laws of California as now or hereafter construed by the courts having jurisdiction over such matters. In the event the maturity of the Note is accelerated by reason of any provision of this Deed of Trust including, without limitation, an election by Beneficiary resulting from an Event of Default (or an event permitting acceleration) under this Deed of Trust or any other Loan Documents, voluntary prepayment of the Note, or otherwise, then earned interest may never include more than the maximum amount permitted by law, computed from the dates of each advance of the Obligations until payment, and any interest in excess of the maximum amount permitted by law shall be canceled automatically and, if theretofore paid, shall at the option of Beneficiary either be rebated to Trustor or credited on the principal amount of the Note or if all principal has been repaid, then the excess shall be rebated to Trustor. The aggregate of all interest (whether designated as interest, service charges, points or otherwise) contracted for, chargeable, or receivable under the Note, this Deed of Trust, or any other Loan Document shall under no circumstances exceed the maximum legal rates upon the unpaid principal balance of the Note remaining unpaid from time to time. In the event such interest does exceed the maximum legal rate, it shall be deemed a mistake and such excess shall be canceled automatically and if theretofore paid, rebated to Trustor or credited on the principal amount of the Note, or if the Note has been repaid, then such excess shall be rebated to Trustor.

-55-

5.16 No Statute of Limitations. The pleadings of any statute of limitations as a defense to any and all obligations secured by this Deed of Trust are hereby waived to the full extent permissible by law.

5.17 Late Charges. In the event that any installment of principal, interest or escrow deposit shall become overdue, a "late charge" of four cents (\$.04) for each dollar (\$1.00), or part thereof so overdue, may be charged to Trustor by Beneficiary for the purpose of defraying Beneficiary's expenses incident to handling such delinquent payment. This charge shall be in addition to, and not in lieu of, any other remedy Beneficiary may have and is in addition to any reasonable fees and charges of any agents or attorneys which Beneficiary is entitled to employ on any default hereunder whether authorized herein or by law. Such "late charges", if not previously paid, shall, at the option of Beneficiary, be added to and become part of the succeeding monthly payment to be made under the Note and secured by this Deed of Trust.

5.18 Continuing Effectiveness. This Deed of Trust shall cover any and all advances made pursuant to the Loan Documents, rearrangements and renewals of the Obligations and all extensions in the time of payment thereof, whether such advances extensions or renewals are evidenced by new promissory notes or other instruments hereafter executed and irrespective of whether filed or recorded. Likewise, the execution of this Deed of Trust shall not impair or affect any other security which may be given to secure the payment of the Obligations, and all such additional security shall be considered as cumulative. The taking of additional security, execution of partial releases of the

-56-

security, or any extension of time of payment of the Obligations shall not diminish the force, effect or lien of this Deed of Trust and shall not affect or impair the liability of any maker, surety or endorser for the payment of the Obligations.

IN WITNESS WHEREOF, Trustor has executed this Deed of Trust as of the date and year first above written.

Trustor
MEGATEST CORPORATION, a Delaware
corporation
By: /s/ PAUL W. EMERY, II

Its: VP FIN & CFO

By:

Its:

[ALL SIGNATURES MUST BE ACKNOWLEDGED]

[IMPRINT OF NOTORIAL SEAL AND ACKNOWLEDGEMENT APPEAR HERE]

PROMISSORY NOTE

\$5,450,000.00

San Jose, California
August 25, 1995

FOR VALUE RECEIVED, MEGATEST CORPORATION, a Delaware corporation ("Maker"), having an office at 1321 Ridder Park Drive, San Jose, CA 95131-2306 promises to pay to SUN LIFE ASSURANCE COMPANY OF CANADA (U.S.), a Delaware corporation ("Holder") having its principal office address, at One Sun Life Executive Park, Wellesley Hills, MA 02181, or order, at its principal office in Wellesley Hills, MA or at such other place as may be designated in writing by Holder, the principal sum of FIVE MILLION FOUR HUNDRED FIFTY THOUSAND and NO/100 Dollars (\$5,450,000.00) (the "Principal Indebtedness"), in lawful money of the United States, together with interest thereon at the rate of eight and one eighth percent (8.125%) per annum, payable in monthly installments of principal and interest in the sum of Forty Nine Thousand Three Hundred Sixty-One and 76/100 Dollars (\$49,361.76), commencing October 1, 1995 and payable on the first day (1st) of each month for fifty-nine (59) months with the last installment being due and payable on August 31, 2000 (the "Maturity Date"), at which time the entire unpaid balance together with accrued interest shall be due and payable. Interest accrued from the date Holder initially disburses funds to the first (1st) day of the month following the month during which Holder initially disburses funds, shall be due and payable at the time of closing.

This Note is secured by, among other things, (i) a Deed of Trust, Financing Statement, Security Agreement and Fixture Filing (with Assignment of Rents and Leases) (the "Deed of Trust") dated as of the date hereof made by Maker for the benefit of Holder and encumbering certain premises situate in the City of San Jose, County of Santa Clara and the improvements thereon, along with other property more particularly described in the Deed of Trust (collectively, the "Secured Property"), and (ii) an Absolute Assignment of Leases, Rents, Income and Cash Collateral dated as of the date hereof from Maker to Holder. Each of the documents mentioned in this paragraph and all other documents either evidencing or further securing the Principal Indebtedness are collectively referred to herein as the "Loan Documents".

Upon the occurrence of an Event of Default (as such term is defined in the Deed of Trust) (including, without limitation, the failure of Maker to pay any sum herein specified when due regardless of whether or not there has been an acceleration), all delinquent payments and all accrued and unpaid interest thereon,

63

and all other delinquent sums evidenced and/or secured by the Loan Documents shall bear interest from the date of delinquency at a rate per annum (the "Default Rate") equal to the lesser of: (i) the highest rate of interest permitted to be contracted for under the laws of the State of California, if any, or (ii) twelve and one eighth percent (12.125%) per annum. The Default Rate shall be in lieu of any other interest rate otherwise applicable and shall commence, without notice, immediately upon and from the occurrence of such Event of Default and shall continue until all defaults are cured and all sums then due and payable under the Loan Documents are paid in full.

No privilege is reserved to prepay the Principal Indebtedness either in whole or in part prior to September 1, 1997 (the "Closed Period"). Thereafter, beginning on September 1, 1997, and except as provided hereinafter, the privilege is reserved by Maker to prepay the entire principal balance hereunder together with accrued interest thereon to the date of payment on such date or any subsequent monthly installment date, upon not less than ninety (90) days' prior written notice to Holder of Maker's intention to make such prepayment, provided there is paid, in addition to interest accrued to the date of such prepayment, a prepayment fee which shall be equal to the greater of (a) two percent (2%) of the then outstanding balance of the Principal Indebtedness, or (b) a Discounted Yield Maintenance Prepayment Fee computed as follows: the proceeds of the prepayment will be assumed to be immediately reinvested in a United States Treasury Security having a coupon interest rate and maturity most closely equivalent to that of this Note. If the yield (the "Treasury Yield") on that certain United States Treasury Security, as published in the "Wall Street Journal" on the fifth business day prior to the date of prepayment, is:

1. less than the interest rate of this Note, Maker will pay to Holder a fee equal to the positive difference between the two interest rates, divided by 12 and multiplied by the then outstanding balance of the Principal Indebtedness to arrive at the monthly payment differential. Holder shall then determine the present value of the series of monthly payment differentials for the number of whole and partial months from the prepayment date to the maturity date using the Treasury Yield as the discount rate compounding monthly. The resulting sum of the discounted monthly payment differentials will be the Discounted Yield Maintenance Prepayment Fee, or,
2. greater than or equal to the interest rate on this Note, then the prepayment fee shall be 2% of the then outstanding balance of the Principal Indebtedness.

-2-

64

In the event the outstanding balance of the Principal Indebtedness shall become due and payable as a result of (a) an Event of Default (as such term is defined in the Deed of Trust) causing acceleration under this Note, which Event of Default shall be conclusively deemed to be a willful default for purposes of avoiding the prepayment charges to which Holder is entitled; (b) the exercise by Maker of any right of redemption or other action to prevent a foreclosure of the Secured Property; or (c) an acceleration by Holder as a result of the sale or further encumbrance of the Secured Property in violation of the applicable provisions of the Deed of Trust; then, in such event, Maker shall pay the prepayment charge which would otherwise be applicable hereunder; or if at that time there is no such privilege of prepayment (e.g., during the Closed Period), then, to the extent permitted by law, and except as provided hereinafter, such prepayment fee shall be equal to the greater of (a) three percent (3%) of the then outstanding balance of the Principal Indebtedness, or (b) a Discounted Acceleration Premium amount calculated as follows: the proceeds of the prepayment will be assumed to be immediately reinvested in a United States Treasury Security having a coupon interest rate and maturity most closely equivalent to that of this Note. If the yield on that certain United States

Treasury Security, as published in the Wall Street Journal on the fifth business day prior to the date of prepayment, is:

1. less than the interest of this Note, Maker will pay to Holder a fee equal to the positive difference between the two interest rates, divided by 12 and multiplied by the then outstanding balance of the Principal Indebtedness to arrive at the monthly payment differential. Holder shall then determine the present value of the series of monthly payment differentials for the number of whole and partial months from the prepayment date to the maturity date using the Treasury Yield as the discount rate compounding monthly. The resulting sum of the discounted monthly payment differential will be the Discounted Acceleration Premium, or,
2. greater than or equal to the interest rate on this Note, then the prepayment fee shall be 3% of the then outstanding balance of the Principal Indebtedness.

MAKER HEREBY EXPRESSLY (A) WAIVES ANY RIGHTS IT MAY HAVE UNDER CALIFORNIA CIVIL CODE SECTION 2954.10 TO PREPAY THIS NOTE, IN WHOLE OR IN PART, WITHOUT PENALTY, UPON ACCELERATION OF THE MATURITY DATE OF THE NOTE, AND (B) AGREES THAT IF, FOR ANY REASON, A PREPAYMENT OF ANY OR ALL OF THIS NOTE IS MADE, WHETHER VOLUNTARY OR INVOLUNTARY, OR UPON OR FOLLOWING ANY ACCELERATION

-3-

65

OF THE MATURITY DATE OF THE NOTE BY HOLDER ON ACCOUNT OF ANY DEFAULT BY MAKER UNDER ANY LOAN DOCUMENT, INCLUDING BUT NOT LIMITED TO ANY TRANSFER OR DISPOSITION AS PROHIBITED OR RESTRICTED BY SECTION 1.11 OF THE DEED OF TRUST, THEN MAKER SHALL BE OBLIGATED TO PAY, CONCURRENTLY THEREWITH, AS A PREPAYMENT FEE, THE APPLICABLE SUM SPECIFIED IN THE PRECEDING PARAGRAPH. BY SIGNING THIS PROVISION IN THE SPACE PROVIDED BELOW, MAKER AGREES THAT HOLDER'S AGREEMENT TO MAKE THE LOAN EVIDENCED BY THIS NOTE AT THE INTEREST RATE AND FOR THE TERM SET FORTH IN THE NOTE CONSTITUTES ADEQUATE CONSIDERATION, GIVEN INDIVIDUAL WEIGHT BY MAKER FOR THIS WAIVER AND AGREEMENT.

MEGATEST CORPORATION, a Delaware

corporation

By: /s/ PAUL W. EMERY, II

Its: VP, FIN & CFO

By:

Its:

Notwithstanding the foregoing, no prepayment fee shall be payable in connection with any voluntary or involuntary prepayment made on or after June 1, 2000, or any payment as a result of casualty or condemnation.

Upon the occurrence of any other Event of Default, then and in any such events, Holder may, at its option, declare this Note and the entire Principal Indebtedness to be immediately due and payable and collectible then or thereafter as Holder may elect, regardless of the stated Maturity Date.

Should the Principal Indebtedness or any part thereof be collected at law or in equity, or in bankruptcy, receivership, or any other court proceeding (whether at the trial or appellate level), or should this Note be placed in the hands of attorneys for collection upon default, Maker agrees to pay, in addition to the principal, prepayment charge, interest and any other outstanding amounts due and payable hereon, all costs of collecting or attempting to collect this Note and enforcing Holder's remedies under the Loan Documents, including reasonable attorneys' fees and expenses, and the same shall constitute

additional indebtedness secured by the Deed of Trust.

Maker recognizes that any default in the payment of any installment of principal and/or interest due hereunder on the date the same is due will result in loss and additional expense

-4-

66

to Holder in servicing the Principal Indebtedness, handling such delinquent payments and meeting its other financial obligations, and that the extent of such loss and additional expenses is extremely difficult and impractical to ascertain. Maker therefore agrees that in the event any installment of principal and/or interest due hereunder is not paid on the date the same is due and payable, without regard to any grace periods, a late charge of four percent (4%) of the overdue installment of principal and/or interest shall be paid by Maker and that such amount is a reasonable estimate of such loss and expense and may be charged by Holder, at its option, for the purpose of defraying such loss and expenses, unless applicable law requires a lesser such charge, in which event the maximum rate permitted by such law may be charged by Holder for said purposes.

The failure of Holder to exercise the option for acceleration of maturity, foreclosure or any other remedies provided in the Loan Documents following any default as aforesaid or to exercise any other option granted to it hereunder, under the Deed of Trust or under any of the other Loan Documents, in any one or more instances, or the acceptance by Holder of partial payments or partial performance, shall not constitute a waiver of any such default, but such option shall remain continuously in force. Acceleration of maturity, once claimed hereunder by Holder, may at its option be rescinded by written acknowledgement to such effect, but the tender and acceptance of partial payment or partial performance alone shall not in any way affect or rescind such acceleration of maturity.

Maker hereby covenants and agrees that, together with and in addition to the monthly payments of principal and/or interest payable under the terms of this Note, Maker will deposit with Holder of this Note or its agent, as directed by Holder, until this Note is fully paid, installments of insurance premiums and Impositions (as defined and required in the Deed of Trust). Amounts held hereunder shall not be deemed to be trust funds, but may be commingled with the general funds of Holder.

It is the intention of Maker and Holder to conform strictly to the usury laws now or hereafter in force in the State of California, and any interest payable under this Note, the Deed of Trust, the other Loan Documents, and/or any of the other documents or instruments executed by Maker in connection with the loan made or to be made hereunder shall be subject to reduction to the amount not in excess of the maximum non-usurious amount allowed under the usury laws of the State of California as now or hereafter construed by the courts having jurisdiction over such matters. If the aggregate of all interest (whether designated as interest, service charges, points or otherwise) contracted for, chargeable or receivable under this Note, the Deed of Trust and

-5-

67

any other Loan Document should exceed the maximum legal rate, it shall be deemed a mistake and such excess shall be canceled automatically and, if theretofore paid, shall at the option of Holder either be rebated to Maker or credited on the principal amount of this Note, or, if the Note has been repaid, such excess shall be rebated to Maker. In the event the Maturity Date is accelerated by reason of any provision of this Note or by reason of an election by Holder resulting from an Event of Default under the Loan Documents, voluntary prepayment by Maker, or otherwise, then earned interest may never include more than the maximum amount permitted by law, computed from the dates of each advance of loan proceeds hereunder until payment, and any interest in excess of the maximum amount permitted by law shall be canceled automatically and, if theretofore paid, shall at the option of Holder either be rebated to Maker or credited on the principal amount of this Note or, if the Note has been repaid, the excess shall be rebated to the Maker. This provision shall control every other provision of all agreements between Maker and Holder.

Maker hereby waives presentment, protest, notice of protest, notice of dishonor and diligence in collection, and any and all other notices and matters of a like nature, except for those expressly required by the Deed of Trust or this Note. Maker consents to any extension of time (whether one or more) of payment hereof, release of all or any part of the security for the payment of this obligation or release of any person or entity liable for payment of this Note. Any such extension or release may be made without notice to any such party and without discharging said party's liability hereunder.

This Note may not be changed orally, but only by an agreement in writing, signed by the party against whom enforcement of any waiver, change, modification or discharge is sought.

No failure or delay on the part of Holder in exercising any right, power or privilege under this Note and no course of dealing between Maker and Holder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein expressly provided are cumulative and not exclusive of any rights or remedies which Holder would otherwise have at law or equity. No notice to or demand on Maker in any case shall entitle Maker to any other or further notice or demand in similar or other circumstances or constitute a waiver of the right of Holder to any other or further action in any circumstances without notice or demand.

-6-

68

Maker acknowledges that the ownership (and the continuation thereof) of the Secured Property by Maker is of a material nature to the loan and the making of the loan evidenced by this Note. Therefore, Maker agrees that in the event of any transfer that is prohibited by the terms of Section 1.11 of the Deed of Trust or other Loan Document, howsoever evidenced or occasioned, then, at the option of Holder, the entire Principal Indebtedness along with all accrued interest thereon shall immediately become due and payable.

Whenever in this Note one of the parties hereto is named or referred to, the heirs, legal representatives, successors and assigns of such party shall be included and all covenants and agreements contained in this Note by or on behalf of Maker or by or on behalf of Holder shall bind and inure to the benefit of such party's heirs, legal representatives, successors and assigns, whether so expressed or not.

The obligations of each person and entity comprising Maker (if more than one) shall be joint and several.

The unenforceability or invalidity of any provision or provisions of this Note as to any persons or entities or circumstances shall not render that provision or those provisions unenforceable or invalid as to any other persons or entities or circumstances, and all provisions hereof, in all other respects, shall remain valid and enforceable.

In the event of any default by Maker under this Note, the Deed of Trust or any other Loan Document, Holder shall have all rights reserved in this Note, the Deed of Trust and every other Loan Document and shall have full recourse to the Secured Property and to the other collateral given by Maker to secure this Note, provided, however, that any judgment obtained by Holder in any proceeding to enforce such rights shall be enforced only against the Secured Property and such other collateral. Notwithstanding the foregoing, Holder shall not in any way be prohibited from naming Maker or any of its successors or assigns or any person holding under or through them as parties to any actions, suits or other proceedings initiated by Holder to enforce such rights or to foreclose its mortgage lien or otherwise realize upon any other lien or security interest created in any other collateral given to secure the payment of this Note. The foregoing restriction shall not apply to, and Maker shall be personally liable for, any losses, damages, costs and expenses incurred by Holder as a result of (i) any material misstatement of fact (A) by Maker or any person or entity constituting Maker to induce Holder to advance the principal amount evidenced hereby or (B) contained in any Loan Document, (ii) fraud committed by Maker or any person or entity

-7-

constituting Maker, (iii) misapplication of rents, security deposits, income, insurance proceeds, condemnation awards or trust funds, (iv) any loss, damage, expense or liability on the part of Holder (including, without limitation, attorneys' fees and disbursements) not reimbursable to Holder pursuant to the Environmental Agreement and Indemnity (the "Indemnity") executed on even date herewith including, but not limited to the diminution in value of the Secured Property due to the existence of Hazardous Substances (as defined in the Indemnity), or if required in the reasonable judgment of Holder, the preparation of an environmental audit on the Secured Property, whether conducted or authorized by Maker, Holder or a third party or the implementation of any environmental audit's recommendations, (v) all losses, damages or liability suffered by Holder arising from any acts of commission or omission by Maker that result in waste upon the Secured Property, (vi) failure to pay real property taxes when due, (vii) taking of any rents prepaid for more than one (1) month in advance, (viii) cost of any property repair as a result of a casualty not reimbursed by insurance to the extent insurance is required pursuant to the Deed of Trust, or (ix) failure to fully comply with the provisions of the Americans With Disabilities Act.

Whenever used, the words "Maker" and "Holder" shall be deemed to include the respective heirs, successors, assigns and legal representatives of Maker and Holder.

This Note is to be construed and enforced according to and governed by the laws of the State of California.

IN WITNESS WHEREOF, Maker has executed this Note as of the date first above written.

MAKER

MEGATEST CORPORATION, a Delaware corporation

By: /s/ PAUL W. EMERY, II

Its: VP, FIN & CFO

By:

Its:

PRESENT SUBSIDIARIES

	STATE OR JURISDICTION INCORPORATION -----	PERCENTAGE OF VOTING SECURITIES OWNED -----
Teradyne Benelux, Inc. (Ltd.)	Delaware	100%
Teradyne Canada Limited	Canada	100%
Teradyne GmbH	Germany	100%
Teradyne Holdings Limited	United Kingdom	100%
Teradyne Limited	United Kingdom	100%
Teradyne Hong Kong, Ltd.	Delaware	100%
Teradyne International, Ltd.	U.S. Virgin Islands	100%
Teradyne Ireland Limited	Ireland	100%
Teradyne Italia S.r.L.	Italy	100%
Teradyne Japan, Ltd.	Delaware	100%
Teradyne K.K.	Japan	100%
Teradyne Korea, Ltd.	Delaware	100%
Teradyne Leasing, Inc.	Massachusetts	100%
Teradyne Malaysia, Ltd.	Delaware	100%
Teradyne Netherlands B.V.	Netherlands	100%
Teradyne Netherlands, Ltd.	Delaware	100%
Teradyne Realty, Inc.	Massachusetts	100%
Teradyne S.A.	France	100%
Teradyne Scandinavia, Inc.	Delaware	100%
Teradyne Singapore, Ltd.	Delaware	100%
Teradyne Software and Systems Test, Inc.	Delaware	100%
Teradyne Taiwan, Ltd.	Delaware	100%
Hammer Technologies, Inc.	Massachusetts	100%
Megatest Corporation	Delaware	100%
Megatest Limited	United Kingdom	100%
Megatest SARL	France	100%
Megatest GmbH	Germany	100%
Megatest H.K. Ltd.	Hong Kong	100%
Megatest International	California	100%
Megatest International		
Sales Corporation Barbados	100%	
Megatest Asia Pte. Ltd.	Singapore	100%
Zehntel Holdings, Inc.	California	100%
1000 Washington, Inc.	Massachusetts	100%

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in the registration statements of Teradyne, Inc. on Form S-8 (File Nos. 33-25868; 33-16077; 33-42352; 33-38251; and 33-64683) and Form S-3 (File No. 33-44347) of our report dated January 18, 1996, except as to the third paragraph of Note E, for which the date is January 31, 1996, on our audits of the consolidated financial statements of Teradyne, Inc. as of December 31, 1995 and 1994, and for each of the three years in the period ended December 31, 1995, which report is included in this Annual Report on Form 10-K.

COOPERS & LYBRAND L.L.P.

Boston, Massachusetts
March 25, 1996

CONSENT OF INDEPENDENT ACCOUNTANTS

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-64683; 33-25868; 33-16077; 33-42352; and 33-38251) of Teradyne, Inc. of our report dated September 20, 1995 relating to the consolidated financial statements of Megatest Corporation and its subsidiaries as of and for the year ended August 31, 1994, which report is included in this Annual Report on Form 10-K.

PRICE WATERHOUSE LLP

San Jose, California
March 21, 1996

CONSENT OF DELOITTE & TOUCHE LLP

We consent to the incorporation by reference in the registration statements of Teradyne, Inc. on Form S-8 (File Nos. 33-16077, 33-25868, 33-38251, and 33-64683) and Form S-3 (File No. 33-44347) of our report dated September 21, 1993 on the consolidated financial statements of Megatest Corporation and its subsidiaries for the year ended August 31, 1993 appearing in this Annual Report on Form 10-K of Teradyne, Inc.

DELOITTE & TOUCHE LLP

San Jose, California
March 22, 1996

<ARTICLE> 5

<LEGEND>

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1995 AND THE CONSOLIDATED STATEMENT OF INCOME FOR THE YEAR ENDED DECEMBER 31, 1995 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

</LEGEND>

<CIK> 0000097210

<NAME> TERADYNE, INC.

<MULTIPLIER> 1,000

<CURRENCY> U.S. DOLLARS

<PERIOD-TYPE>	12-MOS	
<FISCAL-YEAR-END>		DEC-31-1995
<PERIOD-START>		JAN-01-1995
<PERIOD-END>		DEC-31-1995
<EXCHANGE-RATE>		1.00
<CASH>		182,165
<SECURITIES>		93,662
<RECEIVABLES>		257,089
<ALLOWANCES>		2,269
<INVENTORY>		176,851
<CURRENT-ASSETS>		740,145
<PP&E>		512,986
<DEPRECIATION>		255,968
<TOTAL-ASSETS>		1,023,831
<CURRENT-LIABILITIES>		229,591
<BONDS>		18,679
<PREFERRED-MANDATORY>		0
<PREFERRED>		0
<COMMON>		10,329
<OTHER-SE>		749,521
<TOTAL-LIABILITY-AND-EQUITY>		1,023,831
<SALES>		1,191,022
<TOTAL-REVENUES>		1,191,022
<CGS>		646,382
<TOTAL-COSTS>		946,666
<OTHER-EXPENSES>		5,600
<LOSS-PROVISION>		0
<INTEREST-EXPENSE>		3,040
<INCOME-PRETAX>		249,925
<INCOME-TAX>		90,641
<INCOME-CONTINUING>		159,284
<DISCONTINUED>		0
<EXTRAORDINARY>		0
<CHANGES>		0
<NET-INCOME>		159,284
<EPS-PRIMARY>		1.89
<EPS-DILUTED>		1.89