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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 FOR THE FISCAL YEAR ENDED JUNE 30, 1997

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(b) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number: 0-4041

HATHAWAY CORPORATION
(Exact name of registrant as specified in its charter)

Colorado 88-0518115
(State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

8228 Park Meadows Drive 80124
Littleton, Colorado (Zip Code)
(Address of principal executive offices)

Registrant's telephone number, including area code: (303) 799-8200

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, no par value

Indicate by check mark whether the Registrant (1) has filed all reports required
to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during
the preceding 12 months (or for such shorter period that the Registrant was
required to file such reports), and (2) has been subject to such filing
requirements for the past 90 days. Yes 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 Registrant's knowledge, in definitive proxy or information statements
incorporated by reference in Part III of this Form 10-K or any amendment to this
Form 10-K.

As of August 28, 1997, the aggregate market value of voting stock held by
non-affiliates of the Registrant, computed by reference to the average bid and
asked prices of such stock approximated \$12,655,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive Proxy Statement dated September 18,
1997 are incorporated by reference in Part III of this Report.

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PART I

Item 1. Business.

Hathaway Corporation (the Company) was organized under the laws of Colorado in 1962. The Company is engaged in the business of designing, manufacturing and selling advanced electronic instrumentation and systems to the worldwide power and process industries, as well as motion control products to a broad spectrum of customers throughout the world. The Company also develops, designs, and installs integrated process automation systems for industrial applications. The Company operates primarily in the United States and Europe and has three joint venture investments in China and a joint venture investment in Malaysia.

Power and Process Instrumentation and Systems Automation

Power Instrumentation

Hathaway's complete line of power instrumentation products helps ensure that electric utilities provide high quality service to consumers of electricity. With manufacturing facilities in Seattle and Belfast, Northern Ireland, and sales and engineering functions in Seattle, Belfast and Denver, the power products group produces a comprehensive and cost-effective range of products designed exclusively for the power industry worldwide. Hathaway's equipment assists the electric power system operators in operating and maintaining proper system performance. The products, which are used to monitor and control the power generation, transmission and distribution processes, include fault recording products, fault location products, condition monitoring (circuit breaker) products and remote terminal units (RTUs) for Supervisory Control and Data Acquisition (SCADA) systems.

The Company also has three joint venture investments in China - Zibo Kehui Electric Company Ltd. (Kehui), Hathaway Si Fang Protection and Control Company (Si Fang), and Hathaway Power Monitoring Systems Company, Ltd. (HPMS). The Company holds a 25% interest in Kehui and Si Fang and a 40% interest in HPMS. Kehui designs, manufactures and sells cable and overhead fault location, SCADA systems and other test instruments within the China market. Si Fang designs, manufactures and sells a new generation of digital protective relays, control equipment and instrumentation products for substations in power transmission and distribution systems in China. The Company will sell these products outside of China. HPMS will design, manufacture and sell, under a license from the Company, instrumentation products designed by the Company, to electric power companies in China.

Process Instrumentation

The process instrumentation products group manufactures and markets monitoring systems which provide either visual annunciation and/or printed messages whenever a monitored "point" changes from an existing state. These systems are called visual annunciators and sequential event recorders (SER's). Visual annunciators and SER's are sold to electric utility companies and the process industry in general. Visual annunciators provide both visual and audible alert signals whenever a process variable goes into an alarm state. SER's provide a printed message whenever a monitored "point" changes state. The group also manufactures and sells combined annunciator/SER systems with distributed architecture (which significantly reduces installation costs) for power plant applications and is engaged in the design, manufacture and sale of power transducers which are sold to the process and power utility industries, as well as calibrators and signal conditioning products which are sold to the process industry.

Business Acquisition

Effective September 30, 1996, the Company acquired a 100% partnership interest in Tate Integrated Systems, L.P. and 100% of the stock of its sole general partner, Tate Integrated Systems, Inc. (collectively referred to as "TIS"). The ownership interests were acquired for an adjusted negotiated price of \$1,092,000, of which \$718,000 was paid in cash at closing on October 10, 1996 and \$145,000 on June 30, 1997. In addition, \$229,000 of additional consideration will be payable when certain accounts receivable of TIS are collected. Hathaway purchased the stock and partnership interest from Tate Engineering Services Corporation and its affiliate, Tate Engineering Services, Inc., both divisions of Tate Industries, a privately held company (collectively referred to as "TES").

TIS has operated under the ownership of Hathaway Industrial Automation (HIA), a newly-formed wholly-owned subsidiary of the Company, since October 1, 1996. HIA is located in Baltimore, Maryland and is a full service supplier of process automation systems for industrial applications. HIA has developed a state-of-the-art

software system for Supervisory Control and Data Acquisition (SCADA) and Distributed Control Systems (DCS). The HIA system has been used to fully automate such industrial applications as water and wastewater treatment plants, glass manufacturing plants, oil and gas terminals and tank farm facilities. In addition to expanding into its traditional process markets, HIA's system is being marketed to the power utility industry. The Company expects to team the HIA system with certain existing Hathaway products and target the combined product at substation automation and integration applications used in power transmission and distribution facilities.

Restructuring

In the fourth quarter of fiscal 1996 the Company decided to reorganize its Canadian and U.K. operations. Effective June 30, 1996 the net assets and substantially all operations of Hathaway Instruments Limited (HIL), the Company's subsidiary located in Hoddesdon, England, were transferred to Hathaway Systems Limited (HSL), the Company's Belfast, Northern Ireland subsidiary. In connection with the asset transfer, substantially all operations of HIL were combined with the operations of HSL. In addition, the Company decided to close its Toronto, Canada facility and to combine substantially all of its operations with the operations of Hathaway Process Instrumentation, the Dallas, Texas division. The initiatives were aimed at reducing costs and enhancing productivity and efficiency. The restructuring provision was primarily comprised of estimated costs for employee severance benefits and fixed asset writeoffs. The payouts related to the restructuring charge were made in 1996 and 1997.

In the first quarter of 1997, management decided to restructure the power products manufacturing operations to produce operating efficiencies and to better utilize local management talent and expertise. Accordingly, the manufacturing operation located in Denver was consolidated in 1997 into two manufacturing facilities located in Seattle, Washington and Belfast, Northern Ireland.

Motion Control Instrumentation

The motion control group offers quality, cost-effective products that suit a wide range of applications in the industrial, medical, military and aerospace sectors, as well as in manufacturing of analytical instruments and computer peripherals. The end products using Hathaway technology include special industrial and technical products such as satellite tracking systems, MRI scanners, and high definition printers.

The motion control group is organized into two divisions and one subsidiary, respectively: Engineered Motion Technology division ("EMT"-Tulsa, previously known as the Motion Control division), Motors and Instruments Division ("MI"-Tulsa) and Computer Optical Products, Inc., ("COPI"-Chatsworth, CA).

The EMT division designs, manufactures and markets direct current (DC) brushless motors, related components, and drive and control electronics. Markets served include semiconductor manufacturing, industrial automation, medical equipment, and military and aerospace.

The MI division manufactures precision direct-current fractional horsepower motors and certain motor components. Industrial equipment and military products are the major application for the motors. This division also supplies spare parts and replacement equipment for general-purpose instrumentation products.

Optical encoders are manufactured by COPI in Chatsworth, California. They are used to measure rotational and linear movements of parts in diverse applications such as machine tools, robots, printers and medical equipment. The primary markets for the optical encoders are in the industrial, medical and computer peripheral manufacturing sectors. COPI also designs, manufactures and markets fiber optic-based encoders with special characteristics, such as immunity to radio frequency interference and high temperature tolerance, suited for industrial, aerospace and military environments. Applications include airborne navigational systems, anti-lock braking transducers, missile flight surface controls and high temperature process control equipment.

Product Distribution and Principal Markets

In addition to its own marketing and sales force, the Company has developed a worldwide network of independent sales representatives and agents to market its various product lines.

The Company faces competition in all of its markets, although the number of competitors varies depending upon the product. The Company believes there are only a small number of competitors in the power and process

markets, but there are numerous competitors in the motion control market. No clear market share data is available for the Company's other product areas. Competition involves primarily product performance and price, although service and warranty are also important.

Financial Information about Industry Segments

The Company considers all of its operations to be materially in one industry segment - electronic instrumentation.

Availability of Raw Materials

All parts and materials used by the company are in adequate supply. No significant parts or materials are acquired from a single source.

Patents, Trademarks, Licenses, Franchises, and Concessions.

The Company holds several patents and trademarks regarding components used by the various subsidiaries; however, none of these patents and trademarks are considered to be of major significance.

Seasonality of the Business

The Company's business is not of a seasonal nature.

Working Capital Items

The Company currently maintains inventory levels adequate for its short-term needs based upon present levels of production. The Company considers the component parts of its different product lines to be readily available and current suppliers to be reliable and capable of satisfying anticipated needs.

Sales to Large Customers

During fiscal 1997, no single customer accounted for more than 10% of the Company's consolidated revenue from continuing operations.

Sales Backlog

The backlog of the Company's continuing operations at June 30, 1997 consisted of sales orders totaling approximately \$14,742,000. The Company expects to ship goods filling \$14,229,000 of those purchase orders within fiscal 1998. This compares to a backlog from continuing operations of \$9,998,000 at June 30, 1996, of which \$9,982,000 was scheduled for shipment in fiscal 1997.

Government Sales

Approximately \$605,000 of the Company's backlog as of June 30, 1997 consisted of contracts with the United States Government. The Company's contracts with the government contain a provision generally found in government contracts which permits the government to terminate the contract at its option. When the termination is attributable to no fault of the Company, the government would, in general, have to pay the Company certain allowable costs up to the time of termination, but there is no compensation for loss of profits.

Engineering and Development Activities

The Company's expenditures on engineering and development for continuing operations were \$3,646,000 in fiscal 1997, \$3,722,000 in fiscal 1996 and \$3,616,000 in fiscal 1995. Of these expenditures, no material amounts were charged directly to customers.

Environmental Issues

No pollution or other types of emission result from the Company's operations and it is not anticipated that the Company's proposed operations will be affected by Federal, State or local provisions concerning environmental controls.

Export Sales from Domestic Operations and Foreign Operations

The information required by this item is set forth in Note 9 on page 26 herein.

Employees

As of the end of fiscal 1997, the Company had approximately 380 full-time employees.

Item 2. Properties.

The Company leases its administrative offices and manufacturing facilities as follows:

Description / Use	Location	Approximate square footage
Corporate headquarters and administrative office	Denver, Colorado	14,000
Office and manufacturing facility	Dallas, Texas	29,000
Office and manufacturing facility	Seattle, Washington	16,000
Engineering, development and administrative office	Baltimore, Maryland	14,000
Office and manufacturing facility	Tulsa, Oklahoma	12,000
Office and manufacturing facility	Chatsworth, California	11,000
Office and manufacturing facility	Tulsa, Oklahoma	8,000
Office and manufacturing facility	Belfast, Northern Ireland	17,000

The Company's management believes the above described facilities are adequate to meet the Company's current and foreseeable needs. All facilities described above are operating at or near full capacity.

Item 3. Legal Proceedings.

The Company has been named as a defendant in certain actions that have arisen out of the ordinary course of business. Management believes the actions are without merit and will not have a significant adverse effect on the Company's consolidated financial position.

Item 4. Submission of Matters to Vote of Security Holders.

No matter was submitted to a vote of the security holders of the Company in the fourth quarter of 1997.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Hathaway Corporation's common stock is traded on the Nasdaq National Market System under the symbol HATH. The number of holders of record of the Company's common stock as of the close of business on August 28, 1997 was 660.

The following table sets forth, for the periods indicated, the high and low prices of the Company's common stock on the Nasdaq National Market System, as reported by Nasdaq.

	Dividends per share	Price Range	
		High	Low
FISCAL 1996			
First Quarter	\$ 0.10	\$ 3.13	\$ 2.50
Second Quarter	---	2.88	1.88
Third Quarter	---	2.56	1.81
Fourth Quarter	---	4.00	1.69
FISCAL 1997			
First Quarter	---	\$ 4.38	\$ 2.50
Second Quarter	---	4.13	3.25
Third Quarter	---	4.88	3.00
Fourth Quarter	---	3.81	2.38

The Bid and Asked quotations as published by Nasdaq reflect interdealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

Item 6. Selected Financial Data.

The following table summarizes data from the Company's annual financial statements for the years 1993 through 1997 and notes thereto; the Company's complete annual financial statements and notes thereto for the current fiscal year appear in Item 8 beginning on page 10 herein. See Item 1 in the Business section of this report and Note 2 to Consolidated Financial Statements on page 18 for discussion of a business acquisition completed in fiscal 1997.

	1997	For the years ended June 30,			1993
		1996	1995	1994	
----- In thousands (except per share data) -----					
Statements of Operations Data:					
Net revenues from continuing operations	\$ 39,946	\$ 35,411	\$ 39,838	\$ 43,028	\$ 45,741
=====					
Net income (loss) from continuing operations	\$ (1,429)	\$ (1,013)	\$ 842	\$ 955	\$ 23
Net income (loss) from operations of divested segment and divested operation	--	--	--	885	958
Gain on sale of segment	--	--	--	4,023	--

Net income (loss)	\$ (1,429)	\$ (1,013)	\$ 842	\$ 5,863	\$ 981
=====					
Fully diluted earnings (loss) per share:					
Continuing operations	\$ (0.33)	\$ (0.24)	\$ 0.19	\$ 0.19	\$ --
Operations of divested segment and divested operation	--	--	--	0.18	0.21
Sale of segment	--	--	--	0.81	--

Net income (loss)	\$ (0.33)	(0.24)	\$ 0.19	\$ 1.18	\$ 0.21
=====					
Cash dividends:					
Per share	\$ --	\$ 0.10	\$ 0.12	\$ 0.205	\$ --
Total amount paid	\$ --	\$ 426	\$ 536	\$ 992	\$ --
Balance Sheet Data:					
Total assets at June 30	\$ 19,967	\$ 21,139	\$ 23,312	\$ 24,432	\$ 28,326
Total long-term debt at June 30	\$ 1,769	\$ 1,777	\$ 2,144	\$ 2,298	\$ 5,819

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

All statements contained herein that are not statements of historical fact constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause the actual results of the Company to be materially different from the historical results or from any future results expressed or implied by such forward-looking statements. Among the factors that could cause actual results to differ materially are the following: the unavailability of sufficient capital on satisfactory terms to finance the Company's business plan, increased competition, the introduction of new technologies and competitors into the systems and instrumentation markets where the Company competes, adverse changes in the regulatory environment, and general business and economic conditions. In addition to statements that explicitly describe such risks and uncertainties, readers are urged to consider statements labeled with the terms "believes," "expects," "plans," "anticipates," or "intends" to be uncertain and forward-looking. All cautionary statements made herein should be read as being applicable to all related forward-looking statements wherever they appear. In this connection, investors should consider the risks described herein.

OPERATING RESULTS

Fiscal year 1997 compared to fiscal year 1996

The Company recorded a net loss of \$1,429,000 in fiscal year 1997, compared to a net loss of \$1,013,000 in 1996. The fiscal 1997 net loss includes a \$923,000 net loss from Hathaway Industrial Automation (HIA), acquired by the Company effective September 30, 1996 (see discussion under "Business Acquisition" below), and a \$506,000 net loss from operations of the Company's other businesses.

Revenues increased by \$4,535,000, or 13%, from 1996 to 1997, comprised of a 16% increase in sales of the Company's power and process instrumentation and systems products and a 7% increase in sales of motion control products (the fourth consecutive annual increase).

The increase in sales of power and process products consists of a 3% increase in sales of the Company's traditional product lines - the first such increase since 1993. Management believes that this trend is the first indication that the downturn in power and process revenues that began after the power industry deregulation law was passed in October 1992 may be reversing. The remainder of the increase in power and process revenues was due to product sales of HIA, totalling \$2,993,000.

Sales to international customers increased 12% from \$12,668,000, or 36% of sales in fiscal 1996 to \$14,200,000, or 36% of sales in fiscal 1997. Foreign sales as a percentage of total sales remained constant because the growth in the Company's traditional foreign business was offset by HIA's business, which is primarily with domestic customers. Sales backlog increased from \$9,998,000 at June 30, 1996 to \$14,742,000 at June 30, 1997, comprised of \$11,996,000 of traditional product backlog and \$2,746,000 of HIA product backlog.

Cost of products sold increased to 64% of revenues in 1997 from 62% in 1996. The increase occurred primarily because of price reductions implemented in response to competitive pressures, changes in the mix of products sold, and manufacturing inefficiencies resulting from the consolidation of manufacturing operations implemented in 1997. In addition, HIA's cost of products sold represents a higher percentage of revenues than that of the Company's traditional product lines. Excluding the effect of HIA, the cost of products sold in 1997 represents 63% of related revenues.

Selling, general and administrative and engineering and development expenses increased 9% from \$14,671,000 in 1996 to \$16,018,000 in 1997 because of such expenses incurred by HIA. Excluding the effect of HIA, these expenses would have totaled \$14,182,000 in 1997, representing a 3% decrease from the prior period. This decrease reflects the overall cost reduction efforts initiated by the Company in recent years.

Amortization of intangibles and other assets increased from \$215,000 in 1996 to \$402,000 in 1997, primarily due to the \$197,000 write-off of unamortized debt acquisition costs related to the Marine Midland loan facility (see further discussion under "Liquidity and Capital Resources" below.)

Other income in 1996 includes \$165,000 of income recorded upon the Company's consummation of an agreement with Global Software, Inc. (Global). Under the terms of this agreement, the Company received \$165,000 in exchange for, among other things, consenting to Global's proposed disposition of certain assets acquired after the Company's January 31, 1994 sale of Global and acknowledging that this disposition would not violate the terms of the original sale agreement.

The Company recorded a \$338,000 restructuring charge in the fourth quarter of fiscal 1996 in connection with the reorganization of its Canadian and U.K. operations. Effective June 30, 1996 the net assets and substantially all operations of Hathaway Instruments Limited (HIL), the Company's subsidiary located in Hoddesdon, England, were transferred to Hathaway Systems Limited (HSL), the Company's Belfast, Northern Ireland subsidiary. In connection with the asset transfer, substantially all operations of HIL were combined with the operations of HSL. In addition, the Company decided to close its Toronto, Canada facility and to combine substantially all of its operations with the operations of Hathaway Process Instrumentation, the Dallas, Texas division. The initiatives were aimed at reducing costs and enhancing productivity and efficiency. The restructuring provision was primarily comprised of estimated costs for employee severance benefits and fixed asset writeoffs. The payouts related to the restructuring charge were made in 1996 and 1997.

In the first quarter of 1997, management decided to restructure the power products manufacturing operations to produce operating efficiencies and to better utilize local management talent and expertise. Accordingly, the manufacturing operation located in Denver was consolidated in 1997 into two manufacturing facilities located in Seattle, Washington and Belfast, Northern Ireland. The cost of consolidating these manufacturing facilities was not material and was paid in fiscal year 1997.

As expected, the consolidation of certain manufacturing operations in 1997 initially produced some inefficiencies in the manufacturing process due to additional training and start-up time required at the remaining facilities. Management believes, however, that the initial issues encountered have been substantially resolved and expects to generate significant cost savings from the consolidation efforts.

Fiscal year 1996 compared to fiscal year 1995

The Company recorded a net loss of \$1,013,000 in 1996 compared to net income of \$842,000 in 1995.

Revenues decreased by \$4,427,000, or 11%, from 1995 to 1996, comprised of a 26% decrease in sales of the Company's power and process instrumentation products, offset by a 48% increase in sales of the Company's motion control products.

Sales to international customers decreased 14% from \$14,646,000, or 37% of sales in fiscal 1995 to \$12,668,000, or 36% of sales in fiscal 1996. Sales backlog increased 14% from to \$8,878,000 at June 30, 1995 to \$9,998,000 at June 30, 1996.

Cost of products sold increased to 62% of revenues in 1996, compared to 57% in 1995. The increase was due to price reductions implemented in response to competitive pressures and changes in the mix of products sold.

Selling, general and administrative and engineering and development expenses decreased 5% from \$15,489,000 in 1995 to \$14,671,000 in 1996 primarily due to overall cost reduction efforts initiated by the Company.

BUSINESS ACQUISITION

Effective September 30, 1996, the Company acquired a 100% partnership interest in Tate Integrated Systems, L.P. and 100% of the stock of the sole general partner, Tate Integrated Systems, Inc. (collectively referred to as "TIS"). The ownership interests were acquired for an adjusted negotiated price of \$1,092,000, of which \$718,000 was paid in cash at closing on October 10, 1996 and \$145,000 on June 30, 1997. In addition, \$229,000 will be payable when certain accounts receivable of TIS are collected.

TIS has operated under the ownership of Hathaway Industrial Automation (HIA), a newly-formed wholly-owned subsidiary of the Company, since October 1, 1996. HIA is located in Baltimore, Maryland and is a full service supplier of process automation systems for industrial applications. HIA has developed a state-of-the-art software system for Supervisory Control and Data Acquisition (SCADA) and Distributed Control Systems (DCS). The HIA system has been used to fully automate such industrial applications as water and wastewater treatment plants, glass manufacturing plants, oil and gas terminals and tank farm facilities. In addition to expanding into its traditional process markets, HIA's system is being marketed to the power utility industry. The Company expects to team the HIA system with certain existing Hathaway products and target the combined product at substation automation and integration applications used in the distribution and transmission of power.

The acquisition has been accounted for using the purchase method of accounting, and, accordingly, the purchase price has been allocated to the assets purchased and the liabilities assumed based upon the fair values at the date of acquisition. This allocation is subject to adjustment pending the resolution of certain items.

The Company is investing substantial resources in HIA, consistent with the Company's strategy to expand further into the process industry and to develop applications of the HIA software for the power industry. Management believes that the software products developed by HIA, as modified for the power industry and combined with other Company products, will provide power companies with automated and integrated systems solutions that will both reduce their operating costs and improve the reliability of their power supply. Management believes that there is significant demand in the power industry for such solutions as a result of the business environment created by the recent industry deregulation.

The successful implementation of the Company's current business plan is partially dependent on the Company's investment in HIA producing growth and increased profitability in HIA's traditional process automation business, as well as the ability to successfully market HIA's products to the power industry. The factors that will affect the success of implementing this business plan include, but are not limited to, the ability to win a sufficient amount of project work on favorable terms to the Company, the ability to complete projects in a timely and cost-effective manner, and the existence of sufficient demand for the HIA products in both the power and process markets. An inability to achieve this plan in the planned timeframe may have a material adverse effect on the Company's operating results and financial condition.

LIQUIDITY AND CAPITAL RESOURCES

The Company's liquidity position as measured by cash and cash equivalents (excluding restricted cash) decreased \$1,494,000 during the year to a balance of \$3,431,000 at June 30, 1997. Operating activities used \$197,000 of cash in fiscal 1997 compared to \$93,000 used in 1996 and \$1,266,000 generated in 1995. Of the \$197,000 used in 1997 by operating activities, \$1,592,000 was used to fund the operations of the HIA business and \$1,395,000 was generated from the operating activities of the Company's other businesses. The overall reduced cash from operations in 1997 and 1996 is primarily the result of net losses of \$1,429,000 and \$1,013,000 recorded in 1997 and 1996, respectively, compared to net income of \$842,000 recorded in 1995.

Cash of \$1,313,000 was used by investing activities in fiscal 1997 compared to \$376,000 generated in fiscal 1996 and \$1,049,000 used in fiscal 1995. The 1996 cash generated by investing activities was primarily due to proceeds of \$1,000,000 from maturities of marketable securities. The 1997 cash used for investing activities includes \$863,000 paid for the interest acquired in TIS.

Financing activities used \$32,000, \$828,000 and \$1,887,000 in fiscal years 1997, 1996 and 1995, respectively. The decrease in cash used for financing activities from 1995 to 1996 is due primarily to less cash used for the purchase of treasury stock. The Board of Directors' fiscal 1996 decision to discontinue the public stock repurchase program was the primary reason for the lower volume of stock repurchase activity in 1996. The decrease in cash used for financing activities from 1996 to 1997 occurred primarily because no dividends were paid to stockholders in 1997, as compared to \$426,000 of dividends paid to stockholders in 1996. The Board of Directors did not declare a dividend in 1997 because of the net loss recognized by the Company for fiscal 1996 and dividend restrictions contained in the loan agreement with Marine Midland Business Loans, Inc. (see below).

At June 30, 1997, the Company had \$1,769,000 of debt, compared with \$1,777,000 at June 30, 1996, a reduction of \$8,000. The debt represents borrowings on the Company's long-term financing agreement (Agreement) with Marine Midland Business Loans, Inc. (Midland). The Agreement is a Reducing Revolving Line of Credit with a borrowing limit that is reduced monthly over the seven-year term of the loan. Borrowings on the line are restricted to the lesser of i) an amount based on certain asset levels, or ii) the borrowing limit. As of June 30, 1997, the Company could borrow an additional \$1,036,000 up to the current borrowing limit of \$2,805,000. Pursuant to the borrowing limit reduction schedule contained in the Agreement, the limit will be amortized to \$2,070,000, \$1,133,000 and \$155,000 in the years ended June 30, 1998, 1999 and 2000, respectively, with the remaining unpaid balance of the loan becoming due August 1, 2000.

The line bears interest at Midland's prime borrowing rate plus 1% (9.5% at June 30, 1997). As long as the Agreement is in place, interest expense is calculated using the higher of i) the actual debt balance or ii) 50% of the borrowing limit. Starting in August 1997 the Company may repay the entire debt balance with Midland with no prepayment penalty.

The debt is secured by all assets of the Company. The Agreement requires that the Company maintain compliance with certain covenants related to tangible net worth, cash flow coverage and current ratios. The Company has not met the quarterly-calculated cash flow coverage covenant since the first quarter of fiscal 1996. Midland issued a waiver of compliance with the cash flow coverage covenant through June 30, 1997. In connection with obtaining the aforementioned waiver, the Company agreed to certain conditions, including limiting the assets against which the Company may borrow to certain accounts receivable and maintaining higher tangible net worth and achieving certain annual operating results in fiscal 1997. In addition, the Company agreed not to pay cash dividends, purchase treasury stock (except for limited amounts from employees), or make investments in other than investment grade securities without the prior written consent of Midland, as long as the Company is in violation of the cash flow coverage covenant.

Beginning in March 1997 the Company has not maintained the aforementioned minimum tangible net worth. In addition, the Company did not achieve the aforementioned minimum fiscal 1997 operating results.

The Company's not meeting these requirements constitutes an event of default under the Agreement. Pursuant to the Agreement, upon the happening of an event of default, Midland may declare any principal outstanding to be immediately due and payable, together with all interest thereon and applicable costs and expenses. Accordingly, the balance of the long-term debt has been classified as current as of June 30, 1997.

To date, Midland has not declared the Company's indebtedness to be immediately due and payable. In addition, the Company is renegotiating with Midland for a waiver of the aforementioned debt covenant violations. There can be no assurance, however, that Midland will grant such a waiver.

Because of the uncertainty regarding the timing of the debt becoming due and payable, the Company wrote off the \$197,000 unamortized balance of the Midland loan acquisition costs at June 30, 1997.

The Company has three joint venture investments in China - Zibo Kehui Electric Company Ltd. (Kehui), Hathaway Si Fang Protection and Control Company, Ltd. (Si Fang), and Hathaway Power Monitoring Systems Company, Ltd. (HPMS). Kehui designs, manufactures and sells cable and overhead fault location, SCADA systems and other test instruments within the China market and the Company will sell these products outside of China. Si Fang designs, manufactures and sells a new generation of digital protective relays, control equipment and instrumentation products for substations in power transmission and distribution systems and the Company will sell these products outside of China. HPMS will design, manufacture and sell, under a license from Hathaway, instrumentation products designed by Hathaway, to electric power companies in China. There are no future commitments relating to these investments. The Company considers the realization of these investments to be uncertain due to political instability and the untested market in China. Accordingly, the Company has fully reserved for these investments. The Company recognizes income from the joint ventures as cash dividends are received.

The Company also has an 11.4% interest in a joint venture (JV) with KUB Holdings BHD, a Malaysian firm. The interest, acquired by TIS for \$400,000 in March 1995, was acquired by the Company in connection with the purchase of TIS effective September 30, 1996. The fair market value of this asset was not significant at the acquisition date. The JV was created for the purpose of manufacturing, marketing and selling the TIS-4000 system in certain Asian countries. If the JV requires funding, the Company may be required to contribute in accordance with the agreed-upon proportions as defined in the JV agreement.

The JV agreement also requires the Company to continue as a going concern and to provide support services to the JV at market rates. If the Company does not meet this requirement, it could be required to refund a contractually-defined portion (\$1,938,000 at June 30, 1997) of the \$2,500,000 proceeds TIS received in 1995 from the sale to the JV of licensing and marketing rights to the TIS-4000 technology. Because of the remote possibility of the Company being required to make such a refund, this obligation was determined to be zero at the acquisition date. Further, as of July 30, 1997, the Company does not expect that such refunds will be required. In addition, the Company is not aware of any violations of the requirements defined in the JV agreement nor does it anticipate any future violations.

As in the three-year period ended June 30, 1997, the Company's fiscal 1998 working capital, capital expenditure and debt service requirements, including repayment of the entire balance of the Midland loan, if necessary, are expected to be funded from the existing cash balance of \$3,431,000 at June 30, 1997. In addition, the Company may seek additional debt, equity or other financing, particularly if it must fully repay the Midland loan balance, in order to supplement its long-term financial resources. There can be no assurance, however, that additional debt, equity or other financing will be available on terms acceptable to the Company, or at all.

PRICE LEVELS AND THE IMPACT OF INFLATION

Prices of the Company's products have not increased significantly as a result of inflation during the past several years, primarily due to competition. The effect of inflation on the Company's costs of production has been minimized through production efficiencies and lower costs of materials. The Company anticipated that these factors would continue to minimize the effects of any foreseeable inflation and other price pressures from the industries in which it operates. As the Company's manufacturing activities mainly utilize semi-skilled labor, which is relatively plentiful in the areas surrounding the Company's production facilities, the Company does not anticipate substantial inflation-related increases in the wages of the majority of its employees.

Item 8. Financial Statements and Supplementary Data.

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REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Hathaway Corporation:

We have audited the accompanying consolidated balance sheets of HATHAWAY CORPORATION (a Colorado corporation) AND SUBSIDIARIES as of June 30, 1997 and 1996, and the related consolidated statements of operations, cash flows and stockholders' investment for each of the three fiscal years in the period ended June 30, 1997. 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 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 provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hathaway Corporation and subsidiaries as of June 30, 1997 and 1996, and the results of their operations and their cash flows for each of the three fiscal years in the period ended June 30, 1997 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Denver, Colorado,
July 30, 1997.

HATHAWAY CORPORATION
CONSOLIDATED BALANCE SHEETS
(In thousands, except per share data)

	June 30, 1997	June 30, 1996
<hr/>		
Assets		
Current Assets:		
Cash and cash equivalents	\$ 3,431	\$ 4,925
Restricted cash	253	312
Marketable securities, current	--	201
Trade receivables, net of allowance for doubtful accounts of \$492 and \$321 at June 30, 1997 and 1996, respectively	6,910	6,293
Inventories, net	4,907	4,972
Current deferred income taxes	854	893
Income tax refunds receivable, prepaid expenses and other	1,180	857
<hr/>		
Total current assets	17,535	18,453
Property and equipment, net	1,841	1,727
Cost in excess of net assets acquired, net	591	623
Other	--	336
<hr/>		
Total Assets	\$ 19,967	\$ 21,139
<hr/>		
Liabilities and Stockholders' Investment		
Current Liabilities:		
Long-term debt classified as current (Note 4)	\$ 1,769	\$ --
Accounts payable	1,843	1,309
Accrued liabilities	2,594	2,907
Income taxes payable	169	405
Product service reserve	566	459
<hr/>		
Total current liabilities	6,941	5,080
Long-term debt (Note 4)	--	1,777
<hr/>		
Total Liabilities	6,941	6,857
<hr/>		
Commitments and Contingencies (Notes 3, 4 and 8)		
Stockholders' Investment:		
Preferred stock, par value \$1.00 per share, authorized 5,000 shares; no shares outstanding	--	--
Common stock, at aggregate stated value, authorized 50,000 shares; 5,405 and 5,307 issued at June 30, 1997 and 1996, respectively	100	100
Additional paid-in capital	9,954	9,712
Loans receivable for stock (Note 7)	(235)	(235)
Retained earnings	6,818	8,247
Cumulative translation adjustments (Note 1)	360	163
Treasury stock, at cost; 1,121 and 1,058 shares at June 30, 1997 and 1996, respectively (Note 8)	(3,971)	(3,705)
<hr/>		
Total Stockholders' Investment	13,026	14,282
<hr/>		
Total Liabilities and Stockholders' Investment	\$ 19,967	\$ 21,139
<hr/>		

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

HATHAWAY CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	For the fiscal years ended June 30,		
	1997	1996	1995
Revenues	\$ 39,946	\$ 35,411	\$ 39,838
Operating costs and expenses:			
Cost of products sold	25,575	21,926	22,834
Selling	7,601	6,269	7,037
General and administrative	4,771	4,680	4,836
Engineering and development	3,646	3,722	3,616
Amortization of intangibles and other	402	215	246
Restructuring charge (Note 11)	--	338	--
Total operating costs and expenses	41,995	37,150	38,569
Operating income (loss)	(2,049)	(1,739)	1,269
Other income (expenses), net:			
Interest and dividend income	245	325	332
Interest expense	(173)	(194)	(204)
Other income (expenses), net	(215)	210	(76)
Total other income (expenses), net	(143)	341	52
Income (loss) before income taxes	(2,192)	(1,398)	1,321
Benefit (provision) for income taxes (Note 5)	763	385	(479)
Net income (loss)	\$ (1,429)	\$ (1,013)	\$ 842
Primary and fully diluted net income (loss) per share (Note 1)	\$ (0.33)	\$ (0.24)	\$ 0.19

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

HATHAWAY CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	For the fiscal years ended June 30, 1997	1996	1995
<hr/>			
Cash Flows From Operating Activities:			
Net income (loss)	\$ (1,429)	\$ (1,013)	\$ 842
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Depreciation and amortization	1,199	960	970
Deferred income tax provision (benefit)	39	(155)	(6)
Other	241	(149)	(52)
Changes in assets and liabilities, net of effect in 1997 of purchase of Tate Integrated Systems (Note 2):			
(Increase) decrease in -			
Restricted cash	59	86	13
Receivables	(239)	1,177	(580)
Inventories	1,174	(503)	247
Prepaid expenses and other	(317)	(282)	(26)
Increase (decrease) in -			
Accounts payable	(46)	1	(138)
Accrued liabilities	(649)	187	(429)
Product service reserve	7	(42)	65
Income taxes payable	(236)	(360)	360
Net cash from operating activities	(197)	(93)	1,266
<hr/>			
Cash Flows From Investing Activities:			
Purchase of property and equipment	(651)	(719)	(934)
Purchase of Tate Integrated Systems (Note 2)	(863)	--	--
Investments in joint ventures (Note 3)	--	(70)	(115)
Proceeds from maturity of marketable securities	201	1,000	--
Other	--	165	--
Net cash from investing activities	(1,313)	376	(1,049)
<hr/>			
Cash Flows from Financing Activities:			
Repayments on line of credit and long-term debt	(8)	(360)	(460)
Borrowings on line of credit and long-term debt	--	--	276
Dividends paid to stockholders	--	(426)	(536)
Proceeds from exercise of employee stock options	81	--	43
Purchase of treasury stock	(105)	(42)	(1,210)
Net cash from financing activities	(32)	(828)	(1,887)
<hr/>			
Effect of foreign exchange rate changes on cash	48	(35)	39
<hr/>			
Net decrease in cash and cash equivalents	(1,494)	(580)	(1,631)
Cash and cash equivalents at beginning of year	4,925	5,505	7,136
<hr/>			
Cash and cash equivalents at end of year	\$ 3,431	\$ 4,925	\$ 5,505
<hr/>			
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	\$ 167	\$ 177	\$ 194
Income taxes	4	173	108
Noncash investing and financing activities:			
Assets of Tate Integrated Systems purchased, net of liabilities assumed (Note 2)	\$ 1,092	\$ --	\$ --
Acquisition of common stock as a result of stock option exercises (Note 6)	161	--	--
Repayment of loan receivable from Leveraged Employee Stock Ownership Plan and Trust ("LESOP") (Note 7)	--	--	55

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

HATHAWAY CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' INVESTMENT
(In thousands, except per share data)

	Common Stock		Additional Paid-in Capital	Loans Receivable (Note 7)	Retained Earnings	Treasury Stock (Note 8)	
	Shares	Amount				Shares	Amount
Balances, June 30, 1994	5,290	\$ 100	\$ 9,717	\$ (290)	\$ 9,380	675	\$ (2,453)
Exercise of employee stock options	17	--	43	--	--	--	--
Long-term incentive plan bonus (Note 8)	--	--	(16)	--	--	--	--
Repayment of loan receivable from LESOP	--	--	--	55	--	--	--
Tax benefit from disqualifying stock dispositions	--	--	23	--	--	--	--
Purchase of treasury stock	--	--	--	--	--	367	(1,210)
Dividend paid to stockholders (\$.12 per share)	--	--	--	--	(536)	--	--
Net income	--	--	--	--	842	--	--
Balances, June 30, 1995	5,307	\$ 100	\$ 9,767	\$ (235)	\$ 9,686	1,042	\$ (3,663)
Long-term incentive plan bonus (Note 8)	--	--	(55)	--	--	--	--
Purchase of treasury stock	--	--	--	--	--	16	(42)
Dividend paid to stockholders (\$.10 per share)	--	--	--	--	(426)	--	--
Net loss	--	--	--	--	(1,013)	--	--
Balances, June 30, 1996	5,307	\$ 100	\$ 9,712	\$ (235)	\$ 8,247	1,058	\$ (3,705)
Purchase of treasury stock	--	--	--	--	--	25	(105)
Exercise of employee stock options	32	--	81	--	--	--	--
Acquisition of common stock as a result of stock option exercises (Note 6)	66	--	161	--	--	38	(161)
Net loss	--	--	--	--	(1,429)	--	--
Balances, June 30, 1997	5,405	\$ 100	\$ 9,954	\$ (235)	\$ 6,818	1,121	\$ (3,971)

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

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business

Hathaway Corporation (the Company) is engaged in the business of designing, manufacturing and selling electronic instrumentation products to the worldwide power and process industries, as well as motion control products to a broad spectrum of customers throughout the world. The Company also develops, designs, and installs integrated process automation systems for industrial applications. The Company operates primarily in the United States and Europe and has three joint venture investments in China and a joint venture investment in Malaysia (Note 3).

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation.

Investments in joint ventures, in which the ownership is at least 20% but less than 50%, are accounted for using the equity method (Note 3).

Cash and Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include amounts which are readily convertible into cash (original maturities of three months or less) and which are not subject to significant risk of changes in interest rates. Cash flows in foreign currencies are translated using an average rate.

Restricted Cash

Restricted cash consists of certificates of deposit that serve as collateral for letters of credit issued on behalf of the Company.

Inventories

Inventories, valued at the lower of cost (first-in, first-out basis) or market, are as follows (in thousands):

	June 30, 1997	June 30, 1996
Parts and raw materials, net	\$ 2,141	\$ 2,689
Finished goods and work-in process, net	2,766	2,283
	\$ 4,907	\$ 4,972

Reserves established for anticipated losses on excess or obsolete inventories were approximately \$1,943,000 and \$1,689,000 at June 30, 1997 and 1996, respectively.

Property and Equipment

Property and equipment, at cost, is classified as follows (in thousands):

	Useful lives	June 30, 1997	June 30, 1996
Machinery, equipment, tools and dies	2-8 years	\$ 6,738	\$ 5,763
Furniture, fixtures and other	3-10 years	2,056	2,074
		8,794	7,837
Less accumulated depreciation and amortization		(6,953)	(6,110)
		\$ 1,841	\$ 1,727

Depreciation and amortization are provided using the straight-line method over the estimated useful life of the assets. Maintenance and repair costs are charged to operations as incurred. Major additions and improvements are capitalized. The cost and related accumulated depreciation of retired or sold property are removed from the accounts and any resulting gain or loss is reflected in earnings.

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cost in Excess of Net Assets Acquired

Cost in excess of net assets acquired represents the amount by which the purchase price of acquired companies exceeds the fair market value of net assets acquired, and is amortized using the straight-line method over five to ten years. Cost in excess of net assets acquired as of June 30, 1997 and 1996 consists of \$1,613,000 and \$1,505,000 of original costs and \$1,022,000 and \$882,000 of accumulated amortization, respectively. The Company reviews its assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For assets that are held and used in operations, the asset would be considered to be impaired if the undiscounted future cash flows related to the asset did not exceed the net book value. As discussed in Note 2, the Company's acquisition of Tate Integrated Systems resulted in \$108,000 of costs in excess of net assets acquired, which is being amortized over five years. Such amount is subject to adjustment pending the outcome of certain acquisition-related matters.

Accrued Liabilities

Accrued liabilities consist of the following (in thousands):

	June 30, 1997	June 30, 1996
Compensation and fringe benefits	\$ 716	\$ 1,012
Commissions	592	539
Professional fees	117	239
Other accrued expenses	1,169	1,117
	\$ 2,594	\$ 2,907

Foreign Currency Translation

In accordance with Statement of Financial Accounting Standards (SFAS) No. 52, "Foreign Currency Translation", the assets and liabilities of the Company's foreign subsidiaries are translated into U.S. dollars using current exchange rates. Revenues and expenses are translated at average rates prevailing during the period. The resulting translation adjustments are recorded in the Cumulative Translation Adjustments component of Stockholders' Investment in the accompanying Consolidated Balance Sheets.

Changes in Cumulative Translation Adjustments included in the Stockholders' Investment section of the accompanying Consolidated Balance Sheets are as follows (in thousands):

	June 30, 1997	June 30, 1996
Cumulative Translation Adjustments, beginning of year	\$ 163	\$ 218
Translation adjustments	197	(55)
Cumulative Translation Adjustments, end of year	\$ 360	\$ 163

Revenue and Cost Recognition on Contracts

Hathaway Industrial Automation (HIA) undertakes contracts for the installation of integrated process control systems that use its proprietary software. The Company recognizes contract revenues and costs by applying the percentage of completion achieved to the total contract sales price and estimated costs. The Company determines the percentage of completion for all contracts using the "cost-to-cost" method of measuring contract progress. Under this method, actual contract costs incurred to date are compared to total estimated contract costs to determine the estimated percentage of revenues to be recognized. Provisions for estimated losses on uncompleted contracts, to the full extent of the estimated loss, are made during the period in which the Company first becomes aware that a loss on a contract is probable. The Company's traditional businesses (other than HIA) generally recognize revenue when products are shipped.

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Earnings per Share

Earnings per share is calculated using the weighted average number of shares of common stock and dilutive common stock equivalents outstanding during the period, including the effects of options and warrants granted when such adjustment has a dilutive effect on earnings per share. Shares used in the computations for the periods reported are as follows (in thousands):

	Primary	Fully Diluted

1997	4,317	4,317
1996	4,271	4,309
1995	4,422	4,422

Stock-Based Compensation

The Company accounts for its stock-based compensation plans for employees under the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25).

Fair Values of Financial Instruments

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, restricted cash, trade receivables, accounts payable and accrued liabilities approximate fair value because of the immediate or short-term maturities of these financial instruments. The carrying amount of long-term debt approximates fair value because the underlying instrument is a variable rate note that reprices frequently. The carrying value of marketable securities approximates fair value obtained from quoted market prices.

Use of Estimates

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make certain estimates and assumptions. Such estimates and assumptions affect the reported amounts of assets and liabilities as well as disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to prior years' balances in order to conform to the current year's presentation.

New Accounting Standard

In March 1997, the Financial Accounting Standards Board issued SFAS No. 128, "Earnings Per Share," which establishes new reporting requirements for earnings per share (EPS). The Statement replaces Primary and Fully Diluted EPS reporting required under APB Opinion No. 15 with Basic and Diluted EPS, respectively. Basic EPS is computed by dividing reported earnings available to common stockholders by weighted average shares outstanding, with no consideration for other potentially dilutive securities (in contrast to Opinion 15 requirements). Diluted EPS is computed by dividing reported earnings by weighted average outstanding and dilutive shares, where the dilution is determined using the average share price for the period. In contrast, Opinion 15 requires that the calculation use a more dilutive share price, which represents the greater of the average or end-of-period share price. The Statement also requires a disclosure reconciling the numerator and denominator of the EPS calculations. The Company will adopt the new reporting requirements in the quarter ending December 31, 1997 and management does not believe the effect of adoption will be material.

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

2. BUSINESS ACQUISITION

Effective September 30, 1996, the Company acquired a 100% partnership interest in Tate Integrated Systems, L.P. and 100% of the stock of its sole general partner, Tate Integrated Systems, Inc. (collectively referred to as "TIS"). The ownership interests were acquired for an adjusted negotiated price of \$1,092,000, of which \$718,000 was paid in cash at closing on October 10, 1996 and \$145,000 on June 30, 1997. In addition, \$229,000 of additional consideration will become payable when certain accounts receivable of TIS are collected.

TIS has operated under the ownership of Hathaway Industrial Automation (HIA), a newly-formed wholly-owned subsidiary of the Company, since October 1, 1996. HIA is located in Baltimore, Maryland and is a full service developer and supplier of integrated process automation systems for industrial applications. HIA has developed a state-of-the-art software system, the TIS-4000, for Supervisory Control and Data Acquisition (SCADA) and Distributed Control Systems (DCS). The HIA system has been used to fully automate such industrial applications as water and wastewater treatment plants, glass manufacturing plants, oil and gas terminals and tank farm facilities. In addition to expanding into its traditional process markets, HIA's system is being marketed to the power utility industry. The Company expects to team the HIA system with certain existing Hathaway products and target the combined product at substation automation and integration applications in power plants.

The acquisition has been accounted for using the purchase method of accounting, and, accordingly, the purchase price has been allocated to the assets purchased and the liabilities assumed based upon the fair values at the date of acquisition. This allocation is subject to adjustment pending the resolution of certain items. The preliminary net purchase price allocation is as follows: (in thousands):

Trade receivables, net	\$	485
Inventories, net		1,165
Property and equipment, net		123
Cost in excess of net assets acquired		108
Accounts payable		(580)
Accrued liabilities and other		(209)

Net purchase price	\$	1,092
		=====

The results of operations of TIS have been included in the Company's 1997 Consolidated Statement of Operations starting on October 1, 1996.

The following unaudited pro forma summary (in thousands, except per share data) combines the consolidated results of operations of the Company and TIS as if the acquisition had occurred at the beginning of fiscal years 1997 and 1996 after giving effect to certain pro forma adjustments related to such items as income taxes, depreciation, and amortization of cost in excess of net assets acquired. The pro forma results are shown for illustrative purposes only, and do not purport to be indicative of the actual results which would have occurred had the transaction been consummated as of those earlier dates, nor are they indicative of results of operations which may occur in the future.

	For the years ended June 30,	
	1997	1996

	(Unaudited)	
Revenue	\$ 40,946	\$ 40,016
Net loss	(1,403)	(1,072)
Primary net loss per share	(0.32)	(0.25)

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. INVESTMENTS IN JOINT VENTURES

The Company has three joint venture investments in China - Zibo Kehui Electric Company Ltd. (Kehui), Hathaway Si Fang Protection and Control Company, Ltd. (Si Fang), and Hathaway Power Monitoring Systems Company, Ltd. (HPMS). Kehui designs, manufactures and sells cable and overhead fault location, SCADA systems and other test instruments in China. Si Fang designs, manufactures and sells a new generation of digital protective relays, control equipment and instrumentation products for substations in power transmission and distribution systems. HPMS will design, manufacture and sell, under a license from Hathaway, instrumentation products designed by Hathaway, to electric power companies in China. The Company's investment and ownership interest in these Chinese joint ventures are as follows (in thousands):

	Investment	Ownership interest
Kehui	\$ 100	25%
Si Fang	175	25%
HPMS	140	40%
	\$ 415	

The Company has no future commitments relating to these investments. The Company considers the realization of these investments to be uncertain due to political instability and the untested market in China. Accordingly, the Company has fully reserved for these investments. The Company recognizes income from the joint ventures as cash dividends are received.

The Company also has an 11.4% interest in a joint venture (JV) with KUB Holdings BHD, a Malaysian firm. The interest, acquired by TIS for \$400,000 in March 1995, was acquired by the Company in connection with the purchase of TIS effective September 30, 1996 (Note 2). The fair value of this asset was not significant at the acquisition date. The JV was created for the purpose of manufacturing, marketing and selling the TIS-4000 system in certain Asian countries. If the JV requires funding, the Company may be required to contribute in accordance with the agreed-upon proportions as defined in the JV agreement.

The JV agreement also requires the Company to continue as a going concern and to provide support services to the JV at market rates. If the Company does not meet this requirement, it could be required to refund a contractually-defined portion (\$1,938,000 at June 30, 1997) of the \$2,500,000 proceeds TIS received in 1995 from the sale to the JV of licensing and marketing rights to the TIS-4000 technology. Because of the remote possibility of the Company being required to make such a refund, this obligation was determined to be zero at the acquisition date. Further, as of July 30, 1997, the Company does not expect that such refunds will be required. In addition, the Company is not aware of any violations of the requirements defined in the JV agreement nor does it anticipate any future violations.

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. DEBT

On August 2, 1993, the Company entered into a long-term financing agreement (Agreement) with Marine Midland Business Loans, Inc. (Midland). The Agreement is a Reducing Revolving Line of Credit with a borrowing limit that is reduced monthly over the seven year term of the loan. Borrowings on the line are restricted to the lesser of an amount based on certain asset levels, or the borrowing limit. As of June 30, 1997, the Company could borrow an additional \$1,036,000 up to the current borrowing limit of \$2,805,000. Pursuant to the borrowing limit amortization schedule, the limit will be amortized to \$2,070,000, \$1,133,000 and \$155,000 in the years ended June 30, 1998, 1999 and 2000, respectively, with the remaining unpaid balance of the loan becoming due August 1, 2000.

The line bears interest at Midland's prime borrowing rate plus 1% (9.5% at June 30, 1997). As long as the Agreement is in place, interest expense is calculated using the higher of the actual debt balance or 50% of the borrowing limit. Starting in August 1997 the Company may repay the entire debt balance with Midland with no prepayment penalty.

The debt is secured by all assets of the Company. The Agreement requires that the Company maintain compliance with certain covenants related to tangible net worth, cash flow coverage and current ratios.

The Company has not met the quarterly-calculated cash flow coverage covenant since the first quarter of fiscal 1996. Midland has issued waivers of non-compliance with the cash flow coverage covenant through June 30, 1997. In connection with obtaining the aforementioned waivers, the Company agreed to certain conditions, including limiting the assets against which the Company may borrow to certain accounts receivable, maintaining higher tangible net worth and achieving certain annual operating results in fiscal 1997. In addition, the Company may not, without the prior written consent of Midland, pay cash dividends, purchase treasury stock (except for limited amounts from employees), or make investments in other than investment grade securities, as long as the Company is in violation of the cash flow coverage covenant.

Beginning in March 1997, the Company has not maintained the aforementioned minimum tangible net worth. In addition, the Company did not achieve the aforementioned minimum fiscal 1997 operating results.

The Company's non-compliance with these requirements constitutes an event of default under the Agreement. Pursuant to the Agreement, upon the happening of an event of default, Midland may declare any principal outstanding to be immediately due and payable, together with all interest thereon and applicable costs and expenses. Accordingly, the \$1,769,000 balance of the long-term debt has been classified as current as of June 30, 1997.

As of July 30, 1997, Midland had not declared the Company's indebtedness to be immediately due and payable. The Company's management is currently discussing the terms of this debt with Midland and believes that should Midland declare the debt immediately due and payable, the Company would be able to satisfy the debt obligation using its cash on hand and maintain liquidity sufficient to meet the near-term needs of the Company.

Because of the uncertainty regarding the timing of the debt becoming due and payable, the Company wrote off \$197,000 of unamortized Midland loan acquisition costs at June 30, 1997.

Contractual maturities of long-term debt, which Midland may accelerate or declare immediately due and payable at any time unless the aforementioned event of default is cured, are as follows (in thousands):

1998	\$	--
1999		628
2000		978
2001		163

Total		1,769
		=====

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. INCOME TAXES

The benefit (provision) for income taxes is based on income (loss) before income taxes as follows (in thousands):

	For the years ended June 30,		
	1997	1996	1995
Domestic	\$ (2,471)	\$ (1,160)	\$ 948
Foreign	279	(238)	373
Income (loss) before income taxes	<u>\$ (2,192)</u>	<u>\$ (1,398)</u>	<u>\$ 1,321</u>

Components of the benefit (provision) for income taxes are as follows (in thousands):

	For the years ended June 30,		
	1997	1996	1995
Current benefit (provision):			
Domestic	\$ 682	\$ 222	\$ (414)
Foreign	120	8	(74)
Total current benefit (provision)	802	230	(488)
Domestic deferred benefit (provision)	(39)	155	9
Benefit (provision) for income taxes	<u>\$ 763</u>	<u>\$ 385</u>	<u>\$ (479)</u>

The benefit (provision) for income taxes differs from the amount determined by applying the federal statutory rate as follows (in thousands):

	For the years ended June 30,		
	1997	1996	1995
Tax benefit (provision) computed at statutory rate	\$ 745	\$ 475	\$ (449)
State tax, net of federal benefit	(2)	(2)	(25)
Nondeductible expenses	(32)	(90)	(69)
Income tax credits	--	(72)	73
Non-benefitted losses of foreign subsidiaries	(3)	(33)	(5)
Recovery of prior year taxes paid	98	84	--
Change in valuation allowance	(89)	37	(11)
Other	46	(14)	7
Benefit (provision) for income taxes	<u>\$ 763</u>	<u>\$ 385</u>	<u>\$ (479)</u>

The tax effects of significant temporary differences and credit carryforwards that give rise to the net deferred tax asset under SFAS 109 are as follows (in thousands):

	June 30, 1997	June 30, 1996
Allowances and other accrued liabilities	\$ 1,361	\$ 1,401
Tax credit carryforwards	209	88
Net operating loss carryforwards	--	31
Valuation allowance	(716)	(627)
Net deferred tax asset	<u>\$ 854</u>	<u>\$ 893</u>

As of June 30, 1997, the Company has paid foreign advance corporation tax of \$20,000 which may be utilized to reduce future foreign taxes due and has domestic tax credit carryforwards of \$189,000 expiring in 2007 and 2008.

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. STOCK COMPENSATION

At June 30, 1997, 294,621 shares of common stock were available for grant under the Company's stock option plans. Under the terms of the plans, options may not be granted at less than 85% of fair market value. However, all options granted to date have been granted at fair market value as of the date of grant. Options generally become exercisable evenly over three years starting one year from the date of grant and expire seven years from the date of grant.

During 1997 the Company granted options for 125,000 shares of the Company's common stock to certain key management personnel of HIA. Of the total, 75,000 vest over seven years, subject to acceleration if certain performance criteria are achieved by HIA and expire ten years after date of grant. The remaining 50,000 vest over four years only if certain performance criteria are met. Based on HIA's 1997 operating results, 10,000 shares will never vest and were forfeited.

In 1997 certain eligible employees of the Company exercised stock options by surrendering to the Company their Company stock with an aggregate fair market value of \$161,000, in non-cash, tax-free transactions.

Option activity in fiscal years 1995, 1996 and 1997 was as follows:

	Number of Shares	Weighted Average Exercise Price	Number of Shares Exercisable	Weighted Average Exercise Price
Outstanding at June 30, 1994	320,356	\$ 2.76		
Granted	88,500	3.74		
Exercised	(17,500)	2.47		
Canceled or forfeited	(28,500)	3.09		
Outstanding at June 30, 1995	362,856	\$ 2.88	228,856	\$ 2.76
Granted	22,500	2.68		
Canceled or forfeited	(52,500)	2.75		
Outstanding at June 30, 1996	332,856	\$ 2.87	250,856	\$ 2.88
Granted	503,350	3.58		
Exercised	(98,252)	2.46		
Canceled or forfeited	(29,250)	3.84		
Outstanding at June 30, 1997	708,704	\$ 3.45	187,104	\$ 3.19

Exercise prices for options outstanding at June 30, 1997 are as follows:

	Range of Exercise Prices		Total
	\$2.38 - \$3.19	\$3.50 - \$4.31	\$2.38 - \$4.31
Options Outstanding:			
Number of options	285,104	423,600	708,704
Weighted average exercise price	\$ 2.82	\$ 3.88	\$ 3.45
Weighted average remaining contractual life	4.63 years	5.66 years	5.24 years
Options Exercisable:			
Number of options	106,104	81,000	187,104
Weighted average exercise price	\$ 2.85	\$ 3.64	\$ 3.19

The Company accounts for its stock-based compensation plans for employees under the provisions of APB 25. In October 1995, the Financial Accounting Standards Board issued Statement of Financial Standards No. 123, "Accounting for Stock-Based Compensation," (SFAS 123) which established an alternative method of expense recognition for stock-based compensation awards to employees based on fair values. Companies that elect to continue accounting for stock-based compensation plans under the provisions of APB 25 must present certain pro forma disclosures.

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. STOCK COMPENSATION (CONTINUED)

Pro forma information regarding net loss and loss per share is required by SFAS 123 and has been determined as if the Company had accounted for its stock-based compensation plans using the fair value method prescribed by that statement. The fair value for these options was estimated at the date of grant using a Black-Scholes pricing model with the following weighted average assumptions:

	For the years ended June 30, 1997	1996
Risk-free interest rate	6.3%	6.5%
Expected dividend yield	0.0%	0.0%
Expected life	6 years	6 years
Expected volatility	58.5%	57.7%

Using the fair value method of SFAS 123, the net loss and net loss per share would have been adjusted to the pro forma amounts indicated below (in thousands, except per share data):

	For the years ended June 30, 1997	1996
Pro forma net loss	\$ (1,686)	\$ (1,016)
Pro forma primary and fully diluted net loss per share	\$ (0.39)	\$ (0.24)

The weighted average fair value of options granted during 1997 and 1996 was \$1.98 and \$1.39, respectively. The total fair value of options granted was \$978,000 and \$31,000 in 1997 and 1996, respectively. These amounts have been amortized ratably over the vesting periods of the options for purposes of this disclosure.

7. LOANS RECEIVABLE FOR STOCK

The Company's loans receivable balance of \$235,000 at June 30, 1997 and 1996 is comprised of a loan for \$102,000 from the Leveraged Employee Stock Ownership Plan and Trust (the Plan) and \$133,000 from an Officer of the Company.

The Plan allows eligible Company employees to participate in ownership of the Company. The \$102,000 receivable represents the unpaid balance of the original \$500,000 that the Company loaned to the Plan in fiscal 1989 so that the Plan could acquire from the Company 114,285 newly issued shares of the Company's common stock. The note bears interest at an annual rate of 9.23% and matures May 31, 2004. The terms of the Plan require the Company to make an annual contribution equal to the greater of i) the Board established percentage of pretax income before the contribution (5% in 1997, 1996 and 1995) or ii) the annual interest payable on the note. Company contributions to the Plan were \$9,000 in 1997 and 1996 and \$70,000 in 1995, representing interest in 1997 and 1996, and principal and interest of \$55,000 and \$15,000 in 1995, respectively.

The \$133,000 receivable represents the unpaid balance of a loan made in fiscal 1994 to an officer of the Company in connection with his purchase of the Company's common stock, pursuant to the Officer and Director Loan Plan approved by stockholders on October 26, 1989. The loan is full-recourse and bears interest at the applicable federal rate determined by the Internal Revenue Service (6.0% at June 30, 1997). The loan is due on demand but no later than October 26, 1998.

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. COMMITMENTS AND CONTINGENCIES

Leases

At June 30, 1997, the Company maintained leases for certain facilities and equipment. Minimum future rental commitments under all non-cancelable operating leases are as follows (in thousands):

Fiscal Year	Amount
-----	-----
1998	\$ 760
1999	685
2000	460
2001	456
2002	336
Thereafter	1,320

	\$ 4,017
	=====

Net rental expense was \$783,000, \$822,000 and \$1,035,000 in 1997, 1996 and 1995, respectively.

Shareholder Rights Plan

During fiscal year 1989, the Company adopted a shareholder rights plan under which preferred stock purchase rights were distributed, one right for each share of common stock outstanding. Each right entitles holders of the Company's common stock to buy one one-hundredth of a newly issued share of Series A Junior Participating Preferred Stock at an exercise price of \$17.50, following certain change of control events including a tender offer for, or acquisition by, any entity of 20% or more of the Company's common stock.

At any time up to ten business days following the public announcement of certain change of control events, the Company can redeem the rights at \$.001 per right. If certain subsequent triggering events occur, the rights will give shareholders the ability to acquire, upon payment of the then-current exercise price, the Company's common stock or the common stock of an acquirer having a value equal to twice the right's exercise price. The rights will expire June 25, 1999.

Severance Benefit Agreements

The Company has entered into annually-renewable severance benefit agreements with certain key employees which, among other things, provide inducement to the employees to continue to work for the Company during and after any period of threatened takeover. The agreements provide the employees with specified benefits upon the subsequent severance of employment in the event of change in control of the Company and are effective for 24 months thereafter. The maximum amount that could be required to be paid under these contracts, if such events occur, aggregated approximately \$1,846,000 as of June 30, 1997.

Employment Agreements

Effective July 1, 1993, the Company entered into five-year employment agreements with two of its executive officers. The agreements provide for base salary plus 1) an annual incentive bonus to be paid in cash based on the achievement of specified returns on equity and growth in share price plus dividends paid for each fiscal year, 2) a long-term incentive bonus, 3) specified benefits upon termination of employment (for reasons other than cause or change in control) which are effective for one year thereafter and 4) a bonus paid for gains on dispositions, if any, of certain subsidiaries and divisions of the Company.

No annual bonus was paid in 1997, 1996 or 1995.

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. COMMITMENTS AND CONTINGENCIES (CONTINUED)

For the three year performance period ended June 30, 1996, the long-term incentive bonus was payable at the end of the period in up to 210,000 shares of Company common stock based on the achievement of specified returns on equity and share price growth plus dividends paid during the period. At the employee's election, such payout could have been taken in cash up to 40% of the fair market value of the total shares to be issued. The Company recognized \$71,000, (\$16,000), and (\$55,000) of compensation expense (reversal of expense) in 1994, 1995 and 1996, respectively, related to the long-term incentive plan. The amounts were reflected as adjustments to additional paid-in capital. Because the specified performance targets for the three year performance period were not met, no long-term incentive bonus was paid for the three year performance period ended June 30, 1996.

To replace the expired long-term incentive bonus, on August 15, 1996 the Board of Directors approved the issuance of 148,500 stock options to the two executive officers at an exercise price equal to the fair market value of \$2.8125 at the grant date. The options become exercisable evenly over three years starting one year from the date of grant and expire seven years from the date of grant.

As of June 30, 1997, the maximum amount that could be required to be paid under the termination clause of these agreements was approximately \$766,000.

Stock Repurchase Program

Under an employee stock repurchase program approved by the Board of Directors, the Company may repurchase its common stock from its employees at the current market value. Of the \$1,000,000 approved for employee stock repurchases by the Board of Directors, the Company had \$55,000 available for future repurchases at June 30, 1997. The Company's Agreement with Midland limits employee stock repurchases to \$120,000 per calendar year (\$170,000 for calendar year 1996) as long as the Company is in violation of the cash flow coverage covenant contained in the Agreement (Note 4). As of June 30, 1997, \$99,000 was available under the calendar year 1997 limit. Effective June 30, 1995 the Board of Directors discontinued the previously authorized public stock repurchase program. Under Colorado law enacted in July 1994, repurchased shares of capital stock are considered authorized and unissued shares and have the same status as shares that have never been issued.

HATHAWAY CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. GEOGRAPHIC SEGMENT DATA

The Company's wholly-owned foreign subsidiaries have been based in Europe and Canada and are included in the accompanying consolidated financial statements. The Company closed its Canadian operating facility in 1997. Financial information for the foreign subsidiaries is summarized below (in thousands):

	For the Years Ended June 30,		
	1997	1996	1995
Revenues	\$ 7,031	\$ 7,261	\$ 8,879
Income (loss) before income taxes	275	(238)	373
Identifiable assets	4,335	4,636	5,744

The Company's export sales from domestic operations were approximately \$7,169,000 in 1997, \$6,753,000 in 1996 and \$7,265,000 in 1995, each representing 22%, 24%, and 23%, respectively, of total sales from domestic operations. The profitability of domestic sales is approximately the same as that of export sales, and the Company foresees no unusual risks associated with its export sales.

10. SELECTED QUARTERLY FINANCIAL DATA (UNAUDITED)

Selected Quarterly Financial Data for each of the four quarters in 1997 and 1996 is as follows (in thousands, except per share data):

	1997			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 8,818	\$ 10,368	\$ 9,443	\$ 11,317
Operating income (loss)	(540)	(425)	(1,186)	102
Net income (loss)	(375)	(226)	(936)	108
Primary and fully diluted net income (loss) per share	\$ (0.09)	\$ (0.05)	\$ (0.21)	\$ 0.02
	1996			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Revenues	\$ 7,511	\$ 9,678	\$ 8,274	\$ 9,948
Operating income (loss)	(1,105)	121	(694)	(61)
Net income (loss)	(751)	7	(507)	238
Primary and fully diluted net income (loss) per share	\$ (0.18)	\$ (0.00)	\$ (0.12)	\$ 0.06

11. RESTRUCTURING OF OPERATIONS

In the first quarter of 1997, management decided to restructure the power products manufacturing operations to produce operating efficiencies and to better utilize local management talent and expertise. Accordingly, the manufacturing operation located in Denver, Colorado was consolidated in 1997 into two manufacturing facilities located in Seattle, Washington and Belfast, Northern Ireland. The cost of consolidating these manufacturing facilities was not material and was paid in fiscal year 1997.

The Company recorded a \$338,000 restructuring charge in the fourth quarter of fiscal 1996 in connection with the reorganization of its Canadian and U.K. operations. Effective June 30, 1996 the net assets and substantially all operations of Hathaway Instruments Limited (HIL), the Company's subsidiary located in Hoddesdon, England, were transferred to Hathaway Systems, Limited (HSL), the Company's Belfast, Northern Ireland subsidiary. In connection with the asset transfer, substantially all operations of HIL were combined with the operations of HSL. In addition, the Company decided to close its Toronto, Canada facility and to combine substantially all of its operations with the operations of Hathaway Process Instrumentation, the Dallas, Texas division. The initiatives were aimed at reducing costs and enhancing productivity and efficiency. The restructuring provision was primarily comprised of estimated costs for employee severance benefits and fixed asset writeoffs. The payouts related to the restructuring charge were made in 1996 and 1997.

Item 9. Disagreements on Accounting and Financial Disclosure.

The Company has not changed its accounting or auditing firm during the past 24 months, nor has it had any material disagreements with its accountants or auditors regarding any accounting or financial statement disclosure matters.

PART III

The information required by Part III is included in the Company's Proxy Statement, and is incorporated herein by reference.

Item 10. Directors and Executive Officers of the Registrant.

Information required by this item is set forth in the sections entitled "Election of Directors" (page 2), "Executive Officers" (page 3) and "Compliance with Section 16(a) of the Securities Exchange Act of 1934" (page 10) in the Company's Proxy Statement and is incorporated herein by reference.

Item 11. Executive Compensation.

The information required by this item is set forth in the section entitled "Executive Compensation" (pages 5 through 8) in the Company's Proxy Statement and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

The information required by this item is set forth in the section entitled "Security Ownership of Certain Beneficial Owners and Management" (pages 4 and 5) in the Company's Proxy Statement and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

Since July 1, 1996, the Company has not entered into any material related party transactions.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

a) The following documents are filed as part of this Report:

1. Financial Statements

- g) Consolidated Balance Sheets as of June 30, 1997 and June 30, 1996.
- h) Consolidated Statements of Operations for each of the years in the three-year period ended June 30, 1997.
- i) Consolidated Statements of Cash Flows for each of the years in the three-year period ended June 30, 1997.
- j) Consolidated Statements of Stockholders' Investment for each of the years in the three-year period ended June 30, 1997.
- k) Notes to Consolidated Financial Statements.
- l) Report of Independent Public Accountants.

2. Financial Statement Schedules

None.

3. Exhibits

Exhibit No. -----	Subject -----	Page -----
3.1	Restated Articles of Incorporation.	*
3.2	Amendment to Articles of Incorporation, dated September 24, 1993.	*
3.3	By-laws of the Company adopted August 11, 1994.	*
4	Rights Agreement between Hathaway Corporation and Bank of America National Trust and Savings Association, dated June 15, 1989. Incorporated by reference to the Company's 1989 Annual Report and Form 10-K for the fiscal year ended June 30, 1989.	*
10.1	Severance Agreement dated June 15, 1989 between Hathaway Corporation and Eugene E. Prince. Incorporated by reference to Exhibit 10n(i) to the Company's 1989 Annual Report and Form 10-K for the fiscal year ended June 30, 1989.	*
10.2	Severance Agreement dated June 15, 1989 between Hathaway Corporation and Richard D. Smith. Incorporated by reference to Exhibit 10n(ii) to the Company's 1989 Annual Report and Form 10-K for the fiscal year ended June 30, 1989.	*
10.3	Lease Agreement between Circuits and Systems Design Limited and Department of Economic Development (Northern Ireland) dated April 7, 1992. Incorporated by reference to Exhibit 10(iii)D to the Company's 1992 Annual Report and Form 10-K for the fiscal year ended June 30, 1992.	*
10.4	The Hathaway Corporation Amended 1980 Non-Incentive Stock Option Plan. Incorporated by reference to the Company's Form S-8 filed August 3, 1981.	*
10.5	The 1983 Incentive and Non-Qualified Stock Option Plan dated September 22, 1983. Incorporated by reference to the Company's Form S-8 filed May 10, 1984.	*
10.6	Amendment to the 1983 Incentive and Non-Qualified Stock Option Plan dated January 4, 1989. Incorporated by reference to the Company's Form S-8 filed October 25, 1990.	*
10.7	The 1989 Incentive and Non-Qualified Stock Option Plan dated August 10, 1989. Incorporated by reference to the Company's Form S-8 filed October 25, 1990.	*
10.8	The 1991 Incentive and Non-Statutory Stock Option Plan dated September 19, 1991. Incorporated by reference to the Company's Form S-8 filed January 8, 1992.	*
10.9	Joint Venture Agreement between Zibo Kehui Electric Company and Hathaway Instruments Limited, for the establishment of Zibo Kehui Electric Company Ltd., dated July 25, 1993. Incorporated by reference to Exhibit 10.15 to the Company's Form 10-K for the fiscal year ended June 30, 1994.	*
10.10	Employment Agreement between Hathaway Corporation and Eugene E. Prince, dated July 1, 1993. Incorporated by reference to Exhibit 10.17 to the Company's Form 10-K for the fiscal year ended June 30, 1994.	*
10.11	Employment Agreement between Hathaway Corporation and Richard D. Smith, dated July 1, 1993. Incorporated by reference to Exhibit 10.18 to the Company's Form 10-K for the fiscal year ended June 30, 1994.	*

Exhibit No. -----	Subject -----	Page ----
10.12	Loan and Security Agreement dated August 2, 1993 between Hathaway Corporation, certain subsidiaries of Hathaway Corporation and Marine Midland Business Loans, Inc. Incorporated by reference to Exhibit 10.18 to the Company's Form 10-K for the fiscal year ended June 30, 1993.	*
10.13	Loan Facility Agreement dated August 2, 1993 between CSD Hathaway Limited and Forward Trust Limited. Incorporated by reference to Exhibit 10.19 to the Company's Form 10-K for the fiscal year ended June 30, 1993.	*
10.14	Reimbursement Agreement dated August 2, 1993 between CSD Hathaway Limited and Marine Midland Business Loans, Inc. Incorporated by reference to Exhibit 10.20 to the Company's Form 10-K for the fiscal year ended June 30, 1993.	*
10.15	Promissory Note from Richard D. Smith to Hathaway Corporation, dated October 26, 1993. Incorporated by reference to Exhibit 10.23 to the Company's Form 10-K for the fiscal year ended June 30, 1994.	*
10.16	Joint Venture Contract between Si Fang Protection and Control Company Limited and Hathaway Corporation for the establishment of Beijing Hathaway Si Fang Protection and Control Company, Ltd., dated March 2, 1994. Incorporated by reference to Exhibit 10.26 to the Company's Form 10-K for the fiscal year ended June 30, 1994.	*
10.17	Assignment and Assumption of Lease Agreement, Letter Agreement, Collateral Assignment and Amendment to Lease Agreement between Trammel Crow Company No. 91, Petula Associates, Ltd., Symantec Corporation and Hathaway Systems Corporation-Beta Products Division, dated June 1, 1994. Incorporated by reference to Exhibit 10.27 to the Company's Form 10-K for the fiscal year ended June 30, 1994.	*
10.18	Joint Venture Contract between Wuhan Electric Power Instrument Factory, Beijing Huadian Electric Power Automation Corporation and Hathaway Corporation for the establishment of Hathaway Power Monitoring Systems Company, Ltd., dated June 12, 1995. Incorporated by reference to Exhibit 10.29 to the Company's Form 10-K for the fiscal year ended June 30, 1995.	*
10.19	Technology License Contract between Wuhan Electric Power Instrument Factory and Beijing Huadian Electric Power Automation Corporation on behalf of Hathaway Power Monitoring Systems Company, Ltd. and Hathaway Corporation, dated June 12, 1995. Incorporated by reference to Exhibit 10.30 to the Company's Form 10-K for the fiscal year ended June 30, 1995.	*
10.20	Supplementary Agreement between Wuhan Electric Power Instrument Factory, Beijing Huadian Electric Power Automation Corporation and Hathaway Corporation, dated August 30, 1995. Incorporated by reference to Exhibit 10.31 to the Company's Form 10-K for the fiscal year ended June 30, 1995.	*
10.21	Management Incentive Bonus Plan for the fiscal year ending June 30, 1996. Incorporated by reference to Exhibit 10.28 to the Company's Form 10-K for the fiscal year ended June 30, 1995.**	*
10.22	Purchase Agreement between Hathaway Corporation and Tate Engineering Services Corporation dated October 10, 1996, for the Company's purchase of all the issued and outstanding stock of Tate Integrated Systems, Inc. Incorporated by reference to the Company's Form 8-K dated October 25, 1996.	*

Exhibit No. -----	Subject -----	Page ----
10.23	Joint Venture Agreement between KUB Holdings Bhd. And Tate Integrated Systems, L.P. dated March 9, 1995 and Supplement dated June 15, 1995.	
10.24	License Agreement between Tate Integrated Systems, L.P. and KUB-TIS Controls Sdn. Bhd. dated March 9, 1995.	
10.25	Commercial Lease Agreement between Commerce Square Associates LLC and Hathaway Corporation dated October 24, 1996.	
10.26	Industrial Lease Agreement between Lakefront Limited Partnership and Hathaway Industrial Automation dated April 30, 1997.	
21	List of Subsidiaries	33
22	Definitive Proxy Statement, dated September 18, 1997 for the Registrant's 1997 Annual Meeting of Shareholders.	*
23	Consent of ARTHUR ANDERSEN LLP.	31
27	Financial Data Schedule	
*	These documents have been filed with the Securities and Exchange Commission and are incorporated herein by reference.	
**	The Management Incentive Bonus Plans for the fiscal years ending June 30, 1997 and 1998 are omitted because they are substantially identical in all material respects to the Management Incentive Bonus Plan for the fiscal year ending June 30, 1996 previously filed with the Commission, except for the fiscal years to which they apply.	

(b) Reports on Form 8-K.
No reports on Form 8-K were filed during the fourth quarter of fiscal 1997.

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report dated July 30, 1997 included in this Form 10-K, into the Company's previously filed Registration Statement on Form S-8 (No. 2-73235) of the Hathaway Corporation Amended 1980 Non-Incentive Stock Option Plan dated August 3, 1981, into the Registration Statement on Form S-8 (No. 2-90687) of the 1983 Incentive and Non-Qualified Stock Option Plan of Hathaway Corporation dated May 10, 1984, into the Registration Statement on Form S-8 (No. 3344998) of the 1992 Employee Stock Purchase Plan of Hathaway Corporation dated January 8, 1992, into the Registration Statement on Form S-8 (No. 33-37473) of the 1989 Incentive and Non-Qualified Stock Option Plan of Hathaway Corporation dated October 25, 1990, and into the Registration Statement on Form S-8 (No. 3344997) of the 1991 Incentive and Non-Statutory Stock Option Plan of Hathaway Corporation dated January 8, 1992.

ARTHUR ANDERSEN LLP

Denver, Colorado,
September 18, 1997.

SIGNATURES

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.

HATHAWAY CORPORATION

By /s/ Eugene E. Prince

Eugene E. Prince
President, Chief Executive
Officer and Chairman of the
Board of Directors

Date: September 18, 1997

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 in the capacities and on the dates indicated.

Signatures	Title	Date
/s/ Eugene E. Prince ----- Eugene E. Prince	President, Chief Executive Officer, and Chairman of the Board of Directors	September 18, 1997
/s/ Richard D. Smith ----- Richard D. Smith	Executive Vice President, Treasurer, Chief Financial Officer (Principal Accounting Officer) and Director	September 18, 1997
/s/ George J. Pilmanis ----- George J. Pilmanis	Director	September 18, 1997
/s/ Del D. Hock ----- Del D. Hock	Director	September 18, 1997
/s/ Chester H. Clarridge ----- Chester H. Clarridge	Director	September 18, 1997
/s/ Graydon D. Hubbard ----- Graydon D. Hubbard	Director	September 18, 1997

OFFICERS AND DIRECTORS / INVESTOR INFORMATION

BOARD OF DIRECTORS

Eugene E. Prince
Chairman of the Board,
President and Chief Executive Officer

Richard D. Smith
Executive Vice President, Treasurer
and Chief Financial Officer

Delwin D. Hock
Former Chairman of the Board of Directors,
President and CEO of Public Service Company
of Colorado

Chester H. Clarridge
Consultant

Graydon D. Hubbard
Retired Partner, Arthur Andersen LLP

George J. Pilmanis
President of Balriga International Corporation
Business Development in the Far East and Eastern Europe

INVESTOR INFORMATION

Annual Meeting

The Annual Meeting of Shareholders of Hathaway Corporation will be held at 3:00 p.m., on Thursday, October 23, 1997 at Lone Tree Country Club, 9808 Sunningdale Boulevard, Littleton, Colorado.

Information Requests

Copies of the Company's reports to the Securities and Exchange Commission, excluding exhibits, on Form 10-K and Form 10-Q may be obtained from the Company without charge. Direct your written request to: Hathaway Corporation, 8228 Park Meadows Drive, Littleton, Colorado 80124.

Transfer Agent
American Stock Transfer & Trust Company
40 Wall Street
New York, NY 10005

Independent Public Accountants
ARTHUR ANDERSEN LLP
Denver, Colorado

CORPORATE OFFICERS

Eugene E. Prince
Chairman of the Board,
President and Chief Executive Officer

Richard D. Smith
Executive Vice President, Treasurer
and Chief Financial Officer

Herbert Franson
Assistant Treasurer, Corporate Controller
and Assistant Secretary

Susan M. Chiarmonte
Secretary

SUBSIDIARIES AND DIVISIONS

Domestic Subsidiaries and Divisions
Computer Optical Products, Inc.
Chatsworth, California

Hathaway Industrial Automation, Inc.
Baltimore, Maryland

Hathaway Motion Control Division
Tulsa, Oklahoma

Hathaway Motors and Instruments Division
Tulsa, Oklahoma

Hathaway Power Instrumentation
Littleton, Colorado

Hathaway Process Instrumentation
Dallas, Texas

Hathaway Automation Technology Division
Seattle, Washington

International Subsidiary
Hathaway Systems Limited
Belfast, Northern Ireland

KUB HOLDINGS BHD.

AND

TATE INTEGRATED SYSTEMS, L.P.

JOINT VENTURE AGREEMENT

1

THIS AGREEMENT is made the 9th day of March, 1995

BETWEEN

KUB HOLDINGS BHD., a company incorporated in Malaysia and having its registered office at 1st Floor, Bangunan UMNO, Jalan Tuanku Abdul Rahman, 50100 Kuala Lumpur, Malaysia (hereinafter called "KUBH") of the one part;

AND

TATE INTEGRATED SYSTEMS, L.P., a limited partnership under the laws of the State of Delaware and having its office at 11431 Cronhill Drive, Suite J, Owings Mills, Maryland 21117, United States of America (hereinafter called "TIS") of the other part.

ARTICLE I

RECITALS

(S) 1.1 Business of KUBH

KUBH is presently engaged in the business of education and training, information technology, property development and plantation.

(S) 1.2 Business of TIS

TIS is engaged in the design, manufacture, licensing, marketing, sale and/or servicing of software and complete computer-based automation systems which are used for process monitoring and control.

(S) 1.3 Joint Venture

KUBH and TIS are desirous of creating a joint venture for the purpose of manufacturing, marketing and selling TIS 4000 Systems (hereinbelow defined) which use the TIS 4000 Technology (hereinbelow defined) in the ASEAN Territory (hereinbelow defined) [hereinafter referred to as "the Project"].

(S) 1.4 Joint Venture Company

In order to carry out the joint venture in relation to the Project, the Parties hereto have agreed to form a joint venture company (hereinafter referred to as "the JVC") to undertake such task and have agreed to enter into this Agreement for the purpose of regulating their relationship with one another and certain aspects of the affairs and their dealings in the JVC.

(S) 1.5 License Agreement

By a written agreement dated the 9th day of March, 1995 (hereinafter referred to as "the License Agreement") entered into between TIS of the one part and the JVC of the other part, TIS agreed to grant to the JVC and the JVC agreed to accept the exclusive license to use the TIS 4000 Technology in TIS 4000 Systems manufactured, marketed and sold in the ASEAN Territory upon payment of a licensing fee of United States Dollars Two Million and Five Hundred Thousand (USD 2,500,000.00) only (hereinafter referred to as "the Licensing Fee") and subject to the terms and conditions therein contained.

ARTICLE II

DEFINITIONS/INTERPRETATION

(S) 2.1 Definitions

In this Agreement the following words and expressions shall, where not inconsistent with the context, have the following meanings respectively:

- 2.1.1 Agreed Proportions means the agreed proportions of the issued share

capital of the JVC to be held by each of the Parties hereto and referred to in (S)5.1.2 hereof.
- 2.1.2 ASEAN Territory means the following countries:

(a)Thailand;
(b)Malaysia;
(c)Indonesia;
(d)Philippines;
(e)Singapore;
(f)Brunei; and
(g)such other countries in Asia as TIS may approve in writing.
- 2.1.3 BLR means the base lending rate of Malayan Banking Berhad quoted

from time to time.
- 2.1.4 Board means the board of directors of the JVC or the directors

present (personally or by their alternates) at any meeting of the directors of the JVC duly convened and held.
- 2.1.5 Business Day means a day, other than Saturday, on which commercial

banks are open for business in Kuala Lumpur, Malaysia for transaction of business.
- 2.1.6 Companies Act means the Companies Act, 1965 of Malaysia and any

statutory modification or reenactment thereof for the time being in force.
- 2.1.7 Cut-Off Period means the period of three (3) months from the date of

this Agreement being the time for fulfilling the condition precedent as stipulated in (S)4.1 of this Agreement subject to such extension as the Parties thereto may agree.
- 2.1.8 Effective Date means the day falling within the Cut-Off Period when

the condition precedent stipulated in (S)4.1 hereof has been fulfilled.
- 2.1.9 FIC means the Foreign Investment Committee established by the

Government of Malaysia to regulate the acquisition of assets, mergers and take-overs in Malaysia in accordance with the Government's Guidelines for the Regulations of Acquisitions of Assets, Mergers and Take-overs.
- 2.1.10 Financial Year means the period of twelve (12) months commencing

from the 1st day of January and ending on the 31st day of December of the same year.
- 2.1.11 JVC means the joint venture company set up by the Parties hereto and

referred to in (S)1.4 and (S)3.1 hereof.

- 2.1.12 KUBH means KUB HOLDINGS BHD., a company incorporated in Malaysia and

 having its registered office at 1st Floor, Bangunan UMNO, Jalan
 Tuanku Abdul Rahman, 50100 Kuala Lumpur, Malaysia and shall, where
 the context so admits, include its successors in title.
- 2.1.13 License means the exclusive license to use the TIS 4000 Technology

 in TIS 4000 Systems manufactured, marketed and sold in the ASEAN
 Territory which TIS has agreed to grant to the JVC pursuant to the
 License Agreement.
- 2.1.14 License Agreement means the written agreement dated the 9th day of

 March, 1995 entered into between TIS of the one part and the JVC of
 the other part whereby TIS granted to the JVC the License upon the
 terms and conditions therein contained.
- 2.1.15 Licensing Fee means the sum of United States Dollars Two Million and

 Five Hundred Thousand (USD 2,500,000.00) only and referred to in
 (S)1.5 hereof.
- 2.1.16 Malaysia means the Federation of Malaysia.

- 2.1.17 Malaysian Laws means all the laws, regulations, orders and decrees

 of Malaysia, whether Federal or State, including those to be enacted
 during the term of this Agreement.
- 2.1.18 Memorandum and Articles of Association means the Memorandum of

 Association and the Articles of Association to be adopted by the
 JVC.
- 2.1.19 Parties means KUBH and TIS, collectively and individually, "Party".

- 2.1.20 Project means the joint venture for the purpose of manufacturing,

 marketing and selling TIS 4000 Systems which use the TIS 4000
 Technology in the ASEAN Territory.
- 2.1.21 Relevant Authorities means the relevant government ministries

 whether federal or state and other governmental statutory bodies of
 Malaysia.
- 2.1.22 Ringgit Malaysia or RM means the lawful currency for the time being

 and from time to time of Malaysia.
- 2.1.23 Subsidiaries means as defined under (S)5 of the Companies Act.

- 2.1.24 Supermajority means a simple majority of the Directors of the JVC

 present (personally or by their alternate) and entitled to vote on
 matters that come before any meeting of the Board; provided,
 however, that such majority shall include the vote of at least one
 (1) TIS Director and KUBH Director in order to constitute a
 Supermajority.
- 2.1.25 TIS means TATE INTEGRATED SYSTEMS, L.P., a limited partnership under
 the laws of the State of Delaware and having its office at 11431
 Cronhill Drive, Suite J,

Owings Mills, Maryland 21117, United States of America and shall, where the context so admits, include its successors in title.

- 2.1.26 TIS 4000 System or TIS 4000 Systems means the computer based

automation systems for process monitoring and control which use the
TIS 4000 Technology, in all forms and applications.
- 2.1.27 TIS 4000 Technology means TIS developed software including packages

such as DataVu, TrendVu, SNLVu, AlarmVu, ReportVu, TankFarmTools and
other software packages which may be developed by TIS in the future
which are proprietary to TIS and any modifications, improvements and
enhancements to any of the foregoing made by TIS, which, in TIS's
and KUBH's mutual opinion expressed in writing, is or are necessary
in the manufacture, marketing and sale of TIS 4000 Systems.
- 2.1.28 United States Dollars or USD means the lawful currency for the time

being and from time to time of United States of America.
- (S) 2.2 Interpretation

- 2.2.1 Words denoting the singular number only includes the plural number
and vice versa.
- 2.2.2 Words denoting the neuter gender shall include the masculine and
feminine genders and vice versa.
- 2.2.3 Headings of Articles and Sections are for ease of reference only and
shall be ignored in interpreting the provisions hereof. References
to Articles and Sections are, except where the context otherwise
requires, references to Articles and Sections hereof.
- 2.2.4 References to Articles and Sections are to be construed as
references to Articles and Sections of this Agreement.
- 2.2.5 References to the provisions of any legislation includes a reference
to any statutory modification and re-enactment thereof and any
regulations thereunder.

ARTICLE III

FORMATION OF JVCC

- (S) 3.1 Name of JVC

KUBH shall use its best efforts to (i) incorporate the JVC registered in
Malaysia under the Companies Act, (ii) maintain the corporate existence of the
JVC in Malaysia and (iii) obtain FIC approval of the transactions contemplated
by this Agreement and the License Agreement on or before the expiration of the
Cut-Off Period. The name of the proposed JVC shall be KUB-TIS CONTROLS SDN. BHD.
or such other name as may be approved by the Registrar of Companies and agreed
to by the Parties hereto. KUBH will incur the registration fee for the JVC in
the first instance and will be reimbursed by the JVC after the JVC has been
funded by the Parties hereto, in accordance with (S)11.3 hereof.
- (S) 3.2 Registered Office of JVC

The registered office of the JVC shall be at 1st Floor, Bangunan UMNO, Jalan Tuanku Abdul Rahman, 50100 Kuala Lumpur, Malaysia or such other place as the Parties hereto may agree.

(S) 3.3 Main Object of JVC

The main object of the JVC shall be to implement the Project and to undertake related activities.

(S) 3.4 Memorandum and Articles of Association of the JVC

3.4.1 The Memorandum and Articles of Association of the JVC shall reflect the understanding between the Parties hereto and as contained herein.

3.4.2 The Memorandum and Articles of Association of the proposed JVC shall be unanimously agreed to by the Parties hereto. These documents may be amended from time to time by written agreement between the Parties hereto, subject to the provisions of the Companies Act. Any understanding herein not reflected in the Memorandum and Articles of Association of the JVC shall nevertheless be binding on the Parties hereto. In the event of any conflict between any of the provisions of this Agreement and the Memorandum and Articles of Association, the former shall prevail.

ARTICLE IV

CONDITION PRECEDENT

(S) 4.1 Condition Precedent

This Agreement is conditional upon the approval of the FIC being obtained within the Cut-Off Period.

(S) 4.2 Effective Date

The Parties' obligations to subscribe for shares as provided in (S)5.2.2 hereof and all their obligations and rights thereafter as shareholders in the JVC and Parties to the joint venture or otherwise arising therefrom, shall take effect from (and including) the Effective Date.

(S) 4.3 Application for Approval

As soon as practicable after the execution of this Agreement, KUBH shall take the necessary steps to apply for the approval of the FIC for the joint venture under this Agreement. The Parties hereto shall exercise respectively, their best endeavors to assist one another in the aforesaid application.

(S) 4.4 Notification

Upon the approval of the FIC being refused or given or granted upon the fulfillment of any conditions therein referred to, the Party being notified of such refusal or given such approval or granted such approval subject to the fulfillment of any conditions shall immediately notify the other Party in writing and, where relevant, shall forward a copy thereof to the other Party.

(S) 4.5 The Option Period

In the event that a condition is imposed in respect of the approval of the FIC which affects any of the Parties hereto, that Party shall have the option, to be exercised within sixty (60) days from the date on which the condition is made known to such Party (hereinafter referred to as "the Option Period") by written notice in writing to the other Party, to reject such condition, whereupon the approval in respect of which the said condition is imposed shall be deemed not to have been obtained for the purpose hereof. If such option is not exercised within the Option Period such

approval of the FIC in respect of which the said condition is imposed shall be deemed to have been obtained for the purpose hereof and the Effective Date shall be deemed to occur upon the expiration of such Option Period.

(S) 4.6 Cut-Off Period

In the event that the approval of the FIC is not obtained or fulfilled on the expiry of the Cut-Off Period (i) this Agreement shall be deemed to have lapsed and be of no further force and effect and the Parties hereto shall not have any claim against each other and (ii) each Party shall bear its own costs and expenses incurred prior to such date in connection with the transactions contemplated hereby.

ARTICLE V

SHARE CAPITAL AND ADDITIONAL FUNDING

(S) 5.1 Authorized Capital

5.1.1 The initial authorized capital of the JVC shall be Ringgit Malaysia Five Hundred Thousand (RM 500,000.00) only divided into Five Hundred Thousand (500,000) ordinary shares of Ringgit Malaysia One (RM 1.00) each at par value and which shall be increased to Ringgit Malaysia Ten Million (RM 10,000,000.00) only within one (1) week from the Effective Date.

5.1.2 The Parties hereto have agreed to subscribe for the following proportions (hereinafter referred to as "the Agreed Proportions") of the issued share capital of the JVC:

5.1.2.1 KUBH - 87.1%.
5.1.2.2 TIS - 12.9%.

(S) 5.2 Paid Up Capital

5.2.1 The initial paid up capital of the JVC shall be Ringgit Malaysia Two (RM 2.00) only which will be held by the nominees of KUBH.

5.2.2 The paid up capital of the JVC shall be increased to Ringgit Malaysia Eight Million and Sixty Thousand (RM 8,060,000.00) only by the allotment and issue of Eight Million Fifty Nine Thousand Nine Hundred and Ninety Eight (8,059,998) ordinary shares of Ringgit Malaysia One (RM 1.00) each at par to the Parties hereto on or before two (2) Business Days after the occurrence of the Effective Date in the following proportions:

KUBH - 7,019,998 ordinary shares.
TIS - 1,040,000 ordinary shares.

5.2.3 In addition to the initial subscription as mentioned in (S)5.2.2 hereof, the Parties hereto agree to subscribe to any further issue of share capital of the JVC so as to maintain the Agreed Proportions referred to in (S)5.1.2 hereof. Subject to (S)5.2.5 hereof, the Parties hereto hereby agree that except with the unanimous agreement of the Parties hereto, (a) the Agreed Proportions shall not be changed and accordingly, no new shares in the JVC shall be issued and allotted to the Parties hereto (or any of them) unless the Agreed Proportions shall be maintained, and (b) no new shares in the JVC shall be issued or allotted to any third party.

5.2.4 The JVC shall be responsible and at its own costs and expenses, procure whatever funds as may be necessary for it to conduct its business operations over and above its paid up capital and retained earnings.

5.2.5 Notwithstanding the provision of (S)5.1.2 hereof, TIS shall be entitled within one (1) year from the Effective Date to increase its shareholding to forty per centum (40%) of the issued and paid up capital of the JVC by subscribing for further ordinary shares in the JVC at par value subject to the prior written approval of the FIC.

(S) 5.3 Financing

5.3.1 Subject to the provisions of (S)5.3.3 hereof, if at any time, or from time to time, a Supermajority of the Board determines that additional funds are reasonably necessary for the continued operation of the JVC, the Parties shall cause the JVC to borrow the required additional funds from any willing third party lender, on such terms and conditions as are approved by a Supermajority of the Board. If a Supermajority of the Board determines (i) that funds are not reasonably available to the JVC as described above in the immediately preceding sentence or (ii) that additional capital contributions are reasonably necessary to the continued operation of the JVC then each Party agrees to contribute in accordance with the Agreed Proportions such additional funds or capital contributions as may be necessary for the sound operation of the JVC as determined by a Supermajority of the Board from time to time. If either Party fails to contribute its full share toward such additional capitalization of the JVC, then the other Party may advance such funds for the defaulting Party. Any such funds so advanced shall, at the time the JVC distributes cash to the Parties, be repaid from the share of the defaulting Party, together with interest at an amount equal to the sum of the BLR of Malayan Banking Berhad on the date of such loan plus three per centum (3%) per annum, from the date of the advance. If the Party making such advances has not been repaid such advance amount at the time of termination of this Agreement, then the defaulting Party shall be obligated to pay such advance amount, together with interest accrued and unpaid to the date of payment at the rate described in the immediately preceding sentence, to the other Party upon termination of this Agreement.

5.3.2 None of the Parties hereto undertakes to provide any loan or share capital to the JVC nor to give any guarantee or indemnity in respect of any of the JVC's liabilities or obligations.

5.3.3 The Parties hereto agree that to the extent that any of them suffers any loss in relation to loans made or credit given to the JVC pursuant to this Agreement (or with the written consent of the other Party hereto) then they shall make contributions to each other to the intent and effect that such losses are borne in the Agreed Proportions.

(S) 5.4 Guarantees and Indemnities

5.4.1 The Parties hereto agree that; subject to Sections 5.4.2 and 5.4.3 hereof, the aggregate amount of any actual liability incurred by them pursuant to any joint and several guarantee or indemnity given by them to any third party in respect of any liabilities or obligations of the JVC or pursuant to any guarantee or indemnity (whether several or joint and several) given in respect of such obligations or liabilities

by any of them with the written consent of the other shall be borne by them in the Agreed Proportions and each shall indemnify and keep indemnified the other accordingly which indemnity shall include costs incurred by the other Party.

5.4.2 If any liability incurred as aforesaid is solely attributable to the act or default of one of the Parties hereto then, notwithstanding (S)5.4.1 hereof, the whole of such liability shall be borne by such Party hereto who shall indemnify and keep indemnified the other Party accordingly.

5.4.3 In the event that a Party ("Selling Party") hereto disposes of all its shares to the other Party ("Acquiring Party") hereto then the Acquiring Party will use all reasonable endeavors to obtain the release of that the Selling Party from any guarantees and indemnities which he may have given pursuant to this Agreement or with the written consent of the both Parties hereto in respect of any of the liabilities or obligations of the JVC to third parties and pending the obtaining of such release shall keep that the Selling Party fully and effectively indemnified against any liability pursuant to any such guarantees or indemnities.

ARTICLE VI

INDEMNITY

(S) 6.1 Indemnity by KUBH

KUBH shall indemnify, defend and hold harmless TIS and TIS's directors, officers, employees and agents from and against all claims, actions or causes of action, suits and proceedings and all loss, assessments, liability, damages, costs and expenses incurred in connection therewith (including reasonable attorney's fees) for which TIS or its directors, officers, employees or agents may become liable or incur or be compelled to pay, in each case, to the extent caused, (i) by a breach of this Agreement by KUBH, or (ii) by the willful misconduct or negligent acts or omissions of KUBH, their agents, contractors or employees, in connection with or as a result of this Agreement or the performance of its obligations hereunder, unless, in each case, such claim results from the willful misconduct or negligent acts or omissions of TIS.

(S) 6.2 Indemnity by TIS

TIS shall indemnify, defend and hold harmless KUBH and KUBH's directors, officers, employees and agents from and against all claims, actions or causes of action, suits and proceedings and all loss, assessments, liability, damages, costs and expenses incurred in connection therewith (including reasonable attorney's fees) for which KUBH or its directors, officers, employees or agents may become liable or incur or be compelled to pay, in each case, to the extent caused, (i) by a breach of this Agreement by TIS, or (ii) by the willful misconduct or negligent acts or omissions of TIS, their agents, contractors or employees, in connection with or as a result of this Agreement or the performance of its obligations hereunder, unless, in each case, such claim results from the willful misconduct or negligent acts or omissions of KUBH.

(S) 6.3 Survival of indemnity

The indemnifications provided in this Article VI, shall survive termination of this Agreement.

ARTICLE VII

MANAGEMENT OF JVC AND BOARD OF DIRECTORS

(S)7.1 Number of Directors

7.1.1 Unless otherwise determined by a general meeting of the JVC, the Board shall comprise of not less than two (2) but not more than ten (10) members (excluding Alternate Directors).

7.1.2 The initial composition of the Board shall be up to seven (7) Directors to be nominated by the Parties hereto in the following proportion:

- 7.1.2.1 KUBH - up to five (5) only ("KUBH Directors").
- 7.1.2.2 TIS - up to two (2) only ("TIS Directors").

7.1.3 In the event of any changes to the Agreed Proportions as stated in (S)5.1.2 hereof then the number of Directors shall be revised accordingly in proportion to their respective shareholdings in the JVC.

7.1.4 The Directors shall not be compensated for their services as members of the Board. The JVC shall be, however, responsible for all reasonable out-of-pocket expenses as approved by the Board incurred by members of the Board in attending regular or special meetings of the Board.

(S)7.2 Qualification of Directors

Subject to the fulfillment of all the requirements of the Companies Act the Directors shall not be required to hold any qualification shares.

(S)7.3 Chairman

The Chairman of the Board and the Chairman of all Board meetings of the JVC shall be elected by the Board. The Chairman shall have a casting vote.

(S)7.4 Change of Nominee Directors

7.4.1 The Parties hereto shall have the option to renominate their retiring Directors, or suitable replacement thereof, and the appointments to be made by the shareholders shall be in accordance with the recommendations of these Parties in respect of Directors they are entitled to nominate.

7.4.2 The Parties hereto shall respectively have the right to remove their respective nominee Directors so appointed and to appoint others in their place. Appointment or removal of nominee Directors shall be effected in writing, or by telex or telefax addressed to the Chairman of the Board of the JVC by KUBH or TIS, as the case may be and the same shall take effect upon being received by the JVC in accordance with the procedures laid down in the Companies Act. Neither Party hereto shall have the right, and shall not sign, do or execute any document act or thing, to remove the nominee Directors of or representing the other Party hereto.

(S)7.5 Board Meetings

7.5.1 Unless otherwise agreed, written notice of every meeting of the Board shall be received by every Director at least fourteen (14) days in advance thereof. However,

if an emergency meeting of the Board convenes at the request of the Chairman of the Board or the Managing Director, the notice period to every Director shall be at least ten (10) days.

7.5.2 Every notice convening a meeting of the Board shall set out the agenda of the business to be transacted. No item of business shall be transacted at such meeting, unless the same has been stated in the said notice convening the meeting. PROVIDED that:

7.5.2.1 additional item(s) of business may be inserted in the agenda of the business to be transacted if notice of such additional item is given to all the Directors at least seven (7) days before meeting of the Board; or

7.5.2.2 with the unanimous consent of all the Directors present, any item of business not included in the agenda may be transacted at the meeting.

7.5.3 The quorum for a meeting of the Board shall be three (3) Directors who are present in person or by their alternate. PROVIDED further that no quorum for a meeting of the Board shall be constituted and no such meeting shall proceed to transact any business unless at least one (1) Director (or his alternate) representing each of the Parties hereto are present at such meeting. If there is no quorum for a duly convened meeting of the Board of which notice has been given to all the Directors, then such meeting shall stand adjourned to the same day in the next week at the same time and place or to such other day and at such other time and place as the majority of the directors for the time being shall decide, and at such adjourned meeting, the quorum shall be any three (3) Directors.

(S)7.6 Circular Resolution

A resolution in writing, signed by a Supermajority of the Directors for the time being entitled to receive notice of a meeting of the Directors, shall be as valid and effective as if it had been passed at a meeting of the Directors duly convened and held. Any such resolution may consist of several documents in like form, each signed by one or more Directors.

(S)7.7 Decision of the Board

All the important matters of business of the JVC shall be decided by the Board of the JVC. In the meetings of the Board, normally all the matters should be decided unanimously. However, in case of difference of opinion, matters may be decided by majority of the Directors present in the meeting except for those matters enumerated below which no resolution shall be passed or approved or treated as passed, approved or effective unless with the approval of at least one (1) Director representing each of the Parties hereto:

7.7.1 acquisition by the JVC of any land, or other improved or unimproved immovable property, or any improvements thereon or interest therein, in each case, having an individual value of Ringgit Malaysia Six Hundred and Twenty Five Thousand (RM 625,000.00) only or more;

7.7.2 approval of operating budgets for the JVC (which shall be further subject to approval by the Board of Directors of KUBH);

- 7.7.3 making of any expenditure or the incurrence of any obligation during any Financial Year which, when added to other expenditures made or obligations incurred for such Financial Year, exceeds by more than ten per centum (10%) the amount provided for such expenditure in the annual budget approved by the Board for such Financial Year;
- 7.7.4 entering into by the JVC of any management, development, technical services, consulting, advisory, marketing or similar contract or agreement that, in each case, calls for annual payments of Ringgit Malaysia One Hundred and Twenty Five Thousand (RM 125,000.00) only or more, or any termination or modification of such contract or agreement;
- 7.7.5 any modification of the insurance required to be maintained by the JVC pursuant to (S)10.1.3 hereof if such modification will materially increase the cost of such insurance;
- 7.7.6 hiring by the JVC of any key employee;
- 7.7.7 approval of marketing, advertising and other business plans of the JVC;
- 7.7.8 incurrence of any long-term debt by the JVC;
- 7.7.9 determinations with respect to additional capitalization or additional funds of the JVC in accordance with and as more particularly described in (S)5.3.1 hereof;
- 7.7.10 amendment, revision, modification or deletion of any of the provisions of the Memorandum and Articles of Association of the JVC;
- 7.7.11 approval of any plan to list the shares of the JVC on any stock exchange and for sale to the public; and
- 7.7.12 the making of any other decision or taking of any other action which, by any provision of this Agreement, materially adversely affects the JVC or the assets or operations thereof.
- (S)7.8 Management Committee

- 7.8.1 The management committee of the JVC shall comprise the following persons each of whom shall be appointed by a Supermajority of the Board:
 - 7.8.1.1 the Managing Director;
 - 7.8.1.2 the General Manager (if-any);
 - 7.8.1.3 the Financial Controller or Accountant; and
 - 7.8.1.4 such other persons as may be approved by the Board.
- 7.8.2 The Managing Director shall be responsible for the general supervision of the daily affairs of the JVC and shall oversee all aspects of the development of the business of

the JVC, and, in general, shall perform all duties incident to the office of the Managing Director. The Managing Director shall have such authority as may from time to time be delegated to him by a Supermajority of the Board.

- 7.8.3 The Financial Controller or the Accountant shall have custody of all funds and of all financial records of the JVC.
- 7.8.4 The Managing Director, the General Manager, the Financial Controller or Accountant and other officers, employees and agents shall be remunerated in line with KUB group policy.
- 7.8.5 Notwithstanding any other provision of this Agreement to the contrary, (i) no Affiliate of either Party may act as an officer, employee, agent or contractor of the JVC and (ii) no person who is related to any officer, director or employee of KUBH or TIS may serve as an officer or director of the JVC, in each case, without Supermajority approval of the Board; provided, however, that any of the current officers and directors of KUBH or TIS may serve as officers and/or directors of the JVC without the approval of the Board.
- 7.8.6 The management committee of the JVC shall hold meetings at such times as the members of the management committee deem appropriate; provided, however, that the management committee shall meet at least once every three (3) months to review and discuss matters relevant to the operation and business affairs of the JVC. The Managing Director shall record and maintain minutes of each management committee meeting and shall provide copies of each set of minutes, signed by the Managing Director, to each of the Parties hereto within fourteen (14) days of each management committee meeting.
- (S)7.9 Books and Records

- 7.9.1 At all times during the term of the JVC, the JVC shall keep or cause to be kept accurate and complete books of account in which shall be entered fully and accurately the transactions of the JVC, and all of said books shall at all times be maintained at the principal office of the JVC. The JVC's books of account shall be open to the inspection and examination of Parties or their respective representatives during all reasonable business hours. The JVC's Financial Year shall be the twelve (12) months ending 31st day of December.
- 7.9.2 The JVC shall comply with all applicable tax laws and regulations and shall file all tax information or tax returns required to be filed by the JVC and/or the Parties with the appropriate taxing authorities within the time periods established by the laws and regulations of each relevant jurisdiction; provided, however, that all tax information and tax returns shall be subject to the prior review and approval of the Parties. The JVC's independent accountants shall prepare such tax returns, and the costs of preparing and filing such tax returns shall be borne by the JVC.
- 7.9.3 All books and records of the JVC shall be maintained by the accounts department of the JVC (i) in the English language and (ii) in accordance with generally accepted accounting principles. All agreements entered into by the JVC shall be written in the English language.

ARTICLE VIII

TRANSFER AND TRANSMISSION OF SHARES

(S)8.1 Right of First Refusal

8.1.1 No Party hereto shall, without the prior written consent of the other Party, sell, transfer, assign, contribute, mortgage, hypothecate or otherwise encumber, transfer or permit to be transferred, either voluntarily or involuntarily, or otherwise dispose its equity shares or any part thereof without first offering to sell the same to the other Party or its nominee in accordance with (S)8.1.3 hereof. PROVIDED that no such consent of the other Party shall be required in case the said shares are to be transferred, sold or otherwise disposed of to any of the Subsidiaries of the Party concerned.

8.1.2 Any transfer or sale referred to in (S)8.1.1 hereof shall be effected only on the condition that the purchaser or the transferee agrees to abide by and observe all the terms and conditions of this Agreement and such purchaser or transferee shall enter into an agreement incorporating the terms and conditions and covenants herein contained.

8.1.3 Any offer of sale for any of the shares subject to the right of first refusal provided for in Sections 8.1.1 and 8.1.2 hereof shall be made in the following manner:

- 8.1.3.1 such offer shall be made in writing addressed to the other Party for which it is intended;
- 8.1.3.2 such offer shall indicate, among other things the price at which the shares are offered for sale. The Parties hereto shall within thirty (30) days from the date of such offer negotiate and agree upon the price at which the shares will be sold. In default of agreement between the Parties the price shall be a fair price determined by a firm of Accountants of international repute, (to be unanimously agreed upon by the Parties hereto) within sixty (60) days from the date of such offer and on the basis of accepted standards, whose decision shall be final and binding;
- 8.1.3.3 if any such offer shall not be accepted by the other Party hereto in writing within a period of ninety (90) days from the date of receipt thereof or the date of fixation of price by the abovesaid firm of Accountants as aforesaid; as the case may be, then in such case the offer shall be deemed to have been declined and the Party by whom the offer is made shall thereafter be free to sell the shares to any third parties but not on terms relating to price and payment more favourable than that previously offered to the other Party hereto;
- 8.1.3.4 in the event of any such offer being accepted, completion of the sale and purchase of the shares comprised therein shall take place within such time as the Parties hereto may agree or in default of agreement within not more than fifteen (15) days after the date of acceptance (excluding the time taken for obtaining the permission of any Government authority, if applicable);

8.1.3.5 at such completion the vendor shall deliver to the purchasers:

8.1.3.5.1 the certificates for the shares to be sold; and

8.1.3.5.2 transfer forms of such shares duly executed by vendor. Before such completion, the purchasers shall obtain such Government consent and permission as may be required, to enable the shares to be sold and transferred to the purchasers and deliver to the vendor in exchange thereof a Bankers Draft or other method acceptable to the Parties for the amount of the purchase price payable.

In this clause the expression "vendor" means any of the Parties hereto by which any offer for sale of shares is made pursuant to the foregoing provisions and the expression "the purchaser or transferee" shall mean any of the Parties hereto or such third party(ies) who agreed to purchase the shares from vendor.

8.1.4 An offer made by one (1) Party to the other Party shall be open for acceptance only as to the whole of the shares so offered and not any lesser number thereof, unless the offeror agrees at its discretion.

8.1.5 The Parties hereby agree that the Board shall not be entitled to refuse to register any transfer of shares by a Party hereto to a third party if (a) that Party has, in connection with such transfer, complied with the foregoing provisions prior to the sale and transfer of shares to that third party, (b) that third party has delivered to the Board its written agreement as referred to in (S)8.1.2 hereof, and (c) the transferor and transferee have furnished to the Board evidence that the price paid by the third party and the terms of payment thereof are not more favourable than the price and terms of payment offered by the transferor to the other Party.

(S)8.2 Transfer to Successors in Title

Any of the Parties hereto shall be entitled to transfer its shares in the JVC to any of its successors by amalgamation, merger or to the purchaser of all or substantially all of its property, business and assets of the Party subject to the condition that the transferee shall agree to be bound by all the terms and conditions herein contained. A transfer under this Section will not be covered by the restriction and conditions contained in (S)8.1 hereof.

(S)8.3 Covenant not to create lien

A Party hereto shall not create a general lien over the shares owned by them in the JVC except with the prior consent of the other Party hereto.

ARTICLE IX

MUTUAL COVENANTS

- (S)9.1 Exercise of powers

- 9.1.1 Except as the Parties hereto may otherwise agree in writing or save as otherwise provided or contemplated in this Agreement the Parties hereto shall exercise their powers in relation to the JVC so as to ensure that:
- 9.1.1.1 the JVC carries on and conducts its business and affairs in a proper and efficient manner and for its own benefit;
 - 9.1.1.2 the JVC transacts all its business on arm's length terms;
 - 9.1.1.3 the JVC shall not enter into any agreement or arrangement restricting its competitive freedom to provide and take goods and services by such means and from and to such persons as it may think fit;
 - 9.1.1.4 all business of the JVC, other than routine day to day business, shall be undertaken and transacted by the directors;
 - 9.1.1.5 the business of the Company shall be carried on pursuant to policies laid down from time to time by the Board;
 - 9.1.1.6 the JVC shall maintain with a well established and reputable insurer adequate insurance against all risks usually insured against by companies carrying on the same or a similar business and (without prejudice to the generality of the foregoing) for the full replacement or reinstatement value of all its assets of an insurable nature;
 - 9.1.1.7 the JVC allots and issues its shares and other securities at the best price reasonably obtainable in the circumstances;
 - 9.1.1.8 the JVC shall not acquire, dispose, hire, lease, license or receive licenses of any assets, goods, rights or services otherwise than at the best price reasonably obtainable in the circumstances;
 - 9.1.1.9 the JVC shall keep books of account and therein make true and complete entries of all its dealings and transactions of and in relation to its business;
 - 9.1.1.10 the JVC shall provide each Parties hereto within two (2) weeks of the end of each calendar month with unaudited management accounts for such month in a form, acceptable to the Parties hereto, rolling cash flow forecasts for a period of twelve (12) months from the end of each month and with details of its order book at such date;
 - 9.1.1.11 the JVC shall prepare its accounts on an historical cost basis or any other basis agreed by the Parties hereto and shall adopt such accounting policies as may from time to time be generally accepted in Malaysia;

- 9.1.1.12 the JVC shall prepare such accounts in respect of each accounting reference period as are required by statute and procure that such accounts are audited as soon as practicable and in any event not later than three (3) months after the end of the relevant accounting reference period;
- 9.1.1.13 each accounting reference period of the Company shall be a period of twelve (12) calendar months;
- 9.1.1.14 the JVC shall keep each of the Parties hereto fully informed as to all its financial and business affairs; and
- 9.1.1.15 if the JVC requires any approval, consent or licence for the carrying on of its business in the places and in the manner in which it is for the time being carried on or proposed to be carried on the JVC will use its best endeavours to maintain the same in full force and effect.

9.1.2 Each Party hereto shall use all reasonable and proper means in its power to maintain, improve and extend the business of the JVC and its subsidiaries (if any) and to further the reputation and interests of the JVC and its subsidiaries (if any).

9.1.3 Where any of the Parties hereto is required under this Agreement to exercise its powers in relation to the JVC to procure a particular matter or thing, such obligation shall be deemed to include an obligation to exercise its powers both as a shareholder and as a director (where applicable) of the JVC and to procure that any director appointed by it (whether alone or jointly with any other person) shall procure such matter or thing.

(S)9.2. Further assurance

 The Parties hereto shall use their respective reasonable endeavours to procure that any necessary third parties shall, do, execute and perform all such further deeds, documents, assurances, acts and things as any of the Parties hereto may reasonably require by notice in writing to the others to carry the provisions of this Agreement and the Articles of Association into full force and effect.

(S)9.3 Parties bound

- 9.3.1 The Parties hereto shall cause the JVC to observe and comply with the terms and conditions of this Agreement insofar as the same relate to the JVC and to act in all respects as contemplated by this Agreement.
- 9.3.2 The Parties hereto undertake with each other to exercise their powers and carry out their obligations in relation to the JVC so as to ensure that the JVC fully and promptly observes, performs and complies with its obligations under this Agreement.
- 9.3.3 Each of the Parties hereto undertakes with each other that whilst it remains a party to this Agreement it will not (except as expressly provided for in this Agreement) agree to cast any of the voting rights exercisable in respect of any of the shares held by it in accordance with the directions, or subject to the consent of, any other person (including another party hereto).

(S)9.4 Cooperation

Each of the Parties hereto hereby undertakes with one another as follows:

9.4.1 to do all things reasonably within its power which are necessary or desirable to give effect to the spirit and intent of this Agreement;

9.4.2 in the event that the JVC experiences difficulties and problems in its functioning and/or operations and the like, the Parties hereto will discuss and use their best efforts to find a solution in the best interests of the JVC.

(S)9.5 Dividend policy

If in respect of any accounting period a Supermajority of the Board determines that the JVC has profits available for distributions the Parties hereto shall procure that in the absence of agreement to the contrary at least ten per centum (10%) of the same are distributed by way of cash dividends by the JVC within four (4) months after the end of such period. In deciding whether in respect of any accounting period the JVC had profits available for distributions the Parties hereto shall procure that the Auditors shall certify whether such profits are available or not and the amount thereof (if any). In giving such certificate the Auditors shall act as experts and not arbitrators and their determination shall be binding on the Parties hereto.

(S)9.6 Auditors

The Auditors of the JVC shall be Accountants of repute as may be agreed to by the Parties hereto to be appointed in accordance with the relevant provisions of the Companies Act.

(S)9.7 Non-competition

9.7.1 During the term of this Agreement and for a period of two (2) years following the termination of this Agreement, each Party hereto agrees that without the prior written consent of the other Party hereto (which consent may be withheld in such other Party's sole discretion), such Party shall not, for its own account or jointly with another, directly or indirectly, on behalf of any individual, partnership, corporation, limited liability company or other legal entity, as principal or agent or otherwise engage in, consult with or own, control or manage or otherwise participate in the ownership, control or management of a business manufacturing, marketing or selling computer-based automation systems for process monitoring and control in the ASEAN Territory; provided that such restriction shall not apply to KUBH doing such business in Malaysia only.

9.7.2 Each Party hereto agrees for itself and its related persons that none of them shall utilize the name "KUB-TIS CONTROLS SDN. BHD." or any name similar thereto for any purpose in the ASEAN Territory during the term of this Agreement. Upon termination of this Agreement:

9.7.2.1 KUBH shall not use any name which contains any reference to "TIS"; and

9.7.2.2 TIS shall not use any name which contains any reference to "KUB".

9.7.3 Notwithstanding anything to the contrary set forth above, in the event that any Party hereto shall purchase the shares of the other Party in the JVC, such Party shall not be bound by this (S)9.7.

9.7.4 Notwithstanding the foregoing, TIS shall have the right to purchase TIS 4000 Systems, software or equipment, at competitively mutually negotiated prices not to exceed published prices for such TIS 4000 Systems, software or equipment at the time, manufactured by the JVC for sale by TIS in areas outside the ASEAN Territory.

ARTICLE X

COVENANTS BY KUBH

(S) 10.1 Covenants by KUBH

KUBH shall use its best endeavours, at the expense of the JVC, to:

- 10.1.1 establish and maintain all governmental contacts in the countries of the ASEAN Territory and in such other locations as may be required to obtain the permits, licenses and other authorisations and privileges necessary or desirable for conducting the business of the JVC, subject to the approval of TIS which approval shall not be unreasonably withheld, and shall take all necessary action to ensure the continuing compliance of the JVC with applicable law;
- 10.1.2 procure on behalf of the JVC liability insurance that satisfied applicable requirements of the laws of Malaysia and provides full coverage for injury or death to a person or persons or loss or damage to property occurring in or about the JVC premises or in any manner connected therewith, in an amount to be decided by the Board having regard to the applicable Malaysian Laws;
- 10.1.3 engage an independent certified public accounting firm on behalf of the JVC to review the JVC's books of account on an annual basis;
- 10.1.4 assist TIS with logistical matters, including, but not limited to, obtaining telemarketers, translators, clerical personnel, materials, supplies, printing and such other goods and services as TIS may request from time to time;
- 10.1.5 provide liaison with all governmental authorities, including police, fire and security officials, necessary to insure the safety of the business of the JVC;
- 10.1.6 to expedite the securing of appropriate and adequate land either by purchase or lease or rental of suitable premises for the setting up of the JVC's office and provide facilities, furnishings, office equipment, telephone and facsimile services to the JVC; and
- 10.1.7 in recruiting suitable and qualified personnel for the management of the JVC including without limitation experienced personnel for attending to the marketing and sales of the TIS 4000 Systems.

ARTICLE XI

COVENANTS BY TIS

(S) 11.1 Covenants by TIS

TIS shall at the expense of the JVC, provide services to the JVC, which services may include, but shall not be limited to the following:

- 11.1.1 provide the JVC with a complete set of user's materials (as described in the Licence Agreement) on the use and operations of the TIS 4000 Technology and for use as developer tools as well as for diagnostic purpose;
- 11.1.2 provide training for personnel of the JVC on the use and incorporation of the TIS 4000 Technology into TIS 4000 systems in the English language at TIS's then current published rates for such services;
- 11.1.3 provide the JVC with reasonable technical consultation and support, including diagnostic support, via modem telecommunications at TIS's then current published rates for such services;
- 11.1.4 provide technical support, support systems and designs and modifications made specifically to meet the requirements of the ASEAN Territory at TIS's then current published rates for such services;
- 11.1.5 supply or arrange to supply to the JVC at reasonable and favourable terms and conditions up to date and modern machinery and equipment required by the JVC for the production of the TIS 4000 Systems;
- 11.1.6 organize training for the engineers, technicians and officers of the JVC to operate efficiently all the machinery and equipment at the JVC premises in accordance with the terms and conditions of the Licence Agreement;
- 11.1.7 transfer requisite and up to date technology and know how to the employees of the JVC in relation to the TIS 4000 Technology which technology shall in no event include the TIS 4000 Technology source code except as provided under the Licence Agreement;
- 11.1.8 provide technical support to assist the JVC in the creation of an engineering and technical training group for the JVC;
- 11.1.9 provide internal and external sales and marketing support to the JVC, including, but not limited to, staging marketing and sales campaigns for the JVC; and
- 11.1.10 second suitable, qualified and experienced personnel to the JVC to provide the necessary technical and marketing support to the JVC.

(S) 11.2 Payment for services

11.2.1 The JVC shall pay TIS for all services rendered to the JVC pursuant to this Agreement at TIS' then current published rates for such services on a monthly basis, in arrears and upon receipt by the JVC of invoices therefor.

11.2.2 In accordance with the annual budgets approved by a Supermajority of the Board, KUBH and TIS shall be reimbursed by the JVC for all properly documented and budgeted out-of-pocket expenses incurred with respect to the discharge of their respective responsibilities under this Agreement. Reimbursement shall be made on a monthly basis, in arrears and in accordance with the annual budget approved by a Supermajority of the Board, upon receipt by the JVC of appropriate invoices and supporting documentation.

ARTICLE XII

REPRESENTATIONS AND WARRANTIES

(S) 12.1 KUBH Representations and Warranties

KUBH hereby represents and warrants to TIS that:

12.1.1 KUBH is a corporation duly organized under the laws of Malaysia and has full legal right, power and authority to enter into and perform its obligations under this Agreement.

12.1.2 This Agreement has been duly authorised, executed and delivered by KUBH and, assuming the valid execution and delivery hereof by TIS, constitutes a legal, valid and binding obligation of KUBH.

12.1.3 Except as disclosed in writing, there is no action before any court or governmental authority, pending or, to the best of KUBH's knowledge, threatened against KUBH, wherein an unfavourable decision, ruling or finding would materially adversely affect the performance of its obligations hereunder.

12.1.4 Neither the execution or delivery by KUBH of this Agreement, nor the performance of its obligations contemplated hereby nor its fulfillment of the terms or conditions of this Agreement (a) conflicts with, violates or results in a breach of any applicable law, or (b) conflicts with, violates or results in a breach of any term or condition of any judgment or decree, or any agreement or instrument, to which KUBH is a party or by which KUBH or any of its properties or assets are bound, or constitutes a default thereunder.

12.1.5 Subject to (S)4.1 hereof, no approval, authorisation, order or consent of, or declaration, registration or filing with, any governmental authority is required for the valid execution and delivery by KUBH of this Agreement except those that have been duly obtained or made.

(S) 12.2 TIS Representations and Warranties

TIS hereby represents and warrants to KUBH that:

- 12.2.1 TIS is a limited partnership duly organized under the laws of the State of Delaware and has full legal right, power and authority to enter into and perform its obligations under this Agreement.
- 12.2.2 This Agreement has been duly authorised, executed and delivered by TIS and, assuming the valid execution and delivery hereof by KUBH, constitutes a legal, valid and binding obligation of TIS.
- 12.2.3 Except as disclosed in writing, there is no action before any court or governmental authority, pending or, to the best of TIS's knowledge, threatened against TIS, wherein an unfavourable decision, ruling, or finding would materially adversely affect the performance of its obligations hereunder.
- 12.2.4 Neither the execution or delivery by TIS of this Agreement, nor the performance of its obligations contemplated hereby nor its fulfillment of the terms or conditions of this Agreement (a) conflicts with, violates or results in a breach of any applicable law, or (b) conflicts with, violates or results in a breach of any term or condition of any judgment or decree, or any agreement or instrument, to which TIS is a party or by which TIS or any of its properties or assets are bound, or constitutes a default thereunder.
- 12.2.5 No approval, authorisation, order or consent of, or declaration, registration of filing with, any governmental authority is required for the valid execution and delivery by TIS of this Agreement except those that have been duly obtained or made.
- 12.2.6 TIS is the absolute proprietor and copyright owner of the TIS 4000 Technology only and TIS makes no representation or warranty with respect to ownership rights of TIS in or to any TIS 4000 System or any third party software or hardware used in a TIS 4000 System.

ARTICLE XIII

ARBITRATION

(S) 13.1 Arbitration

- 13.1.1 Any dispute, controversy or claim between or among the Parties hereto arising out of or in relation to this Agreement, or the breach, termination or invalidity thereof shall be settled, in so far as it is possible, by mutual consultation and consent.
- 13.1.2 If the Parties hereto should be unable to reach mutual consent, the question shall be settled by arbitration.
- 13.1.3 Any arbitration shall be conducted by a single arbitrator in the case the Parties can agree upon one or otherwise to two arbitrators one to be appointed by each Party in accordance with and subject to the provisions of the Arbitration Act, 1952 of

Malaysia or any statutory modification or re-enactment thereof for the time being in force.

ARTICLE XIV

TERMINATION

(S) 14.1 Termination of this Agreement

This Agreement will continue in effect until terminated in any of the following events:

- 14.1.1 by any Party, in the event of a material breach of the terms and conditions contained in this Agreement by the other Party hereto; or
- 14.1.2 by any Party, upon seven (7) days' prior written notice to such effect to the other Party in the event of dissolution, insolvency or bankruptcy (except for amalgamation) proceedings or any other proceedings analogous in nature or effect are instituted by or against the other Party hereto, any Party is dissolved or liquidated whether voluntarily or involuntarily, a receiver or trustee is appointed for all or a substantial part of the assets of any Party or a Party makes an assignment for the benefit of creditors; or
- 14.1.3 upon the termination of the Licence Agreement in accordance with its terms; or
- 14.1.4 in the event that the JVC's independent auditors determine that the JVC requires additional capital to avoid insolvency of the JVC and a majority of the Board fails to agree to require such additional capitalization.

(S) 14.2 Notice of Termination

In the event of a material breach of the terms and conditions contained in this Agreement by a Party hereto (the "defaulting Party"), the other Party (the "aggrieved Party") if it wishes to terminate this Agreement by reason of such material breach, shall first give to the defaulting Party not less than thirty (30) days' prior written notice requiring the defaulting Party to remedy or rectify such breach within such thirty (30) days period to the satisfaction of the aggrieved Party, and if the defaulting Party fails or refuses to cure or have undertaken to cure the same, the aggrieved Party shall be entitled after such thirty (30) days period to terminate this Agreement by giving to the defaulting Party, written notice of such termination whereupon this Agreement shall be treated as terminated on the date of the said written notice of termination.

(S) 14.3 Effect of Termination

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- 14.3.1 Upon termination of this Agreement pursuant to (S)14.2 hereof, the Party giving notice of termination shall have the option to acquire the entire shareholding of the defaulting Party in the JVC at the price to be determined in accordance with (S)8.1.3.2 hereof, or shall have the right, exercisable by notice in writing to the defaulting Party to require that the JVC be wound up; provided that no such right shall exist unless the Party giving such notice is a member of the JVC at the time of such notice, the Parties hereto shall join in procuring the prompt and due convening of an extraordinary general meeting of the JVC for the purpose of proposing a special resolution for the winding up of the JVC, and shall procure that such extraordinary general meeting is held at the place and time for which it is convened and that such special resolution is duly passed.

14.3.2 Any termination of this Agreement shall without prejudice to and shall not affect any rights or remedies which any Party hereto may be entitled to against the other Party in respect of or arising from or in connection with any antecedent breach of this Agreement by such other Party.

(S) 14.4 Agreement to Terminate

Notwithstanding any other provisions in this Agreement to the contrary, the Parties hereto may by unanimous consent terminate this Agreement at any time.

ARTICLE XV

GENERAL TERMS

(S) 15.1 Remedies and Waivers

Time shall be of the essence of this Agreement but a failure to exercise and a delay in exercising any right, power or privilege under this Agreement shall not operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege preclude any other or further exercise thereof or the exercise of any other right power or privilege. The rights and remedies herein provided are cumulative and not exclusive of any rights or remedies provided by law.

(S) 15.2 Restriction on Assignment

The rights and obligations arising hereunder shall not be assignable by any Party hereto without the prior written consent of the other Party hereto.

(S) 15.3 Entire Agreement

This Agreement constitutes the entire agreement between the Parties hereto with respect to the matters dealt with therein. No variation of this Agreement shall be valid or effective unless made by one or more instruments in writing and signed by such of the Parties hereto which would be affected by such variation.

(S) 15.4 Governing Law

15.4.1 This Agreement shall be governed by and construed in all respects in accordance with the laws of Malaysia.

15.4.2 TIS hereby irrevocably agrees that any legal action or proceedings against it with respect to this Agreement may be brought in the courts of Malaysia and TIS hereby:

- 15.4.2.1 irrevocably submits itself unconditionally to the non-exclusive jurisdiction of the aforesaid courts;
- 15.4.2.2 irrevocably appoints Messrs Shearn Delamore & Co of No. 2, Benteng, 50050 Kuala Lumpur, Malaysia as its agents to receive service of process in Kuala Lumpur, Malaysia and such appointment shall not be revoked without the consent in writing of KUBH; and
- 15.4.2.3 acknowledges the competence of any such courts, and agree that a final judgment in any such suit, action or proceeding brought in such courts shall be conclusive and binding upon TIS and may be enforced

in the Courts of the State of Delaware and/or any other states in the United States of America (to the extent (if any) permissible under the Laws of State of Delaware and/or the other states of the United States of America, as the case may be) or in any other courts to the jurisdiction or which TIS is or may be subject by a suit upon such judgment, a certified or exemplified copy of which shall be conclusive evidence of the fact and of the amount of TIS's indebtedness.

(S) 15.5 No Partnership

Nothing in this Agreement shall constitute or be deemed to constitute a partnership between any of the Parties hereto and none of them shall have any Authority to bind the others in any way.

(S) 15.6 Force Majeure

No Party shall be liable for failure to perform its obligations under this Agreement if and to the extent the failure is due to acts of God, causes beyond its reasonable control such as, but not limited to, fire, flood or other natural catastrophes insurrection, industrial disturbance, inevitable accidents, war (undeclared or declared), embargoes, blockages, legal prohibitions, riots or strikes acts of the government in either its sovereign or contractual capacity (each a "Force Majeure").

(S) 15.7 Confidentiality

15.7.1 Except as required by any governmental or other regulatory authority, or any competent court having jurisdiction, no public announcement or press release shall be made by or on behalf of any Party hereto about the existence or contents of this Agreement, or the negotiations hereunder, without the prior written consent of the other Party hereto. Furthermore, any proposed announcement or press release shall be discussed among all the Parties hereto with the views and wishes of each Party being duly taken into account in the drafting of such announcement or press release.

15.7.2 The Parties hereto undertake to each other and the JVC that they will not at any time hereafter use or divulge or communicate to any persons other than to officers or employees of the group whose province it is to know the same or on the instructions of the Directors any confidential information concerning the business, accounts, finance or contractual arrangements or other dealings, transactions or affairs of the group which may come to their knowledge and they shall use their best endeavours to prevent the publication or disclosure of any confidential Information concerning such matters.

(S) 15.8 Severability

Any term, condition, stipulation, provision, covenant or undertaking of this Agreement which is illegal, prohibited or unenforceable in any jurisdiction of the United States, Malaysia or any country in the ASEAN Territory shall as to such jurisdiction be ineffective to the extent of such illegality, voidness, prohibition or unenforceability without invalidating the remaining provisions hereof and any such illegality, voidness, prohibition or unenforceability in any unenforceable any such term condition stipulation provision covenant or undertaking in any other jurisdiction.

(S) 15.9 Specific Performance

Each Party hereto shall be entitled to the right of specific performance against the other Party hereto under the provisions of this Agreement and it is hereby agreed that an alternative remedy of

monetary compensation shall not be regarded as compensation or sufficient compensation for such Party's default in the performance of the terms and conditions of this Agreement.

(S) 15.10 Costs

All costs and expenses agreed by the Parties hereto as follows shall be borne by the JVC:

- 15.10.1 the stamping of this Agreement;
- 15.10.2 pre-operating costs and expenses incurred by any of the Parties as agreed prior to the Effective Date.

(S) 15.11 Notices

Any notice required to be given by one Party hereto to the other Party hereto hereunder shall be in the English Language and shall be sufficient given if forwarded by hand or prepaid registered post or by telex or telegram or cable or telefax to the address or addresses hereinbelow stated of the other Party and shall be deemed to be duly served:

- 15.11.1 if delivered by hand, on delivery and acknowledged receipt thereof, or
- 15.11.2 if it is sent by prepaid registered post, five (5) days after posting thereof; or
- 15.11.3 if it is sent by telegram or cable or telefax on the Business Day next after the date of dispatch; or
- 15.11.4 if it is sent by telex, immediately after transmission thereof and confirmed by the answer back, if the date of transmission is not a Business Day, then the notice by telex shall be deemed to be served on the immediately following Business Day.

For KUBH:

- - - - -

1st Floor, Bangunan UMNO,
Jalan Tuanku Abdul Rahman,
50100 Kuala Lumpur,
Malaysia.
Telefax: (603) 2911539

For TIS:

- - - - -

11431 Cronhill Drive,
Suite J,
Owings Mills,
Maryland 21117,
United States of America.
Telefax: (410) 3851871

(S) 15.12 Designation of Representative

Each Party shall designate to the other in writing a representative to whom all communications shall be addressed and who has the authority to make decisions and execute documents on behalf of the Party. KUBH hereby designates Megat Ahmad Sani and TIS hereby designates William Timothy Shaw, President of TIS. Each Party may designate a different representative by giving prior written notice to the other Party. All consents given by the representative on behalf of each Party hereto shall be considered valid and binding and may be relied upon by the other Party.

IN WITNESS WHEREOF the Parties hereto have executed this Agreement the day and year first abovewritten.

SIGNED by EDWARD O. McNICHOLAS)
for and on behalf of)
TATE INTEGRATED SYSTEMS, L.P.)
in the presence of:)

/s/ Edward O. McNicholas

(Signatory)

(Witness)

Name:

SIGNED by HASSAN HARUN)
for and on behalf of)
KUB-TIS CONTROLS SDN.BED.)
in the presence of:)

/s/ Hassan Harun

(Signatory)

(Witness)

Name:

[This is the execution page of the License Agreement dated the 9th day of March, 1995 made between Tate Integrated Systems, L.P. and KUB-TIS Controls Sdn. Bhd.]

KUB HOLDINGS BHD.

AND

TATE INTEGRATED SYSTEMS, L.P.

LICENSE AGREEMENT

1

THIS AGREEMENT is made the 9th day of March, 1995

BETWEEN

TATE INTEGRATED SYSTEMS, L.P., a limited partnership under the laws of the State of Delaware and having its office at 11431 Cronhill Drive, Suite J, Owings Mills, Maryland 21117, United States of America (hereinafter called "the Licensor") of the one part;

AND

KUB-TIS CONTROLS SDN. BHD., a company incorporated in Malaysia and having its registered office at 1st Floor, Bangunan UMNO, Jalan Tuanku Abdul Rahman, 50100 Kuala Lumpur, Malaysia (hereinafter called "the Licensee") of the other part.

ARTICLE I

RECITALS

(S)1.1 Business of the Licensor

The Licensor is engaged in the design, manufacture, licensing, marketing, sale and/or servicing of software and complete computer-based automation systems which are used for process monitoring and control.

(S)1.2 TIS 4000 Technology

The Licensor is the absolute proprietor and copyright owner of the TIS 4000 Technology (hereinbelow defined).

(S)1.3 Joint Venture Agreement

By a written agreement dated the 9th day of March, 1995 (hereinafter referred to as "the Joint Venture Agreement") entered into between KUB HOLDINGS BHD., a company incorporated in Malaysia and having its registered office at 1st Floor, Bangunan UMNO, Jalan Tuanku Abdul Rahman, 50100 Kuala Lumpur, Malaysia (hereinafter called "KUBH") of the one part and the Licensor of the other part, KUBH and the Licensor have agreed to incorporate the Licensee as the vehicle to carry out on a joint venture basis the manufacture, marketing and sale of TIS 4000 Systems (hereinbelow defined) which use the TIS 4000 Technology in the ASEAN Territory (hereinbelow defined) upon the terms and conditions therein contained.

(S)1.4 Exclusive License

In compliance with the provisions of the Joint Venture Agreement, the Licensor intends to grant to the Licensee and the Licensee intends to accept an exclusive license to use the TIS 4000 Technology in TIS 4000 Systems to be manufactured, marketed and sold by the Licensee in the ASEAN Territory subject to the terms and conditions herein contained.

ARTICLE II

DEFINITIONS/INTERPRETATION

(S)2.1 Definitions

In this Agreement the following words and expressions shall, where not inconsistent with the context, have the following meanings respectively:

- 2.1.1 ASEAN Territory means the following countries:

(a) Thailand;
(b) Malaysia;
(c) Indonesia;
(d) Philippines;
(e) Singapore;
(f) Brunei; and
(g) such other countries in Asia as the Licensor may approve in writing.
- 2.1.2 Business Day means a day, other than Saturday, on which commercial

banks are open for business in Kuala Lumpur, Malaysia for transaction of business.
- 2.1.3 Companies Act means the Companies Act, 1965 Of Malaysia and any

statutory modification or reenactment thereof for the time being in force.
- 2.1.4 Customers means any Third Party who purchases the TIS 4000 Systems from

the Licensee.
- 2.1.5 Effective Date means the day when the Joint Venture Agreement becomes

effective upon fulfillment of the condition precedent stipulated in (S)4.1 thereof.
- 2.1.6 Joint Venture Agreement means the joint venture agreement dated the 9th

day of March, 1995 entered into between KUBH of the one part and the Licensor of the other part pertaining to the setting up of the Licensee and referred to in (S)1.3 hereof.
- 2.1.7 KUBH means KUB HOLDINGS BHD., a company incorporated in Malaysia and having its registered office at 1st Floor, Bangunan UMNO, Jalan Tuanku Abdul Rahman, 50100 Kuala Lumpur, Malaysia and shall, where the context so admits, include its successors in title.
- 2.1.8 License means the exclusive license to use the TIS 4000 Technology in

TIS 4000 Systems manufactured, marketed and sold in the ASEAN Territory which the Licensor has agreed to grant to the Licensee pursuant to this Agreement.
- 2.1.9 License Fee means the sum of United States Dollars Two Million and Five

Hundred Thousand (USD 2,500,000.00) only and referred to in (S)7.1 hereof.
- 2.1.10 Licensee means KUB-TIS CONTROLS SDN. BHD., a company incorporated in

Malaysia and having its registered office at 1st Floor, Bangunan UMNO, Jalan Tuanku Abdul Rahman, 50100 Kuala Lumpur, Malaysia and shall, where the context so admits, include its successors in title.
- 2.1.11 Licensor means TATE INTEGRATED SYSTEMS, L.P., a limited partnership

under the laws of the State of Delaware and having its office at 11431 Cronhill

Drive, Suite J, Owings Mills, Maryland 21117, United States of America and shall, where the context so admits, include its successors in title.

- 2.1.12 Malaysia means the Federation of Malaysia.

- 2.1.13 Malaysian Laws means all the laws, regulations, orders and decrees of

Malaysia, whether Federal or State, including those to be enacted during the term of this Agreement.
- 2.1.14 Parties means the Licensor and the Licensee.

- 2.1.15 Person means any individual, general partnership, limited partnership,

corporation, joint venture, trust, business trust, limited liability company, cooperative or association, and the successors and assigns of any of the foregoing where the context so admits; and, unless the context otherwise requires, the singular shall include the plural, and the masculine gender shall include the feminine and the neuter and vice versa.
- 2.1.16 Relevant Authorities means the relevant government ministries whether

federal or state and other governmental statutory bodies of Malaysia.
- 2.1.17 Reverse Engineer means the act of producing computer program "source

code" which when compiled, will generate computer programs which provide the same, or similar functions as the TIS 4000 Technology, by means of translating the object code, which is to be provided by the Licensor under this Agreement, (including object code in ROM memory chips as well as object code provide on computer-readable magnetic media), from the computer binary instructions into equivalent programming language instructions, in assembly language or other computer programming language. This term is also intended to include the development of software which incorporates the methods, techniques, styles and approaches of the TIS 4000 Technology, while performing similar functions.
- 2.1.18 Subsidiaries means as defined under (S)5 of the Companies Act.

- 2.1.19 Third Party means any Person other than the Licensor and the Licensee.

- 2.1.20 TIS 4000 System or TIS 4000 Systems means the computer based automation

systems for process monitoring and control which use the TIS 4000 Technology, in all forms and applications.
- 2.1.21 TIS 4000 Technology means the Licensor developed software including

packages such as DataVu, TrendVu, SNLVU, AlarmVu, ReportVu, TankFarmTools and other software packages which may be developed by the Licensor in the future which are proprietary to the Licensor and any modifications, improvements and enhancements to any of the foregoing made by the Licensor, which, in the Licensor's and KUBH's mutual opinion expressed in writing, is or are necessary in the manufacture, marketing and sale of TIS 4000 Systems.

- 2.1.22 United States Dollars or USD means the lawful currency for the time

being and from time to time of United States of America.
- 2.1.23 Value Added Reseller means any Person operating or conducting business

in the ASEAN Territory that has (a) been approved as a sub-licensee by
Licensor in a writing directed to Licensee, and (b) executed a
sublicense agreement with the Licensee which has been approved by the
Licensor.
- (S) 2.2 Interpretation

- 2.2.1 Words denoting the singular number only includes the plural number and
vice versa.
- 2.2.2 Words denoting the neuter gender shall include the masculine and
feminine genders and vice versa.
- 2.2.3 Headings of Articles and Sections are for ease of reference only and
shall be ignored in interpreting the provisions hereof. References to
Articles and Sections are, except where the context otherwise requires,
references to Articles and Sections hereof.
- 2.2.4 References to Articles and Sections are to be construed as references
to Articles and Sections of this Agreement.
- 2.2.5 References to the provisions of any legislation includes a reference to
any statutory modification and re-enactment thereof and any regulations
thereunder.

ARTICLE III

LICENSE

- (S) 3.1 Exclusive License

- For the term of this Agreement and subject to the terms and conditions of this Agreement, the Licensor hereby grants to the Licensee and the Licensee hereby accepts the exclusive right to receive and use the TIS 4000 Technology (which the Licensor currently owns and to which the Licensor may subsequently develop and own sole and exclusive rights) to manufacture, market and sell TIS 4000 Systems in the ASEAN Territory ("the License") upon the terms and conditions herein contained.

ARTICLE IV

CONDITION PRECEDENT

- (S) 4.1 Condition Precedent

- This Agreement is conditional upon the Joint Venture Agreement becoming unconditional and shall take effect on the Effective Date.

ARTICLE V

COVENANTS BY THE LICENSOR

- (S) 5.1 Supply of Materials

- In connection with the License described in (S)3.1 hereof, the Licensor shall within thirty (30) Business Days from the Effective Date ("the Delivery Date") provide the Licensee with software object modules for the TIS 4000, Technology, including copy protection functions; provided,

however but subject to (S)5.5 hereof, that the Licensor shall not provide to the Licensee, nor shall the Licensee have any right to receive, the computer program "source code" for the TIS 4000 Technology. The Licensor shall provide the Licensee with software activation codes for each copy of the TIS 4000 Technology used in a TIS 4000 System upon receipt by the Licensor of reasonable notice and proper documentation regarding the name and location of the customer to whom the TIS 4000 System is to be sold, as well as other information requested by the Licensor for generation of such activation codes. The Licensor shall provide to the Licensee a complete set of user's manuals, system documentation and other materials related thereto as listed in the Appendix A annexed hereto, both in printed form and on computer readable media, on the use and operation of the TIS 4000 Technology. All such printed materials furnished to the Licensee by the Licensor hereunder shall be printed in the English Language and shall, subject to the provisions of this Agreement permitting the use of such materials by the Licensee, remain the sole, exclusive and proprietary property of the Licensor. Failure by the Licensor to deliver all or any part of the TIS. 4000 Technology or associated documentation on the Delivery Date will be deemed to be a total failure to deliver and the Licensee shall be entitled to pursue those remedies provided by this Agreement or at law for such failure, including termination of this Agreement.

(S) 5.2 Upgrading of Technology

During the term of this Agreement, the Licensor shall as soon as practicable provide the Licensee with the latest versions of the TIS 4000 Technology, in the form of object modules and shall provide the Licensee with all updates, enhancements, modifications or other changes in the TIS 4000 Technology and related documentation and manuals provided by the Licensor to the Licensee pursuant to this Agreement. The Licensor shall correct defects and errors in the TIS 4000 Technology, in a timely manner, if properly documented and reported by the Licensee to the Licensor.

(S) 5.3 Additions and Modifications

The Licensor shall provide the Licensee with fixed-price quotations for making the Licensee-requested additions and/or modifications to the TIS 4000 Technology, including the development of new features and functions, provided that the Licensee provides the Licensor with suitable Technical and functional specifications. If the Licensee elects to purchase such additions and/or modifications to the TIS 4000 Technology, the Licensor shall implement such additions and/or modifications in a timely manner, and at the quoted price, and shall maintain such modifications and/or additions in all future versions and revisions of the TIS 4000 Technology, so long as this Agreement is in effect. Ownership of all such additions and/or modifications shall remain with the Licensor.

(S) 5.4 Product Development

During the term of this Agreement, the Licensor shall continue product development of the TIS 4000 Technology to maintain its consistency with industry standards and to ensure that the TIS 4000 Technology remains functionally competitive with similar products.

(S) 5.5 Escrow of Source Code and Software Activation Codes

5.5.1 The Licensor shall on the Delivery Date, cause a current copy of the TIS 4000 Technology source code (the "Source Code") and software activation code (the "Activation Code" and together with the Source Code, the "Codes") to be delivered to a law firm with its principal office in the United States, which law firm shall be mutually agreed upon by the Parties, as escrow agent (the "Escrow Agent"), to be held by such Escrow Agent in escrow until the termination of this Agreement.

- 5.5.2 The Licensor shall, on deposit of the Codes with the Escrow Agent, authorize the Escrow Agent in writing to release the Codes to the Licensee upon:
- 5.5.2.1 the entry of an order or decree under Title 11 of the United States Code by a court of competent jurisdiction that orders the liquidation of the Licensor and the order or decree remains unstayed and in effect for 60 days; or
 - 5.5.2.2 the enactment, adoption, promulgation, modification, change of interpretation or repeal after the Effective Date of any federal, state or local statute, ordinance, regulation or executive order, of the United States or Malaysia, that in each case, would prevent or prohibit the Licensor from fulfilling its material obligations under this Agreement or the Joint Venture Agreement; or
 - 5.5.2.3 the dissolution and winding up of the Licensor in accordance with the laws of the State of Delaware; provided, however, that such event shall not constitute grounds for the release of the Codes by the Escrow Agent to the Licensee unless (i) the Licensor fails to organize or reorganize an entity to carry on the business of the Licensor within six months of such dissolution and winding up of the Licensor and (ii) the Licensor delivers a written notice to the Licensee and the Escrow Agent to the effect that the Licensor has abandoned its business, including all business relating to the TIS 4000 Technology;

5.5.3 The Licensee shall have the right to receive and use the Codes only in accordance with this (S)5.5 and further only to support TIS 4000 Systems marketed and sold by the Licensee in the ASEAN Territory. The Licensee expressly acknowledges that any use of the Codes outside of the ASEAN Territory is prohibited. The provisions of this (S)5.5.3 shall survive the termination of this Agreement.

5.5.4 The Licensee shall pay directly to the Escrow Agent all fees of the Escrow Agent and all expenses or disbursements incurred by the Escrow Agent in connection with the escrow of the Codes upon receipt of an invoice therefor by the Licensee from the Escrow Agent.

5.5.5 The Parties shall, at the option of the Escrow Agent, enter into a written tripartite agreement with the Escrow Agent in relation to the matters described in this (S)5.5.

(S)5.6 Rights to Use Trademarks, etc.

 The Licensee shall have the right to use trademarks, service marks, trade names and/or logos associated with the TIS 4000 Technology in connection with the manufacturing, marketing and sale of TIS 4000 Systems in the ASEAN Territory.

(S)5.7 Rights to Sub-license

 The Licensor expressly agrees that the Licensee shall have the absolute right to sub-license the TIS 4000 Technology object modules to Value Added

Resellers for manufacture by such Value Added Resellers of TIS 4000 Systems to be marketed and sold in the ASEAN Territory; provided, however that (a) the Licensee shall obtain the prior written approval of the Licensor, which approval shall not be unreasonably withheld, of any proposed agreement between the Licensee and such Value Added Reseller prior to its execution by the Licensee, and (b) any such sub-license agreement between the Licensee and a Value Added Reseller shall provide for the payment by such Value Added Reseller of a license fee to the Licensee for each TIS 4000 System Produced by such Value Added Reseller.

(S) 5.8 Training

5.8.1 The Licensor shall give the Licensee's personnel such training as the Licensor considers necessary to enable the TIS 4000 Technology to be used in the manner contemplated by the Licensee under this Agreement including without limitation to enable the employees or agents of the Licensee to properly install the TIS 4000 Technology purchased by the Customers.

5.8.2 The Licensor shall keep the Licensee advised of all existing educational or training courses conducted by the Licensor relating to the TIS 4000 Technology or to the Licensee's and/or the Customers' anticipated use of the TIS 4000 Technology.

ARTICLE VI

COVENANTS BY THE LICENSEE

(S) 6.1 Compliance with Laws

The Licensee hereby covenants and agrees that it shall conduct all of its operations in connection with or relating to the TIS 4000 Technology and TIS 4000 Systems in compliance with all applicable laws, regulations and other requirements which may be in effect from time to time, of all national governmental authorities, and of all states, municipalities and other political subdivisions thereof.

(S) 6.2 Acknowledgment of Interest of Licensor

The Licensee acknowledges and agrees that the TIS 4000 Technology is proprietary to the Licensor, and the Licensee hereby covenants and agrees that the Licensee shall not use the TIS 4000 Technology for any purpose not provided for hereunder, shall not challenge or cause any Third Party to challenge the Licensor's rights to the TIS 4000 Technology, or the rights therein of Third Parties who are licensees of the TIS 4000 Technology outside the ASEAN Territory, and the Licensee shall cooperate with the Licensor in protecting the Licensor's rights to the TIS 4000 Technology. The provisions of this (S)3 shall survive the termination of this Agreement.

(S) 6.3 Transfer of Technology

Subject to (S)5.7 hereof, nothing in this Agreement shall be construed to permit the Licensee to transfer to any Third Party, the TIS 4000 Technology. The Licensee hereby agrees that it shall not sell, transfer, assign, contribute, pledge, mortgage, hypothecate or otherwise encumber, transfer or permit to be transferred, either voluntarily or involuntarily, the License except as specifically provided in (S)5.7.

(S) 6.4 Reverse Engineering

The Licensee shall refrain from any and all efforts to Reverse Engineer the TIS 4000 Technology, either directly or by consultants or contractors, and shall not develop competitive software which

would eliminate the use of the TIS 4000 Technology in the automation systems manufactured and sold by Licensee.

ARTICLE VII

LICENSE FEE

(S) 7.1 Payment of License Fee

In consideration of the Licensor's grant to the Licensee of the License pursuant to (S)3.1 hereof, the Licensee shall pay to the Licensor, the License Fee less any withholding taxes or imposed by any governmental authority in connection therewith but not exceeding fifteen per centum (15%) of the License Fee within fourteen (14) Business Days from the Effective Date.

(S) 7.2 Other Charges

The Licensee shall pay directly to the charging entity or appropriate governmental authority all transportation, shipment, freight and insurance charges, customs' duties, import fees, usage taxes and any other such related taxes, fees or assessments associated with shipments of the TIS 4000 Technology and related documents and materials to the Licensee save and except that any charges whatsoever payable to the authorities in United States of America shall be borne and paid by the Licensor.

(S) 7.3 Payment for Services and Reimbursement of Expenses

-
- 7.3.1 The Licensee shall pay the Licensor for services rendered to the Licensee pursuant to Sections 5.3, 11.4.1 and 11.4.2 hereof at TIS's then current published rates for such services on a monthly basis, in arrears and upon receipt by the Licensee of invoices therefor.
 - 7.3.2 The Licensee expressly recognizes that it, and not the Licensor, shall be responsible for providing support services for TIS 4000 Systems that may be required from time to time by the Customers.
 - 7.3.3 The Licensee agrees to reimburse to the Licensor, in addition to the amounts specified in this Article VII, all properly documented and budgeted out-of-pocket expenses incurred by the Licensor with the consent of the JVC in connection with the discharge by the Licensor of its responsibilities hereunder. Reimbursement shall be made on a monthly basis, in arrears within fifteen (15) Business Days after receipt of an invoice therefore provided by the Licensor which invoice shall include reasonable supporting documentation for the charges reflected therein.

(S) 7.4 Currency Applicable

All payments from the Licensee to the Licensor and all price quotations to the Licensee by the Licensor shall be in United States Dollars.

ARTICLE VIII

REPRESENTATIONS AND WARRANTIES BY LICENSOR

(S) 8.1 General Representations and Warranties

The Licensor hereby represents and warrants to the Licensee that:

- 8.1.1 The Licensor is a limited partnership corporation duly organized under the laws of the State of Delaware and has full legal right, power and authority to enter into and perform its obligations under this Agreement.
- 8.1.2 This Agreement has been duly authorized, executed and delivered by the Licensor and, assuming the valid execution and delivery hereof by the Licensee, constitutes a legal, valid and binding obligation of the Licensor.
- 8.1.3 Except as disclosed in writing, there is no action before any court or governmental authority, pending or, to the best of the Licensor's knowledge, threatened against the Licensor, wherein an unfavorable decision, ruling or finding would materially adversely affect the performance of its obligations hereunder.
- 8.1.4 Neither the execution or delivery by the Licensor of this Agreement, nor the performance of its obligations contemplated hereby nor its fulfillment of the terms or conditions of this Agreement (a) conflicts with, violates or results in a breach of any applicable law, or (b) conflicts with, violates or results in a breach of any term or condition of any judgment or decree, or any agreement or instrument, to which the Licensor is party or by which the Licensor or any of its properties or assets are bound, or constitutes a default thereunder.
- 8.1.5 No approval, authorization, order or consent of, or declaration, registration or filing with, any governmental authority is required for the valid execution and delivery by the Licensor of this Agreement except those that have been duly obtained or made.
- 8.1.6 The TIS 4000 Technology and enhancements, modifications and upgrades provided by the Licensor to the Licensee shall be free from defects in material and workmanship, under normal use and service, for a period of one (1) year from the date of release to the Licensee of each such version, enhancement, modification and upgrade of the TIS 4000 Technology.
- 8.2 Intellectual Property Rights

- 8.2.1 The Licensor warrants that the TIS 4000 Technology does not infringe the industrial or intellectual property rights of any Person.
- 8.2.2 The Licensor shall hold the Licensee harmless and fully indemnify the Licensee against any loss, costs, expenses, demands or liability, whether direct or indirect, arising out of a claim by a Third Party against the Licensee alleging that the TIS 4000 Technology infringes any intellectual or industrial property right of that Third Party.
- 8.2.3 The indemnity referred to in (S)8.2.2 hereof shall be granted whether or not legal proceedings are instituted and, if such proceedings are instituted, irrespective of the means, manner or nature of any settlement, compromise or determination.
- 8.2.4 The Licensee shall notify the Licensor as soon as practicable of any infringement, suspected infringement or alleged infringement by the TIS 4000 Technology of the intellectual or industrial property rights of any Person.

- 8.2.5 Without prejudice to the Licensee's right to defend a claim alleging such infringement, the Licensor shall if requested by the Licensee but at the Licensor's own expense conduct the defense of a claim alleging such infringement. The Licensor shall observe the Licensee's directions relating in any way to that defense or to negotiations for settlement of the claim.
- 8.2.6 The Licensee shall if requested but at the Licensor's expense provide the Licensor with reasonable assistance in conducting the defense of such a claim.
- 8.2.7 Without limiting the generality of Sections 8.2.1 to 8.2.3, if it is determined by any independent tribunal of fact or law or if it is agreed between the parties to the dispute that an infringement of any industrial or intellectual property rights of any Person has occurred on grounds in any way related to the TIS 4000 Technology, the Licensor shall at its own expense:
 - 8.2.7.1 modify or replace the TIS 4000 Technology so that such infringement, defect or inadequacy is removed; or
 - 8.2.7.2 procure for the Licensee the right to continue enjoying the benefit of this Agreement; or
 - 8.2.7.3 if the solutions in Sections 8.2.7.1 and 8.2.7.2 hereof cannot be achieved, recall the TIS 4000 Technology, in which case this Agreement is immediately terminated and the Licensee may pursue all remedies available to it under this Agreement or at law for the Licensor's breach of agreement.
- 8.2.8 The provisions of this (S)8.2 do not apply to that part of the TIS 4000 Technology which has been modified by the Licensor at the request of the Licensee.

(S) 8.3 Further Warranties

In addition to any other warranty express or implied in this Agreement, the following warranties shall apply:

- 8.3.1 The Licensor warrants that the TIS 4000 Technology will be free from defects and errors, and will perform in accordance with Licensor's published specifications relating to the TIS 4000 Technology attached hereto as Appendix B.
- 8.3.2 If the TIS 4000 Technology is found to be defective and if the Licensee notifies the Licensor of the defect within a reasonable time after it is discovered by the Licensee, the Licensor shall immediately take steps to remedy the defect at its own expense.
- 8.3.3 The Licensor warrants that any substitute TIS 4000 Technology supplied to the Licensee under (S)8.3.2 hereof will be free from defects and errors, and will perform in accordance with all relevant specifications relating to the original TIS 4000 Technology.

8.3.4 Without limiting the generality of the foregoing, the Licensor warrants that the TIS 4000 Technology shall not contain any virus or built-in or bugs, automatic and/or random expiry dates but will, however, contain copy-protection features.

8.3.5 The Licensor warrants that the materials to be supplied to the Licensee under (S)5.1 hereof shall contain sufficient information to enable employees of the Licensee to use and understand the TIS 4000 Technology provided that such employees of the Licensee are properly trained in the use of the TIS 4000 Technology and have suitable experience, each as determined by the Licensor.

ARTICLE IX

REPRESENTATIONS AND WARRANTIES BY LICENSEE

(S) 9.1 Representations and Warranties

The Licensee hereby represents and warrants to Licensor that:

9.1.1 The Licensee is a private limited company incorporated under the laws of Malaysia and has full legal right, power and authority to enter into and perform its obligations under this Agreement.

9. 1.2 This Agreement has been duly authorized, executed and delivered by the Licensee and, assuming the valid execution and delivery hereof by the Licensor, constitutes a legal, valid and binding obligation of the Licensee.

9. 1.3 Except as disclosed in writing, there is no action before any court or governmental authority, pending or, to the best of the Licensee's knowledge, threatened against the Licensee, wherein an unfavorable decision, ruling or finding would materially adversely affect the performance of its obligations hereunder .

9.1.4 Neither the execution or delivery by the Licensee of this Agreement, nor the performance of its obligations contemplated hereby nor its fulfillment of the terms or conditions of this Agreement (a) conflicts with, violates or results in a breach of any applicable law, or (b) conflicts with, violates or results in a breach of any term or condition of any judgment or decree, or any agreement or instrument, to which the Licensee is a party or by which the Licensee or any of its properties or assets are bound, or constitutes a default thereunder.

9.1.5 No approval, authorization, order or consent of, or declaration, registration or filing with, any governmental authority is required for the valid execution and delivery by Licensee of this Agreement except those that have been duly obtained or made.

ARTICLE X

INDEMNITY

(S) 10.1 Indemnity by Licensor

The Licensor shall indemnify, defend and hold harmless the Licensee and its directors, officers, employees and agents from and against all claims, actions or causes of action, suits and proceedings and all loss, assessments, liability, damages, costs and expenses incurred in connection therewith (including reasonable solicitors' fees) for which the Licensee or its directors, officers,

employees or agents may become liable or incur or be compelled to any in each case, to the extent caused, (a) by a breach of this Agreement by the Licensor, or (b) by the willful misconduct or negligent acts or omissions of the Licensor, its agents, contractors or employees, in connection with or as a result of this Agreement or the performance of its obligations hereunder, unless, in each case, such claim results from the willful misconduct or negligent acts or omissions of the Licensee.

10.2 Indemnity by Licensee

The Licensee shall indemnify, defend and hold harmless the Licensor and the Licensor's directors, officers, employees and agents from and against all claims, actions or causes of action, suits and proceedings and all loss, assessments, liability, damages, costs and expenses incurred in connection therewith (including reasonable solicitors' fees) for which the Licensor or its directors, officers, employees or agents may become liable or incur or be compelled to pay, in each case, to the extent caused, (a) by a breach of this Agreement by the Licensee, or (b) by the willful misconduct or negligent acts or omissions of the Licensee, its agents, contractors or employees, in connection with or as a result of this Agreement or the performance of its obligations hereunder, unless, in each case, such claim results from the willful misconduct or negligent acts or omissions of the Licensor.

(S) 10.3 Survival of Indemnity

The indemnifications provided in this Article X, shall survive termination of this Agreement.

ARTICLE XI

MUTUAL COVENANTS

(S) 11.1 Duty to Maintain Confidentiality

All the TIS 4000 Technology and all other information exchanged by the Parties pursuant to, and in performance of their obligations and in exercise of their rights under, this Agreement shall be deemed confidential. The Parties acknowledge and agree that the value of the TIS 4000 Technology is base, to a large extent, on maintaining the confidentiality of the TIS 4000 Technology and preventing any unauthorized dissemination to, or use by, Third Parties of information relating to the TIS 4000 Technology. Disclosure of confidential and proprietary information hereunder, whether orally or in written form, shall be safeguarded by the recipient and shall not be disclosed to Third Parties and shall be made available only to the receiving Party's officers, directors, employees or other agents who have a need to know such information for purposes of performing the Party's obligations, or for purposes of exercising the Party's rights, under this Agreement and such officers, directors, employees or other agents shall have a legal obligation to the entity, employer or principal, as applicable, not to disclose such information to Third Parties. Each Party shall treat any and all such confidential information in the same manner and with the same protection as such Party maintains its own confidential information. These mutual obligations of confidentiality shall not apply to any information to the extent that such information: (a) is or later becomes generally available to the public, such as by publication or otherwise, through no fault of the receiving Party; or (b) is obtained from a Third Party having the legal obligation to make such a disclosure. The Licensee shall not remove from any communications or other documents delivered by the Licensor to the Licensee any proprietary notices affixed thereto by the Licensor.

(S) 11.2 Survival of Confidentiality

The mutual confidentiality obligations of the Parties under the provisions of (S)11.1 hereof shall survive the termination of this Agreement and continue for a period of fifteen (15) years following such termination.

- (S)11.3 Layered Applications

- 11.3.1 The Licensee may develop layered applications using the TIS 4000 Technology.
- 11.3.2 The Licensor shall provide all reasonable assistance to the Licensee, at the expense of the Licensee in accordance with (S)7.3 in relation to layered applications developed by the Licensee.
- 11.3.3 The Licensor shall have the right to license from the Licensee any layered applications using the TIS 4000 Technology developed by the Licensee upon terms and conditions not less favorable than those terms and conditions offered by the Licensee to any third party licensee of such layered applications.
- (S)11.4 Acceptance Test

- 11.4.1 Prior to delivery of the TIS 4000 Technology to the Licensee hereunder, the Licensor shall test the TIS 4000 Technology in accordance with the Licensor's published factory acceptance testing procedures at the Licensor's factory in the United States. At the option of the Licensee, the Licensor shall repeat acceptance test of the TIS 4000 Technology in accordance with the Licensor's published factory acceptance testing procedures at the Licensor's factory in the United States. At the option of the Licensee, the Licensor shall repeat acceptance tests of the TIS 4000 Technology in accordance with the Licensor's published factory acceptance testing procedures in Malaysia, provided that the Licensee shall pay the Licensor for such services at the Licensor's then published rates and shall reimburse the Licensor all out-of-pocket expenses incurred by the Licensor in connection therewith in accordance with (S)7.3.
- 11.4.2 The Licensor shall comply with a request by the Licensee that the TIS 4000 Technology be subjected to further testing of a reasonable nature at the Licensee's expense.
- 11.4.3 The Licensor shall ensure that authorized representative(s) of the Licensee be provided with the unrestricted right to observe the TIS 4000 Technology being subjected to the tests referred to in Sections 11.4.1 and 11.4.2 hereof provided that the Licensee shall bear all costs and expenses of its authorized representatives in connection with or relating to the attendance of such authorized representatives at such tests.
- 11.4.4 If the TIS 4000 Technology fails to satisfy the test specifications referred to in Sections 11.4.1 and 11.4.2 hereof, the tests shall be repeated by the Licensor at reasonable intervals until the TIS 4000 Technology meets those specifications. Any modifications or improvements to the TIS 4000 Technology which are required to enable those test specifications to be satisfied shall be made at the Licensor's expense.
- 11.4.5 If the TIS 4000 Technology fails to satisfy the test specifications referred to in Sections 11.4.1 and 11.4.2 hereof within two (2) weeks after testing was commenced, the Licensee may either extend the test period or treat the failure to satisfy the test specifications as a failure to deliver the TIS 4000 Technology. In the

latter case, the Licensee may pursue the remedies applicable to such failure under this Agreement or at law.

11.4.6 The Licensor shall give the Licensee, on request, certification that the TIS 4000 Technology has been tested as required by this Agreement following installation of the demonstration unit and has satisfied the test specifications applicable to such testing under this Agreement. The Licensor may also provide this certification of its own volition.

11.4.7 Unless the Licensee disputes the certification referred to in (S)11.4.6 hereof; the Licensee shall be deemed to have accepted the TIS 4000 Technology one (1) month after receipt of such certification, subject to the TIS 4000 Technology conforming with the Licensor's published specifications attached hereto as Appendix B in all material respects during such one (1) month period.

ARTICLE XII

TERM/TERMINATION

(S)12.1 Term

Unless terminated pursuant to (S)12.2 hereof, this Agreement shall continue to be in force and effect, and remain valid until the Licensee has been wound-up under the Companies Act or on the expiration of twenty (20) years from the Effective Date, whichever is the earlier.

(S)12.2 Material Breach: Opportunity to Cure Termination

12.2.1 If a Party shall materially fail to comply with or shall materially breach any of its obligations and covenants hereunder and shall not remedy such breach or failure, or have undertaken to cure the same, and be diligently pursuing such cure, in each case, within thirty (30) days from the receipt of a written notice of failure of compliance or breach then (i) the other Party (the "Aggrieved Party") may terminate this Agreement by written notice and without judicial intervention and (ii) if the Licensor is the Aggrieved Party, the Licensor may elect to terminate the exclusivity of the License; provided, however, that the Licensee shall retain a non-exclusive license to use the TIS 4000 Technology in accordance with the terms of this Agreement.

12.2.2 In addition to the remedies provided in (S)12.2.1 hereof; (i) either Party may terminate this Agreement upon five (5) days, prior written notice to the other Party in the event of dissolution, insolvency or bankruptcy of such other Party, or the appointment of a receiver, trustee or custodian over such other Party's business or any assignment by such other Party for the benefit of creditors and (ii) Licensor may terminate this Agreement upon five (5) days prior written notice to Licensee if any of the event described in subsection (i) above occur with respect to KUBH and (iii) the Licensee may terminate this Agreement upon five (5) days prior written notice to Licensor if any of the event described in subsection (i) above occur with respect to any partner of TIS.

12.2.3 If the Licensee has given notice to the Licensor to terminate this Agreement due to a breach of this Agreement by the Licensor or due to the event described in Sections

12.2.1 and or 12.2.2, then the Licensee may in addition to terminating this Agreement:

- 12.2.3.1 recover any sums paid to the Licensor on any account or for services which have not been fulfilled or performed together with interest at the rate of three per centum (3%) per annum above the base lending rate of Malayan Banking Berhad on such sums from the date they were paid to the Licensor to the date of refund;
- 12.2.3.2 recover from the Licensor as agreed refund of the license Fee calculated at the rate of United States Dollars Two Hundred and Fifty Thousand (USD 250,000.00) only per year for a maximum period of ten (10) years less the period of time since this Agreement became effective together with interest at the rate of three per centum (3%) per annum above the base lending rate of Malayan Banking Berhad on such sums from the date of demand to the date of full and actual receipt thereof by the Licensee;
- 12.2.3.3 recover from the Licensor the amount of any direct loss or damage sustained as a result of the termination;
- 12.2.3.4 be regarded as discharged from any further obligations under this Agreement; and
- 12.2.3.5 pursue any additional or alternative remedies provided by law.

12.2.4 Return of TIS 4000 Technology and Related Documentation Upon Termination

At the termination of this Agreement, the Licensee shall, subject to payments referred to in Sections 12.2.3.1 and 12.2.3.2 hereof, if applicable, promptly cause the return to the Licensor of all the TIS 4000 Technology, the Codes, documents, records, and all other property or documentation disclosed or delivered to the Licensee pursuant to this Agreement and then in existence, including all copies thereof, and each Party shall destroy or promptly deliver to the other any documentary material in its possession created by the other during the course of this Agreement, which contains information about the other or information about matters and things in which the other has a proprietary interest that is not in the public domain, including notes, memoranda or correspondence, except that each party shall be permitted to retain one copy of any such documentation belonging to the other for archival purpose only.

ARTICLE XIII

GENERAL TERMS

(S)13.1 Arbitration

13.1.1 Any dispute, controversy or claim between the Parties hereto arising out of or in relation to this Agreement, or the breach, termination or invalidity thereof shall be settled, in so far as it is possible, by mutual consultation and consent.

13.1.2 If the Parties hereto should be unable to reach mutual consent, the question shall be settled by arbitration.

13.1.3 Any arbitration shall be conducted by a single arbitrator in the case the Parties can agree upon one or otherwise to two arbitrators one to be appointed by each party in accordance with and subject to the provisions of the Arbitration Act, 1952 of Malaysia or any statutory modification or re-enactment thereof for the time being in force.

(S) 13.2 Force Majeure

13.2.1 No party shall be liable for failure to perform its obligations under this Agreement if and to the extent the failure is due to causes beyond its reasonable control such as, but not limited to, acts of God, fire, flood, or other natural catastrophes, insurrection, industrial disturbance, inevitable accidents, war (undeclared or declared), embargoes, blockages, legal prohibitions, riots, strikes or acts of the government in either its sovereign or contractual capacity (each a "Force Majeure").

13.2.2 If a delay or failure to perform a party's obligations due to force majeure exceeds three (3) months either party may immediately terminate this Agreement on providing notice to the other party.

13.2.3 If this Agreement is terminated pursuant to (S)13.2.2 hereof, the Licensor shall refund moneys previously paid by the Licensee in accordance with Sections 12.2.3.1 and 12.2.3.2 hereof.

(S) 13.3 Governing Law

13.3.1 This Agreement shall be governed by and construed in all respects in accordance with the Malaysian Laws.

13.3.2 The Licensor hereby irrevocably agrees that any legal action or proceedings against it with respect to this Agreement may be brought in the courts of Malaysia and the Licensor hereby:

13.3.2.1 irrevocably submits itself unconditionally to the non-exclusive jurisdiction of the aforesaid courts;

13.3.2.2 irrevocably appoints Messrs Shearn Delamore & Co of No. 2, Benteng, 50050 Kuala Lumpur, Malaysia as its agents to receive service of process in Kuala Lumpur, Malaysia and such appointment shall not be revoked without the consent in writing of the Licensee; and

13.3.2.3 acknowledges the competence of any such courts, and agree that a final judgment in any such suit, action or proceeding brought in such courts shall be conclusive and binding upon the Licensor and may be enforced in the Courts of the State of Delaware and/or any other states in the United States of America (to the extent (if any) permissible under the Laws of State of Delaware and/or the other states of the United States of America, as the case may be) or in any other courts to the jurisdiction of which the Licensor is or may be subject by a suit upon such judgment, a certified or exemplified

copy of which shall be conclusive evidence of the fact and of the amount of the Licensor's indebtedness.

(S)13.4 Assignment

13.4.1 The rights and obligations of the parties arising hereunder shall not be assignable by either party hereto without the prior written consent of the other party hereto.

13.4.2 If the Licensee assigns the benefit of this Agreement to a Third Party, the Licensee's rights and obligations under this Agreement will be immediately terminated on the assignment.

(S)13.5 Sub-contracts

The Licensor shall not sub-contract or otherwise arrange for another Person to perform any of its obligations under this Agreement without the prior written consent of the Licensee.

(S)13.6 Waiver

13.6.1 No right under this Agreement shall be deemed to be waived except by notice in writing signed by each party.

13.6.2 A waiver, by other party pursuant to (S)13.6.1 hereof will not prejudice its rights in respect of any subsequent breach of this Agreement by the other party.

13.6.3 Subject to (S)13.6.1 hereof; any failure by other party to enforce any provision of this Agreement, or any forbearance, delay or indulgence granted by such party to the other will not be construed as a waiver of such party's rights under this Agreement.

(S)13.7 Severability

If any of the provisions of this Agreement are held to be invalid by any law, rule, order or regulation of any state or federal court of the United States or in any country in the ASEAN Territory, such invalidity shall not affect the enforceability of any other provision or provisions not held to be invalid or the enforceability of this Agreement generally in any jurisdiction not affected by such law, rule, order or regulation.

(S)13.8 Amendment

No amendment, waiver, alteration or modification of this Agreement shall be valid unless in writing and signed by each Party.

(S)13.9 Construction and Entire Agreement

This Agreement contains the entire understanding between the Parties hereto and supersedes any prior understanding and/or written or oral agreements between them respecting the subject matter hereof.

(S)13.10 Time of the Essence

Time shall be of the essence of this Agreement.

(S)13.11 Parties' Rights

Any express statement of a right of either party under this Agreement is without prejudice to any other right of such party expressly stated in this Agreement or arising at law.

(S)13.12 Notices

Any notice required to be given by one party hereto to the other party hereto hereunder shall be in the English Language and shall be sufficient given if forwarded by hand or prepaid registered post or by telex or telegram or cable or telefax to the address or addresses hereinbelow stated of the other party and shall be deemed to be duly served:

- 13.12.1 if delivered by hand, on delivery and acknowledged receipt thereof; or
- 13.12.2 if it is sent by prepaid registered post, five (5) days after posting thereof; or
- 13.12.3 if it is sent by telegram or cable or telefax on the Business Day next after the date of dispatch; or
- 13.12.4 if it is sent by telex, immediately after transmission thereof and confirmed by the answer back, if the date of transmission is not a Business Day, then the notice by telex shall be deemed to be served on the immediately following Business Day.

For the Licensor:

11431 Cronhill Drive,
Suite J,
Owings Mills,
Maryland 21117,
United States of America.
(Attention: Mr. William Timothy Shaw)
Telefax: (410) 581-5738

For the Licensee:

1st Floor, Bangunan UMNO,
Jalan Tuanku Abdul Rahman,
50100 Kuala Lumpur,
Malaysia.
(Attention: Encik Megat Ahmad Sani)
Telefax : (603)2911539

IN WITNESS WHEREOF the Parties hereto have executed this Agreement the day and year first above written.

SIGNED by EDWARD O. McNICHOLAS)
for and on behalf of)
TATE INTEGRATED SYSTEMS, L.P.)
in the presence of:) /s/ Edward O. McNicholas

(Signatory)

(Witness)
Name:

SIGNED by HASSAN HARUN)
for and on behalf of)
KUB-TIS CONTROLS SDN. BED.)
in the presence of:) /s/ Hassan Harun

(Signatory)

(Witness)
Name:

[This the execution page of the License Agreement dated the 9th day of March, 1995 made between Tate Integrated Systems, L.P. and KUB-TIS Controls Sdn. Bhd.].

PARKWAY POINT

COMMERCIAL LEASE AGREEMENT

COMMERCE SQUARE ASSOCIATES L.L.C.
a Colorado limited liability company
"LANDLORD or LESSOR"

AND

HATHAWAY CORPORATION,
a Colorado corporation
"TENANT or LESSEE"

Date: October 24, 1996
(For reference purposes only)

COMMERCIAL LEASE AGREEMENT

ARTICLE 1

BASIC LEASE TERMS

1.01 Parties. This lease agreement ("Lease") is entered into by and between the following Lessor and Lessee:

COMMERCE SQUARE ASSOCIATES L.L.C. ("Landlord or Lessor")
 a Colorado limited liability company
 HATHAWAY CORPORATION, ("Tenant or Lessee")
 a Colorado corporation

1.02 Leased Premises. In consideration of the rents, terms, provisions and covenants of this Lease, Lessor hereby leases, lets and demises to Lessee the following described premises ("leased premises" or "Premises"):

approximately 13,713 square feet
 8228 East Park Meadows Drive
 Littleton, Colorado 80124

1.03 Term. Subject to and upon the conditions set forth herein, the term of this Lease shall commence on and shall terminate sixty (60) months thereafter on October 31, 2001.

1.04 Base Rent. Lessee shall pay to Lessor Total Base Rent of Four Hundred Fifty-Two Thousand Nine Hundred Forty and 60/100 Dollars (\$452,940.60) payable as follows:

PERIOD	DATES	BASE RENTAL RATE/RSF/YR NNN	MONTHLY BASE RENT NNN	TOTAL BASE RENT FOR PERIOD NNN
12 months	11/1/1996-10/31/1997	\$6.01	\$6,867.93	\$ 82,415.16
12 months	11/1/1997-10/31/1998	\$6.01	\$6,867.93	\$ 82,415.16
12 months	11/1/1998-10/31/1999	\$6.01	\$6,867.93	\$ 82,415.16
12 months	11/1/1999-10/31/2000	\$7.50	\$8,570.63	\$102,847.56
12 months	11/1/2000-10/31/2001	\$7.50	\$8,570.63	\$102,847.56

Security Deposit Zero and 00/100 Dollars (\$0.00).

1.05 Addresses.

Lessor's Address:
 Integrated Property Management, Inc.
 455 Sherman Street, Suite 140
 Denver, Colorado 80203

Lessee's Address:
 Hathaway Corporation
 8228 East Park Meadows Drive
 Littleton, Colorado 80124

1.06 Permitted Use. General office and Research and Development use, including service and repair of electronic equipment.

ARTICLE 2
RENT

2.01 Base Rent. Lessee agrees to pay monthly as base rent during the term of this Lease the sum of money set forth in section 1.04 of this Lease, which amount shall be payable to Lessor at the address shown above. One monthly installment of rent shall be due and payable on the date of execution of this Lease by Lessee for the first month's rent and a like monthly installment shall be due and payable on or before the first day of each calendar month succeeding the commencement date or completion date during the term of this Lease; provided, if the commencement date or the completion date should be a date other than the first day of a calendar month, the monthly rental set forth above shall be prorated to the end of the calendar month, and all succeeding installments of rent shall be payable on or before the first day of each succeeding calendar month during the term of this Lease. Lessee shall pay, as additional rent, all other sums due under this Lease.

2.02 Operating Expenses. Lessee shall also pay as additional rent Lessee's pro rata share of the operating expenses of Lessor for the building and/or project of which the leased premises are a part, except that Lessee's pro rata share for Controllable Expenses shall be limited to an increase of no more than six percent (6%) from the previous calendar year. Controllable Expenses shall mean those expenses for which the Lessor contracts for services at a negotiated price or rate for services (including professional property management fees). Non-Controllable Expenses shall include all other expenses. Lessor may invoice Lessee monthly for Lessee's pro rata share of the estimated operating expenses for each calendar year, which amount shall be adjusted each year based upon anticipated operating expenses. Within nine (9) months following the close of each calendar year, Lessor shall provide Lessee an accounting showing in reasonable detail all computations of additional rent due under this section. In the event the accounting shows that the total of the monthly payments made by Lessee exceeds the amount of additional rent due by Lessee under this section, the accounting shall be accompanied by a refund. In the event the accounting shows that the total of the monthly payments made by Lessee is less than the amount of additional rent due by Lessee under this section, the accounting shall be accompanied by an invoice for the additional rent. Notwithstanding any other provision in this Lease, during the year in which this Lease terminates, Lessor, prior to the termination date, shall have the option to invoice Lessee for Lessee's pro rata share of operating expenses based upon the previous year's operating expenses. If this Lease shall terminate on a day other than the last day of calendar year, the amount of any additional rent payable by Lessee applicable to the year in which the termination shall occur shall be prorated on the ratio that the number of days from the commencement of the calendar year to and including such termination date bears to 365. Lessee shall have the right, at its own expense and within a reasonable time, to audit Lessor's books relevant to the additional rent payable under this section. Lessee agrees to pay any additional rent due under this section within ten days following receipt of the invoice or accounting showing additional rent due. The current estimate of Lessee's share of operating expenses is Two and 60/100 Dollars (\$2.60) per square foot of the leased premises which shall be paid in addition to and along with base rent. Lessee's prorated share of the projects operating expenses shall be 15.20%.

2.03 Definition of Operating Expenses. The term "operating expenses" includes all expenses incurred by Lessor with respect to the maintenance and operation of the building of which the leased premises are a part, including, but not limited to, the following: maintenance, repair and replacement costs; security; management fees, wages and benefits payable to employees of Lessor whose duties are directly connected with the operation and maintenance of the building; all services, utilities, supplies, repairs, replacements or other expenses of maintaining and operating the common parking and plaza areas; the cost, including interest, amortized over its useful life, or the costs

(amortized over their useful life) of capital improvements and structural repairs and replacements made in or to the building (including finance costs) in order to conform to any applicable laws, ordinances, rules, regulations, or orders of any governmental or quasi-governmental authority having jurisdiction over the building; the cost, including interest, amortized over its useful life, of installation of any device or other equipment which improves the operating efficiency of any system within the leased premises and thereby reduces operating expenses; all other expenses which would generally be regarded as operating and maintenance expenses which would reasonably be amortized over a period not to exceed five (5) years; all real property taxes and installments of special assessments, including dues and assessments by means of deed restrictions and/or owners' associations which accrue against the building of which the leased premises are a part during the term of this Lease; and all insurance premiums Lessor is required to pay or deems necessary to pay, including public liability insurance, with respect to the building. The term operating expenses does not include the following: repairs, restoration or other work occasioned by fire, wind, the elements or other casualty; income and franchise taxes of Lessor; expenses incurred in leasing to or procuring of Lessees, leasing commissions, advertising expenses and expenses for the renovating of space for new Lessees; interest or principal payments on any mortgage or other indebtedness of Lessor; compensation paid to any employee of Lessor above the grade of property manager; and depreciation allowance or expense; or operating expenses which are the responsibility of Lessee.

2.04 Late Payment Charge. Other remedies for nonpayment of rent notwithstanding, if the monthly rental payment is not received by Lessor on or before the fifth (5th) day of the month for which the rent is due, or if any other payment due Lessor by Lessee is not received by Lessor on or before the fifth (5th) day of the month next following the month in which Lessee was invoiced, a late payment charge of five percent (5%) of such past due amount shall become due and payable in addition to such amounts owed under this Lease.

2.05 Interest Due. If any amount due from Lessee to Lessor hereunder whether it be rental or other charges, is not paid within five (5) days of when due, Lessee shall pay Lessor an amount equal to eighteen percent (18%) per annum of the total amount due Lessor, from the original due date until paid. Interest charges shall be in addition to, and not in substitution of, late charges imposed.

2.06 Increase in Insurance Premiums. If any increase in any insurance premiums paid by Lessor for the building is caused by Lessee's use of the leased premises in a manner other than as set forth in section 1.06, or if Lessee vacates the leased premises and causes an increase in such premiums, then Lessee shall pay as additional rent the amount of such increase to Lessor.

2.07 Security Deposit. The security deposit set forth above shall be held by Lessor for the performance of Lessee's covenants and obligations under this Lease, it being expressly understood that the deposit shall not be considered an advance payment of rental or a measure of Lessor's damage in case of default by Lessee. Upon the occurrence of any event of default by Lessee or breach by Lessee of Lessee's covenants under this Lease, Lessor may, from time to time, without prejudice to any other remedy, use the security deposit to the extent necessary to make good any arrears of rent, or to repair any damage or injury, or pay any expense or liability incurred by Lessor as a result of the event of default or breach of covenant, and any remaining balance of the security deposit is so used or applied, Lessee shall upon ten (10) days written notice from Lessor, deposit with Lessor by cash or cashier's check an amount sufficient to restore the security deposit to its original amount.

2.08 Holding Over. In the event that Lessee does not vacate the leased premises upon the expiration or termination of this Lease, Lessee shall be a tenant-at-will for the holdover period and all

of the terms and provisions of this Lease shall be applicable during that period, except that Lessee shall pay Lessor as base rental for the period of such holdover an amount equal to one and one-half (1 1/2) times the base rent which would have been payable by Lessee had the holdover period been a part of the original term of this Lease. Lessee agrees to vacate and deliver the leased premises to Lessor upon Lessee's receipt of notice from Lessor to vacate. The rental payable during the holdover period shall be payable to Lessor on demand. No holding over by Lessee, whether with or without the consent of Lessor, shall operate to extend the term of this Lease.

ARTICLE 3
OCCUPANCY AND USE

3.01 Use. Lessee warrants and represents to Lessor that the leased premises shall be used and occupied only for the purpose as set forth in section 1.06. Lessee shall occupy the leased premises, conduct its business and control its agents, employees, invitees and visitors in such a manner as is lawful, reputable and will not create a nuisance. Lessee shall not permit any operation which emits any odor or matter which intrudes into other portions of the building, use any apparatus or machine which makes undue noise or causes vibration in any portion of the building or otherwise interfere with, annoy or disturb any other Lessee in its normal business operations or Lessor in its management of the building. Lessee shall neither permit any waste on the leased premises nor allow the leased premises to be used in any way which would, in the opinion of Lessor, be extra hazardous on account of fire or which would in any way increase or render void the fire insurance on the building. Lessee warrants to Lessor that the insurance questionnaire (filled out by Lessee, signed and presented to Lessor prior to the executing of this Lease, accurately reflects Lessee's original intended use of the leased premises. The insurance questionnaire is made a part of this Lease by reference as though full copied herein. If at any time during the term of this Lease the State Board of Insurance or other insurance authority disallows any of Lessor's sprinkler credits or imposes an additional penalty or surcharge in Lessor's insurance premiums because of Lessee's original or subsequent placement of use of storage racks or bins, method of storage or nature of Lessee's inventory or any other act of Lessee, Lessee agrees to pay as additional rent the increase (between fire walls) in Lessor's insurance premiums.

3.02 Signs. No sign of any type or description shall be erected, placed or painted in or about the leased premises or project except those signs submitted to Lessor in writing and approved by Lessor in writing, and which signs are in conformance with Lessor's sign criteria established for the Project.

3.03 Compliance with Laws, Rules, and Regulations. Lessee shall not use the Premises or permit anything to be done in or about the Premises which will in any way conflict with any law, statute, ordinance or governmental rule or regulation now in force or which may hereafter be enacted or promulgated. Lessee shall at its sole cost and expense promptly comply with all laws, statutes, ordinances or governmental rules, regulations and requirements now in force or which may hereafter be in force and with the reasonable requirements of any insurer, underwriter or other similar entity now or hereafter relating to or affecting the condition, use or occupancy of the Premises, excluding structural changes not related to or affected by Lessee's improvements or acts. Lessee shall be solely responsible for compliance with the provisions of the Americans with Disabilities Act (the "ADA") as it applies to Lessee's business and the Premises. Lessor shall be solely responsible for compliance with the provisions of the ADA as it applies to the Building. Lessor makes no warranty express or implied that Lessee's intended use of the Premises is suitable or allowable under any applicable governmental code, statute or regulation. Lessee, at Lessee's sole cost and expense, shall comply with all laws, ordinances,

orders, rules and regulations of state, federal, municipal or their agencies or bodies having jurisdiction over use, condition and occupancy of the leased premises.

Lessee will comply with the rules and regulations of the building adopted by Lessor which are set forth on a schedule attached to this Lease. Lessor shall have the right at all times to change and amend the rules and regulations in any reasonable manner as may be deemed advisable for the safety, care, cleanliness, preservation of good order and operation or use of the building or the leased premises. All changes and amendments to the rules and regulations of the building will be sent by Lessor to Lessee in writing and shall thereafter be carried out and observed by Lessee.

3.04 Warranty of Possession. Lessor warrants that it has the right and authority to execute this Lease, and Lessee, upon payment of the required rents and subject to the terms, conditions, covenants and agreements contained in this Lease, shall have possession of the leased premises during the full term of this Lease as well as any extension or renewal thereof. Lessor shall not be responsible for the acts or omissions of any other Lessee or third party that may interfere with Lessee's use and enjoyment of the leased premises.

3.05 Inspection. Lessor or its authorized agents shall at any and all reasonable times have the right to enter the lease premises to inspect the same, to supply janitorial service or any other service to be provided by Lessor, to show the leased premises to prospective purchasers or Lessees, and to alter, improve or repair the leased premises or any other portion of the building. Lessee hereby waives any claim for damages for injury or inconvenience to or interference with Lessee's business, any loss of occupancy or use of the leased premises, and any other loss occasioned thereby. Lessor shall at all times have and retain a key with which to unlock all of the doors in, upon and about the leased premises. Lessee shall not change Lessor's lock system or in any other manner prohibit Lessor from entering the leased premises. Lessor shall have the right to use any and all means which Lessor may deem proper to open any door in an emergency without liability therefore.

ARTICLE 4
UTILITIES AND SERVICE

4.01 Building Services. Lessor shall provide the normal utility service connections to the building. Lessee shall pay the cost of all utility services, including, but not limited to, initial connection charges, all charges for gas, electricity, water, sanitary and storm sewer service, and for all electric lights. However, in a multi-occupancy building, Lessor may provide water to the leased premises, in which case Lessee agrees to pay to Lessor its pro rata share of the cost of such water. Lessee shall be responsible for the installation and maintenance of any dilution tanks, holding tanks, settling tanks, sewer sampling devices, sand traps, grease traps or similar devices as may be required by any governmental subdivision for Lessee's use of the sanitary sewer system. If the leased premises are in a multi-occupancy building, Lessee shall pay all surcharges levied due to Lessee's use or sanitary or waste removal services insofar as such surcharges affect Lessor or other Lessees in the building. Lessor shall not be required to pay for any utility services, supplies or upkeep in connection with the leased premises or building.

4.02 Theft or Burglary. Lessor shall not be liable to Lessee for losses to Lessee's property or personal injury caused by criminal acts or entry by unauthorized persons into the leased premises or the building.

ARTICLE 5
REPAIRS AND MAINTENANCE

5.01 Lessor Repairs. Lessor shall not be required to make any improvements, replacements or repairs of any kind or character to the leased premises or the project during the term of this Lease except as are set forth in this section. Lessor shall maintain only the roof, foundation, parking and common areas, and the structural soundness of the exterior walls (excluding windows, windowglass, plate glass and doors). Lessor's costs of maintaining the items set forth in this section are subject to the additional rent provisions in section 2.02. Lessor shall not be liable to Lessee, except as expressly provided in this Lease, for any damage or inconvenience, and Lessee shall not be entitled to any abatement or reduction of rent by reason of any repairs, alterations or additions made by Lessor under this Lease.

5.02 Lessee Repairs. Lessee shall, at its sole cost and expense, maintain, repair and replace all other parts of the leased premises in good repair and condition, including, but not limited to, heating, ventilating and air conditioning systems, fire sprinkler system, dock bumpers, pest control and extermination and trash pick-up and removal. Lessee shall repair and pay for any damage caused by any act or omission of Lessee or Lessee's agents, employees, invitees, licensees or visitors. If Lessee fails to make the repairs or replacements promptly as required herein, Lessor may, at its option, make the repairs and replacements and the cost of such repairs and replacements shall be charged to Lessee as additional rent and shall become due and payable to Lessee within ten (10) days from receipt of Lessor's invoice. Costs incurred under this section are the total responsibility of Lessee and do not constitute operating expenses under section 2.02.

5.03 Request for Repairs. All requests for repairs or maintenance that are the responsibility of Lessor pursuant to any provision of this Lease must be made in writing to Lessor at the address in section 1.05.

5.04 Lessee Damages. Lessee shall not allow any damage to be committed on any portion of the leased premises or building, and at the termination of this Lease, by lapse of time or otherwise, Lessee shall deliver the leased premises to Lessor in as good condition as existed at the commencement date of this Lease, ordinary wear and tear excepted. The cost and expense of any repairs necessary to restore the condition of the leased premises shall be borne by Lessee.

5.05 Maintenance Contract. Lessee shall, at its sole cost and expense, during the term of this Lease maintain a regularly scheduled preventative maintenance/service contract with a maintenance contractor for the servicing of all heating and air conditioning systems and equipment within the leased premises. The maintenance contractor and contract must be approved by Lessor and must include quarterly servicing, replacement of filters, replacement or adjustment of drive belts, periodic lubrication and oil change and any other services suggested by the equipment manufacturer.

ARTICLE 6
ALTERATIONS AND IMPROVEMENTS

6.01 Lessor Improvements. If construction to the leased premises is to be performed by Lessor prior to or during Lessee's occupancy, Lessor will complete the construction of the improvements to the leased premises, in accordance with plans and specification agreed to by Lessor and Lessee, which plans and specifications are made a part of this Lease by reference. Lessee shall execute a copy of the plans and specifications and change orders, if applicable, setting forth the amount of any costs to be borne by Lessee with seven (7) days of receipt of the plans and specifications. In the event Lessee fails to execute the plans and specifications and change orders within the seven (7) day period, Lessor may at its sole option, declare this Lease canceled or notify Lessee that the base rent shall commence on the completion date even though the improvements to be constructed by Lessor may not be complete. Any changes or modifications to the approved plans and specifications shall be made and accepted by written change order or agreement signed by Lessor and Lessee and shall constitute an amendment to this Lease.

6.02 Lessee Improvements. Lessee shall not make or allow to be made any alterations or physical additions in or to the leased premises without first obtaining the written consent of Lessor, which consent shall not unreasonably be withheld except for alterations or additions that affect the structural, electrical or mechanical systems, the consent of which may in the sole and absolute discretion of Lessor be denied. Any alterations, physical additions or improvements to the leased premises made by Lessee shall at once become the property of Lessor and shall be surrendered to Lessor upon the termination of this Lease; provided, however, Lessor at its option, may require Lessee to remove any physical additions and/or repair any alterations in order to restore the leased premises to the condition existing at the time Lessee took possession, all costs of removal and/or alterations to be borne by Lessee. This clause shall not apply to moveable equipment or furniture owned by Lessee, which may be removed by Lessee at the end of the term of this Lease if Lessee is not then in default and if such equipment and furniture are not then subject to any other rights, liens and interest of Lessor.

6.03 Mechanics Lien. Lessee will not permit any mechanic's or materialman's lien(s) or other lien to be placed upon the leased premises or the building in connection with work performed by Lessee or at Lessee's direction, and nothing in this Lease shall be deemed to construed in any way as constituting the consent or request of Lessor, express or implied, by inference or otherwise, to any person for the performance of any labor or the furnishing of any materials to the leased premises, or any part thereof, nor as giving Lessee any right, power, or authority to contract for or permit the rendering of any services of the furnishing of any materials that would give rise to any mechanic's, materialman's or other lien against the leased premises. In the event any such lien is attached to the leased premises, then, in addition to any other right or remedy of Lessor, Lessor may, but shall not be obligated to, obtain the release of or otherwise discharge the same. Any amount paid by Lessor for any of the aforesaid purposes shall be paid by Lessee to Lessor on demand as additional rent.

ARTICLE 7
CASUALTY AND INSURANCE

7.01 Substantial Destruction. If the leased premises should be totally destroyed by fire or other casualty, or if the leased premises should be damaged so that rebuilding cannot reasonably be completed within ninety (90) working days after the date of written notification by Lessee to Lessor of the destruction, this Lease shall terminate and the rent shall be abated for the unexpired portion of the Lease, effective as of the date of the written notification. Notwithstanding the foregoing there shall be not abatement of rent in the event Tenant is responsible in whole or in part for the casualty or destruction.

7.02 Partial Destruction. If the leased premises should be partially damaged by fire or other casualty, and rebuilding or repairs can reasonably be completed with ninety (90) working days from the date of written notification by Lessee to Lessor of the destruction, this Lease shall not terminate, and Lessor shall at its sole risk and expense proceed with reasonable diligence to rebuild or repair the building or other improvements to substantially the same condition in which they existed prior to the damage. If the leased premises are to be rebuilt or repaired and are untenable in whole or in part following the damage, and the damage or destruction was not caused or contribute to by act or negligence of Lessee, its agents, employees, invitees, or those for whom Lessee is responsible, the rent payable under this Lease during the period for which the leased premises are untenable shall be adjusted to such an extent as may be fair and reasonable under the circumstances. In the event that Lessor fails to complete the necessary repairs or rebuilding within ninety (90) working days from the date of written notice of termination to Lessor whereupon all rights and obligations under this Lease shall cease to exist.

7.03 Waiver of Subrogation. Anything in this Lease to the contrary notwithstanding, Lessor and Lessee hereby waive and release each other of and from any and all right of recovery, claim, action or cause of action, against each other, their agents, officers and employees, for any loss or damage that may occur to the leased premises, improvements to the building of which the leased premises are a part, or personal property within the building, by reason of fire or the elements, regardless of cause or origin, including negligence of Lessor or Lessee and their agents, officers and employees. Lessor and Lessee agree immediately to give their respective insurance companies which have issued policies of special covered causes of loss insurance of direct physical loss, written notice of the terms of the mutual waivers contained in this section, and to have the insurance policies property endorsed, if necessary, to prevent the invalidation of the insurance coverages by reason of the mutual waivers.

7.04 Hold Harmless. Lessor shall not be liable to Lessee's employees, agents, invitees, licensees or visitors, or to any other person, for an injury to any other person, for an injury to person or damage to property on or about the leased premises caused by any act or omission of Lessee, its agents, servants or employees, or of any other person entering upon the leased premises under express or implied invitation by Lessee, or caused by the improvements located on the leased premises becoming out of repair, the failure or cessation of any service provided by Lessor (including security service and devices), or caused by leakage of gas, oil, water or steam or by electricity emanating from the leased premises except to the extent that the failure or cessation of any service, which the Landlord is obligated to provide hereunder, is caused by the negligence or intentional misconduct of the Landlord. Lessee agrees to indemnify and hold harmless Lessor of and from any loss, attorney's fees, expenses or claims arising out of any such damage or injury.

Landlord, its agents and employees shall not be liable, and Tenant hereby waives its rights, if any, to claim for any damage or loss as a result of any failure of the Building to comply strictly with the ADA as it applies to the Building. Tenant hereby agrees to save, hold harmless and defend Landlord from any claims, suits or liabilities made against the Landlord by any of Tenant's existing or prospective clients, employees, agents, servants or invitees as a result of or in connection with any non-compliance of the Premises with the ADA. In the event of any failure of the Building to comply with the ADA, if such alleged defect was not apparent at the date of execution hereof, and if such failure substantially interferes with the operation of Tenant's business in the Premises, Tenant's sole remedy shall be for termination of this Lease, provided that, Tenant shall have no claim for termination of this Lease based on the non-compliance with the ADA by the Building unless Tenant (i) promptly gives notice of any such non-compliance and allows Landlord a reasonable time to correct any such non-compliance, and (ii) if such compliance is not effected within a reasonable time, Tenant gives no less than ninety (90) days prior written notice of the termination date, Tenant actually vacates the Premises on or before such termination date, and Tenant is in compliance with its obligations under this Lease on the date the notice is given and on the termination date.

In case any claim, demand, action or proceeding is made or brought against Landlord, its agents or employees, as a result of Tenant's default or alleged default of any obligation on Tenant's part to be performed under the terms of this Lease, or arising from any act, omission or negligence of Tenant, its agents or employees, or which gives rise to Tenant's obligation to indemnify Landlord, Tenant shall be responsible for all costs and expenses, including but not limited to reasonable attorneys' fees incurred in defending or prosecution of the same, as applicable.

7.05 Tenant's Insurance. Tenant shall, at its own cost, at all times during the term of this Lease and any extensions hereof, procure and maintain special covered causes of loss insurance on Tenant's Property and the contents of the Premises in an amount equal to full replacement cost thereof Tenant shall also maintain workers' compensation and employers' liability insurance in the minimum statutory amount Tenant shall also maintain commercial general liability insurance on an occurrence basis, including coverage for bodily injury, property damage, personal injury products and completed operations, liability assumed under an insured contract host liquor legal liability and cross liability with the following limits of liability: One Million Dollars (\$1,000,000.00) combined single limit for each occurrence of bodily injury and property damage and personal injury; Two Million Dollars (\$2,000,000.00) aggregate for bodily injury and property damage for products and completed operations. Tenant shall further, at its own cost, at all times during the term of this Lease and any extensions hereof, procure and maintain insurance for automobile liability including coverage for bodily injury and property damage for owned and hired autos with the following limits of liability: One Million Dollars (\$1,000,000.00) combined single limit for each occurrence of bodily injury and property damage. Tenant shall also maintain business interruption insurance in an amount sufficient to reimburse Tenant for direct and indirect loss of earnings attributable to prevention of access to the Building or Premises as a result of such perils, and such other forms and amounts of insurance as Landlord or its mortgagee may reasonably require from time to time. All such insurance shall be procured from a responsible insurance company or companies authorized to do business in the State where the Premises are located, with general policyholder's ratings of not less than "A-" and a financial rating of not less than "VI" in the most current available Best's Insurance Reports, and shall be otherwise reasonably satisfactory to Landlord. All such policies except Workers Compensation shall name Landlord and Landlord's property management agent as additional insureds, and shall provide that the same may not be canceled except upon thirty (30) days prior written notice to Landlord. All insurance maintained by Tenant shall be primary to any insurance provided by Landlord. Tenant shall provide certificate(s) of such insurance to Landlord prior to occupancy of the Premises and commence-

ment of the Lease term and at least thirty (30) days prior to the annual renewal date thereof and upon request from time to time and such certificate(s) shall disclose that such insurance names Landlord and Landlord's designated property management agent as an additional insured, in addition to the other requirements set forth herein. The limits of such insurance shall not, under any circumstances, limit the liability of Tenant hereunder.

Should Tenant fail to procure such insurance within the time period hereinbefore specified, Landlord may, at its option, but Landlord shall have no obligation to do so, procure such insurance and pay the premiums therefor and Tenant agrees to reimburse Landlord for the cost thereof plus interest thereon at the rate of eighteen percent (18%) per annum (but in no event in excess of the maximum rate permitted under law), as Additional Rent on the first day of the calendar month following the rendition of the bill or bills therefor and Landlord shall have the same rights and remedies in enforcing the payment of such additional rent as in the case of Tenant's failure to pay the rent herein reserved.

7.06 Landlord's Insurance. Landlord agrees to carry and maintain the following insurance during the term of this Lease and any extension hereof: general public liability insurance against claims for personal injury, including death and property damage in or about the Premises and the Building or the Building Complex (excluding Tenant's Property), such insurance to be in an amount not less than One Million Dollars (\$1,000,000.00) combined single limit. Landlord shall also carry fire and a casualty insurance covering the Building in an amount not less than eighty percent (80%) of the replacement cost of same. Such insurance may expressly exclude property paid for by tenants or paid for by Landlord for which tenants have reimbursed Landlord located in, or constituting a part of the Building or the Building Complex. Such insurance shall afford coverage for damages resulting from (a) fire, (b) perils covered by extended coverage insurance, and (c) explosion of steam and pressure boilers and similar apparatus located in the Building or the Building Complex. Landlord may carry such other additional insurance coverage as Landlord or Landlord's mortgagee deems appropriate including coverage for loss of rents. All such insurance shall be procured from a responsible insurance company or companies authorized to do business in the State where the Premises are located, with general policyholder's ratings of not less than "A-" and a financial rating of not less than "XI" in the most current available Best's Insurance Reports.

ARTICLE 8
CONDEMNATION

8.0 Condemnation

8.01 Substantial Taking. If all or a substantial part of the leased premises are taken for any public or quasi-public use under any governmental law, ordinance or regulation, or by right of eminent domain or by purchase in lieu thereof, and the taking would prevent or materially interfere with the use of the leased premises for the purpose for which it is then being used, this Lease shall terminate and the rent shall be abated during the unexpired portion of this Lease effective on the date physical possession is taken by the condemning authority. Lessee shall have no claim to the condemnation award or proceeds in lieu thereof. Lessee shall have the right, in a separate legal action, to make claim for its personal property so long as the award in no way reduces the award to Lessor.

8.02 Partial Taking. If a portion of the leased premises shall be taken for any public or quasi-public use under any governmental law, ordinance, or regulation, or by right of eminent domain or by purchase in lieu thereof, and this Lease is not terminated as provided in Section 8.01 above,

Lessor shall at Lessor's sole risk and expense, restore and reconstruct the building and other improvements on the leased premises to the extent necessary to make it reasonable tenantable. The rent payable under this Lease during this unexpired portion of the term shall be adjusted to such an extent as may be fair and reasonable under the circumstance. Lessee shall have no claim to the condemnation award or proceeds in lieu thereof. Lessee shall have the right, in a separate legal action, to make claim for its personal property so long as the award in no way reduces the award to Lessor.

ARTICLE 9
ASSIGNMENT OR SUBLEASE

9.0 Assignment or Sublease

9.01 Lessor Assignment. Lessor shall have the right to sell, transfer or assign, in whole or in part, its rights and obligations under this Lease and in the building. Any such sale, transfer or assignment shall operate to release Lessor from any and all liabilities under this Lease arising after the date of such sales, assignment or transfer.

9.02 Lessee Assignment. Lessee shall not assign, in whole or in part, this Lease, or allow it to be assigned, in whole or in part, by operation of law or otherwise (excluding the transfer of a majority interest of stock, or merger which shall be deemed an assignment but will not require the consent of Landlord provided Tenant notifies Lessor, in writing, at least thirty (30) days in advance of the date on which Lessee desires to make such assignment) or mortgage or pledge the same, or sublet the leased premises, in whole or in part, without the prior written consent of Lessor (which consent shall not be unreasonably withheld or delayed), and in no event shall any such assignment or sublease ever release Lessee or any guarantor from any obligation or liability hereunder. No assignee or sublessee of the leased premises or any portion thereof may assign or sublet the leased premises or any portion thereof.

9.03 Condition of Agreement. If Lessee desires to assign or sublet all or any part of the leased premises, it shall so notify Lessor at least thirty (30) days in advance of the date on which Lessee desires to make such assignment or sublease. Lessee shall provide Lessor with a copy of the proposed assignment or sublease and such information as Lessor might request concerning the proposed sublessee or assignee to allow Lessor to make informed judgments as to the financial condition, reputation, operations and general desirability of the proposed sublessee or assignee. Within fifteen (15) days after Lessor's receipt of Lessee's proposed assignment or sublease and all required information concerning the proposed sublessee or assigner, Lessor shall have the following options: (1) cancel this Lease as to the leased premises or portion thereof proposed to be assigned or sublet; (2) consent to the proposed assignment or sublease, and, if the rent due and payable by any assignee or sublessee under an such permitted assignment or sublease (or a combination of the rent payable under such assignment of sublease plus any bonus or any other consideration or any payment incident thereto) exceeds the rent payable under this Lease for such space, Lessee shall pay to Lessor one-half (1/2) of such excess rent and other excess consideration within ten (10) days following receipt thereof by Lessee; or (3) refuse, in its reasonable judgment, to consent to the proposed assignment or sublease, which refusal shall be deemed to have been exercised unless Lessor give Lessee written notice providing otherwise. Upon the occurrence of an event of default, if all or any part of the leased premises are then assigned or sublet, Lessor in addition to any other remedies provided by this Lease or provided by law, may, at its option, collect directly from the assignee or sublessee all rents becoming due to Lessee by reason of the assignment or sublease, and Lessor shall have a security interest in all properties on the leased premises

to secure payment of such sums. Any collection directly by Lessor from the assignee or sublessee shall not be construed to constitute a novation or release of Lessee or any guarantor from the further performance of its obligation under this Lease.

9.04 Subordination. Lessee accepts this Lease subject and subordinate to any recorded mortgage or deed of trust lien presently existing or hereafter created upon the building or project and to all existing recorded restrictions, covenants, easements and agreements with respect to the building or project. Lessor is hereby irrevocably vested with full power and authority to subordinate Lessee's interest under this Lease to any first mortgage or deed of trust lien hereafter placed on the leased premises, and Lessee agrees upon demand to execute additional instruments subordinating this Lease as Lessor may require. If the interests of Lessor under this Lease shall be transferred by reason of foreclosure or other proceedings for enforcement of any first mortgage or deed of trust lien on the leased premises, Lessee shall be bound to the transferee (sometimes call the "Purchaser") at the option of the Purchaser, under the terms, covenants and conditions of this Lease for the balance of the term remaining, including any extensions or renewals, with the same force and effect as if the Purchaser were Lessor under this Lease, and, if requested by the Purchaser, Lessee agrees to attorn to the Purchaser, including the first mortgagee under any such mortgage if it be the Purchaser, as its Lessor.

9.05 Estoppel Certificates. Lessee agrees to furnish, from time to time, within ten (10) days after receipt of a request from Lessor or Lessor's mortgagee, a statement certifying, if applicable, the following: Lessee is in possession of the leased premises; the leased premises are acceptable; the Lease is in full force and effect, the Lease is unmodified; Lessee claims no present charge, lien, or claim of offset against rent; the rent is paid for the current month, but is not prepaid for more than one (1) month and will not be prepaid for more than one (1) month in advance; there is no existing default by reason of some act or omission by Lessor; and such other matters as may be reasonable required by Lessor or Lessor's mortgagee. Lessee's failure to deliver such statement, in addition to being a default under this Lease, shall be deemed to establish conclusively that this Lease is in full force and effect except as declared by Lessor, that Lessor is not in default of any of its obligations under this Lease, and the Lessor has not received more than one month rent in advance.

ARTICLE 10
LIENS

ARTICLE 11
DEFAULT AND REMEDIES

11.01 Default by Lessee. The following shall be deemed to be events of default by Lessee under this Lease: (1) Lessee shall fail to pay when due any installment of rent or any other payment required pursuant to this Lease; (2) Lessee shall abandon any substantial portion of the leased premises; (3) Lessee shall fail to comply with any term, provision or covenant of this Lease, other than the payment of rent, and the failure is not cured within thirty (30) days after written notice to Lessee; (4) Lessee shall file a petition or be adjudged bankrupt or insolvent under any applicable federal or state bankruptcy or insolvency law or admit that it cannot meet its financial obligations as they become due; or a receiver or trustee shall be appointed for all or substantially all of the assets of Lessee; or Lessee shall make a transfer in fraud of creditors or shall make an assignment for the benefit of creditors; or (5) Lessee shall do or permit to be done any act which results in a lien being filed against the leased premises or the building and/or project of which the leased premises are a part.

11.02 Remedies for Lessee's Default. Upon the occurrence of any event of default set forth in this Lease, Lessor shall have the option to pursue any one or more of the remedies set forth herein without any notice or demand. (1) Lessor may enter upon and take possession of the leased premises, by picking or changing locks if necessary, and lock out, expel or remove Lessee and any other person who may be occupying all or any part of the leased premises without being liable for any claim for damages, and relet the leased premises on behalf of Lessee and all or any part of the leased premises without being liable for any claim for damages, and relet the leased premises on behalf of Lessee and receive the rent directly by reason of the reletting. Lessee agrees to pay Lessor on demand any deficiency that may arise by reason of any reletting of the leased premises; further, Lessee agrees to reimburse Lessor for any expenditures made by it in order to relet the leased premises, including, but not limited to remodeling and repair costs. (2) Lessor may enter upon the leased premises, by picking or changing locks if necessary, and do whatever Lessee is obligated to do under the terms of this Lease. Lessee agrees to reimburse Lessor on demand for any expenses which Lessor may incur in effecting compliance with Lessee's obligations under this Lease; further, Lessee agrees that Lessor shall not be liable for any damages resulting to Lessee from effecting compliance with Lessee's obligations under this Lease caused by the negligence of Lessor or otherwise. (3) Lessor may terminate this Lease, in which event Lessee shall immediately surrender the leased premises to Lessor, and if Lessee fails to surrender the leased premises, Lessor may, without prejudice to any other remedy which it may have for possession or arrearages in rent, enter upon and take possession of the leased premises, by picking or changing locks if necessary, and lock out, expel or remove Lessee and any other person who; may be occupying all or any part of the leased premises without being liable for any claim for damages. Lessee agrees to pay on demand the amount of all loss and damage which Lessor may suffer by reason of the termination of this Lease under this section, whether through inability to relet the leased premises on satisfactory terms or otherwise. Notwithstanding any other remedy set forth in this Lease, in the event Lessor has made rent concessions of any type or character, or waived any base rent, and Lessee fails to take possession of the leased premises on the commencement or completion date or otherwise defaults at any time during the term of this Lease, the rent concessions, including any waived base rent, shall be canceled and the amount of the base rent or other rent concessions shall be due and payable immediately as if no rent concessions or waiver of any base rent had ever been granted. A rent concession or waiver of the base rent shall not relieve Lessee of any obligation to pay any other charge due and payable under this Lease including without limitation any sum due under Section 2.02. Notwithstanding anything contained in this Lease to the contrary, this Lease may be terminated by Lessor only by mailing or delivering written notice of such termination to Lessee, and no other act or omission of Lessor shall be construed as a termination of this Lease.

ARTICLE 12
RELOCATION

12.01 Relocation Option. In the event Lessor determines to utilize the leased premises for other purposes during the term of this Lease, Lessee agrees to relocate to other space in the building and/or project designed by Lessor, provided such other space is of equal or larger size than the leased premises.

12.02 Expense. Lessor shall pay all out of pocket expenses of any such relocation, including the expenses of moving and reconstruction of all Lessee furnished and Lessor furnished improvements if the event of such relocation, this Lease shall continue in full force and effect without any change in the terms or conditions of this Lease, but with the new location substituted for the old location set forth in Section 1.02 of this Lease.

ARTICLE 13
DEFINITIONS

13.01 Abandon. "Abandon" means the vacating of all or a substantial portion of the leased premises by Lessee, when Lessee is in default of the rental payments due under this Lease.

13.02 Act of God or Force Majeure. An "act of God" or "force majeure" is defined for purposes of this Lease as strikes, lockouts, sitdowns, material or labor restrictions by any governmental authority, unusual transportation delays, riots, floods, washouts, explosions, earthquakes, fire, storms, weather (including wet grounds or inclement weather which prevents construction), acts of the public enemy, wars, insurrections and any other cause not reasonably within the control of Lessor and which by the exercise of due diligence Lessor is unable, wholly or in part, to prevent or overcome.

13.03 Building or Project. "Building" or "Project" as used in this Lease means the building and/or project described in Section 1.02, including the leased premises and the land upon which the building or project is situated.

13.04 Commencement Date. "Commencement date" shall be the date set forth in Section 1.03. The commencement date shall constitute the commencement of the term of this Lease for all purposes, whether or not Lessee has actually taken possession.

13.05 Completion Date. "Completion date" shall be the date on which the improvements erected and to be erected upon the leased premises shall have been completed in accordance with the plans and specifications described in Article 6.00. The completion date shall constitute the commencement of the term of this Lease for all purposes, whether or not Lessee has actual taken possession. Lessor shall use its best efforts to establish the completion date as the date set forth in Section 1.03. In the event that the improvements have not in fact been completed as of that date, Lessee shall notify Lessor in writing of its objections. Lessor shall have a reasonable time after delivery of the notice in which to take such corrective action as may be necessary and shall notify Lessee in writing as soon as it deems such corrective action has been completed and the improvements are ready for occupancy. Upon completion of construction, Lessee shall deliver the Lessor a letter accepting the leased premises as suitable for the purposes for which they are let and the date of such letter shall constitute the commencement of the term of this Lease. Whether or not Lessee has executed such letter of acceptance, taking possession of the leases premises by Lessee shall be deemed to establish conclusively that the improvements have been completed in accordance with the plans and specification, are suitable for the purposes for which the leased premises are let, and that the leased premises are in good and satisfactory condition as to the date possession was so taken by Lessee, except for latent defaults, if any.

13.06 Square Feet. "Square feet" or "square foot" as used in this Lease includes the area contained within the leased premises together with a common area percentage factor of the leased premises proportionate to the total building area.

ARTICLE 14
MISCELLANEOUS

14.01 Waiver. Failure of Lessor to declare an event of default immediately upon its occurrence, or delay in taking any action in connection with an event of default, shall not constitute a

waiver of the default, but Lessor shall have the right to declare the default at any time and take such action as is lawful or authorized under this one or more of the other remedies provided elsewhere in this Lease or provided by law, nor shall pursuit of any remedy constitute forfeiture or waiver of any rent or damages accruing to Lessor by reason of the violation of any of the terms, provisions or covenants of this Lease. Failure by Lessor to enforce one or more of the remedies provided upon an event of default shall not be deemed or construed a waiver or the default or of any other violation or breach of any of the terms, provisions and covenants in this Lease.

14.02 Act of God. Lessor shall not be required to perform any covenant or obligation in this Lease, or be liable in damages to Lessee, so long as the performance or non-performance of the covenant or obligation is delayed, caused or prevented by an act of God, force majeure or by Lessee.

14.03 Attorney's Fees. In the event of any arbitration, mediation or litigation arising under this Lease, the prevailing party shall be entitled to an award of its attorney's fees, costs and expenses.

14.04 Successors. This Lease shall be binding upon and inure to the benefit of Lessor and Lessee and their respective heirs, personal representative, successors and assigns. It is hereby covenanted and agreed that should Lessor's interest in the leased premises cease to exist for any reason during the term of this Lease, then notwithstanding the happening of such event this Lease nevertheless shall remain unimpaired and in full force and effect, and Lessee hereunder agrees to attorn to the then owner of the leased premises.

14.05 Rent Tax. If applicable in the jurisdiction where the leased premises are situated, Lessee shall pay and be liable for all rental, sales and use taxes or other similar taxes, if any, levied or imposed by any city, state, county or other governmental body having authority, such payments to be in addition to all other payments required to be paid to Lessor by Lessee under the terms of this Lease. Any such payment shall be paid concurrently with the payment of the rent, additional rent, operating expenses or other charges upon which the tax is based as set forth above.

14.06 Captions. The captions appearing in this Lease are inserted only as a matter of convenience and in no way define, limit construe or describe the scope or intent of any section.

14.07 Notice. All rent and other payments required to be made by Lessee shall be payable to Lessor at the address set forth in Section 1.05. All payments required to be made by Lessor to Lessee shall be payable to Lessee at the address set forth in Section 1.05, or at any other address within the United States as Lessee may specify from time to time by written notice. Any notice or document required or permitted to be delivered by the terms of this Lease shall be deemed to be delivered (whether or not actually received) when deposited in the United States Mail, postage prepaid, certified mail, return receipt requested, addressed to the parties at the respective addresses set forth in Section 1.05.

14.08 Submission of Lease. Submission of this Lease to Lessee for signature does not constitute a reservation of space or an option to lease. This lease is not effective until execution by and delivery to both Lessor and Lessee.

14.09 Corporate Authority. If Lessee executes this Lease as a corporation, each of the persons executing this Lease on behalf of Lessee does hereby personally represent and warrant that Lessee is a duly authorized and existing corporation, that Lessee is qualified to do business in the state in which the leased premises are located, that the corporation has full right and authority to enter into

this Lease, and that each person signing on behalf of the corporation is authorized to do so. In the event any representation or warranty is false, all persons who execute this Lease shall be liable, individually, as Lessee.

14.10 Severability. If any provision of this Lease or the application thereof to any person or circumstance shall be invalid or unenforceable to any extent, the remainder of this Lease and the application of such provisions to other persons or circumstances shall not be affected thereby and shall be enforced to the greatest extent permitted by law.

14.11 Lessor's Liability. If Lessor shall be in default under this Lease and, if as a consequence of such default, Lessee shall recover a money judgment against Lessor such judgment shall be satisfied only out of the right, title and interest of Lessor in the building as the same may then be encumbered and neither Lessor nor any person or entity comprising Lessor shall be liable for any deficiency. In no event shall Lessee have the right to levy execution against any property of Lessor nor any person or entity comprising Lessor other than its interest in the building as herein expressly provided.

14.12 Indemnity. Lessor agrees to indemnify and hold harmless Lessee from and against any liability or claim, whether meritorious or not, arising with respect to any broker whose claim arises by, through or on behalf of Lessor. Lessee agrees to indemnify and hold harmless Lessor from and against any liability or claim, whether meritorious or not, arising with respect to any broker whose claim arises by, through or on behalf of Lessee.

14.13 If the Building is, at the execution hereof or at any time during the term hereof, subject to a mortgage or deed of trust, the Lessee agrees to give the holder thereof (the "Note Holder") written notice of each and every alleged default by Lessor under the Lease and agrees not to exercise any of Lessee's remedies under the Lease unless the Note Holder fails to cure such default within ten (10) days after the time for cure thereof allotted to the Lessor under the forgoing subparagraph or within such longer period as may be reasonably necessary if such default cannot be cured within such ten (10) days. The Tenant understands that the Note Holder shall have the right but not the obligation or duty to cure any such default by the Lessor.

14.14 Hazardous Waste. Lessee shall not bring or allow any of its agents, employees, contractors or invitees to bring, onto or about the leased premises or the Building, any Hazardous Materials. For purposes of this Lease, the term "Hazardous Materials" shall mean any one or more of the following: (a) any "hazardous waste" as defined by the Resource Conservation and Recovery Act of 1976 (42 U.S.C. Section 6901 et seq.), as amended from time to time, and regulations promulgated thereunder; (b) any "hazardous substance" as defined by the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (42 U.S.C. Section 9601 et seq.) ("CERCLA"), as amended from time to time and regulations promulgated thereunder; (c) asbestos; (d) polychlorinated biphenyls; and (e) any other substance, in a quantity which, by any governmental rules, statutes or regulations, requires special handling or notification of any federal, state or local governmental entity in its collection, storage, treatment or disposal.

Each party herein shall immediately advise the other, in writing, in the event such party becomes aware that there is located on or about the Leased Premises or the Building, or that such party or other lessee or any other person intends or may bring onto or about the leased premises or the Building any Hazardous Materials without being in full compliance of all governmental rules and regulations regarding Hazardous Materials. Each party herein shall save, hold harmless and indemnify

the other from all claims, suits and liabilities which may be brought as a result of the use, storage or transportation of any Hazardous Materials in or about the leased premises or the Building by such party, its agents, contractors or invitees.

ARTICLE 15
AMENDMENT AND LIMITATION OF WARRANTIES

15.01 Entire Agreement. IT IS EXPRESSLY AGREED BY LESSEE, AS A MATERIAL CONSIDERATION FOR THE EXECUTION OF THIS EASE, THAT THIS LEASE, WITH THE SPECIFIC REFERENCES TO WRITTEN EXTRINSIC DOCUMENTS, IS THE ENTIRE AGREEMENT OF THE PARTIES; THAT THERE ARE, AND WERE, NO VERBAL REPRESENTATIONS, WARRANTIES, UNDERSTANDINGS, STIPULATIONS, AGREEMENTS OR PROMISES PERTAINING TO THIS LEASE OR TO THE EXPRESSLY MENTIONED WRITTEN EXTRINSIC DOCUMENTS NOT INCORPORATED IN WRITING IN THIS LEASE.

15.02 Amendment. THIS LEASE MAY NOT BE ALTERED, WAIVED, AMENDED OR EXTENDED EXCEPT BY AN INSTRUMENT IN WRITING SIGNED BY LESSOR AND LESSEE.

15.03 Limitation of Warranties. LESSOR AND LESSEE EXPRESSLY AGREE THAT THERE ARE AND SHALL BE NO IMPLIED WARRANTIES OF MERCHANTABILITY, HABITABILITY, FITNESS FOR A PARTICULAR PURPOSE OR OF ANY OTHER KIND ARISING OUT OF THIS LEASE, AND THERE ARE NO WARRANTIES WHICH EXTEND BEYOND THOSE EXPRESSLY SET FORTH IN THIS LEASE.

ARTICLE 16

OTHER PROVISIONS

ARTICLE 17
SIGNATURES

17.0 Signatures

LESSOR:

COMMERCE SQUARE ASSOCIATES
L.L.C., a Colorado limited
liability company

LESSEE:

HATHAWAY CORPORATION,
a Colorado corporation

By: /s/ Bruce D. Deifik

By: /s/ Richard D. Smith

Name: Bruce D. Deifik

Name: Richard D. Smith

Title: Manager

Title: Executive Vice President

Date: November 12, 1996

Date: November 8, 1996

INDUSTRIAL LEASE AGREEMENT

between

Lakefront Limited Partnership
(Landlord)

and

Hathaway Industrial Automation
(Tenant)

Lakefront I
(Building)

102-108 Lakefront Drive
Hunt Valley, MD 21030
(Address)

INDUSTRIAL LEASE AGREEMENT

THIS LEASE AGREEMENT ("Lease") is made this 30th day of April, 1997, by and between Lakefront Limited Partnership (the "Landlord") and Hathaway Industrial Automation, a corporation, formed and existing under the laws of the State of Colorado (the "Tenant").

WITNESSETH, that for good and valuable consideration, the Landlord hereby leases to the Tenant, and the Tenant hereby leases from the Landlord, certain space containing an agreed-upon amount of 13,650 square feet of floor area (the "Premises") in an industrial building known as Lakefront I (the "Building"), as more particularly shown on the floor plan attached hereto as Exhibit A, which Building together with other real property and improvements is located at 102-108 Lakefront Drive in Hunt Valley, MD (collectively the "Property"), all upon the following terms and conditions:

ARTICLE I - TERM

(S)1.01 Length.

This Lease shall be for a term (the "Term") which begins on that date (the "Commencement Date") which is the earlier of (i) May 1, 1997 (the "Target Date"), or (ii) the first date on which the initial improvements to the Premises described in (S)5.01 below are substantially complete. The Term shall be for five (5) years and one (1) month and shall expire at midnight on the last day of the calendar month in which the term shall end (the "Expiration Date"). In the event that the Tenant enters into occupancy of the Premises prior to the Commencement Date for the purpose of constructing improvements or installing fixtures therein (and without conducting business therein), then all terms of this Lease except that regarding the payment of rent and other charges shall apply to such occupancy.

(S)1.02 Confirmation.

Landlord shall, within 30 days after the commencement of the Term, confirm to Tenant in writing the actual dates of the Commencement Date and the Expiration Date.

(S)1.03 Surrender.

The Tenant shall at the expiration of the Term or any earlier termination of this Lease (a) promptly surrender to the Landlord possession of the Premises, including any fixtures or other improvements which under the provisions of this Lease are property of the Landlord, all in good order and repair (ordinary wear and tear excepted) and broom clean, (b) remove therefrom the Tenant's signs, goods and effects and any machinery, trade fixtures and equipment used in conducting the Tenant's trade or business and not owned by the Landlord, and (c) repair any damage to the Premises or the Building caused by such removal.

(S)1.04 Holding Over.

If the Tenant continues to occupy the Premises beyond the Expiration Date or any earlier termination of this Lease, such occupancy shall be subject to all of the same terms and conditions as are contained in this Lease, except that the rental payable during the period of such occupancy shall be equal to one and one half times the amount of all Rent (defined herein) which was last in effect during the Term. Nothing in the foregoing shall be deemed in any way to limit or impair the Landlord's right to immediately evict the Tenant or exercise its other rights and remedies under the provisions of this Lease or applicable law, including collection of consequential damages, on account of the Tenant's occupancy of the Premises without having obtained Landlord's prior consent.

ARTICLE II - RENT

(S)2.01 Base Rent.

Tenant shall pay a minimum annual rental in each one-year period during the Term hereof which shall be referred to hereinafter as "Base Rent." Base Rent shall be calculated and increased for each such year as follows:

(1) Base Rent for the first one-year period in the Lease Term shall be the sum of \$137,353.13, payable as follows: First and second month at \$6,540.63 each; third through twelfth month at \$12,427.19 each.

(2) Base Rent for the second one-year period in the Lease Term shall be the sum of \$161,684.25, payable in equal monthly installments of \$13,473.69 each.

(3) Base Rent for the third one-year period in the Lease Term shall be the sum of \$166,530.00, payable in equal monthly installments of \$13,877.50 each.

(4) Base Rent for the fourth one-year period in the Lease Term shall be the sum of \$171,580.50, payable in equal monthly installments of \$14,298.38 each.

(5) Base Rent for the fifth one-year period in the Lease Term shall be the sum of \$176,631.00, payable in equal monthly installments of \$14,719.25 each.

(S)2.02 Real Estate Taxes.

Commencing after the end of the tax/fiscal year in which the Commencement Date falls, Tenant shall pay to Landlord in each year of the Term a proportionate share of the amount, if any, by which the Real Estate Taxes (defined below) applicable to the Property in each such year or part year exceeds \$0.65 per square foot. For these purposes, the fraction used in determining the Tenant's proportionate share of such items shall be 26.45% (the "Proportionate Share"), which is the fraction reached by dividing the number of rentable square feet of the Premises set forth on page 1 hereof by 51,610, which is the total number of rentable square feet in the Building. The term "Real Estate Taxes" shall be construed to mean any and all real property taxes, assessments, sewer rates, ad valorem charges, rents and charges, front foot benefit charges, all other governmental impositions in the nature of any of the foregoing, and all costs and expenses (including attorneys' fees and costs of court or other proceedings) incurred in contesting property tax assessments or any other such governmental impositions. Tenant shall not be entitled to any credit or rebate in the event Real Estate Taxes during any one year in the Term are lower than the Base Real Estate Taxes. Notwithstanding anything herein to the contrary, in calculating the

Tenant's Proportionate Share for any year, Landlord shall have the right to include in "Real Estate Taxes" all of the same taxes and assessments that are imposed on other real property which is adjacent to the Property or part of the same complex, provided that for such calculations the denominator used in determining the Tenant's Proportionate Share shall include the rentable square footage of all buildings on such adjacent property.

(S)2.03 Insurance Costs.

Commencing after the end of the calendar year in which the Commencement Date falls, Tenant shall pay to Landlord in each year of the Term a proportionate share of the amount, if any, by which the Insurance Costs (defined below) applicable to the Property in each such year or part year exceeds \$0.04 per square foot. For these purposes, the fraction used in determining the Tenant's proportionate share of such items shall be the Proportionate Share set forth in (S)2.02 above. The term "Insurance Costs" shall be construed to mean any and all costs of liability, casualty and other insurance obtained by Landlord in connection with the Building and the Property. Tenant shall not be entitled to any credit or rebate in the event Insurance Costs during any one year in the Term are lower than the Base Insurance Costs. Notwithstanding anything herein to the contrary, in calculating the Tenant's Proportionate Share for any year, Landlord shall have the right to include in "Insurance Costs" all of the same costs of insurance for other real property which is adjacent to the Property or part of the same complex, provided that for such calculations the denominator used in determining the Tenant's Proportionate Share shall include the rentable square footage of all buildings on such adjacent property.

(S)2.04 Operating Expenses.

Tenant shall pay to Landlord in each year or part year of the Term a proportionate share of the Operating Expenses (defined below) over and above the amount of \$0.56 per rentable square foot in the Property for each such year or part year. Tenant shall pay its Proportionate Share of snow and ice removal for each such year within thirty (30) days of billing. For these purposes, the fraction used in determining the Tenant's proportionate share of such items shall be the Proportionate Share set forth in (S)2.02 above. "Operating Expenses" shall mean all expenses, costs and disbursements of every kind and nature incurred in connection with the ownership, management, maintenance, repair and operation of the Building and Property, including but not limited to the following: (1) cost of wages and salaries of all employees engaged in the operation and maintenance of the Building and surrounding grounds and common areas, including but not limited to payroll taxes, insurance and benefits; (2) cost of all supplies and materials used in the operation, maintenance and repair of the Building and all other portions of the Property; (3) cost of any utilities which are not submetered directly to tenant spaces; (4) costs incurred under all maintenance and service agreements for the Building, including but not limited to security (if any), trash removal and landscaping; (5) cost of repairs and general maintenance to the Building; (6) costs of restriping, repairing and replacing the parking areas at the Property and the removal of snow and ice therefrom; (7) property management fees and expenses; (8) cost of audit and accounting services; (9) the costs of any repairs, replacements or capital improvements required or made necessary by law or changes in law; (10) cost of any capital improvements made to the Building that, in Landlord's reasonable judgment, will reduce other operating expenses or increase energy efficiency, provided such costs are amortized in accordance with generally accepted accounting principles ("GAAP") at such rates as may have been paid by Landlord on funds borrowed for the purpose of constructing such capital improvements or, if no such funds were borrowed, at such reasonable rates as are not in conflict with GAAP; and (11) cost of any licenses or permits required by any public authority. For purposes of this provision, Operating Expenses shall not include (a) the cost of capital improvements (except as expressly provided above), (b) the costs of tenant improvements within tenant spaces, (c) ground rent or debt service, or (d) depreciation. Notwithstanding anything herein to the contrary, in calculating the Tenant's

Proportionate Share for any year, Landlord shall have the right to include in "Operating Expenses" all of the same operating expenses as are described above that are incurred in connection with other real property which is adjacent to the Property or part of the same complex, provided that for such calculations the denominator used in determining the Tenant's Proportionate Share shall include the rentable square footage of all buildings on such adjacent property.

(S)2.05 When Due and Payable.

(A) All rent, charges, expenses and other sums due in any connection with this Lease, except for Base Rent, are deemed to be rental obligations and shall be referred to hereinafter as "Additional Rent." All Base Rent and Additional Rent are sometimes hereinafter together referred to as "Rent."

(B) The Base Rent for each year (or part thereof) during the Term shall be due and payable in 12 consecutive, equal monthly installments, in advance, on the first day of each calendar month during the Term, provided that the first two full month's installment of Rent shall be due upon execution of this Lease. All payments shall be sent to the notice address shown in this Lease, or to such other address as Landlord may designate in writing.

(C) Tenant shall pay all Additional Rent within 30 days after being billed therefor by Landlord. However, Landlord may, at its discretion, (a) make from time to time during the Term a reasonable estimate of the Additional Rent which may become due for any year, (b) require the Tenant to pay to the Landlord such Additional Rent in equal installments at the time and in the manner that the Tenant is required hereunder to pay monthly installments of Base Rent, and (c) at the Landlord's reasonable discretion, increase or decrease from time to time during such year the amount initially estimated for such year, all by giving the Tenant written notice thereof. In such event, the Landlord shall cause the actual amount of such Additional Rent to be calculated, and the Tenant or the Landlord shall within 30 days pay to the other the amount of any deficiency or overpayment, whichever the case may be.

(D) Landlord shall have the right to apply any payment of Rent by Tenant to any amounts outstanding, in any order, in Landlord's sole discretion. Acceptance by Landlord of any partial payment of Rent shall not be deemed a waiver or satisfaction of the Tenant's obligation to pay all remaining amounts of Rent hereunder, which amounts shall remain due in their entirety according to the terms of this Lease.

(S)2.06 Proration.

All items of Rent shall be prorated, based on actual days elapsed, for any month during the Term which is not a full calendar month or in which two different rental rates are applicable. Appropriate prorations shall also be made in determining the Tenant's Proportionate Share of increases in Real Estate Taxes to the extent the tax/fiscal year is not a calendar year. If only part of any calendar year falls within the Term, the amount computed as Additional Rent for such calendar year under the foregoing provisions of this section shall be appropriately prorated, but the expiration of the Term before the end of a calendar year shall not limit the Tenant's obligation hereunder to pay the prorated portion of Additional Rent applicable to that portion of such calendar year falling within the Term.

(S)2.07 Late Penalties.

Each such payment of Rent shall be made promptly when due, without any demand, deduction or setoff whatsoever, at the place directed by Landlord. Any payment of Rent not made when due shall, at Landlord's sole option, bear interest at the rate of 18% per annum from the due date until paid.

Additionally, any payment of Rent not paid within 10 days of when due shall be considered delinquent and subject to a late payment charge, for each occurrence of delinquency, of 5% of the amount overdue and payable. This late payment charge shall be in addition to the interest provided for above and shall be due and payable with the next succeeding Rent payment. The obligation to pay Rent shall survive termination of this Lease.

(S)2.08 Security Deposit.

Upon signing this Lease, Tenant shall deposit with the Landlord the sum of \$13,081.25, which shall be retained by the Landlord as security for the Tenant's payment of Rent and performance of all of its other obligations under the provisions of this Lease. On the occurrence of an Event of Default (as defined herein), the Landlord shall be entitled, at its sole discretion, to (i) apply any or all of such sum in payment of any Rent then due and unpaid, any expense incurred by the Landlord in curing any such default, and/or any damages incurred by the Landlord by reason of such default (including but not limited to attorneys' fees), in which event Tenant shall immediately restore the amount so applied, and/or (ii) to retain any or all of such sum in liquidation of any or all damages suffered by the Landlord by reason of such default. However, the foregoing shall not serve in any event to limit the rights, remedies and damages accruing to Landlord under Article XIV or any other provision of this Lease on account of default by Tenant. The security deposit shall not be applied to the last month's installment of Rent; rather, upon the termination of this Lease, any of such security deposit then remaining shall be returned to the Tenant. Such security deposit shall not bear interest while being held by the Landlord hereunder.

ARTICLE III - USE OF PREMISES

(S)3.01 Use.

The Tenant shall use the Premises as general office use, engineering and light assembly and not for any other purpose whatsoever.

(S)3.02 Laws.

Tenant shall comply with any and all federal, state and local laws, ordinances and regulations, including but not limited to zoning laws and the Americans With Disabilities Act, applicable to the Premises, to the Tenant's use of the Premises or to any common areas of the Property, and Tenant shall make any changes or improvements to the Premises required thereby, subject to (S)5.03 hereof.

(S)3.03 Common Areas.

The Landlord hereby grants to the Tenant a non-exclusive license to use all common areas of the Building and the surrounding grounds which are manifestly designed and intended for common use by the occupants of the Building, all for pedestrian ingress and egress to and from the Premises. Such license shall be exercised in common with the Landlord and other tenants and their respective employees and invitees and in accordance with any Rules and Regulations promulgated from time to time pursuant to the provisions of Article XI.

(S)3.04 Relocation.

INTENTIONALLY DELETED

ARTICLE IV - INSURANCE AND INDEMNIFICATION

(S)4.01 Tenant's Insurance.

The Tenant shall procure and maintain, at its expense and throughout the Term, the following insurance:

- (a) Commercial General Liability against loss for bodily injury and property damage in conjunction with the Lease of Premises as described herein or arising out of the use thereof by the Tenant or its agents, employees, invitees and licensees, with limits of \$1,000,000 Each Occurrence \$2,000,000 General Aggregate.
- (b) Intentionally deleted
- (c) All-risk casualty insurance covering all alterations and improvements to the Premises (regardless of ownership) and all inventory, equipment and other property of the Tenant in the Premises up to the replacement value of such property. Property coverage shall be written on an ISO Special Form or its equivalent. Insurance coverage shall extend to all tenant improvements and betterments to the Premises (regardless of ownership) and all furniture, fixtures, stock and other property of the Tenant on the Premises for its replacement cost. The Commercial General Liability policy shall name the Landlord, the Landlord's managing agent as additional insureds. The policy shall not be canceled or non-renewed without giving 30 days prior written notice to Landlord. At least 30 days before the commencement date, the Tenant shall provide to Landlord a certificate of insurance. Tenant shall provide renewal certificate of insurance within 30 days after policy expiration to Landlord. The policy be issued by an insurer of recognized responsibility licensed to issue such policy in the state in which the premises are located and having a Best's rating of A- or better.

(S)4.02 Landlord's Insurance.

The Landlord shall maintain throughout the Term all-risk or fire and extended coverage insurance upon the Building in an amount of at least 80% of the replacement value thereof. The cost of the premiums for such insurance and of each endorsement thereto shall be deemed to be Insurance Costs, of which Tenant pays a proportionate share, for purposes of (S)2.03 hereof. Furthermore, Tenant shall pay, as Additional Rent and as billed by Landlord, the entire amount of any increase in premiums for any insurance obtained by Landlord which occurs solely due to the particular use of the Premises by Tenant.

(S)4.03 Waiver of Subrogation.

Landlord and Tenant agree that neither shall be liable to the other for loss or injury to the extent such loss or injury is required to be insured against hereunder. This agreement shall be binding whether or not such loss or injury is caused by negligence of either party or their contractors, agents, employees, invitees or licensees. Each party further agrees that each will cause its policies of insurance to contain a clause providing that the insurance shall not be invalidated should the insured waive in writing prior to a loss any or all right of recovery against any person or entity for loss covered by such insurance.

(S)4.04 Indemnification.

Landlord and Tenant each hereby each agree to indemnify and hold the other party harmless from and against any cost, damage, claim, liability or expense (including attorney's fees) incurred by or claimed against such other party, directly, as a result of or in any way arising from such party's use and occupancy of the Premises or in any other manner which relates to the business of Tenant. The liability of Landlord and Tenant to indemnify the other shall not extend to any matter against which such other party shall be effectively protected by insurance, provided however, that if any such liability exceeds the amount of effective and collectable insurance, said liability shall apply to such exce(S) Furthermore, Tenant acknowledges that Landlord is not responsible for any theft, damage, or other loss, regardless of the reason or cause, to the equipment, appliances, furniture, or other personal property of the Tenant or Tenant's employees or customers occurring in or about the Premises except for the Landlord's gross negligence or misconduct.

ARTICLE V - IMPROVEMENTS TO PREMISES

(S)5.01 Initial Improvements.

(A) Certain improvements shall be constructed in the Premises according to the space plan attached hereto as Exhibit B-1 (the "Space Improvements") for the purpose of initially preparing the Premises for occupancy by Tenant, at a total cost to the Landlord not to exceed \$120,895.00 for building standard improvements as outlined on Exhibit B-2 attached hereto. Any space improvement costs over \$120,895.00 shall be paid by Tenant.

(B) All costs and expenses of designing and constructing the Space Improvements described in P. (A) above shall be paid as follows:

(1) Any amount to be paid by Landlord as an allowance for construction of the Space Improvements (the "Allowance") shall be as set forth on Exhibit B-1 hereto. Such Allowance may be applied towards (i) the costs of designing the space plan in Exhibit B-1 and all of the plans and specifications for the Space Improvements, including mechanical and electrical drawings, and (ii) the costs of constructing the Space Improvements, including but not limited to all fees, costs and expenses paid under construction contracts and subcontracts, construction managers' fees, costs and expenses, the costs of materials, supplies, permits and other items, and any other out-of-pocket expenditures incurred in connection with such construction. Such Allowance shall not be paid for any other costs or purposes. Tenant shall pay any and all costs of designing and constructing the Space Improvements which are in excess of the Allowance of \$120,895.00.

(2) If the Space Improvements are to be constructed by Landlord, Tenant shall pay to Landlord the amount by which the total costs to Landlord of designing and constructing the Space Improvements exceeds the Allowance within 15 days after receiving Landlord's written statement of such costs.

(C) If the Space Improvements are to be constructed by Landlord, Landlord shall use commercially reasonable efforts to complete such improvements on or before the Target Date set forth in (S)1.01 hereof, but Landlord shall have no liability to the Tenant hereunder if prevented from doing so due to strike or other labor troubles, governmental restrictions, failure or shortage of utility service, national or local emergency, accident, flood, fire or other casualty, adverse weather condition, other act of God, inability to obtain a building permit or a certificate of occupancy, or any other cause beyond the

Landlord's reasonable control. In such event, the Commencement Date and Expiration Date shall be postponed for a period equaling the length of such delay. However, if any delay in completion of the Space Improvements or in delivering possession of the Premises to Tenant are caused by Tenant, including but not limited to failure of Tenant to timely respond to submissions by Landlord under P. (A) of this section above or Tenant's requesting changes in the Space Improvements which delay completion thereof, then Tenant shall commence all of its obligations hereunder (including the payments of Rent), and all terms herein shall be effective and binding, on that date reasonably calculated by Landlord or its contractor as the date on which Landlord would have substantially completed the Space Improvements if not for such delay.

(S)5.02 Signs.

Tenant shall not install or erect any signs or advertisements at or on the Premises or which are visible from the exterior thereof without the prior written approval of Landlord. All signs shall be in strict conformity with guidelines or sign criteria as outlined on Exhibit D attached hereto, adopted by Landlord with respect to the Building.

(S)5.03 As-is Condition.

Except for any work described in Exhibit B-1 which is to be performed by Landlord, Tenant acknowledges and agrees that the Premises shall be leased hereunder in as-is condition without warranty as to condition, suitability for a particular purpose or any other matter whatsoever.

(S)5.04 Tenant's Alterations.

The Tenant shall not make any alteration, addition or improvement to the Premises, whether structural or nonstructural and including any signs or other items which may be visible from the exterior of the Premises, without the Landlord's prior written consent. Tenant shall provide such drawings, plans and specifications as are requested by Landlord in reviewing any such proposed improvements. If the Landlord consents to any such proposed alteration, addition or improvement, it shall be made at the Tenant's sole expense (and the Tenant shall hold the Landlord harmless from any cost incurred on account thereof), and at such time and in such manner as to not unreasonably interfere with the use and enjoyment of the remainder of the Property by any other tenant or other person. All such alterations and improvements shall comply in all respects with any and all applicable federal, state and local laws, ordinances and regulations, including but not limited to zoning laws and the Americans With Disabilities Act and regulations promulgated thereunder. Furthermore, Tenant shall indemnify Landlord from all damages, losses or liability arising from such alterations or improvements or the construction thereof by Tenant or by any other party other than Landlord.

(S)5.05 Mechanics' Liens.

The Tenant shall (a) immediately bond or have released any mechanics', materialman's or other lien filed or claimed against any or all of the Premises, the Building, or any other property owned or leased by the Landlord by reason of labor or materials provided for the Tenant or any of its contractors or subcontractors, or otherwise arising out of the Tenant's use or occupancy of the Premises, and (b) defend, indemnify and hold harmless the Landlord against and from any and all liability or expense (including but not limited to attorneys' fees) incurred by the Landlord on account of any such lien or claim.

(S)5.06 Fixtures.

Any and all improvements, repairs, alterations or other property attached to, used in connection with or otherwise installed within the Premises by the Landlord or the Tenant shall, immediately on the completion of their installation, become the Landlord's property without payment therefor by the Landlord. However, upon the expiration of the Term, Tenant shall have the right to remove any furniture, inventory and equipment which is not affixed to the Premises or paid for by Landlord through the Allowance or otherwise.

ARTICLE VI - UTILITIES AND MAINTENANCE

(S)6.01 Utilities.

Tenant shall be responsible for arranging directly with suppliers to provide, at Tenant's expense, any electricity, gas or other services which are required by Tenant in its operations and metered to the Premises. In addition, Tenant shall pay the costs of upgrading or extending utility pipes, wires, lines and the like to the Premises as necessary, and all such work shall be performed in accordance with (S)5.03 hereof. Any water or other utilities not metered directly to the Premises shall be charged to Tenant as part of its Proportionate Share of Operating Expenses pursuant to (S)2.04 above.

(S)6.02 Disproportionate Use.

Landlord shall have the right from time to time, using meters or other methods, to measure the consumption of any utilities at the Premises which have not been previously metered. In the event Landlord determines Tenant is consuming a disproportionate amount of any utility at the Premises in relation to other tenants, Landlord may, at its option, either (a) require Tenant to pay monthly as Additional Rent the costs of the excess utilities consumed by Tenant over the average of that consumed by other tenants in the Building, as estimated by Landlord in its reasonable discretion, or (b) install at Tenant's expense a meter gauging consumption of the respective utility at the Premises, in which event Tenant shall arrange and pay for such utility directly with the supplier thereof according to (S)6.01 above. Tenant shall pay any costs of metering within 30 days after Landlord furnishes Tenant with a statement of such costs.

(S)6.03 Maintenance by Tenant.

Tenant shall at all times maintain the interior of the Premises (including all HVAC, plumbing, sprinkler and electrical systems serving the Premises and all plate glass or other windows and doors), together with any signs installed by Tenant and permitted under (S)5.02 above, in a good, clean and safe repair and condition, ordinary wear and tear excepted. In furtherance of the above, Tenant covenants and agrees to obtain a maintenance, repair, and service contract on the HVAC system, said contract to be on such terms and with such company as shall be approved reasonably by Landlord and delivered to Landlord within thirty (30) days after commencement of the Term. Tenant shall not exceed the floor load which is standard to the Building with equipment or other heavy objects.

(S)6.04 Maintenance by Landlord.

Landlord shall furnish, supply and maintain in good order and repair the roof, foundation and other structural portions of the Building.

(S)6.05 Interruption.

The Landlord shall have no liability to the Tenant on account of any failure, modification or interruption of electricity, water or other utility or HVAC or other service, but in the event of interruption Landlord shall take reasonable steps to provide for the resumption of such service to the extent the same is within Landlord's control.

ARTICLE VII - RIGHT OF ENTRY

(S)7.01 Right of Entry.

Landlord and its agents and contractors shall be entitled to enter the Premises at any time (a) to inspect the Premises, (b) to exhibit the Premises to any existing or prospective purchaser, tenant or mortgagee thereof, (c) to make any alteration, improvement or repair to the Building or the Premises, or (d) for any other purpose relating to the operation or maintenance of the Property, all provided that the Landlord shall (1) give the Tenant at least 24 hours' prior notice of its intention to enter the Premises (unless doing so is impractical or unreasonable because of emergency), and (2) use reasonable efforts to avoid interfering with the Tenant's use and enjoyment thereof.

ARTICLE VIII - CASUALTIES

(S)8.01 General.

If the Premises are damaged by fire or other casualty during the Term, then the following shall apply:

(A) The Landlord shall restore the Premises with reasonable promptness, taking into account the time required by the Landlord to effect a settlement with, and to procure any insurance proceeds from, any insurer against such casualty, to substantially the same condition as existed immediately before such casualty. Landlord may temporarily enter and possess any or all of the Premises for such purpose. The Landlord shall not be obligated to repair, restore or replace any fixture, improvement, alteration, furniture or other property owned or installed by the Tenant.

(B) The times for commencement and completion of any such restoration shall be extended for the period of any delay arising due to force majeure causes beyond the Landlord's control. If the Landlord undertakes to restore the Premises and such restoration is not accomplished within 180 days plus the period of any extension for force majeure as aforesaid, the Tenant may terminate this lease by giving written notice thereof to the Landlord within 30 days after the expiration of such period as so extended.

(C) From the time of such casualty to the completion of restoration as described above, Tenant's rental obligations shall be abated proportionately from that portion of the Premises which is rendered untenable as a result of the casualty.

(S)8.02 Substantial Destruction.

Anything contained in the foregoing provisions of this section to the contrary notwithstanding:

(A) If during the Term the Building is so damaged by fire or other casualty that (a) either the Premises or the Building are rendered substantially unfit for occupancy, as reasonably determined by the

Landlord, or (b) the Building is damaged to the extent that the Landlord elects to demolish the Building, or if any mortgagee or lender requires that any or all of the insurance proceeds issued on account thereof be used to retire any or all of the debt secured by its mortgage, then in any such case the Landlord may elect to terminate this Lease as of the date of such casualty by giving written notice thereof to the Tenant within 60 days after such date; and

(B) In such event, (1) the Tenant shall pay to the Landlord the Base Rent and any Additional Rent payable by the Tenant hereunder and accrued through the date of such casualty, (2) the Landlord shall repay to the Tenant any and all prepaid Rent for periods beyond such casualty, and (3) the Landlord may enter upon and repossess the Premises without further notice.

(S)8.03 Tenant's Negligence.

Anything contained in any provision of this Lease to the contrary notwithstanding, to the extent such damage to the Premises, the Building or Property are caused by or result from the negligent or intentional act or omission of the Tenant or any of its employees, contractors, agents, invitees or licensees, then (a) the Rent shall not be abated or apportioned as aforesaid, and (b) the Tenant shall pay to the Landlord upon demand, as Additional Rent, the cost of (i) any repairs and restoration made or to be made as a result of such damage, or (ii) (if the Landlord elects not to restore the Building) any damage or loss which the Landlord incurs as a result of such damage, except if and to the extent that the Tenant is released from liability therefor pursuant to the provisions of (S)4.03 hereof.

ARTICLE IX - CONDEMNATION

(S)9.01 Right to Award.

If any or all of the Premises are taken by the exercise of any power of eminent domain or are conveyed to or at the direction of any governmental entity under a threat of any such taking (each of which a "Condemnation"), the Landlord shall be entitled to collect from the condemning authority thereunder the entire amount of any award or consideration for such conveyance, without deduction therefrom for any leasehold or other estate held by the Tenant under this Lease. The Landlord shall be entitled to conduct any condemnation proceeding and any settlement connected therewith free of interference from the Tenant, and the Tenant hereby waives any right which it has to participate therein. However, the Tenant may seek, in a separate proceeding, a separate award on account of any damages or costs incurred by the Tenant as a result of any such Condemnation, so long as such separate award in no way diminishes any award or payment which the Landlord would otherwise receive as a result of such Condemnation.

(S)9.02 Effect of Condemnation.

If (a) all of the Premises are covered by a Condemnation, or (b) any part of the Premises is covered by a Condemnation and the remainder is insufficient for the reasonable operation of the Tenant's business, or (c) any of the Building is covered by a Condemnation and, in the Landlord's reasonable opinion, it would be impractical to restore the remainder thereof, or (d) any of the rest of the Property is covered by a Condemnation and, in the Landlord's reasonable opinion, it would be impractical to continue to operate the remainder of the Property thereafter, then, in any such event, the Term shall terminate on the date on which possession of the property covered by such Condemnation is taken by the condemning authority thereunder, and all Rent (including any Additional Rent and other charges payable hereunder) shall be apportioned and paid to such date. If there is a Condemnation and the Term does not terminate pursuant to the foregoing provisions of this subsection, the operation and effect of this Lease

shall be unaffected by such Condemnation, except that the Base Rent shall be reduced in proportion to the square footage of floor area, if any, of the Premises covered by such Condemnation.

(S)9.03 Interruption.

If there is a Condemnation, the Landlord shall have no liability to the Tenant on account of any (a) interruption of the Tenant's business upon the Premises, (b) diminution in the Tenant's ability to use the Premises, or (c) other injury or damage sustained by the Tenant as a result of such Condemnation.

ARTICLE X - ASSIGNMENT AND SUBLETTING

(S)10.01 Consent.

Tenant agrees to not (a) assign any of its rights under this Lease or (b) make or permit any sublease, license, mortgage, pledge or other transfer of any part of the Premises (any of the foregoing in (a) or (b) hereinafter referred to as a "Transfer"), without first obtaining the Landlord's written consent thereto, which shall not be unreasonably withheld by the Landlord. If consent to any one Transfer is given, such consent shall not extend to any subsequent Transfer. The Landlord shall be entitled, at its sole discretion, to condition any such consent upon the entry by such person into an agreement with (and in form and substance satisfactory to) the Landlord, by which it assumes all of the Tenant's obligations hereunder. Any person to whom any Transfer is attempted without such consent shall have no claim, right or remedy whatsoever hereunder against the Landlord, and the Landlord shall have no duty to recognize any person claiming under or through such Transfer. The sale, assignment or other transfer of a controlling interest in the ownership of Tenant (if a corporation), the sale, assignment or other transfer of any general partnership interest in Tenant (if a partnership), the sale of substantially all of Tenant's assets, and the merger of Tenant into another organization, after which merger Tenant shall not be the surviving corporation or partnership, shall each be considered a Transfer for the purposes of this Lease.

(S)10.02 No Release.

No such Transfer or other action taken with or without the Landlord's consent shall in any way relieve or release the Tenant from full liability for the timely performance of all of the Tenant's obligations under this Lease.

(S)10.03 Excess Rents.

In the event that Tenant effects a Transfer and at any time receives periodic rent and/or other consideration which exceeds that which Tenant is obligated to pay to Landlord hereunder, Tenant shall pay to Landlord all of such excess rent or other consideration promptly (but in no event later than 2 days) after receipt of such monies.

(S)10.04 Landlord's Transfers.

Landlord shall have the unrestricted right to assign or transfer this Lease to purchasers of the Building, to holders of mortgages or deeds of trust on the Building, or to any other party.

ARTICLE XI - RULES AND REGULATIONS

(S)11.01 Landlord's Rules.

The Landlord shall have the right to impose and subsequently modify, from time to time and at its sole discretion, reasonable rules and regulations as outlined on Exhibit C attached hereto, (hereinafter referred to as the "Rules and Regulations") having uniform applicability to all tenants of the Building (subject to the provisions of their respective leases) and governing their use and enjoyment of the Building and the remainder of the Property. The Tenant and its agents, employees, invitees and licensees shall comply with such Rules and Regulations.

ARTICLE XII - MORTGAGE LENDERS

(S)12.01 Subordination.

This Lease shall be subject and subordinate to the lien, operation and effect of each mortgage, deed of trust, ground lease and/or other similar instrument covering any or all of the Premises or the Property, and each renewal, modification or extension thereof (each of which referred to as a "Mortgage"), all automatically and without the necessity of any further action by either party hereto, provided, however, that in the event the beneficiary under any such Mortgage (referred to as a "Mortgagee") succeeds to the interest of Landlord hereunder through foreclosure or otherwise, such Mortgagee shall honor this Lease and not disturb Tenant in its possession of the Premises except upon an Event of Default (defined in (S)14.01 below). In addition, Tenant shall attorney to any such Mortgagee and agrees that such Mortgagee shall not be liable to Tenant for any defaults by Landlord under this Lease or for any other event occurring prior to such Mortgagee's succeeding to the interest of Landlord hereunder.

(S)12.02 Written Agreement.

The Tenant shall, within 7 days after request by the Landlord or any Mortgagee, execute, acknowledge and deliver such further instrument as is requested by Landlord or any Mortgagee to acknowledge the rights of the parties described in (S)12.01 above and providing such other information and certifications as is reasonably requested. Any Mortgagee may at any time subordinate the lien of its Mortgage to the operation and effect of this Lease without obtaining the Tenant's consent thereto, in which event this Lease shall be deemed to be senior to such Mortgage without regard to their respective dates of execution, delivery and/or recordation among the land records of the jurisdiction in which the Property is located.

(S)12.03 Estoppel Certificate.

The Tenant shall from time to time, within 7 days after request by the Landlord or any Mortgagee, execute, acknowledge and deliver to the Landlord (or, at the Landlord's request, to any existing or prospective purchaser, assignee or Mortgagee) a written certification (a) that this Lease is unmodified and in full force and effect (or, if there has been any modification, stating the nature of such modification), (b) as to the dates to which the Base Rent and any Additional Rent and other charges arising hereunder have been paid, (c) as to the amount of any prepaid Rent or any credit due to the Tenant hereunder, (d) that the Tenant has accepted possession of the Premises and all improvements thereto are as required hereunder, and the date on which the Term commenced, (e) as to whether, to the best knowledge, information and belief of the Tenant, the Landlord or the Tenant is then in default in performing any of its obligations hereunder (and, if so, specifying the nature of each such default), and

(f) as to any other fact or condition reasonably requested by the Landlord or such other party. Any such certificate may be relied upon by the Landlord and any such other party to whom the certificate is directed.

ARTICLE XIII - ENVIRONMENTAL COVENANTS

(S)13.01 Prohibitions.

Without the Landlord's express written consent, Tenant agrees that Tenant, its employees, licensees, invitees, agents and contractors shall not use, manufacture, release, store or dispose of on, under or about the Premises any explosives, flammable substances, radioactive materials, asbestos in any form, paint containing lead, materials containing urea formaldehyde, polychlorinated biphenyls, oil or petroleum products or byproducts, or any other hazardous, toxic or dangerous substances, wastes or materials, whether having such characteristics in fact or defined as such under federal, state or local laws or regulations and any amendments thereto, including but not limited to (a) the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended, 42 U.S.C. (S)(S) 9061 et seq., (b) the Hazardous Materials Transportation Act, 49 U.S.C. (S)(S) 1802 et seq., (c) the Resources Conservation and Recovery Act, 42 U.S.C. (S)(S) 6901 et seq., (d) the Toxic Substance Control Act of 1976, as amended, 15 U.S.C. (S)(S) 2601 et seq., (e) the Federal Water Pollution Control Act, 33 U.S.C. (S)(S) 1251 et seq., (f) the Clean Air Act, 42 U.S.C. (S)(S) 7401 et seq., (g) the Superfund Amendments and Reauthorization Act, Public Law 99-499, 100 Stat. 1613, (h) the National Environmental Policy Act, 42 U.S.C. Section 4321, (i) the Safe Drinking Water Act, 42 U.S.C. Sections 300F, et seq., (j) the Environmental Protection Agency regulations pertaining to asbestos (including, without limitation, 40 C.F.R. Part 61, Subpart M), and (k) the Occupational Safety and Health Administration regulations pertaining to asbestos, including without limitation 29 C.F.R. Sections 1910.1001 and 1926.58 (all such materials and substances being hereinafter referred to as "Hazardous Materials").

(S)13.02 Inspection.

Landlord, in addition to its other rights under this Lease, may enter upon the Premises at any time for the purposes of inspecting to determine whether the Premises or the environment have become contaminated with Hazardous Materials. In the event Landlord discovers the existence of any such Hazardous Materials due to fault or other act of Tenant or its agents, employees, invitees or licensees, Tenant shall reimburse Landlord upon demand for the costs of such inspection, sampling and analysis.

(S)13.03 Indemnification.

Without limiting the above, Tenant shall indemnify and hold harmless Landlord from and against any and all claims, losses, liabilities, damages, costs and expenses, including without limitation attorneys' fees and the costs of any required or necessary repair, cleanup or detoxification, arising out of or in any way connected with the existence, use, manufacture, storage or disposal of Hazardous Materials by Tenant or its employees, agents, invitees, licensees or contractors on, under or about the Premises, the Building or the Property. The indemnity obligations of Tenant under this clause shall survive any termination of this Lease, and the Tenant will not be responsible for any pre-existing conditions.

ARTICLE XIV - DEFAULT AND REMEDIES

(S)14.01 Defaults.

As used in the provisions of this Lease, each of the following events shall constitute, and is hereinafter referred to as, an "Event of Default":

(A) If the Tenant fails to (1) pay any Rent or any other sum which it is obligated to pay by any provision of this Lease, when and as due and payable hereunder, or (2) perform any of its other obligations under the provisions of this Lease; or

(B) If the Tenant or any guarantor of this Lease (1) applies for or consents to the appointment of a receiver, trustee or liquidator of the Tenant or of all or a substantial part of its assets, (2) is subject to a petition in bankruptcy, if not dismissed within 120 days or admits in writing its inability to pay its debts as they come due, (3) makes an assignment for the benefit of its creditors, (4) files a petition or an answer seeking a reorganization or an arrangement with creditors, or seeks to take advantage of any insolvency law, (5) performs any other act of bankruptcy, or (6) files an answer admitting the material allegations of a petition filed against the Tenant in any bankruptcy, reorganization or insolvency proceeding; or

(C) If the Tenant fails to assume possession and occupy of the Premises within 15 days after the Commencement Date, or if thereafter the Tenant vacates or abandons the Premises for more than 15 continuous days.

(S)14.02 Grace Period.

Anything contained in the provisions of this article to the contrary notwithstanding, on the occurrence of an Event of Default, the Landlord shall not exercise any right or remedy which it holds under any provision of this Lease or applicable law unless and until:

(A) The Landlord has given written notice thereof to the Tenant, and

(B) The Tenant has failed, (1) if such Event of Default consists of a failure to pay money, to pay all of such money within 5 days after such notice, or (2) if such Event of Default consists of something other than a failure to pay money, to fully cure such Event of Default within 15 days after such notice or, if such Event of Default cannot be cured within 15 days and Tenant commences to cure same within 15 days, to fully cure such Event of Default within 30 days; all provided, that

(C) No such notice shall be required, and the Tenant shall be entitled to no such grace period, (1) in any emergency situation in which the Landlord acts to cure such Event of Default pursuant to the provisions of P. (B) in (S)14.03 below, or (2) an Event of Default occurs more than twice during any 12 month period, or (3) if the Tenant has substantially terminated or is in the process of substantially terminating its continuous occupancy and use of the Premises, or (4) in the case of any Event of Default enumerated in the provisions of P. (B) in (S)14.01 above.

(S)14.03 Remedies.

Upon the occurrence of any Event of Default, the Landlord may (subject to (S)14.02 above) take any or all of the following actions:

(A) Sell at public or private sale all or any part of the fixtures, equipment, inventory and other property belonging to Tenant and in which the Tenant has granted a lien to Landlord under (S)14.05 below, at which sale Landlord shall have the right to become the purchaser upon being the highest bidder, and apply the proceeds of such sale, first, to the payment of all costs and expenses of seizing and storing such property and conducting the sale (including all attorneys' fees), second, toward the payment of any indebtedness, including (without limitation) that for Rent, which may be or may become due from Tenant to Landlord, and, third, to pay Tenant any surplus remaining after all indebtedness of Tenant to Landlord including expenses has been fully paid;

(B) Perform on behalf of and at the expense of Tenant any obligation of Tenant under this Lease which Tenant has failed to perform, without prior notice to Tenant, the total cost of which by Landlord, together with interest thereon at the rate of 18% per annum from the date of such expenditure, shall be deemed Additional Rent and shall be payable by Tenant to Landlord upon demand;

(C) With or without terminating this Lease and the tenancy created hereby, re-enter the Premises with or without court action or summary proceedings, remove Tenant and all other persons and property from the Premises, and store any such property in a public warehouse or elsewhere at the costs of and for the account of Tenant, all without resort to legal process and without Landlord being deemed guilty of trespass or becoming liable for any loss or damage occasioned thereby;

(D) With or without terminating this Lease, and from time to time, make such improvements, alterations and repairs as may be necessary in order to relet the Premises, and relet the Premises or any part thereof upon such term or terms (which may be for a term extending beyond the term of this Lease) at such rental or rentals and upon such other terms and conditions (which may include concessions, free rent and/or improvements) as Landlord in its sole discretion may deem advisable; and, upon each such reletting, all rentals received by Landlord shall be applied, first, to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord, second, to the payment of all costs and expenses of such reletting (including but not limited to brokerage fees, attorneys' fees and costs of improvements, alterations and repairs), third, to the payment of all Rent due and unpaid hereunder, and the balance, if any, shall be held by Landlord and applied in payment of future rent as the same may become due and payable hereunder; and/or

(E) Exercise any other legal or equitable right or remedy which it may have by law or otherwise.

No reentry or taking possession of the Premises by Landlord shall be construed as an election on its part to terminate this Lease unless a written notice of such intention be given to Tenant or unless the termination thereof be decreed by a court of competent jurisdiction. Notwithstanding that Landlord may have released the Premises without termination, Landlord may at anytime thereafter elect to terminate this Lease for any previous default. If the Premises or any part thereof is released, Landlord shall not be liable for, nor shall Tenant's obligations hereunder be diminished by reason of, any failure by Landlord to relet the Premises or any failure by Landlord to collect any rent due upon such reletting. No action taken by the Landlord under the provisions of this section shall operate as a waiver of any right which the Landlord would otherwise have against the Tenant for the Rent hereby reserved or otherwise, and the Tenant shall at all times remain responsible to the Landlord for any loss and/or damage suffered by the Landlord by reason of any Event of Default.

(S)14.04 Damages.

Upon any Event of Default, Tenant shall remain liable to the Landlord for the following amounts: (a) any Rent of any kind whatsoever which may have become due with respect to the period in the Term which has already expired, (b) all Rent which becomes due during the remainder of the Term, (c) all costs, fees and expenses incurred by Landlord in leasing the Premises to others from time to time, including but not limited to leasing commissions, construction and other build-out costs, design and permitting costs and the like, and (d) all costs, fees and expenses incurred by Landlord in pursuit of its remedies hereunder, including but not limited to attorneys' fees and court costs. All such amounts shall be due and payable immediately upon demand by Landlord and shall bear interest at 18% per annum until paid. Furthermore, at Landlord's option, Tenant shall be obligated to pay, in lieu of item (b) above in this (S)14.04, an amount (the "Substitute Amount") which is equal to the present value of all Rent which would become due during the remainder of the Term, including all Additional Rent which shall be deemed to continue and increase over such remainder of the Term at the average rate of increase occurring over the then expired portion of the Term, with such present value to be determined by discounting at an annual rate of interest which is equal to 5%. Provided that the Substitute Amount is actually paid in full to Landlord and the Premises are surrendered by Tenant, Landlord shall affirmatively list the Premises with its broker as available for lease (to the extent Landlord's contract with such broker does not already apply to all vacant space at the Building), and Tenant shall receive a reduction and reimbursement of all such amounts which is equal to the amount of any rent actually received from others to whom the Premises may be rented during the remainder of the original Term. Tenant and Landlord acknowledge and agree that payment to Landlord of the foregoing Substitute Amount, together with the corresponding reduction by reimbursement to Tenant of any rent paid by substitute tenants, are a reasonable forecast of the actual damages which will be suffered by Landlord in case of an Event of Default by Tenant, which actual damages are otherwise difficult or impossible to ascertain, and therefore such payment and reimbursement together constitute liquidated damages and not a penalty. Any suit or action brought by Landlord to collect any such liquidated damages shall not in any manner prejudice any other rights or remedies of Landlord hereunder.

(S)14.05 Landlord's Lien.

Tenant hereby grants to Landlord an express first and prior contract lien and security interest on all fixtures, equipment, inventory and other property which may be placed in the Premises or affixed or attached thereto and also upon all proceeds of any insurance which may be issued on account of damage to any such property. All exemption laws are hereby waived in favor of said lien and security interest benefiting Landlord. This lien and security interest is given in addition to any statutory lien benefiting Landlord and shall be cumulative thereto or alternative thereto as elected by Landlord at any time. If requested by Landlord, Tenant shall execute, deliver to Landlord and/or file at Tenant's expense with the public records Uniform Commercial Code financing statements in sufficient form to perfect the security interest hereby given. Landlord shall, in addition to all of its rights under the Lease, also have all of the rights and remedies of a secured party under the Uniform Commercial Code of the state in which the Premises are located.

(S)14.06 Waiver of Jury Trial.

All parties hereto, both the Landlord and Tenant as principals and any guarantors, hereby release and waive any and all rights provided by law to a trial by jury in any court or other legal proceeding initiated to enforce the terms of this Lease, involving any such parties, or connected in any other manner with this Lease.

ARTICLE XV - QUIET ENJOYMENT

(S)15.01 Covenant.

Landlord hereby covenants that the Tenant, on paying the Rent and performing the covenants set forth herein, shall peaceably and quietly hold and enjoy throughout the Term the Premises and such rights as the Tenant may hold hereunder with respect to the remainder of the Property.

ARTICLE XVI - NOTICES

(S)16.01 Notices.

Any notice, demand or other communication to be provided hereunder to a party hereto shall be (a) in writing, (b) deemed to have been given (i) three (3) days after being sent in the United States mails, postage prepaid, (ii) one day after being sent by overnight courier, or (iii) immediately upon its actual delivery, and (c) addressed to the Premises if directed to the Tenant, or addressed in c/o Colliers Pinkard, 7 E. Redwood Street, Suite 1200, Baltimore, Maryland 21202 if directed to the Landlord.

ARTICLE XVII - GENERAL

(S)17.01 Entire Agreement.

This Lease represents the entire agreement between the parties hereto as to the subject matter hereof and supersedes all prior written or oral negotiations, representations, warranties, statements or agreements between the parties hereto as to the same.

(S)17.02 Amendment.

This Lease may be amended by and only by a written instrument executed and delivered by each party hereto.

(S)17.03 Applicable Law.

This Lease shall be given effect and construed by application of the law of the state in which the Property is located.

(S)17.04 Waiver.

The Landlord shall not be deemed to have waived the exercise of any right which it holds hereunder unless such waiver is made expressly and in writing, and no delay or omission by the Landlord in exercising any such right shall be deemed to be a waiver of its future exercise. No such waiver as to any instance involving the exercise of any such right shall be deemed a waiver as to any other such instance or any other such right.

(S)17.05 Time of Essence.

Time shall be of the essence of this Lease.

(S)17.06 Headings.

The headings of the articles, subsections, paragraphs and subparagraphs hereof are provided herein only for convenience of reference and shall not be considered in construing their contents.

(S)17.07 Severability.

No determination by any court, governmental body or otherwise that any provision of this lease or any amendment hereof is invalid or unenforceable in any instance shall affect the validity or enforceability of any other such provision or such provision in any circumstance not controlled by such determination. Each such provision shall be valid and enforceable to the fullest extent allowed by, and shall be construed wherever possible as being consistent with, applicable law.

(S)17.08 Successors and Assigns.

This Lease shall be fully binding upon the parties hereto and each of their respective successors and assigns. Whenever two or more parties constitute the Tenant, all such parties shall be jointly and severally liable for performing the Tenant's obligations hereunder.

(S)17.09 Commissions.

Each party hereto hereby represents and warrants to the other that in connection with the leasing of the Premises hereunder, the party so representing and warranting has not dealt with any real estate broker, agent or finder, except for W. C. Pinkard & Co., Inc. d/b/a Colliers Pinkard and KLNB (the "Broker"). Each party hereto shall indemnify the other against any inaccuracy in such party's representation. Landlord hereby agrees that it shall pay a commission to the Broker according to a separate agreement. The parties acknowledge and agree that the Broker shall be a third party beneficiary of the foregoing covenants.

(S)17.10 Recordation.

This Lease may not be recorded among the land records or among any other public records, without the Landlord's prior written consent.

(S)17.11 Perpetuities.

If the rule against perpetuities would invalidate this Lease or any portion hereof, or would limit the time during which this Lease shall be effective, due to the potential failure of an interest in property created herein to vest within a particular time, then notwithstanding anything to the contrary herein, each such interest in property must vest, if at all, before the passing of 21 years from the date of this Lease, or this Lease shall become null and void upon the expiration of such 21 year period and the parties shall have no further liability hereunder.

(S)17.12 Liability Limitation.

Neither Landlord nor any trustee, director, officer, employee, representative, asset manager, investment advisor or agent of Landlord, nor any of their respective successors and assigns, shall be personally liable in any connection with this Lease, and Tenant shall resort solely to the Building for the payment to Tenant of any claim or for any performance by Landlord hereunder.

(S)17.13 Representations and Warranties of Tenant.

Tenant represents and warrants to the Landlord that it is duly organized and validly existing under the laws of the State of and qualified to transact business in the State of Maryland; that the name and address of its resident agent in the State of Maryland are: _____ ; that this Lease was duly approved by the Tenant's board of directors, officers, or other required parties, and is binding upon and enforceable against Tenant in accordance with its terms.

(S)17.14 Exhibits.

Each exhibit, addendum or other attachment hereto is hereby made a part of this Lease having the full force of all other provisions herein.

IN WITNESS WHEREOF, each party hereto has executed this Lease under seal on the day and year written first above.

WITNESS: LANDLORD:
LAKEFRONT LIMITED PARTNERSHIP

By: /s/ Mark P. Hanley, Jr. (SEAL)

Name: Mark P. Hanley, Jr.

Title: General Partner

WITNESS: TENANT:
HATHAWAY INDUSTRIAL AUTOMATION

By: /s/ William T. Shaw (SEAL)

Name: William T. Shaw

Title: President

YEAR

	JUN-30-1997	
	JUL-01-1996	
	JUN-30-1997	3,431
		0
		7,402
		492
		4,907
	17,535	8,794
	6,953	
	19,967	
6,941		1,769
0		0
		100
		12,926
19,967		39,946
	39,946	25,575
		25,575
		0
		105
		173
		(2,192)
		763
(1,429)		0
		0
		0
		(1,429)
		(0.33)
		(0.33)

Presented gross