WATTS WATER TECHNOLOGIES INC

FORM 8-K
(Unscheduled Material Events)

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Address	815 CHESTNUT ST
	NORTH ANDOVER, Massachusetts 01845
Telephone	978-688-1811
CIK	0000795403
Industry	Misc. Fabricated Products
Sector	Basic Materials
Fiscal Year	12/31

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

Date of Report (Date of earliest
event reported): November 18, 1994

WATTS INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware	0-14787	04-2916536
(State or other jurisdiction of incorporation)	(Commission File Number)	(IRS Employer Identification No.)

815 Chestnut Street, North Andover, Massachusetts 01845
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code:(508) 688-1811

N/A
(Former name or former address, if changed since last report.)

Item 2. Acquisition or Disposition of Assets.

Watts Industries, Inc. (the "Company") has completed four acquisitions since July 15, 1994, none of which individually is deemed significant for purposes of Regulation S-X of the Securities and Exchange Commission and none of which individually required the filing by the Company of a Current Report on
Form 8-K.

Tanggu Watts.

On July 15, 1994, Watts Investment Company, a wholly owned subsidiary of the Company, acquired a controlling 60% equity interest in Tianjin Tanggu Watts Valve Company Limited ("Tanggu Watts"). Tanggu Watts, which is a Chinese limited liability equity joint venture, was formed with Tianjin Tanggu Valve Plant ("Tanggu Valve"), a manufacturer of butterfly valves and other valve products located in Tianjin, People's Republic of China.

The total registered capital invested in Tanggu Watts by both the Company and Tanggu Valve was RMB 123,000,000 (Chinese Renminbi), which is equal to approximately US$14,100,000. Of this amount, the Company has contributed cash in the approximate amount of US$8,500,000 which is equal to approximately RMB 73,800,000 or 60% of the total registered capital. The Company's source of capital to finance this acquisition was from existing cash balances. Tanggu Valve contributed machinery and equipment, a land development fee, technology and certain inventory in the amount of RMB 49,200,000, which is equal to approximately US$5,600,000 or 40% of the total registered capital.

Tanggu Watts, which maintains its headquarters and manufacturing operations in Tianjin, People's Republic of China, will manufacture butterfly, globe and check valves for the water distribution and industrial markets in the People's Republic of China, the United States, Europe, Australia and Southeast Asia. The Company intends that Tanggu Watts will continue to use the assets of Tanggu Watts within the same industry, as described in the immediately preceding sentence, as they were used by Tanggu Valve prior to the formation of the joint venture. Tanggu Valve's sales for the twelve-month period ended December 31, 1993 were approximately the equivalent of US$8,000,000.

Jameco.

On July 28, 1994, Jameco Acquisition Corp., a wholly owned indirect subsidiary of the Company, acquired from certain individual and trust stockholders all of the issued and outstanding capital stock of Jameco Industries, Inc., a New York corporation ("Jameco"), for a price of $29,503,030 (of which approximately $25 million was paid in cash at closing and $3.75 million in cash was deposited into and is still being held in an interest-bearing escrow account and the remaining amount was deducted from the total price as a result of amounts owed to Jameco by one of the selling stockholders). The money held in the escrow account will be paid pursuant to and in accordance with terms of the Escrow Agreement, attached as an exhibit to Exhibit 2.2 hereto, to secure the payment of claims for indemnification made against the three principal selling stockholders. Jameco had approximately $13 million of outstanding bank debt that remains outstanding. The Company's source of capital to finance this acquisition was from existing cash balances.

The acquisition also included the purchase by the Company of the parcel of land, together with the buildings and improvements thereon, on which the facilities of Jameco are situated for an additional cash payment of $5.3 million. Prior to its acquisition by the Company, the land was owned indirectly by two of the principal selling stockholders of Jameco.

Jameco, headquartered in Wyandanch, New York, is a manufacturer of metal and plastic water supply products including valves, tubular products and sink strainers that are sold primarily to the residential construction and home repair and remodeling markets in the United States and overseas. Jameco's sales for the twelve-month period ended June 30, 1994 were approximately $56 million. The Company intends to continue to use the assets of Jameco within the same industry in which they were used prior to the acquisition.

Cryolab.

On August 4, 1994, Circle Seal Controls, Inc., a wholly-owned subsidiary of the Company, acquired substantially all of the assets, subject to certain liabilities, of the Cryolab product line (the "Cryolab Business") of SAES Pure Gas, Inc. ("SAES") for a cash price of $886,122 paid at closing. The Company's source of capital to finance this acquisition was from existing cash balances.

The assets acquired, which included inventory, raw materials, patterns, drawings, toolings, dies, machinery and equipment, goodwill and certain intellectual property rights, were used by SAES to manufacture and sell cryogenic valves to control the flow of gases and liquids exhibiting a temperature of -100 degrees fahrenheit and lower. The products made in the Cryolab Business include globe, "Y", angle, vacuum-jacketed, extended stem, and vacuum seal-off type valves and operators. The Company intends to use the assets of the Cryolab Business in the existing cryogenic valve business of Circle Seal Controls, Inc., which is located in Corona, California. SAES's sales from the Cryolab Business for the twelve-month period ended December 31, 1993 were approximately $1,500,000.

Pibiviesse.

On November 18, 1994, two wholly owned indirect subsidiaries of the Company acquired from Philabel International NV all of the issued and outstanding capital stock of Philabel NV, a Dutch holding company owning all of the issued and outstanding capital stock of Pibiviesse S.p.A. ("PBVS"), an Italian valve manufacturing company located in Milan, Italy, for a price of 29,827,193,801 Italian Lire (approximately US$18.5 million), 90% of which was paid at closing and all or a portion of the balance to be paid within 4 months of the closing based on a post-closing determination of the balance sheet of PBVS as of the closing date, plus certain contingent deferred payments that may become payable in the future. The contingent deferred payments become payable upon achievement of a number of different benchmarks for gross revenues of PBVS during the three-year period ending December 31, 1997 and could equal a maximum of 6,000,000,000 Italian Lire (approximately US$3.7 million) in the aggregate if all of the specified benchmarks are achieved.

PBVS manufactures ball and gate valves for the oil and gas markets. The Company intends to continue to use the assets of PBVS within the same industry in which they were used prior to the acquisition. Sales for PBVS for the twelve-month period ended June 30, 1994 were approximately US$34,000,000.

The Company's sources of capital to finance this acquisition were existing cash balances and a draw down of a portion of the Company's unsecured line of credit for $125,000,000 with the First National Bank of Boston.

Item 7. Financial Statements, Pro Forma Financial Information and Exhibits.

(a) Financial Statements of Businesses Acquired. Not applicable.

(b) At the time of the filing of this Form 8-K, it is impracticable for the Company to provide the pro forma financial information relating to the acquisition by the Company of Tanggu Watts, Jameco, Cryolab and PBVS. Such financial information will be filed by amendment not later than February 3, 1995, in accordance with Item 7, paragraph
(b)(2) of Form 8-K.

(c) Exhibits.

*2.1 Joint Venture Contract, dated as of June 27, 1994, by and between Tianjin Tanggu Valve Plant and Watts Investment Company.

*2.2 Stock Purchase Agreement, dated as of July 28, 1994, by and between Jameco Acquisition Corp. and Harry Lipman, Michael Lipman,

Walter Lipman, Sidney Greenberg, David Chasin, Kenneth S. Lipman, Peter A. Lipman, Ethel S.

Lipman, Gloria Lipman, Walter Lipman

Trust for the Benefit of Ilene Burstein, Walter Lipman Trust for the Benefit of Staci Burstein and Walter Lipman Trust for the Benefit of Joshua Burstein.

*2.3 Asset Purchase Agreement, dated as of August 4, 1994, by and between Circle Seal Controls, Inc. and SAES Pure Gas, Inc.

*2.4 Stock Purchase Agreement, dated as of November 18, 1994, by and between Watts Industries Europe BV, KF Industries Europe BV, Philabel International NV, Antonio Vienna, and G.I.V.A. S.p.A.

* The Company will supply the Commission upon request with copies of any schedules to Exhibits 2.1, 2.2, 2.3, and 2.4 which are not included herein.

SIGNATURES

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

WATTS INDUSTRIES, INC.

By:/s/ William C. McCartney
William C. McCartney,
Vice President of Finance

Date: December 5, 1994

JOINT VENTURE CONTRACT

BY AND BETWEEN

TIANJIN TANGGU VALVE PLANT

AND

WATTS INVESTMENT COMPANY

RELATING TO THE ESTABLISHMENT OF
TIANJIN TANGGU WATTS VALVE COMPANY LIMITED

DATED JUNE 27, 1994

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JOINT VENTURE CONTRACT

THIS CONTRACT is made in the People's Republic of China on this 27th day of June, 1994, by and between TIANJIN TANGGU VALVE PLANT a legal person duly organized and existing under the laws of the People's Republic of China and having its registered address at 5 Yongtai Road, Tanggu, Tianjin, the People's Republic of China ("PARTY A") and WATTS INVESTMENT COMPANY, a company duly organized and existing under the laws of the State of Delaware, United States of America, and having its head office at 715 King Street, Suite 300, Wilmington, Delaware, United States of America 19801 ("PARTY B").

PRELIMINARY STATEMENT

After friendly consultations conducted in accordance with the principle of equality and mutual benefit, PARTY A and PARTY B have agreed to establish a limited liability equity joint venture in accordance with the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment (the "Joint Venture Law"), the Implementing Regulations issued thereunder (the "Joint Venture Regulations") and the provisions of this Contract.

NOW, THEREFORE, IT IS HEREBY AGREED AS FOLLOWS:

ARTICLE 1 - DEFINITIONS

Unless the terms or context of this Contract otherwise provides, the following terms shall have the meanings set out below:

1.01 "Affiliate" means any company which, through ownership of voting stock or otherwise, directly or indirectly, is controlled by, under common control with, or in control of a PARTY; the term "control" being used in the sense of power to elect a majority of directors or to direct the management of a company.

1.02 "Approval Authority" shall mean the Ministry of Foreign Trade and Economic Cooperation or the local authority designated by such Ministry to approve this Contract and the Central and Municipal agencies as may be necessary to implement the provisions of this Contract and any ancillary contracts referred to herein.

1.03 "Articles of Association" shall mean the Articles of Association of the Company as set forth in Exhibit A attached hereto.

1.04 "Board" shall mean the board of directors of the Company.

1.05 "Business License" shall mean the business license of the Company issued by the SAIC following approval of this Contract.

1.06 "China or "PRC" shall mean the People's Republic of China (and will refer to the Chinese Mainland only).

1.07 "Company" shall mean Tianjin Tanggu Watts Valve

Company Limited, a joint venture limited liability company formed by the PARTIES pursuant to this Joint Venture Contract, the Joint Venture Law, the Joint Venture Regulations, and other relevant Chinese laws.

1.08 "Contributed Assets" shall mean those assets contributed by PARTY A pursuant to Article 5.03(a) and which are more particularly described in Exhibit B.

1.09 "Effective Date" shall mean the effective date of this Contract, which date shall be the date on which all of the following conditions have been fulfilled:

(a) Agreement and Articles. This Contract and the Articles of Association have been approved by the Approval Authority without any additional or different conditions being imposed; and

(b) Business License. The Business License has been issued by the SAIC, reflecting the status and structure of the Company as described herein, without any additional or different conditions being imposed.

1.10 "Joint Venture Products" shall mean valve products including center line wafer type butterfly valves, large rubber-seated butterfly valves, high performance butterfly valves, above ground and underground valves, gate valves, check valves, small high pressure ball valves, large rubber-seated ball valves, and other valves used in gas, liquid, water pipelines, mud and paper-making industries.

1.11 "Joint Venture Term" shall mean the term of the Company as set forth in Article 19 hereof.

1.12 "Land" shall mean the land more particularly described in Exhibit C and located at 5 Yongtai Road, Tanggu, Tianjin Municipality, The People's Republic of China.

1.13 "Management Personnel" shall mean and include the General Manager, Executive Vice General Manager, Vice General Manager, Production Manager, Financial Controller, Marketing Manager, Production Engineer, Auditor and such other personnel designated as Management Personnel by the Board.

1.14 "PARTY" or "PARTIES" means PARTY A and PARTY B

individually or collectively.

1.15 "Renminbi" or "RMB" shall mean the lawful currency of China.

1.16 "SAEC" means the State Administration of Exchange Control of China and/or its local branches as appropriate to the context.

1.17 "SAIC" means the State Administration of Industry and Commerce of China and/or its local branches as appropriate to the context.

1.18 "United States Dollars", "U.S. Dollars" and "US$" shall mean the lawful currency of the United States of America.

1.19 "Working Personnel" shall mean the employees of the Company except the Management Personnel.

ARTICLE 2 - PARTIES TO THE CONTRACT

2.01 The Parties

The PARTIES to this Contract are:

(a) PARTY A, Tianjin Tanggu Valve Plant, registered in Tanggu District, Tianjin, with its registered address at 5 Yongtai Road, Tanggu, Tianjin, the People's Republic of China.

Legal Representative: Han You Sheng
Position: President
Nationality: Chinese

(b) PARTY B, Watts Investment Company, a company registered in the state of Delaware, United States of America with its head office at 715

King Street, Suite 300, Wilmington, Delaware, United States of America 19801.

Legal Representative: David A. Bloss, Sr.
Position: Executive Vice President
Nationality: U.S.A.

2.02 Authority

Each PARTY hereby represents and warrants to the other PARTY that, as of the date hereof and as of the Effective Date:
(a) such PARTY is duly organized, validly existing and in good standing under the laws of the place of its establishment or incorporation;

(b) such PARTY has all requisite power, authority and authorization required to enter into this Contract and, upon the Effective Date, will have all requisite power, authority and authorization to perform fully each and every one of its obligations hereunder;

(c) such PARTY has taken all actions necessary to authorize it to enter into this Contract and such PARTY representative whose signature is affixed hereto is fully authorized to sign this Contract, and to bind such PARTY thereby;
(d) upon the Effective Date, this Contract shall constitute the legal, valid and binding obligations of such PARTY;
(e) neither the execution of this Contract, nor the performance of such PARTY's obligations hereunder, will conflict with, or result in a breach of, or constitute a default under, any provision of the Articles of Incorporation or By-Laws of such PARTY, or any law, rule, regulation, authorization or approval of any government agency or body, or of any contract or agreement to which it is a party or subject;
(f) there is no lawsuit, arbitration, or legal, administrative or other proceeding or governmental investigations pending or, to the best knowledge of such PARTY, threatened against such PARTY with respect to the subject matter of this Contract; and
(g) that all documents and information which is provided to the other PARTY must be authentic, accurate and reliable and will not have an adverse affect on such PARTY in performing its obligations under this Contract.

ARTICLE 3 - ESTABLISHMENT OF THE JOINT VENTURE COMPANY

3.01 Establishment of the Company

The PARTIES hereby agree to establish the Company promptly after the Effective Date in accordance with the Joint Venture Law, the Joint Venture Regulations and the provisions of this Contract.

3.02 Name and Address of the Company; Branches

(a) Name. The name of the Company shall be:
"[CHINESE SYMBOLS]" in Chinese, and "Tianjin Tanggu Watts Valve Company Limited" in English. At the expiration or termination of this Contract, the Company shall forthwith change its name by removing therefrom the trade names "Watts" and "[CHINESE SYMBOLS]" without replacing them or any parts thereof by any similar words or expressions. Similarly, notwithstanding anything in this Contract to the contrary, should PARTY B's participation in the registered capital of the Company at any time during the existence of this Contract fall below 50%, the Company shall forthwith change its name if requested by PARTY B in the same manner as provided above. PARTY A in any case undertakes not to continue or take over the Company's business using the trade name "Watts" or "[CHINESE SYMBOLS]" or any parts thereof or any similar words or expressions.

(b) Address. The legal address of the Company shall be 5 Yongtai Road, Tanggu District, Tianjin, the People's Republic of China.

(c) Branches. The Company may establish necessary branch offices inside of China with the approval of the Board and the relevant authority in the location of the proposed branch.

3.03 Limited Liability Company

The form of organization of the Company shall be a limited liability company. Except as otherwise provided herein, once a PARTY has paid in full its contribution to the registered capital of the Company, it shall not be required to provide any further funds to or on behalf of the Company by way of capital contribution, loan, advance, guarantee or otherwise. Except as otherwise provided pursuant to written agreement signed by the PARTY to be charged, creditors of the Company shall have recourse only to the assets of the Company and shall not seek repayment from any PARTY. The Company shall indemnify the PARTIES against any and all losses, damages or liability suffered by the PARTIES in respect of third-party claims arising out of the operation of the Company. Subject to the above, the profits, risks and losses of the Company shall be shared by the PARTIES in proportion to and limited by their respective contributions to the Company's registered capital.

3.04 Laws and Decrees

The Company shall be a legal person under the laws of China. The activities of the Company shall be governed and protected by the relevant published and publicly available laws, decrees, rules and regulations of China.

ARTICLE 4 - THE PURPOSE AND SCOPE

OF PRODUCTION AND OPERATION

4.01 Purpose and Scope of the Company

(a) Purpose. The Company shall adopt advanced technology and scientific management methods with the aim to earn lawful profits, gain a competitive position in the market and make a contribution to the people of China.

(b) Scope. The scope of the Company is to manufacture, distribute, and sell Joint Venture Products.

ARTICLE 5 - TOTAL AMOUNT OF INVESTMENT AND REGISTERED CAPITAL

5.01 Total Investment. The Company's total investment shall be Two Hundred and Twenty Nine Million Eight Hundred and Ninety Thousand Renminbi (RMB 229,890,000).

5.02 Registered Capital. The Company's registered capital shall be One Hundred and Twenty Three Million Renminbi (RMB 123,000,000).

5.03 Contribution to Capital

(a) The contribution to the registered capital of the Company subscribed by PARTY A shall be Forty Nine Million Two Hundred Thousand Renminbi (RMB 49,200,000), representing a forty percent (40%) share of the registered capital of the Company.

PARTY A's contribution shall consist of:

(i) Machinery and equipment as more particularly described in the list set forth as Exhibit B which, based on the results of evaluation, the PARTIES agree is valued at Twenty Seven Million Two Hundred and Ninety Five Thousand Renminbi (RMB 27,295,000);

(ii) land development fee which, based on the results of evaluation, the PARTIES agree are valued at Sixteen Million Four Hundred and Forty Nine Thousand Renminbi (RMB 16,449,000);

(iii)Technology as more particularly described in Exhibit D which, based on the results of evaluation, the PARTIES agree is valued at Three Million Five Hundred and Thirty Seven Thousand Renminbi (RMB 3,537,000); and
(iv) Inventory to be selected from the finished goods in PARTY A's total

inventory up to a cost value of One Million Nine Hundred and Nineteen Thousand Renminbi (RMB 1,919,000).

(b) The contribution to the registered capital of the Company subscribed by PARTY B shall be Eight Million Four Hundred Eighty Thousand United States Dollars (US$8,480,000), equivalent to Seventy Three Million Eight Hundred Thousand Renminbi (RMB 73,800,000) and representing a sixty percent (60%) share of the registered capital of the Company.

(c) The capital contributions which shall be made by PARTY A and PARTY B shall be used by the Company only in the implementation of this Contract. Except as otherwise provided herein and in the Technology License attached as Exhibit E, all of the items contributed by the PARTIES to the Company shall remain the property of the Company throughout the entire term of this Contract.

5.04 Payment of Registered Capital and Conditions Precedent Thereto

(a) Subject to Article 5.04 (b) below, each PARTY shall pay into the Company the capital contribution subscribed by it as follows: one third of each PARTY's capital contribution shall be contributed within a (30) days after the Effective Date; an additional one third shall be contributed within sixty (60) days of the Effective Date; and the final one third shall be deposited within ninety (90) days of the Effective Date.

(b) Notwithstanding the foregoing, the PARTIES' obligations to make their respective contribution to the Company's registered capital shall not arise until each of the following conditions has been fulfilled:

(i) approval of the following, if necessary, has been obtained from the Approval Authority or other relevant authorities:

(1) This Contract, the Articles of Association attached hereto as Exhibit A, and theFeasibility Study; and

(2) the Technology License Contract to be executed by the Company and Tianjin Tanggu Valve Plant in the form set forth in Exhibit D attached hereto and made a part hereof, and

(3) the Technology License Contract to be executed by the Company and Watts Investment Company in the form set forth in Exhibit E attached hereto respectively and made a part hereof; and

(4) the Trademark License Contract to be executed by the Company and Watts Investment Company in the form set forth in Exhibit F attached hereto and made a part hereof,

(ii) the issuance of the Company's Business License (with a scope of business as set forth in Article 4.01 hereof);

(iii)the Company has submitted an application to the Tianjin Commission of Foreign Trade and Economic Cooperation for designation as a "Technologically Advanced Enterprise"; and

(iv) the Company has received a land use rights certificate from the relevant governmental authorities evidencing the Company's right to the exclusive possession, use and enjoyment of the Land for the full scope of operation specified in Article 4.01 for the Joint Venture Term.

5.05 Late Contribution to Registered Capital Subject to Article 5.04 (b) , any delay in payment of either PARTY's contribution in accordance with Article 5.04 (a) shall result in a payment of penalty to the Company equal to 1% of the relevant PARTY's total contribution for that month or part thereof that the delay in payment continues.

5.06 Investment Certificate

After each PARTY's contribution to the registered capital has been made in full, an independent Chinese registered accountant appointed by the Company in accordance with this Contract shall verify the contribution and issue a contribution verification report to the Company. Thereupon, the Company shall issue within sixty (60) days after the payment of the contribution an investment certificate to each PARTY signed by the Chairman of the Board. Each investment certificate shall indicate on its face the amount of the capital contribution evidenced thereby and a copy shall be submitted to the Approval Authority for the record. The Board shall request the Financial Controller to maintain a register identifying the investment certificates that have been issued to the PARTIES.

5.07 Additional Financing

(a) Any additional capital investment in excess of the registered capital or additional required working capital, may be obtained in the form of loans to the Company from Chinese or foreign sources. As a general principle and subject to Board approval, borrowings of the Company, if any, shall be secured by the tangible assets of the Company.

(b) Interest on loans incurred by the Company shall be debited as a financing cost of the Company.

(c) Except for the portion of working capital (i) to be provided by the PARTIES as capital contribution or (ii) from bank loans received by the Company, additional operating funds may be obtained principally from net revenues generated by sales of the Company or as agreed to by the Board of Directors.

5.08 Transfer or Assignment of Register

(a) General Principle. Each PARTY hereto undertakes to the other PARTY that, except as permitted in this Article 5.08, it shall not:

(i) transfer, assign, sell or otherwise dispose of the legal or beneficial ownership of; or

(ii)create any mortgage, charge, pledge, or other encumbrance over either the whole or any part of its interest in the Company's registered capital ("Interest") or its rights, obligations and benefits under this Contract.

(b) Transfers to Affiliates. Notwithstanding the foregoing, either of the PARTIES ("Transferor Party") may transfer its Interest to its affiliates ("Transferee Affiliates") on giving thirty (30) days' prior written notice to the other PARTY.

The PARTIES hereby agree that in any such transfer between a Transferor Party and its Transferee Affiliates, the other PARTY shall:

(i) waive any pre-emptive rights to purchase the Transferor Party's Interest;

(ii) upon the request of the Transferor Party, give its written consent to such transfer; and

(iii) cause its directors on the Board to vote in favor of a resolution approving such transfer.

(c) Transfers to Third Parties. A Transferor Party shall have the right to transfer its Interest to a non-Affiliate third party ("Third-Party Transferee") provided:

(i) the Transferor Party first offers to transfer its Interest to the other PARTY ("Non-transferring Party") in accordance with the preemption procedures set out in Article 5.08(d) below and the Non-transferring Party has declined to exercise its rights thereunder;
(ii) the Non-transferring Party has given its consent to the transfer in writing to the Transferor Party; and

(iii)the Board has unanimously passed a written resolution approving the transfer.
(d) Pre-emptive Rights. Where a Transferor Party desires to transfer its Interest to a Third-Party Transferee, the Non-transferring Party shall have a preemptive right to purchase or acquire such Interest in accordance with, the provisions of this Article 5.08(d). In any proposed transfer to a Third-Party Transferee, the Transferor Party shall provide written notice (the "Disposal Notice") to the Non-transferring Party setting forth the identity of the Third-Party Transferee, the amount of consideration to be paid and other particulars of the proposed transfer. By written notice to the Transferor Party within sixty (60) days from the date of the Disposal Notice, the Non-transferring Party shall have the right, but not the obligation, to either:
(i) acquire the Transferor Party's interest under the same terms and conditions and for the same consideration offered to the Third-Party Transferee; or

(ii) introduce a new party or parties of its choice ("Substitute Party or Parties") to acquire such interest from the Transferor Party under the same terms and conditions and for the same consideration offered to the Third-Party Transferee.

(e) Pre-emptive Rights. If the terms and conditions of a proposed assignment described in a Disposal Notice do not provide a purchase price or provide a purchase price which is not payable entirely in cash, then the Non-transferring Party, or the Substitute Party or Parties, shall have a pre-emptive right of purchase exercisable in the same manner as provided in Article 5.08(d) for a purchase price equivalent to the open market value of the Company allocated on a pro-rata basis to the Transferor Party's interest. For purposes of this Article, the "open market value" of the Company shall be determined by the PARTIES or, if the PARTIES are unable to agree on such value within a (30) days of the date of the Disposal Notice, by an Expert as defined in Article 23. The expenses of such Expert shall be bore equally by the PARTIES.

(f) Disposal. If the Non-transferring Party, or the Substitute Party or Parties, fails to exercise the pre-emptive right as aforesaid, the Transferor Party may, subject to the consent of the Non-transferring Party and the decision of the Board, assign, sell or otherwise dispose of all or part of its Interest for a purchase price equal or greater to that described in the Disposal Notice to a third party.

(g) Third Party to be Bound by Contract. Subject to this Article 5.08, in the event of a sale, assignment or other disposition of the Transferor Party's interest, any purchaser, transferee or assignee shall together with the remaining PARTY or PARTIES execute such documents as are necessary to make such third party bound by the terms of this Contract.
(h) Continued Operation. In the event that PARTY B, or a Substitute Party or Parties, acquire PARTY A's interest and as a consequence the Company is no longer a Sino-foreign equity joint venture, PARTY A shall assist and support PARTY B in seeking the necessary approvals to allow PARTY B to continue operations of the Company as a wholly foreign-owned enterprise or otherwise.

(i) Approval. Any sale or assignment pursuant to this Article shall be submitted to the Approval Authority for examination and approval. Upon receipt of the approval of the Approval Authority, the Company shall register the change in ownership with the SAIC.

(j) Confidentiality. Notwithstanding the assignment of the registered capital pursuant to this Article, the PARTIES agree they will not be relieved of their confidentiality obligations under Article 18 hereof. The -above-mentioned confidentiality obligations shall remain in effect for twenty (20) years following the effective date of such assignment.

5.09 Increase of Registered Capital

(a) Any increase in the registered capital of the Company shall be contributed by the PARTIES in accordance with the ratio of each PARTY's share of the registered capital at the time of such increase and within the limit and in the form specified by the Board for such increase. In the event of either PARTY refusing or failing to contribute to the increase in the capital in full or in part, the same could be contributed by the other PARTY in addition to its respective share of the increase within the total increase in capital approved by the Board with the resultant changes in the proportions of the interests of each PARTY in the registered capital of the Company.

(b) Notwithstanding any other provision of this Contract, in the event that PARTY B wishes to increase its share of the registered capital, PARTY A shall have the right to make additional contributions in accordance with the ratio of their interest of the registered capital at the time of such increase and within the limit and in the form specified by PARTY B, provided, however, that should either PARTY refuse or fail to contribute to an increase in accordance with this Article 5.09(b), the other PARTY shall be permitted to contribute to such increase with the resultant changes in the proportions of the interest of each PARTY in the registered capital of the Company. The PARTIES shall cause their directors on the Board of Directors to vote in favor of an increase in capital under this Article 5.09(b).

ARTICLE 6 - RESPONSIBILITIES OF THE PARTIES

6.01 Responsibilities of PARTY A

In addition to its other obligations under this Contract, PARTY A shall be responsible for the following matters:

(a) Approvals. Assist the Company in obtaining (1) the right to use the Land and Buildings for the Joint Venture Term, and (2) the approvals,

permits and licenses necessary for the establishment and operation of the Company and the manufacture, distribution and sale of the Joint Venture Products; (b) Tax Treatment. Assist the Company in applying for and obtaining the most favorable tax and customs duty reductions and exemptions and other investment incentives available for the Company under the laws of China, Tianjin Municipality or other local laws;

(c) Imports. Assist with the procedures for applying for, and procuring licenses for the import of machinery and equipment, materials and supplies required by the Company and arranging for the transport of imported equipment;

(d) Employee Assistance. Assist the foreign or expatriate employees and work force of the Company and of the parties with whom it contracts and their families, to obtain all entry visas and work permits necessary, and arrange boarding, lodging, office space, transportation and medical facilities for such persons in Tianjin during the operation of the Company;

(e) Bank Accounts. Assist the Company in opening RMB and convertible currency bank accounts immediately upon issuance of the Company's Business License;

(f) Raw Materials Assist the Company in securing preferential purchasing status for purchases of raw materials, machinery and equipment in China, including, if necessary, the official allocations of all raw materials the Company deems critical at the lowest possible price;

(g) Technologically Advanced Enterprise. Assist the Company in the application process for designation as a "Technologically Advanced Enterprise" and securing the appropriate confirmation certificate;
(h) Loans. Assist the Company in obtaining RMB loans from local financial institutions upon the decision of the Board;

(i) Modifications to Buildings. Assist the Company in organizing,

preparing and executing the detailed design, construction and implementation of modifications and additions to the Buildings including the layout of the machinery and equipment in accordance with the design program to be provided by PARTY B pursuant to the Technology License Contract attached as Exhibit E;

(j) Plant Services. Provide the Company with services as more particularly described in the Plant Services Contract attached hereto as Exhibit G including use of the clinic, canteen, buses for transportation of personnel between their homes and the Company and other personnel related services provided by PARTY A to Company's employees; and

(k) Sales Orders. Transfer to the Company any sales orders received by PARTY A as of the Effective Date.

6.02 Responsibilities of PARTY B

In addition to its other obligations under this Contract, PARTY B shall have the following responsibilities:

(a) Personnel. Assist the Company in recruiting personnel in charge of management, technical, engineering, production, finance and quality control;

(b) Domestic Materials. Assist the Company in the purchase of the equipment and raw materials manufactured in China to ensure they are of the proper quantity and quality for the conduct of the Company's business;

(c) Offshore Financing. Assist the Company in arranging offshore financing subject to the decision of the Board;

(d) Technology Licence. Perform its obligations under the Technology License Contract attached as Exhibit E; and

(e) Export Sales. Use its best efforts to assist the Company to achieve its export target of 40%.

6.03 Expenses

In assisting the Company with respect to any matter discussed in Article 6.01 or 6.02, should either PARTY incur any reasonable expense on behalf of the Company, such reasonable expenses will be reimbursed by the Company.

ARTICLE 7 - PURCHASE OF PARTY A'S INVENTORY AND CONTRIBUTION OF ASSETS

7.01 PARTY A's Inventory

Upon the execution of this Contract and subsequent to the Effective Date, the Company will purchase selected raw materials, finished components in addition to all or a portion of the work in

progress of PARTY A (the "Inventory") up to a cost value of Forty Five Million Renminbi (RMB 45,000,000). The purchase price for the Inventory will be the same as PARTY A's cost in manufacturing such Inventory.

7.02 Condition Precedent to Purchase

The purchase by the Company of PARTY A's Inventory shall be subject to the condition precedent that PARTY A's representations and warranties as stated in Article 7.03 below remain as true and accurate on the date of the purchase as if such representations and warranties were made on the date of purchase. If any of the representations or warranties of Article 7.03 concerning the Inventory are not true and accurate on the date of purchase, the Company may, in addition to whatever other rights it may have, refuse to purchase all or a portion of the Inventory.

7.03 PARTY A Representations and Warrants

PARTY A represents and warrants as follows:

(a) PARTY A is the lawful owner of the Contributed Assets and the Inventory, which are free and clear of any lien, mortgage or other security interests and claims;

(b) PARTY A possesses rights, powers and authorization adequate for it to dispose of the Contributed Assets and the Inventory in the manner described in this Contract;

(c) there is no ongoing or future legal procedure, lawsuit, arbitration procedure, administrative litigation or other government or court order, interdiction, decision or ruling to which PARTY A is a party or which binds or affects the Contributed Assets or the Inventory or is capable of so doing;

(d) all information provided to PARTY B concerning the Contributed Assets or the Inventory, business, finances and other aspects of business is true, accurate and complete in every respect;

(e) as of the date of this Contract and as of the Effective Date, all of the Contributed Assets are in good operating condition, consistent with PARTY A's past practices;

(f) as of the Effective Date and as of the date of purchase of the Inventory, all the Inventory selected by PARTY B in accordance with this Article 7 shall be of the quality and standard that is consistent with PARTY A's past practices;

(g) PARTY A has conducted its business in compliance with all laws, regulations, provisions and orders of any governmental authority with jurisdiction over it, its business, finances or operations or its property; and

(h) before and after the execution of this Contract, PARTY A has taken and shall take all necessary or appropriate actions to cause this Contract to be adequately performed in accordance with the terms hereof.

ARTICLE 8 - TECHNOLOGY AND TECHNICAL SERVICES

8.01 Technology License Contract with PARTY A

(a) PARTY A shall license certain proprietary technology to the Company in accordance with the Technology License Contract set forth as Exhibit D hereto.

(b) The PARTIES shall cause their representatives to execute the Technology License Contract between the Company and PARTY A simultaneously with the execution of this Contract; provided, however, that such contracts will not enter into effect until (i) they have been approved by the relevant Approval Authority and (ii) are ratified by the Board of Directors after the issuance of the Business License.

8.02 Technology License Contract with PARTY B

(a) PARTY B shall license certain proprietary technology and provide technical support and assistance to the Company in accordance with the Technology License Contract set forth as Exhibit E hereto.

(b) The PARTIES shall cause their representatives to execute the Technology License Contract between the Company and PARTY B simultaneously with the execution of this Contract; provided, however, that such contracts will not enter into effect until (i) they have been

approved by the relevant Approval Authority and (ii) are ratified by the Board of Directors after the issuance of the Business License. The Parties shall cause their Directors on the Board of Directors to vote in favor of ratification of the Technology License Contract at the first Board meeting.

8.03 Other Products

If the Company decides to produce other products utilizing technology possessed by PARTY B not licensed to the Company, the technology and know-how for producing such products will be obtained from PARTY B through a separate technology license agreement or agreements to be mutually negotiated and agreed between the Company and PARTY B, subject to any applicable provisions of the Technology License Contract to be executed between the Company and PARTY B set forth as Exhibit E hereto.

8.04 Technologically Advanced Enterprise

As soon as feasible after issuance of the Business License, the Company shall apply to the Approval Authority for certification as a "Technologically Advanced Enterprise". The PARTIES agree that the Company should qualify itself as a technologically advanced enterprise and will therefore exercise their best efforts to obtain such status for the Company.

ARTICLE 9 - SALE OF JOINT VENTURE PRODUCTS

9.01 Domestic Sales

The Company, with the assistance of the PARTIES, shall develop effective sales channels for the domestic market with the aim of maximizing the Company's profitability. Products may be sold for both Renminbi and foreign exchange (or any combination thereof) upon approval of the SAEC. The principles for determining the currency of the Company's sales shall be set by the Board, and the sales prices shall be implemented and adjusted, as required, by the General Manager.

9.02 International Sales

(a) The Company shall strive to make its products competitive on the international market in terms of price, quality and delivery time; provided that increasing export sales will be dependent on the Company's products meeting international quality standards.

(b) Subject to paragraph (c) below, the Company shall appoint PARTY B as its exclusive export distributor for its international sales and shall enter into the export distributor contract substantially in the form attached hereto as Exhibit H. As the exclusive export distributor, PARTY B shall make its best efforts to assist the Company in reaching its export targets.

(c) The Company may be permitted to act as an export distributor for the Company's products with respect to export sales to existing clients or customers of PARTY A, under terms and conditions to be agreed upon by the Company and PARTY A.

ARTICLE 10 - BOARD OF DIRECTORS

10.01 The Formation of the Board

(a) Composition. The Board shall consist of five (5) directors, two (2) of whom shall be appointed by PARTY A and three (3) of whom shall be appointed by PARTY B. At the time this Contract is executed and each time directors are appointed, each PARTY shall notify the others of the names of its appointees.

(b) Term and Replacement. Each director shall be appointed for a term of four (4) years and may serve consecutive terms if reappointed by the PARTY which originally appointed him. If a seat on the Board is vacated by the retirement, resignation, illness, disability or death of a director or by the removal of such director by the PARTY which originally appointed him, the PARTY which originally appointed such director shall appoint a successor to serve out such director's term.

(c) Chairman. The Chairman of the Board shall be appointed by PARTY B, and the Vice Chairman shall be appointed by PARTY A. The Chairman of the Board shall be the legal representative of the Company. Whenever the Chairman of the Board is unable to perform his responsibilities, he shall authorize the Vice Chairman to exercise the Chairman's responsibilities.

(d) Additional Attendees. Reflecting the importance of close communications between the Board and the management of the Company, the General Manager may attend Board meetings upon invitation of a majority of the Board but shall not vote unless he is a director in his own right. Other managers, including the Financial Controller, as well as other parties that are not directly related to the Company or either PARTY, may attend such meetings upon the invitation of a majority of the Board.

10.02 Meetings and Powers of the Board

(a) Powers. The Board shall be the highest authority of the Company. It shall discuss and determine all major issues regarding the Company.

(b) Meetings. The first Board meeting shall be held as soon as possible within sixty (60) days after the date of issuance of the Business License. Thereafter, regular meetings of the Board shall be held at least two times each year. Upon the written request of three (3) or more of the directors of the Company specifying the matters to be discussed, the Chairman of the Board shall call a meeting of the Board.

(c) Notice and Agenda. Board meetings shall be held at the registered address of the Company or such other address in China or abroad as may be designated by the Chairman. Meetings shall be held on twenty-one
(21) days notice to the directors if held in China and thirty (30) days notice if held abroad, provided that the directors may waive such notice by unanimous written consent. A notice of a Board m meeting shall cover the agenda, time and place for such meeting. The Chairman of the Board shall be responsible for convening and presiding over such meetings. The General Manager shall assist the Chairman in preparing an agenda for each Board meeting.

(d) Proxies. In case a Board member is unable to participate in a Board meeting in person or by telephone, he may issue a proxy and entrust another person to participate in the meeting on his behalf. The have the same rights and powers as the Board member. A representative shall be permitted to serve as a proxy for up to three (3) Board members appointed by the same PARTY as such representative. If a Board member fails to participate or to entrust another to participate, he will be deemed as having waived such right.

(e) Quorum. Four (4) directors present in person, by proxy or by telephone shall constitute a quorum which shall be necessary for the conduct of business at any meeting of the Board.

(f) Voting. Each director present in person, by proxy or by telephone at a meeting of the Board of Directors shall have one vote.

(g) Unanimous Votes. Resolutions involving the following matters may only be adopted at a duly constituted and convened meeting of the Board of Directors upon the unanimous affirmative vote of each and every director of the Board voting in person, by proxy or by telephone at such meeting:

(i) the amendment of the Articles of Association;

(ii) the merger of the Company with another organization;

(iii) termination and dissolution of the Company; and

(iv) the increase or assignment of the Company's registered capital.

(h) Super Majority. Resolutions involving the following major matters may only be adopted at a duly constituted and convened meeting of the Board of Directors upon the affirmative vote of four (4) directors of the Board voting in person, by proxy or by telephone at such meeting:

(i) the formulation of or changes to the management structure of the Company;

(ii) the formulation of policies and plans relating to the recruitment of employees, employees wages, welfare and compensation, as well as the formulation of labor management rules; and

(iii)the appointment, dismissal, limitations on authority and compensation of Management Personnel, except the Executive Vice General Manager.

(i) Simple Majority. Other issues that require resolutions by the Board may be raised at a duly convened meeting of the Board and must be adopted by the affirmative vote of three (3) of the directors present in person, by proxy or by telephone at such meeting where a quorum is present.

(j) Action without a Meeting. Any action by the Board may be taken without a meeting if all members of the Board consent in writing to such action. Such written consent shall be filed with the minutes of the Board proceedings and shall have the same force and effect as a unanimous or majority vote, as the case may be, taken by members physically present.

(k) Expenses. The Company shall be responsible for the reasonable travel, lodging and meal expenses incurred by appointed directors or their proxy in attending Board meetings.

ARTICLE 11 - OPERATION AND MANAGEMENT

11.01 Management Procedures and Structures

The policies, structures and procedures concerning operational management, sales and marketing, health and safety, environmental and technological matters, which may be adopted by the Board from time to time shall be developed in consultation with PARTY B so as to be generally in accordance with PARTY B's practices in its worldwide operations subject to the overall direction and approval of the Board.

11.02 Management Organization The Company shall adopt a management system under which the management organization shall be responsible to and under the leadership of the Board. All Management Personnel, including the General Manager, Executive Vice General Manager, and Vice General Manager shall serve at the discretion of the Board. The Company shall have a General Manager nominated by PARTY A, an Executive Vice General Manager nominated by PARTY B and a Vice General Manager nominated by PARTY A and appointed by the Board pursuant to a duly adopted resolution. The terms of office of the General Manager, Executive Vice General Manager and Vice General Manager shall be as determined by the Board. The General Manager, Executive Vice General Manager and Vice General Manager may be dismissed only by a resolution of the Board of Directors. If it becomes necessary, due to dismissal or resignation, to replace the General Manager, Executive Vice General Manager or Vice General Manager, PARTY A shall nominate the General Manager's replacement, PARTY B shall nominate the Executive Vice General Manager's replacement and PARTY A shall nominate the Vice General Manager's replacement for appointment by the Board.

11.03 Responsibilities and Powers of the General Manager

The duties of the General Manager shall consist of carrying out the decisions of the Board and organizing and directing the day-to- day operation and management of the Company in accordance with the modern management practices and structures as determined by the Board. Within the scope granted by the Board, the General Manager will represent the Company in external matters and, within the Company, he will appoint and dismiss personnel subordinate to himself and exercise other functions and powers granted him by the Board.

11.04 Management Personnel

(a) Other Management Personnel. The Company shall have such number and types of other Management Personnel as determined by the General Manager and approved by the Board to be necessary or advisable to implement the modern management practices and structures determined by the Board. All Management Personnel shall be responsible to and under the direction of the General Manager.

(b) Salaries. The salaries and other remuneration of the Management Personnel of the Company (including the General Manager) shall be determined by the Board in its sole discretion on an individual basis.

11.05 Annual Plans and Budgets

The General Manager, assisted by the other Management Personnel, shall be responsible for the preparation of the annual business plan and budget of the Company. The annual business plan and budget (including the projected balance sheet, profit and loss statement and cash transaction report) for each fiscal year shall be submitted to the Board and shall include comprehensive detailed information on:

(a) the procurement of equipment and other assets of the Company;
(b) the raising and application of funds;
(c) plans with respect to production and sale of Joint Venture Products;
(d) the repair and maintenance of the assets and equipment of the Company;
(e) the estimated income and expenditures of the Company covered by the production plan and budget;
(f) plans for training the staff and workers of the Company;
(g) wage and salary plans for staff and workers of the Company;
(h) requirements of raw materials, fuel, water, electricity and other utilities, and all other inputs for the next year's production;
(i) plans for the proportion of foreign currency sales;
(j) plans for balancing foreign exchange receipts and expenditures; and
(k) any other matter in respect of which the Board may have requested a report. The General Manager shall prepare a monthly management report containing such information as shall be requested by the Board.

11.06 Approval and Implementation of Annual Plans and Budgets

The Board shall examine and approve the annual business plan and budget. The General Manager, assisted by the other Management Personnel, shall be responsible for the implementation of the plan and budget approved by the Board.

ARTICLE 12 - BUILDINGS AND LAND

12.01 Description of Location of Buildings

The Buildings, located at 5 Yongtai Road, Tanggu, Tianjin Municipality, The People's Republic of China, are more particularly described in the Building Lease Contract set forth as Exhibit I.

12.02 Buildings Lease Contract

Simultaneously with the execution of this Contract, the PARTIES will cause their representatives to execute the Buildings Lease Contract attached hereto as Exhibit I on behalf of the Company; provided, however, that such Contract shall not enter into effect until ratified by the Board of Directors.

12.03 Land Description

The Land located on the site, which consists of an area of 63,265.79 square meters at 5 Yongtai Road, Tanggu, Tianjin Municipality, the People's Republic of China.

12.04 Land Use Rights

Details and undertakings regarding the land use rights are set forth in the "Agreement Regarding Land Use Rights" attached hereto as Exhibit C. Within a (30) days after the Effective Date, Party A

will use its best efforts to complete all necessary formalities regarding the transfer of the land use rights to the Company and procure on behalf of the Company the "Land Use Rights Certificate for a Foreign Invested Enterprise" in the Company's name.

12.05 Representation and Warranties

PARTY A hereby represents and warrants that:

(a) it has acquired and presently possesses the exclusive right to use the Buildings for the Joint Venture Term or longer;

(b) except for the land use fees described in Exhibit C, no other fees are or will be payable with respect to the Company's use of land for the entire Joint Venture Term; any such additional fees will be the responsibility of PARTY A and PARTY A shall indemnify and hold harmless the Company and PARTY B against any obligation to pay such fees.

(c) upon the Effective Date, the Company will possess the exclusive right to use the Buildings and the Land for the Joint Venture Term;

(d) possesses the authority to lease the Buildings to the Company;

(e) the Buildings and Land will be free of defects and free and clear of any mortgage, lien or encumbrance;
(f) no government or administrative department, military unit, organization, company, or any entity in any form, or any individual, has any right or potential right to use, occupy, or control the Buildings and the Land or any part thereof or to subject PARTY A's right to use the Buildings and the Land to any conditions except for those specified herein.

12.06 Indemnity

(a) With respect to the Buildings and the Land and the operations of PARTY A prior to the establishment of the Company at the Buildings and the Land, PARTY A shall indemnify and hold harmless PARTY B and the Company against all damages, losses, costs, judgments, expenses (including reasonable attorney's fees) in connection with:

(i) any operations of PARTY A which resulted in the discharge of air pollutants, water pollutants or process wastewater or the disposal of solid or hazardous wastes;

(ii) any pollution to the environment or other event, condition or circumstance arising before the Effective Date that may interfere with the conduct of the Company's business or the Company's compliance with any environmental laws or regulations;

(iii) any environmental contamination presently on or arising from the Buildings and the Land or failure by PARTY A to have contained substances which are or may be harmful to the environment, or which may require the Company to undertake any remedial or corrective work; and

(iv) the failure by PARTY A to have obtained all necessary permits, environmental clearances and other governmental approvals required for the conduct of its operations.

(b) PARTY A shall indemnify and hold harmless PARTY B and the Company against all damages, losses, costs, judgments and expenses (including reasonable attomey's fees) arising out of or caused by the actions or omissions of PARTY A.

12.07 Additional Fees and Taxes

Party A shall bear the costs of any additional fees or taxes imposed in connection with the use of the Buildings or the Land apart from the fees and taxes specified in Exhibit C, "Agreement Regarding Land Use Rights", and Exhibit 1, Buildings Lease Contract.

12.08 Plant Services and Related Fees

PARTY A shall provide certain employee and operating services to the Company in accordance with a fee-based Plant Services Contract to be executed after the issuance of the Company's Business License between the Company and PARTY A. These services shall include employee food service, clinic, buses to transport employees between their homes and their place of work and other services. A list of the services covered will be included as part of the Plant Services Contract attached as Exhibit G.

ARTICLE 13 - TRADEMARKS

13.01 Trademark Licenses

Simultaneous with the execution of this Contract, the Company and PARTY B shall execute the Trademark License Contract attached as Exhibit F, provided that such Contract shall enter into effect only after ratification by the Board and after the issuance of the Business License. The PARTIES shall cause their Directors on the Board to vote in favor of ratification of the Trademark License Contract at the first Board meeting. Upon the termination of this Contract, neither the Company nor PARTY A shall have any right to use the trademarks licensed under such Contract.

ARTICLE 14 - SUPPLY AND PURCHASE OF RAW MATERIALS AND SERVICES

14.01 Raw Materials and Supplies

It is contemplated by the PARTIES that the raw material, parts, means of transportation and other supplies required by the Company for the production of Joint Venture Products will be first purchased within China provided that such goods are of the requisite quality, competitively priced and otherwise meet the requirements of the Company.

14.02 Imported Materials, Supplies and Equipment

The Company shall subject to Article 14.01 above have the right to import raw materials, machinery, equipment, components, spare parts and other supplies in the qualities, quantities and prices necessary for the production of Joint Venture Products.

14.03 Domestic Materials and Supplies

Materials, supplies and services purchased by the Company within China shall be purchased in Reminbi at either the lowest market price, or the prices charged to local state-owned enterprises for purchases of similar materials and services.

14.04 Services The Company shall have the right to appoint foreign architects, consultants, engineers and contractors to undertake relevant work when there are no local companies or individuals qualified or available to undertake such work according to the General Manager.

ARTICLE 15 - LABOR MANAGEMENT

15.01 Governing Principle

The General Manager shall formulate a plan for matters concerning the recruitment, employment, dismissal, wages, labor insurance, welfare benefits, reward and discipline of the workers and staff members of the Company in accordance with modem management standards, practices and policies determined by the Board, the "Regulations of the People's Republic of China on Labor Management in Joint Ventures Using Chinese and Foreign Investment ", the "Provisions of the Ministry of Labor and Personnel of the People's Republic of China on the Right of Autonomy of Enterprises with Foreign Investment in the Hiring of Personnel and on Wages, Insurance and Welfare Expenses of Staff and Workers", and relevant regulations of Tianjin Municipality. The plan shall be submitted for the approval of the Board of Directors.

15.02 Working Personnel

Working Personnel shall be employed by the Company in accordance with a labor contract which shall be entered into between the Company and each individual worker after the establishment of the Company. Such labor contract shall establish all terms governing the employment, duties and benefits of that individual. The Board shall approve the general form and terms and conditions included in such contracts.

15.03 Management Personnel

Management Personnel shall be employed by the Company in accordance with the terms of individual employment contracts. The detailed terms and

conditions of the employment and compensation of the Management Personnel shall be decided by the Board.

15.04 Expatriate Personnel

As the Company's needs require, expatriate Management Personnel and senior technical personnel shall be hired by the General Manager after approval by the Board of Directors, upon the recommendation of PARTY B. Such personnel shall enter into individual employment contracts with the Company. The PARTIES agree that such expatriate personnel shall receive salaries and benefits in accordance with PARTY B's personnel policies.

15.05 Conformity with Labor Protection

The Company shall conform to rules and regulations of the Chinese government concerning labor protection and ensure safe and civilized production. Labor insurance for the working personnel of the Company shall be handled in accordance with the relevant regulations of the Chinese government.

15.06 Trade Union

To the extent required by law, the Company shall establish a trade union to represent the rights and interests of the workers and staff members, to mediate disputes between the workers and staff members on the one hand and the Company on the other and to protect the lawful interests of the workers and staff members. To the extent required by law, the Company shall actively support the work of the trade union, provide the trade union facilities to conduct union activities and other lawful activities after working hours, and allocate trade union funds.

15.07 Trade Union Fund

In accordance with Article 99 of the Joint Venture Regulations, the Company shall allot each month two Percent (2%) of the total amount of real wages received by the company staff and workers, including expatriate employees, for payment into a trade union fund, such payments to be an expense of the Company. The trade union may use these funds in accordance with the relevant control measures of labor union funds formulated by the All China Federation of Labor Unions.

ARTICLE 16 - FINANCIAL AFFAIRS AND ACCOUNTING

16.01 Accounting System

(a) Responsibilities. The Financial Controller of the Company, under the leadership of the General Manager, shall be responsible for the financial management of the Company.

(b) Procedures. The General Manager and the Financial Controller shall prepare the accounting system and procedures in accordance with the Accounting System of the People's Republic of China for Foreign Investment Enterprises, the supplementary stipulations promulgated by the Ministry of Finance and, to the extent possible, general accepted international accounting principles. All vouchers, receipts, statistical statements and reports shall be written in Chinese and English concurrently. In addition, the Company shall adopt operating and financial policies and procedure sand shall prepare periodic reporting of financial information in accordance with the requirements of PARTY B.

16.02 Auditing

(a) Company Auditor. The Board shall establish a position for a Company Auditor who will be responsible for examining and auditing the Company's financial and accounting books and will prepare a report for the Board and expenditures the General Manager.

(b) Independent Audit. An independent accountant registered in China and otherwise qualified to render opinions on the compliance by the Company with the accounting standards provided herein, shall be engaged by the Board of Directors as the Company's auditor to examine and

verify the annual report on the final accounts ("Independent Auditor"). The Company shall submit to the PARTIES the annual financial statements (including the audited Profit and Loss Account, the Balance Sheet and Cash Flow Balance and Foreign Exchange Balance for the fiscal year) within three (3) months after the end of the fiscal year, together with the audit report of the Chinese registered accountant. The annual financial statements, the audit report and the monthly reports shall be prepared in both Chinese and English.

(c) Board Review. The Board shall review and approve the periodic audits of the accounts. In the event that the Board determines that the audits submitted by the Independent Auditor are unable to properly meet the standards set forth above, the Board may replace the Independent Auditor or retain another auditor at Company expense, to supplement or adjust the work of the Independent Auditor or to perform specific accounting and auditing tasks.

(d) Notwithstanding anything contained in 16.02(a) and (b), at PARTY B's cost, PARTY B may at any time, employ a foreign auditor or send its internal auditor to examine the records and procedures of the Company and PARTY A and the Company shall cooperate and use best efforts to assist such auditors.

16.03 Bank Accounts and Foreign Exchange Control

The Company shall separately open foreign exchange accounts and Renminbi accounts at banks within or outside China upon approval by the relevant authorities. The Company's foreign exchange transactions shall be handled in accordance with the regulations of China relating to foreign exchange control.

16.04 Foreign Exchange Balance

The Company shall be responsible to maintain a balance in its foreign exchange receipts and expenditures. The principal methods for balance foreign exchanges will be as follows:

(i) Foreign Currency Sales. The primary means for balancing foreign exchange will be through the sale of the Joint Venture Products in foreign currency.

(ii) Export of Domestic Product. Subject to the approval of the Approval Authority, the Company may purchase products domestically in Renminbi and export them for foreign currency.

(iii) Other Measures. If the Company is unable to balance its foreign exchange using the measures described above, the Board of Directors will consider all other methods permitted under the laws and regulations of the People's Republic of China.

16.05 Fiscal Year

The Company shall adopt the calendar year as its fiscal year for Chinese statutory accounting purposes, which shall begin on January 1 and end on December 31 of the same year, provided that the first fiscal year of the Company shall commence on the date the Company receives its Business License, and shall end on the immediately succeeding December 31.

16.06 Allocations to Three Funds

To the extent required by law, the Company shall make payments in Renminbi into a reserve fund, an enterprise expansion fund and a bonus and welfare fund for its workers and staff members (the "Three Funds"). The proportion of each year's payments shall be discussed and determined by the Board of Directors on the basis of the Company's circumstances and in the general interest of the Company and its workers; provided, however, that the payments to each individual Fund shall not exceed seven percent (7%) of the Company's after tax income and the total of the payments to the Three Funds shall not exceed fifteen percent (15%) of the Company's after-tax income in the relevant year. Plans for the application of these Three Funds shall be formulated by the General Manager.

16.07 Profit Distribution

(a) Proportionate Distributions. After required allocations, if any, have been made to the Three Funds in accordance with Article 16.06, the Board shall determine distribution of profits by way of dividend among the PARTIES in proportion to their respective shares in the registered capital of the Company and the balance of net profits will be retained in the Company and utilized as may be decided by the Board from time to time. If the Company carries over losses from the previous year, the profit of the current year shall first be used to cover such losses. No profit shall be distributed unless a prior deficit is made up. The profit retained by the Company and carried over from the previous years may be distributed together with the distributable profit of the current year, or after the deficit of the current year is made up therefrom.

(b) Insufficient Foreign Exchange. In the event that there is not sufficient foreign exchange to pay PARTY B's share of distributed profits, the Company shall, to the extent of the unpaid portion, hold distributed Remninbi profits in trust for PARTY B in a special interest bearing account set up for that purpose, when such account is available, in satisfaction of the Company's obligation to distribute such share of the Company's profit to PARTY B. From and after the date on which such account is established, the Company shall not withdraw or use the funds therein except upon PARTY B's prior written instructions. When the Company obtains foreign exchange that is available for distribution to PARTY B

pursuant to Article 16.07 (a), the Company any interest earned therefrom) with its U.S. Dollar equivalent in accordance with the average of the buying and selling rates published by the Bank of China at the time of the transaction. The Company shall then immediately pay such U.S. Dollars to PARTY B. PARTY B may from time to time instruct the Company to distribute Renminbi as directed by PARTY B in such account for any legal purpose.

(c) Method of Payment. All payments to be distributed under this Article 16 shall at the request of the receiving PARTY be remitted to an account at a bank specified in advance by such PARTY.

ARTICLE 17 - TAXATION AND INSURANCE

17.01 Income Tax, Customs Duties and Other Taxes

(a) Tax Payments. The Company shall pay tax under the relevant laws of China and any special tax regulations applicable to Tianjin. Chinese and foreign management and working personnel shall be periodically reminded to pay their individual income tax in accordance with the tax laws of China.

(b) Tax Preference. The Company will use its best endeavors to apply for and obtain preferential tax treatment, reductions and exemptions, as provided by the relevant regulations. Promptly after the execution of this Contract, the PARTIES shall submit an application to the Tianjin Municipal Tax Bureau for confirmation of the Company's tax treatment.

17.02 Insurance

The Company shall, at its own cost and expense, take out and maintain full and adequate insurance of the Company against loss or damage by fire and such other risks as may be decided by the Board. The property, transportation, product liability and other items of insurance of the Company shall be obtained within or outside China, subject to any legal restrictions which may apply, and such policies will be denominated in Chinese and foreign currencies, as appropriate. The types and amounts of insurance coverage shall be determined by the Board in accordance with applicable Chinese laws, if any.

ARTICLE 18 - CONFIDENTIALITY

18.01 Confidential Information

From time to time and during the term of this Contract, either PARTY may disclose to one another whether in writing, orally, visually or by any other means, information which is either non- public, confidential or proprietary in nature. All such information disclosed to one PARTY, including to its directors, officers, employees, agents or representatives, including attorneys, accountants and consultants (collectively, "Representatives"), by the other PARTY or any of its Representatives, and all proposals, analyses, studies or other documents prepared by either PARTY or its Representatives containing or based, in whole or in part, on any such information is herein referred to as the "Confidential Information".

18.02 Mutual Obligation

Except as otherwise provided in any Agreement between the Company and a PARTY, the receiving PARTY will during the term of this Contract and for twenty (20) years after or in the event the Company is not established, for 50 years after the date of this Contract, keep confidential and will not, without the prior written consent of the PARTY originally disclosing the Confidential Information, disclose the Confidential Information in whole or in part to any third party. The Confidential Information will not be used by the PARTY receiving the Confidential Information or its Representatives directly or indirectly for any purpose other than evaluating and/or in connection with the establishment or operation of the Company. The PARTY receiving the Confidential Information agrees to transmit the Confidential Information only to those Representatives on a need to know basis provided that the Party receiving the Confidential Information notifies the PARTY disclosing the Confidential Information prior to the disclosure and provided further that the Representatives are informed of the confidential nature of the Confidential Information. The PARTY receiving Confidential Information will be responsible for any breach of this Article 18 by any of its Representatives and will indemnify and hold harmless the PARTY disclosing the Confidential Information for any losses, damages, fees or expenses (including reasonable attomey's fees) arising out of or resulting from such breach.

18.03 Return of Confidential Information

The written Confidential Information and all copies thereof will be destroyed or returned immediately, without retaining any copies thereof, as directed by the PARTY disclosing the Confidential Information, if such PARTY is no longer privy to the Contract or upon termination of this Contract.

18.04 Disclosure

In the event that the PARTY receiving the Confidential Information or its Representative is requested or becomes legally compelled to disclose any of the Confidential Information, such PARTY will notify the other PARTY promptly in writing so that the PARTY which originally

disclosed the Confidential Information may seek a court order or other appropriate remedy and/or waive compliance with this Article 18; the PARTY who has been requested or who has become legally compelled to disclose any of the Confidential Information will cooperate with the other PARTY in such efforts. In the event that a court order or other remedy is not obtained, the PARTY who has been compelled to disclose Confidential Information will disclose only that portion of the Confidential Information which is legally required and will exercise its best efforts to obtain an assurance that the Confidential Information will be treated confidentially.

18.05 Public Domain

The foregoing obligations of confidentiality, non-disclosure and non-use shall apply to Confidential Information which:

(a) the PARTY receiving the Confidential Information is already in possession of such Confidential Information at the time of disclosure, and which was not acquired directly or indirectly from the PARTY disclosing the Confidential Information; or

(b) was in the public domain at the time of disclosure; or

(c) has become part of the public domain by publication through no fault of the PARTY receiving the Confidential Information.

ARTICLE 19 - THE JOINT VENTURE TERM

19.01 Joint Venture Term

The Joint Venture Term of the Company shall commence on the Effective Date and shall expire thirty (30) years therefrom.

19.02 Extension of the Joint Venture Term

Prior to the expiration of the Joint Venture Term, upon the agreement of the PARTIES, the Company may apply for an extension of up to a (30) years. The PARTIES will notify the Board of their desire to extend the term no later than nine (9) months prior to expiration of the Joint Venture Term. The PARTIES shall cause their directors on the Board to unanimously approve such extension and will submit an application for such extension to the Approval Authority for approval no less than six (6) months prior to the expiration of the Joint Venture Term. PARTY B shall be offered terms under an extended term that are no less favorable than the terms of this Contract and those being offered at that time to other foreign enterprises negotiating joint venture projects in China.

19.03 Failure to Agree on Extension

Upon the expiry of the term of the Company as set out in Article 19.01, and any extension thereof under Article 19.02, this Contract shall terminate and the provisions of Article 20 hereof shall apply.

19.04 Contract to Continue in Force

This Contract shall remain in force for the term of the Company and any extension thereof provided that the rights and obligations of the PARTIES under Article 18 shall remain in force indefinitely notwithstanding expiry of this Contract or liquidation of the Company.

ARTICLE 20 - TFRMINATION, BUY-OUT AND LIQUIDATION PROCEDURES

20.01 Reasons for Termination

A PARTY shall have the right to terminate this Contract by written notice to the other PARTY and notify of its desire to commence negotiations under Article 20.02 below if the following occurs:

(a) Material Breach. If the other PARTY materially breaches this Contract or violates the Articles of Association, and such breach or violation is not cured within sixty (60) days of written notice to the breaching Party;

(b) Liquidation. If the Company or the other PARTY becomes bankrupt, or is the subject of proceedings for liquidation or dissolution, or ceases to carry on business or becomes unable to pay its debts as they become due;

(c) Expropriation. If all or any material part of the assets of the Company are expropriated by any government authority;

(d) Government Action. If any government authority having authority over a PARTY requires any provision of this Contract or the Articles of Association to be revised in such a way as to cause significant adverse consequences to the Company or any of the PARTIES;

(e) Force Majeure. If the conditions or consequences of Force Majeure prevail for a period in excess of three (3) consecutive complete calendar months and the PARTIES have been unable to find an equitable solution pursuant to Article 21.01(d) hereof;

(f) Termination of Related Agreements. If any of the Technology License Contract, Trademark License Contract or the Export Agency Contract between the Company and PARTY B is terminated prior to its scheduled expiration (in which case only PARTY B shall have the right to terminate); or

(g) Economic Necessity. If an event described in Article 24.02 hereof occurs, or the effects of the market such as pricing, competition or cost of materials has an adverse impact and the PARTIES do not reach an agreement on economic adjustment within sixty (60) days after the initiation of discussions.

20.02 Notification Procedure

In the event that a PARTY gives notice pursuant to Article 20.01 hereof a desire to terminate this Contract, the PARTIES shall within a one-month period after such notice is given commence negotiations and endeavor to resolve the reason for notification of termination. In the event matters are not resolved to the satisfaction of the PARTIES within one month after commencement of negotiations or the non-notifying PARTY refuses to commence negotiations within the period stated above, the notifying PARTY may terminate this Contract by and effective upon giving the other PARTY final written notice of termination.

20.03 Buy-Out

(a) In the event that this Contract is terminated pursuant to Article 20.01 or for any other reason (whether by the expiration of the Joint Venture Term, agreement of the PARTIES or otherwise), then any PARTY shall be entitled to withdraw from the Joint Venture (the "Withdrawing Party") and the other PARTY (the "Acquiring Party") shall have a priority right to purchase the Withdrawing Party's interest in the Joint Venture Company's registered capital ("Interest"). If desired, the Acquiring Party may continue the operations of the Company. For this purpose:

(i) the PARTIES shall agree upon the value of the Company and if they are unable to so agree within a (30) days such value will be determined within thirty (30) days thereafter, at the expense of the Company, on a going concern basis, and if the PARTIES are not able to agree, then such value shall be determined by an Expert in accordance with Article 23;

(ii) the purchase price for the Withdrawing Party's Interest shall be equal to that percentage figure which is such PARTY's percentage share of the registered capital of the Company multiplied by the value of the Company as so agreed upon or determined;

(iii) the Withdrawing Party may decline to sell its Interest in the Company to the Acquiring Party within fifteen (15) days of notification of the value of the Company as determined above.

(b) The full purchase price for the Withdrawing Party's Interest shall be paid by the Acquiring Party in United States Dollars. Such payment shall be made within sixty (60) days after the PARTIES shall have agreed upon the value of the Company or notification of the value of the Company as determined by the above-mentioned Expert. If PARTY A purchases the Interest of PARTY B the United States Dollar purchase price will, upon application to the SAEC, be freely remittable out of China in accordance with the foreign exchange regulations of China.

(c) Any other provisions of this Contract to the contrary notwithstanding, until such time as the sale of the Interest of a Withdrawing Party to the Acquiring Party or Parties is completed, the Company will continue to conduct its business in the ordinary course.

20.04 Liquidation

(a) Option upon Termination. In the event that this Contract has been terminated in accordance with 20.01 hereof or for any other reason and the PARTIES have not agreed on an acquisition of the Company as a going concern by either PARTY or by a third party, then the physical assets of the Company shall be valued by and liquidated under the direction of a Liquidation Committee formed within 30 days of termination in accordance with the Joint Venture Regulations.

(b) Valuing and Selling Procedure. In valuing and selling physical assets, the Liquidation Committee shall use every effort to obtain the highest possible price for such assets, including the retention of an independent third party expert knowledgeable in assessing the value of the types of assets owned or held by the Company to assist in such valuation. Any disputes as to valuation by the expert shall be handled in accordance with Article 23. Sales of the Company's assets shall be in United States Dollars to the fullest extent possible.

(c) Settlement and Payment. After liquidation and the settlement of all outstanding debts of the Company and subject to the payment of any applicable taxes, the joint account shall be paid over to the PARTIES in proportion to their respective shares in the registered capital of the Company. Any and all amounts payable to PARTY B pursuant to this Article 20 shall be paid promptly in United States Dollars and shall be freely remittable by PARTY B out of China in accordance with the Foreign Exchange Regulations of China.

20.05 Survival

To the extent permitted by law, the provisions of Articles 18 and 20 and the obligations and benefits hereunder shall survive the termination of this Contract and the termination, dissolution or liquidation of the Company.

ARTICLE 21 - FORCE MAJEURE

21.01 Force Majeure

(a) Definition and Examples. "Force Majeure" shall mean all events which are beyond the control of the PARTIES to this Contract, and which are unforeseen, or if foreseen, unavoidable, and which prevent total or partial performance by either PARTY. Such events shall include but are not limited to any strikes, lockouts, explosions, shipwrecks, acts of nature, fires, flood, sabotage, accidents, wars, riots, inability to obtain transportation, and any other similar or different contingency.

(b) Effect. If an event of Force Majeure occurs, to the extent that the contractual obligations of the PARTIES to this Contract (except the obligations under Article 18 hereof) cannot be performed as a result of such event, such contractual obligations shall be suspended during the period of delay caused by the Force Majeure and shall be automatically extended, without penalty, for a period equal to such suspension.

(c) Notice Required. The PARTY claiming Force Majeure shall promptly inform the other PARTY in writing and shall furnish appropriate proof of the occurrence and duration of such Force Majeure. The PARTY claiming Force Majeure shall also use all reasonable endeavors to terminate the Force Majeure.

(d) Consultation Required. In the event of Force Majeure, the PARTIES shall immediately consult with each other in order to find an equitable solution and shall use all reasonable endeavors to minimize the consequences of such Force Majeure.

ARTICLE 22 - SETTLEMENT OF DISPUTES

22.01 Consultation

In the event a dispute arises in connection with the interpretation or implementation of this Contract, the PARTIES shall attempt in the first instance to resolve such dispute through friendly consultations.

22.02 Arbitration.

If the dispute is not resolved through friendly consultation within sixty (60) days after the commencement of discussions or such longer period as the PARTIES agree to in writing at that time, then notwithstanding any other provision of this Contract the PARTIES shall resolve the dispute in Stockholm, Sweden according to the arbitration rules of the Stockholm Chamber of Commerce ("SCC"). Arbitration shall be conducted as follows:

(a) English Proceedings. All proceedings in any such arbitration shall be conducted in English and a daily transcript in English of such proceedings shall be prepared.

(b) One Arbitrator. There shall be one (1) arbitrator, fluent in English, appointed by the SCC.

(c) Award Binding. The arbitration award shall be final and binding on the PARTIES, and the PARTIES agree to be bound thereby and to act accordingly.

(d) Obligations to Continue. When any dispute occurs and when any dispute is under arbitration, except for the matters under dispute the PARTIES shall continue to exercise their remaining respective rights, and fulfil their remaining respective obligations under this Contract.

(e) Enforcement. In any arbitration proceeding, any legal proceeding to enforce any arbitration award or any legal action between the PARTIES relating to this Contract, each PARTY expressly waives the defense of sovereign immunity and any other defense based on the fact or allegation that it is an agency or instrumentality of a sovereign state. Any award of the arbitrators shall be enforceable by any court having jurisdiction over the PARTY against which the award has been rendered, or wherever assets of the PARTY against which the award has been rendered can be located and shall be enforceable in accordance with the "United Nations Convention on the Reciprocal Enforcement of Arbitral Awards (1958).

ARTICLE 23 - EXPERT PROCEDURES

23.01 Appointment of Expert

If this Contract so provides, or if the PARTIES otherwise agree, that a controversy or dispute between them should be resolved by an Expert, either PARTY may request that such controversy or dispute shall be resolved by such Expert as provided herein and such costs shall be borne by the requesting PARTY.

23.02 Recourse to ICC

If any PARTY requests an Expert determination the PARTIES shall attempt in the first instance to agree on a single expert to whom the matter shall be referred. If, within fourteen (14) days from receipt of such request, the PARTIES have failed to agree on the appointment of a single Expert, then the PARTIES agree to have recourse to the International Centre for Technical Expertise of the International Chamber of Commerce ("ICC") in accordance with the ICC's Rules for Technical Experts.

23.03 Expert Procedures

The Expert so appointed shall promptly fix a reasonable time and place for receiving submissions or information from the PARTIES and may make such other enquiries and require such other evidence as the expert deems necessary for resolving the matter. All information and data submitted by either PARTY as confidential shall not be disclosed by the Expert to third parties. The PARTIES shall have the opportunity to make representations to the Expert.

23.04 Effect of Expert Decision

The Expert shall be deemed not to be an arbitrator but shall render his decision as an Expert, and no law or regulation relating to arbitration shall apply to such Expert or his determinations or the procedure by which he reaches his determinations. The PARTIES shall rely on the determination of the Expert, unless one or more of them believes in good faith that the determinations of the Expert are incorrect or patently unfair or have been made as a consequence of misconduct on the part of such Expert. In such event, either PARTY shall have the right to refer the dispute or controversy to arbitration in accordance with Article 22.

ARTICLE 24 - APPLICABLE LAW

24.01 Applicable Law

The formation, validity, interpretation and implementation of this Contract and settlement of disputes arising therefrom shall be governed by the published and publicly available laws, decrees and regulations promulgated by the People's Republic of China, but in the event that there is no published and publicly available law, decree or regulation in China governing any particular matter relating to this Contract, reference shall be made to general international commercial practice.

24.02 Economic Adjustment

If either PARTY's economic benefits are adversely and materially affected by the promulgation of any new laws, rules or regulations of China or the amendment or interpretation of any existing laws, rules or regulations of China after the date of this Contract, the PARTIES shall promptly consult with each other and use their best endeavors to implement any adjustments necessary to maintain each PARTY's economic benefits derived from this Contract on a basis no less favorable than the economic benefits it would have derived if such laws, rules or regulations had not been promulgated or amended or so interpreted.

24.03 Preferential Treatment

The Company and the PARTIES shall be entitled to any tax, investment or other benefits or preferences that become available or publicly known after the signing of this Contract and which are more favorable than those set forth in this Contract.

ARTICLE 25 - MISCELLANEOUS PROVISIONS

25.01 Waiver

Failure or delay on the part of any PARTY hereto to exercise any right, power or privilege under this Contract, or under any other contract or agreement relating hereto, shall not operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege preclude any other future exercise thereof.

25.02 Amendments

This Contract may not be changed orally, but only by a written instrument signed by the Parties and approved, if required, by the relevant authorities in China.

25.03 Language

This Contract is written and executed in Chinese and English, and both language versions shall be equally valid.

25.04 Severability

The invalidity of any provision of this Contract shall not affect the validity of any other provision of this Contract.

25.05 Entire Agreement

This Contract and the Exhibits attached hereto constitute the entire agreement among the PARTIES with respect to the subject matter of this Contract and supersede all prior discussions, negotiations and agreements among them. In the event of any conflict between the terms and provisions of this Contract and the Articles of Association, the terms and provisions of this Contract shall prevail.

25.06 Headings

The headings used herein are for convenience only and shall not be used to interpret, construe or otherwise affect the meaning of the provisions of this Contract.

25.07 Approvals

The PARTIES obligations under this Contract are subject to the requisite permissions, approvals and sanctions of their respective governmental authorities under applicable laws.

25.08 Notices

Any notice or written communication provided for in this Contract by one PARTY to the others, including but not limited to any and all offers, writings, or notices to be given hereunder, shall be made in English and Chinese by registered airmail letter or by facsimile or telex confirmed by registered airmail letter, promptly transmitted or addressed to the appropriate PARTY. The date of receipt of a notice or communication hereunder shall be deemed to be twelve (12) days after its postmark in the case of an airmail letter and two (2) working days after dispatch in the case of a facsimile or telex. All notices and communications shall be sent to the appropriate address as set forth below, until the same is changed by notice given in writing to the other PARTY or the PARTIES, as the case be.

PARTY A:

Tianjin Tanggu Valve Plant

5 Yongtai Road
Tanggu, Tianjin
People's Republic of China Fax: (022) 589-5087
Attention: Mr. Han You Sheng

PARTY B:

Watts Investment Company
c/- Watts Industries, Inc
815 Chestnut Street
North Andover, Massachusetts 08145 U. S. A.
Fax: (1-508) 688-2976
Attention: Mr. David A. Bloss, Sr.

25.09 Exhibits

The Exhibits attached hereto are hereby made an integral part of this Contract and are equally binding with these Articles 1-25. The Exhibits are as follows:

Exhibit A Articles of Association
Exhibit B List of PARTY A's Contribution of Machinery and Equipment
Exhibit C Matters Concerning Land Use Rights
Exhibit D Technology License Contract between the Company and PARTY A
Exhibit E Technology License Contract between the Company and PARTY B
Exhibit F Trademark License Contract between the Company and PARTY B
Exhibit G Plant Services Contract between the Company and PARTY A

Exhibit H Export Distributor Contract between the Company and Party B Exhibit I Buildings Lease Contract

IN WITNESS WHEREOF, each of the PARTIES hereto have caused this Contract to be executed by their duly authorized representatives on the date first set forth above.

PARTY A: PARTY B

TIANJIN Tianjin Tanggu Valve Plant WATTS INVESTMENT COMPANY

/S/ Han You Sheng */s/ David A. Bloss*

Name: Han You Sheng
Title: President
Nationality: Chinese

Name: David A. Bloss, Sr.
Title: Executive Vice President
Nationality: U.S.A.

EXHIBIT A

TIANJIN TANGGU WATTS VALVE COMPANY LIMITED

ARTICLES OF ASSOCIATION

DATED 27 JUNE 1994

CONTENTS

Article

ARTICLES OF ASSOCIATION

ARTICLE 1 - INTRODUCTION

1.01 Introduction

THESE ARTICLES OF ASSOCIATION ("Articles of Association") of TIANJIN TANGGU WATTS VALVE COMPANY LIMITED are made by TIANJIN TANGGU VALVE PLANT, ("PARTY A") and WATTS INVESTMENT COMPANY ("PARTY B") in accordance with the Law of the People's Republic of China on Joint Ventures Using Chinese and Foreign Investment (the "Joint Venture Law"), the Implementing Regulations issued thereunder (the "Joint Venture Regulations") and the provisions of the Joint Venture Contract ("Joint Venture Contract") entered into by and among the PARTIES dated June 27, 1994.

1.02 Terms

Terms used but not defined herein shall have the meanings set forth in the Joint Venture Contract.

ARTICLE 2 - PARTIES TO THE JOINT VENTURE

2.01 The Parties

The PARTIES to the Joint Venture Contract are:

(a) PARTY A, _____ , Tianjin Tanggu Valve Plant registered in Tianjin, with its registered address at 5 Yongtai Road, Tanggu, Tianjin, the People's Republic of China.

Legal Representative: Han You Sheng

Position : President
Nationality: Chinese

(b) PARTY B, Watts Investment Company, a company

registered in the state of Delaware, United States of America with its head office at 715 King Street, Suite 300, Wilmington, Delaware, United States of America 19801.

Legal Representative: David A. Bloss Sr.
Position : Executive Vice President
Nationality: U. S. A.

ARTICLE 3 - ESTABLISHMENT OF THE COMPANY

3.01 Name

The name of the Company shall be: "_____" in Chinese, and "Tianjin Tanggu Watts Valve Company Limited" in English.

3.02 Address

The legal address of the Company shall be 5 Yongtai Road, Tanggu District, Tianjin, the People's Republic of China.

3.03 Branches

The Company may establish necessary branch offices inside of China with the approval of the Board and the relevant authority in the location of the proposed branch.

3.04 Limited Liability Company

The form of organization of the Company shall be a limited liability company. Except as otherwise provided herein, once a PARTY has paid in full its contribution to the registered capital of the Company, it shall not be required to provide any further funds to or on behalf of the Company by way of capital contribution, loan, advance, guarantee or otherwise. Except as otherwise provided pursuant to written agreement signed by the PARTY to be charged, creditors of the Company shall have recourse only to the assets of the Company and shall not seek repayment from any PARTY. The Company shall indemnify the PARTIES against any and all losses, damages or liability suffered by the PARTIES in respect of third-party claims arising out of the operation of the Company. Subject to the above, the profits, risks and losses of the Company shall be shared by the PARTIES in proportion to and limited by their respective contributions to the Company's registered capital.

3.05 Laws and Decrees

The Company shall be a legal person under the laws of China. The activities of the Company shall be governed and protected by the relevant published and publicly available laws, decrees, rules and re rations of China.

ARTICLE 4 - THE PURPOSE, SCOPE AND SCALE OF PRODUCTION AND OPERATION

4.01 Purpose

The Company shall adopt advanced technology and scientific management methods with the aim to earn lawful profits, gain a competitive position in the market and make a contribution to the people of China.

4.02 Scope The scope of the Company is to manufacture, distribute, and sell Joint Venture Products.

ARTICLE 5 - TOTAL AMOUNT OF INVESTMENT AND REGISTERED CAPITAL

5.01 Total Investment

The Company's total investment shall be Two Hundred and Twenty Nine Million Eight Hundred and Ninety Thousand Renminbi (RMB229,890,000).

5.02 Registered Capital

The Company's registered capital shall be One Hundred and Twenty Three Million Renminbi (RMB123,000,000).

5.03 Contribution to Capital

(a) The contribution to the registered capital of the Company subscribed by PARTY A shall be Forty Nine Million Two Hundred Thousand Renminbi (RMB49,200,000), representing a forty percent (40%) share of the registered capital of the Company.
(b) The contribution to the registered capital of the Company subscribed by PARTY B shall be Eight Million Four Hundred and Eighty Thousand United States Dollars (US$8,480,000) equivalent to Seventy Three Million Eight Hundred Thousand Renminbi (RMB73,800,000) and representing a sixty percent (60%) share of the registered capital of the Company.
(c) The capital contributions which shall be made by PARTY A and PARTY B shall be used by the Company only in the implementation of the Joint Venture Contract. Except as otherwise provided herein and in the Technology License Contract set forth as Exhibit E and attached to the Joint Venture Contract, all of the items contributed by the PARTIES to the Company shall remain the property of the Company throughout the entire term of the Joint Venture Contract.

5.04 Investment Certificate

After each PARTY's contribution to the registered capital has been made in full, an independent Chinese registered accountant appointed by the Company in accordance with this Contract shall verify the contribution and issue a contribution verification report to the Company. Thereupon, the Company shall issue within sixty (60) days after the payment of the contribution an investment certificate to each PARTY signed by the Chairman of the Board. Each investment certificate shall indicate on its face the amount of the capital contribution evidenced thereby and a copy shall be submitted to the Approval Authority for the record. The Board shall request the Financial Controller to maintain a register identifying the investment certificates that have been issued to the PARTIES.

5.05 Additional Financing

(a) Any additional capital investment in excess of the registered capital or additional required working capital may be obtained in the form of loans to the Company from Chinese or foreign sources. As a general principle and subject to Board approval, borrowing of the Company, if any, shall be secured by the tangible assets of the Company.

(b) Interest on loans incurred by the Company shall be debited as a financing cost of the Company.

(c) Except for the portion of working capital (i) to be provided by the PARTIES as capital contribution or (ii) from bank loans received by the Company, additional operating funds may be obtained principally from net revenues generated by sales of the Company or as agreed to by the Board of Directors.

5.06 Transfer or Assignment of Registered Capital

The PARTIES may not assign, sell or otherwise dispose of their registered capital except in accordance with Article 5.08 of the Joint Venture Contract.

5.07 Increase of Registered Capital

Any increase in the registered capital of the Company shall be handled in accordance with Article 5.09 of the Joint Venture Contract.

ARTICLE 6 - BOARD OF DIRECTORS

6.01 Composition

The Board shall consist of five (5) directors, two (2) of whom shall be appointed by PARTY A and three (3) of whom shall be appointed by PARTY B. At the time these Articles of Association are executed and each time directors are appointed each PARTY shall notify the others of the names of its appointees.

6.02 Term and Replacement

Each director shall be appointed for a term of four (4) years and may serve consecutive terms if reappointed by the PARTY which originally

appointed him. If a seat on the Board is vacated by the retirement, resignation, illness, disability or death of a director or by the removal of such director by the PARTY which originally appointed him, the PARTY which originally appointed such director shall appoint a successor to serve out such director's term.

6.03 Chairman

The Chairman of the Board shall be appointed by PARTY B, and the Vice Chairman shall be appointed by PARTY A. The chairman of the board shall be the legal representative of the Company. Whenever the Chairman of the Board is unable to perform his responsibilities, he shall authorize the Vice Chairman to exercise the Chairman's responsibilities.

6.04 Additional Attendees

Reflecting the importance of close communications between the Board and the management of the Company, the General Manager may attend Board meetings upon invitation of a majority of the Board but shall not vote unless he is a director in his own right. Other managers, including the Financial Controller, may attend such meetings upon the invitation of a majority of the Board.

6.05 Powers

The Board shall be the highest authority of the Company. It shall discuss and determine all major issues regarding the Company.

6.06 Meetings

The first Board meeting shall be held as soon as possible within sixty (60) days after the date of issuance of the Business License. Thereafter, regular meetings of the Board shall be held at least two times each year. Upon the written request of three (3) or more of the directors of the Company specifying the matters to be discussed, the Chairman of the Board shall call a meeting of the Board.

6.07 Notice and Agenda

Board meetings shall be held at the registered address of the Company or such other address in China or abroad as may be designated by the Chairman. Meetings shall be held on twenty-one
(21) days notice to the directors if held in China and thirty (30) days notice if held abroad, provided that the directors may waive such notice by unanimous written consent. A notice of a Board meeting shall cover the agenda, time and place for such meeting. The Chairman of the Board shall be responsible for convening and presiding over such meetings. The General Manager shall assist the Chairman in preparing an agenda for each Board meeting.

6.08 Proxies

In case a Board member is unable to participate in a Board meeting in person or by telephone, he may issue a proxy and entrust another person to participate in the meeting on his behalf. The representative so entrusted shall have the same rights and powers as the Board member. A representative shall be permitted to serve as a proxy for up to three (3) Board members appointed by the same PARTY as such representative. If a Board member fails to participate or to entrust another to participate, he will be deemed as having waived such right.

6.09 Quorum

Four (4) directors present in person, by proxy or by telephone shall constitute a quorum which shall be necessary for the conduct of business at any meeting of the Board.

6.10 Voting

Each director present in person, by proxy or by telephone at a meeting of the Board of Directors shall have one vote.

6.11 Unanimous Votes

Resolutions involving the following matters may only be adopted at a duly constituted and convened meeting of the Board of Directors upon the unanimous affirmative vote of each and every director of the Board voting in person, by proxy or by telephone at such meeting:
(i) the amendment of the Articles of Association;
(ii) the merger of the Company with another organization;
(iii) termination and dissolution of the Company; and
(iv) the increase or assignment of the Company's registered capital.

6.12 Super Majority

Resolutions involving the following major matters may only be adopted at a duly constituted and convened meeting of the Board of Directors upon the affirmative vote of four (4) directors of the Board voting in person or by proxy or by telephone at such meeting:

(i) the formulation of or changes to the management structure of the Company;

(ii) the formulation of policies and Plans relating to the recruitment of employees, employee wages, welfare and compensation, as well as the formulation of labor management rules; and

(iii) the appointment, dismissal, limitations on authority and compensation of Management personnel, except the Executive Vice General Manager.

6.13 Simple Majority

Other issues that require resolutions by the Board may be raised at a duly convened meeting of the Board and must be adopted by the affirmative vote of three (3) of the directors present in person, by proxy or by telephone at such meeting where a quorum is present.

6.14 Action without a Meeting

Any action by the Board may be taken without a meeting if all members of the Board consent in writing to such action. Such written consent shall be filed with the minutes of the Board proceedings and shall have the same force and effect as a unanimous or majority vote, as the case may be, taken by members physically present.

6.15 Expenses

The Company shall be responsible for the reasonable travel, lodging and meal expenses incurred by appointed directors in attending Board meetings.

6.16 Preparation of Minutes

The minutes of the Board of Directors' meetings shall be prepared in English and Chinese and shall be signed by the Chairman. The minutes shall be distributed within thirty (30) days from the date of the relevant meeting to each director and each PARTY.

6.17 Amendments to Minutes

Any director who wishes to propose any amendment or addition to the minutes of the Board of Directors' meetings shall submit the same in writing to the Chairman within fourteen (14) days after receipt of such director's copy of the original signed minutes. Provided that all directors consent, the amendment or addition shall be incorporated into the official minutes. If there is disagreement among the directors concerning the proposed amendment or addition, the issue shall be decided by a resolution of the Board.

6.18 Filing of Minutes

All directors present at a Board meeting shall sign the finalized minutes of each Board meeting, which shall then be placed on file with the Company.

ARTICLE 7 - OPERATION AND MANAGEMENT

7.01 Management Procedures and Structures

The policies, structures and procedures concerning operational management, sales and marketing, health and safety, environmental and technological matters, which may be adopted by the Board from time to time shall be developed in consultation with PARTY B so as to be generally in accordance with PARTY B's practices in its worldwide operations subject to the overall direction and approval of the Board.

7.02 Management Organization

The Company shall adopt a management system under which the management organization shall be responsible to and under the leadership of the Board. All Management Personnel, including the General Manager, Executive Vice General Manager and Vice General Manager shall serve at the discretion of the Board. The Company shall have a General Manager nominated by PARTY A, an Executive Vice General Manager nominated by PARTY B and a Vice General Manager nominated by PARTY A and appointed by the Board pursuant to a duly adopted resolution. The terms of office of the General Manager, Executive Vice General Manager and Vice General Manager shall be as determined by the Board. The General Manager, Executive Vice General Manager and Vice General Manager may be dismissed only by a resolution of the Board of Directors. If it becomes necessary, due to dismissal or resignation, to replace the General Manager, Executive Vice General Manager or Vice General Manager, PARTY A shall nominate the General Manager's replacement, PARTY B shall nominate the

Executive Vice General Manager's replacement and PARTY A shall nominate the Vice General Manager's replacement for appointment by the Board.

7.03 Responsibilities and Powers of the General Manager

The duties of the General Manager shall consist of carrying out the decisions of the Board and organizing and directing the day-to- day operation and management of the Company in accordance with the modern management practices and structures as determined by the Board. Within the scope granted by the Board, the General Manager will represent the Company in external matters and, within the Company, he will appoint and dismiss personnel subordinate to himself and exercise other functions and powers granted him by the Board.

7.04 Management Personnel

(a) Other Management Personnel. The Company shall have such number and types of other Management Personnel as determined by the General Manager and approved by the Board to be necessary or advisable to implement the modern management practices and structures determined by the Board. All Management Personnel shall be responsible to and under the direction of the General Manager.

(b) Salaries. The salaries and other remuneration of the Management Personnel of the Company (including the General Manager) shall be determined by the Board in its sole discretion on an individual basis.

7.05 Annual Plans and Budgets

The General Manager, assisted by the other Management Personnel, shall be responsible for the preparation of the annual business plan and budget of the Company.
The annual business plan and budget (including the projected balance sheet, profit and loss statement and cash transaction report) for each fiscal year shall be submitted to the Board and shall include comprehensive detailed information on:

(a) the procurement of equipment and other assets of the Company;

(b) the raising and application of funds;

(c) plans with respect to production and sale of Joint Venture Products;

(d) the repair and maintenance of the assets and equipment of the Joint Venture Company;

(e) the estimated income and expenditures of the Company covered by the production plan and budget;

(f) plans for training the staff and workers of the Company;

(g) wage and salary plans for staff and workers of the Company;

(h) requirements of raw materials, fuel, water, electricity and other utilities, and all other inputs for the next year's production;

(i) plans for the proportion of foreign currency sales;

(j) plans for balancing foreign exchange receipts and expenditures; and

(k) any other matter in respect of which the Board may have requested a report. The General Manager shall prepare a monthly management report containing such information as shall be requested by the Board.

7.06 Approval and Implementation of Annual Plans and Budgets

The Board shall examine and approve the annual business plan and budget. The General Manager, assisted by the other Management Personnel, shall be responsible for the implementation of the plan and budget approved by the Board.

ARTICLE 8 - LABOR MANAGEMENT

8.01 Governing Principle

The General Manager shall formulate a plan for matters concerning the recruitment, employment, dismissal, wages, labor insurance, welfare benefits, reward and discipline of the workers and staff members of the Company in accordance with modern management standards, practices and policies determined by the Board, the "Regulations of the People's Republic of China on Labor Management in Joint Ventures Using

Chinese and Foreign Investment" and the "Provisions of the Ministry of Labor and Personnel of the People's Republic of China on the Right of Autonomy of Enterprises with Foreign Investment in the Hiring of Personnel and on Wages, Insurance and Welfare Expenses of Staff and Workers" and relevant regulation of Tianjin Municipality. The plan shall be submitted for the approval of the Board of Directors.

8.02 Working Personnel

Working Personnel shall be employed by the Company in accordance with a labor contract which shall be entered into between the Company and each individual worker after the establishment of the Company. Such labor contract shall establish all terms governing the employment, duties and benefits of that individual. The Board shall approve the general form and terms and conditions included in such contracts.

8.03 Management Personnel

Management Personnel shall be employed by the Company in accordance with the terms of individual employment contracts. The detailed terms and conditions of the employment and compensation of the Management Personnel shall be decided by the Board.

8.04 Expatriate Personnel

As the Company's needs require, expatriate Management Personnel and senior technical personnel shall be hired by the General Manager after approval by the Board of Directors, upon the recommendation of PARTY B. Such personnel shall enter into individual employment contracts with the Company. The PARTIES agree that such expatriate personnel shall receive salaries and benefits in accordance with PARTY B's personnel policies.

8.05 Conformity with Labor Protection

The Company shall conform to rules and regulations of the Chinese government concerning labor protection and ensure safe and civilized production. Labor insurance for the working personnel of the Company shall be handled in accordance with the relevant regulations of the Chinese government.

8.06 Trade Union

To the extent required by law, the Company shall establish a trade union to represent the rights and interests of the workers and staff members, to mediate disputes between the workers and staff members on the one hand and the Company on the other and to protect the lawful interests of the workers and staff members. To the extent required by law, the Company shall actively support the work of the trade union, provide the trade union facilities to conduct union activities and other lawful activities after working hours, and allocate trade union funds.

8.07 Trade Union Fund

In accordance with Article 99 of the Joint Venture Regulations, the Company shall allot each month two percent (2%) of the total amount of real wages received by the Company staff and workers, including expatriate employees for payment into a trade union fund, such payments to be an expense of the Company. The trade union may use these funds in accordance with the relevant control measures of labor union funds formulated by the All China Federation of Labor Unions.

ARTICLE 9 - FINANCIAL AFFAIRS AND ACCOUNTING

9.01 Accounting System

(a) Responsibilities. The Financial Controller of the Company, under the leadership of the General Manager, shall be responsible for the financial management of the Company.

(b) Procedures. The General Manager and the Financial Controller shall prepare the accounting system and procedures in accordance with the Accounting System of the People's Republic of China for Foreign Investment Enterprises, the supplementary stipulations promulgated by the Ministry of Finance and, to the extent possible, general accepted international accounting principles. All vouchers, receipts, statistical statements and reports shall be written in Chinese and English concurrently. In addition, the Company shall adopt operating and financial policies and procedures and shall prepare periodic reporting of financial information in accordance with the requirements of PARTY B.

9.02 Auditing

(a) The Board shall establish a position for a Company Auditor who will be responsible for examining and auditing the Company's financial expenditures and accounting books and will prepare a report for the Board and the General Manager.

(b) Independent Audit. An independent accountant registered in China and otherwise qualified to render opinions on the compliance by the Company with the accounting standards provided herein, shall be engaged by the Board of Directors as the Company's auditor to examine and

verify the annual report on the final accounts ("Independent Auditor"). The Company shall submit to the PARTIES the annual financial statements (including the audited Profit and Loss Account, the Balance Sheet and Cash Flow Balance and Foreign Exchange Balance for the fiscal year) within three (3) months after the end of the fiscal year, together with the audit report of the Chinese registered accountant. The annual financial statements, the audit report and the monthly reports shall be prepared in both Chinese and English.

(c) Board Review. The Board shall review and approve the periodic audits of the accounts. In the event that the Board determines that the audits submitted by the Independent Auditor are unable to properly meet the standards set forth above, the Board may replace the Independent Auditor or retain another auditor at Company expense, to supplement or adjust the work of the Independent Auditor or to perform specific accounting and auditing tasks.

(d) Notwithstanding anything contained in Article 9.02(a) and (b), at PARTY B's cost, PARTY B may at any time, employ a foreign auditor or send its internal auditor to examine the records and procedures of the Company and PARTY A and the Company shall cooperate and use best efforts to assist such auditors.

9.03 Fiscal Year

The Company shall adopt the calendar year as its fiscal year for Chinese statutory accounting purpose, which shall begin on January 1 and end on December 31 of the same year, provided that the first fiscal year of the Company shall commence on the date the Company receives its Business License, and shall end on the immediately succeeding December 31.

ARTICLE 10 - FOREIGN EXCHANGE

10.01 Bank Accounts and Foreign Exchange Control

The Company shall separately open foreign exchange accounts and Renminbi accounts at banks within or outside China upon approval by the relevant authorities. The Company's foreign exchange transactions shall be handled in accordance with the regulations of China relating to foreign exchange control.

10.02 Foreign Exchange Balance

The Company shall be responsible to maintain a balance in its foreign exchange receipts and expenditures. The principal methods for balancing foreign exchange will be as follows:

(i) Foreign Currency Sales. The primary means for balancing foreign exchange will be through the sale of the Joint Venture Products in foreign currency.

(ii) Export of Domestic Product. Subject to the approval of the Approval Authority, the Company may purchase products domestically in Renminbi and export them for foreign currency.

(iii) Other Measures. If the Company is unable to balance its foreign exchange using the measures described above, the Board of Directors will consider all other methods permitted under the laws and regulations of the People's Republic of China.

ARTICLE 11 - DISTRIBUTION OF PROFIT

11.01 Allocations to Three Funds

To the extent required by law, the Company shall make payments in Renminbi into a reserve fund, an enterprise expansion fund and a bonus and welfare fund for its workers and staff members (the "Three Funds"). The proportion of each year's payments shall be discussed and determined by the Board of Directors on the basis of the Company's circumstances and in the general interest of the Company and its workers; provided, however, that the payments to each individual Fund shall not exceed seven percent (7%) of the Company's after tax income and the total of the payments to the Three Funds shall not exceed fifteen percent (15 %) of the Company's after-tax income in the relevant year. Plans for the application of these Three Funds shall be formulated by the General Manager.

11.02 Profit Distribution

(a) Proportionate Distributions. After required allocations, if any have been made to the Three funds in accordance with Article 11.01, the Board shall determine distribution of profits by way of dividend among the PARTIES in proportion to their respective shares in the registered capital of the Company and the balance of net profits will be retained in the Company and utilized as may be decided by the Board from time to time. If the Company carries over losses from the previous year, the profit of the current year shall first be used to cover such losses. No profit shall be distributed unless a prior deficit is made up. The profit retained by the Company and carries over from the previous years may be distributed together with the distributable profit of the current year, or after the deficit of the current year is made up.

(b) Insufficient Foreign Exchange. In the event that there is not sufficient foreign exchange to pay PARTY b's share of distributed profits, the

Company shall, to the extent of the unpaid portion, hold distributed Renminbi profits in trust for PARTY B in a special interest bearing account set up for that purpose, when such account is available, in satisfaction of the Company's obligation to distribute such share of the Company's profit to PARTY B. From and after the date on which such account is established, the Company shall not withdraw or use the funds therein except upon PARTY B's prior written instructions. When the Company obtains foreign exchange that is available for distribution to PARTY B pursuant to Article 11.02
(a), the Company shall, at PARTY B's option, replace the Renminbi in such account (including any interest earned therefrom) with its U.S. Dollar equivalent in accordance with the average of the buying and selling rates published by the Bank of China at the time of the transaction. The Company shall then immediately pay such U.S. Dollars to PARTY B. PARTY B may from time to time instruct the Company to distribute Renminbi as directed by PARTY B in such account for any legal purpose.

(c) Method of Payment. All payments to be distributed under this Article 11 shall at the request of the receiving PARTY be remitted to an account at a bank specified in advance by such PARTY.

ARTICLE 12 - TAXATION AND INSURANCE

12.01 Income Tax, Customs Duties and Other Taxes

(a) Tax Payments. The Company shall pay tax under the relevant laws of China and any special tax regulations applicable to Tianjin. Chinese and foreign management and working personnel shall be periodically reminded to pay their individual income tax in accordance with the tax laws of China.

(b) Tax Preferences. The Company will use its best endeavours to apply for and obtain preferential tax treatment, reductions and exemptions, as provided by the relevant regulations. Promptly after the execution of this Contract, the PARTIES shall submit an application to the Tianjin Municipal Tax Bureau for confirmation of the Company's tax treatment.

12.02 Insurance

The Company shall, at its own cost and expense, take out and maintain full and adequate insurance of the Company against loss or damage by fire and such other risks as may be decided by the Board. The property, transportation, product liability and other items of insurance of the Company shall be obtained within or outside China, subject to any legal restrictions which may apply, and such policies will be denominated in Chinese and foreign currencies, as appropriate. The types and amounts of insurance coverage shall be determined by the Board in accordance with applicable Chinese laws, if any.

ARTICLE 13 - THE JOINT VENTURE TERM

13.01 Joint Venture Term

The Joint Venture Term of the Company shall commence on the Effective Date and shall expire thirty (30) years therefrom.

13.02 Extension of the Joint Venture Term

Extensions of the Joint Venture Term will be handled in accordance with Article 19 of the Joint Venture Contract.

ARTICLE 14 - TERMINATION, BUY-OUT AND LIQUIDATION PROCEDURES

14.01 Termination, Buy-out and Liquidation

Termination, buy-out and liquidation procedures will be handled in accordance with Article 20 of the Joint Venture Contract.

ARTICLE 15 - AMENDMENTS AND CONFLICTS

15.01 Amendments

These Articles of Association may not be changed orally, but only by a written instrument signed by the Parties and approved by the unanimous resolution of the Board of Directors and Approval Authority.

15.02 Conflicts

In the event of any conflict between the terms and provisions of the Joint Venture Contract and these Articles of Association, the terms and provisions of the Joint Venture Contract shall prevail.

ARTICLE 16 - WAIVER

16.01 Waiver

Failure or delay on the part of any PARTY hereto to exercise any right, power or privilege under the Joint Venture Contract, this Articles of Association or under any other contract or agreement relating thereto, shall not operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege preclude any other future exercise thereof.

ARTICLE 17 - LANGUAGE

17.01 Language

These Articles of Association are written and executed in Chinese and English, and both language versions shall be equally valid.
IN WITNESS WHEREOF, each of the PARTIES hereto have caused these Articles of Association to be executed by their duly authorized representatives on the date first set forth above.
PARTY A:
TIANJIN TANGGU VALVE PLANT

/s/Han You Sheng

Name: Han You Sheng
Title: President
Nationality Chinese

PARTY B
WATTS INVESTMENT COMPANY

/s/David A. Bloss

Name: David A. Bloss, Sr.
Title: Executive Vice President
Nationality U.S.A.

STOCK PURCHASE AGREEMENT

by and between

JAMECO ACQUISITION CORP.

and

HARRY LIPMAN, MICHAEL LIPMAN, WALTER LIPMAN, SIDNEY GREENBERG, DAVID CHASIN, KENNETH S. LIPMAN, PETER A. LIPMAN, ETHEL S. LIPMAN, GLORIA LIPMAN, WALTER LIPMAN TRUST FOR THE BENEFIT OF ILENE BURSTEIN, WALTER LIPMAN TRUST FOR THE BENEFIT OF STACI BURSTEIN AND WALTER LIPMAN TRUST FOR THE BENEFIT

OF JOSHUA BURSTEIN

July 28, 1994

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STOCK PURCHASE AGREEMENT

AGREEMENT (the "Agreement"), dated July 28, 1994, by and among Jameco Acquisition Corp., a Delaware corporation (the "Buyer"), and Harry Lipman ("Harry"), Michael Lipman ("Michael"), Walter Lipman ("Walter"), Sidney Greenberg ("Sidney"), David Chasin ("David"), Kenneth S. Lipman ("Kenneth"), Peter A. Lipman ("Peter"), Ethel S. Lipman ("Ethel"), Gloria Lipman ("Gloria"), Walter Lipman Trust for the benefit of Ilene Burstein ("Ilene Trust"), Walter Lipman Trust for the benefit of Staci Burstein ("Staci Trust") and Walter Lipman Trust for the benefit of Joshua Burstein ("Joshua Trust") (individually, a "Seller" and collectively, the "Sellers"), the owners of all of the issued and outstanding shares of capital stock of Jameco Industries, Inc., a New York corporation (the "Company").

WHEREAS, the Sellers are the beneficial and record owners of all of the issued and outstanding shares of capital stock of the Company (collectively, the "Shares"); and

WHEREAS, the Sellers wish to sell, transfer, assign, convey and deliver the Shares to the Buyer, and the Buyer wishes to purchase, acquire and accept the Shares from the Sellers, upon the terms and conditions of this Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties hereto, intending to be legally bound, agree as follows:

Article I

SALE AND PURCHASE OF SHARES

Section 1.1. Sale of Shares. At the closing provided for in section 2.2 hereof (the "Closing"): (i) subject to the terms and conditions of this Agreement and in reliance upon the representations, warranties and covenants contained herein, each Seller agrees to sell, transfer, assign and convey to the Buyer the number of Shares set forth opposite such Seller's name on Exhibit 1.1 hereto for the purchase price set forth opposite such Seller's name on Exhibit 1.1 hereto under the caption "Total Amount to be Paid to Seller," and shall deliver to the Buyer a stock certificate or certificates representing all of such Shares, duly endorsed in blank or with duly executed stock powers attached, in proper form for transfer, with appropriate transfer stamps, if any, attached, free and clear of any Lien with respect thereto and without any restrictive legend other than with respect to applicable securities laws; and (ii) subject to the terms and conditions of this Agreement and in reliance upon the representations, warranties and covenants contained herein, the Buyer agrees to purchase, acquire and accept from each Seller the number of Shares set forth opposite such Seller's name on Exhibit 1.1 hereto for the purchase price set forth opposite such Seller's name on Exhibit 1.1 hereto under the caption "Total Amount to be Paid to Seller."

Section 1.2. Purchase Price and Payment.

(a) Purchase Price. The Purchase Price for the Shares shall be Twenty-Nine Million Five Hundred Three Thousand Thirty Dollars ($29,503,030) (the "Purchase Price").

(b) Payment. (i) Twenty-Five Million Four Hundred Eighty One Thousand One Hundred Thirty-Five Dollars ($25,481,135) of the Purchase Price (representing $25,753,030 of the Purchase Price, less $261,193 credit for amounts owed by Harry pursuant to section 6.2(b) hereof, and $10,702 credit for amounts owed by Harry pursuant to section 6.2(d)) shall be paid by the Buyer to the Representatives on behalf of the Sellers on the Closing Date (the "Closing Payment") in the manner specified in section 1.2(c) hereof, and (ii) Three Million Seven Hundred Fifty Thousand Dollars ($3,750,000) of the Purchase Price shall be paid to the Escrow Agent named in section 1.2(d) hereof to be held in escrow as described in section 1.2(d) (the "Escrow Payment") and shall be paid to the Representatives only pursuant to and in accordance with the terms of the Escrow Agreement.

(c) Payment of the Closing Payment. At the Closing, the Closing Payment shall be paid by the Buyer in accordance with the instructions set forth in Exhibit 1.2(c) by wire transfer of immediately available funds to the accounts indicated by the Representatives in such written instructions.

(d) Escrow Arrangements. The amounts specified in and to be delivered by the Buyer pursuant to section 1.2(b)(ii) (the "Escrow Fund") shall be delivered to The First National Bank of Boston, as escrow agent (the "Escrow Agent"), under the terms of an escrow agreement in the form of Exhibit 1.2(d) hereto (the "Escrow Agreement"). The Escrow Fund shall be held by the Escrow Agent in accordance with and subject to the limitations set forth in the Escrow Agreement to secure the payment of claims for indemnification made in accordance with Article IX of this Agreement.

Section 1.3. Transfer Taxes. Each Seller shall pay all stock transfer Taxes, recording fees and other sales, transfer, use, purchase or similar Taxes, if any, resulting from the sale of the Shares owned by such Seller hereunder.

Article II

CLOSING

Section 2.1. The Representatives.

(a) By the execution and delivery of this Agreement and by their act of surrendering certificates representing their Shares, each of the Sellers hereby irrevocably constitutes and appoints Harry and Michael jointly, as such Seller's true and lawful agents and attorneys-in-fact (the "Representatives"), with full power of substitution to act in his, her or its name, place and stead with respect to all transactions contemplated by and all terms and provisions of this Agreement and the Escrow Agreement and to act on his, her or its behalf in any dispute, litigation, mediation, or arbitration involving this Agreement and the Escrow Agreement, and to do or refrain from doing all such further acts or things, and execute all such documents as the Representatives shall deem necessary or appropriate in connection with the transactions contemplated by this Agreement and the Escrow Agreement including, without limitation, the power:

(i) to act for the Sellers with regard to matters pertaining to indemnification referred to in this Agreement and the Escrow Agreement, including the power to compromise any claim on behalf of the Sellers and to conduct arbitration, mediation or litigation on behalf of the Sellers;

(ii) to execute and deliver all ancillary agreements, certificates and documents, and to make representations and warranties therein, on behalf of the Sellers which the Representatives deem necessary or appropriate in connection with the consummation of the transactions contemplated by this Agreement and the Escrow Agreement; and

(iii) to do or refrain from doing any further act or deed on behalf of the Sellers which the Representatives deem necessary or appropriate in their sole discretion relating to the subject matter of this Agreement and the Escrow Agreement, including, without limitation, to exercise any right of or pursue any remedy available to any Seller under this Agreement and the Escrow Agreement, as fully and completely as each Seller could do if personally present.

(b) If either Representative dies or otherwise becomes incapacitated and is unable to serve as a Representative, or resigns as a Representative in

a writing delivered to the Buyer, then the remaining Representative shall serve as the only Representative. The appointment of the Representatives shall be deemed coupled with an interest and be irrevocable. As long as Harry and Michael serve jointly as the Representatives hereunder, their actions as Representatives shall require the concurrence of both of them. The Buyer and any other Person may conclusively and absolutely rely, without inquiry, upon the joint action of Harry and Michael at any time during which they serve as joint Representatives and upon the action of a Representative serving individually, in either case, on behalf of the Sellers in all matters contemplated by this Agreement and the Escrow Agreement. All notices delivered by the Buyer to the Representatives (whether pursuant hereto or otherwise) for the benefit of the Sellers shall constitute notice by the Buyer to the Sellers. Each Representative shall act with respect to this Agreement and the Escrow Agreement in a manner consistent with what he believes to be in his best interest in his capacity as a Seller and consistent with his obligations under this Agreement and the Escrow Agreement, but a Representative shall not be liable or responsible to any Seller for any loss or damages the Sellers may suffer by reason of the performance by such Representative of his duties under this Agreement, other than loss or damage arising from willful misconduct or gross negligence in the performance of his duties under the Agreement. The Representatives shall not be deemed to be trustees or fiduciaries for or on behalf of any Seller, shall have no duty or obligation to consult with and take direction from any Seller and shall not be liable for any action taken or omitted in good faith in the absence of gross negligence or willful misconduct. The Representatives shall not be liable for any action taken or omitted in good faith upon the written advice of counsel and may act upon any instrument or signature believed by them in good faith to be genuine and may assume that any Person purporting to give any notice or instructions hereunder, believed by them in good faith to be authorized, has been duly authorized to do so.

Each Seller agrees jointly and severally to indemnify and hold harmless each Representative for any loss or damage arising from the performance of his duties as a Representative hereunder, including, without limitation, the cost of any accounting, legal counsel or other advisor retained by the Representatives on behalf of the Sellers, but excluding any loss or damage arising from willful misconduct or gross negligence in the performance of his duties under this Agreement and the Escrow Agreement.

(c) All actions, decisions and instructions of the Representatives taken, made or given pursuant to the authority granted to the Representatives pursuant to this section 2.1 shall be conclusive and binding upon all of the Sellers and no Seller shall have the right to object, dissent, protest or otherwise contest the same. The Buyer hereby acknowledges that the Representatives may with respect to any particular action, decision or instruction, but shall not be required to, solicit the consent of the Sellers before acting.

(d) The provisions of this section 2.1 are independent and severable, shall constitute an irrevocable power of attorney, coupled with an interest and surviving death, legal incapacity or dissolution, granted by the Sellers to the Representatives and shall be binding upon the executors, heirs, legal representatives, successors and assigns of each such Seller.

(e) The Buyer shall be entitled to rely conclusively on the instructions and decisions of the Representatives as contemplated by section 2.1(b) as to any action required or permitted to be taken by the Sellers or the Representatives hereunder, and no party hereunder shall have any cause of action against the Buyer for any action taken by the Buyer in reliance upon the instructions or decisions of the Representatives.

Section 2.2. Closing. The Closing of the sale and purchase of the Shares shall take place at the offices of Battle Fowler, 280 Park Avenue, New York, New York 10017 at 10:00 a.m. (local time) on July 28, 1994 or at such other place, time or date as the Buyer and the Representatives mutually agree. The date upon which the Closing occurs is hereinafter referred to as the "Closing Date."

Article III

REPRESENTATIONS AND WARRANTIES OF CERTAIN SELLERS

Subject to the provisions in section 9.2 hereof pertaining to the proportional responsibility of the Principal Sellers for the indemnification obligations relating to breaches of the representations and warranties contained in this Agreement, each of the Principal Sellers represents and warrants to the Buyer as follows:

Section 3.1. Organization and Qualification. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of New York and has the requisite corporate power and lawful authority to own, lease and operate its assets, properties and business and to carry on its business as it is now being conducted. The Company is duly qualified as a foreign corporation to transact business, and is in good standing, in each jurisdiction where the character of its properties, owned or leased, or the nature of its activities makes such qualification necessary, except where the failure to so qualify would not have a Material Adverse Effect. The Company does not own or lease real property in any jurisdiction other than its jurisdiction of incorporation and the jurisdictions set forth on Schedule 3.1 hereto.

Section 3.2. Subsidiaries. Except as set forth in Schedule 3.2 hereto, the Company has no subsidiaries. For purposes of this Agreement, the term "Subsidiary" shall mean any Person as to which the Company, directly or indirectly, owns or has the power to vote, or to exercise a controlling influence with respect to, fifty percent (50%) or more of the securities of any class of such Person, the holders of which class are entitled to vote for the election of directors (or Persons performing similar functions). Except as set forth in Schedule 3.2, the Company does not own any securities issued by any other business organization or governmental authority, except U.S. Government securities, bank certificates of deposit and money market accounts acquired as short-term investments in the ordinary course of its business. Except as set forth in Schedule 3.2, the Company does not own or have any direct or indirect interest in or control over any corporation, partnership, joint venture or entity of any kind. JESC was incorporated on February 1, 1994 in the U.S. Virgin Islands and has engaged in no activities and has not incurred any indebtedness or other liability since the date of its formation other than in connection with its incorporation and maintaining its status as a corporation.

Section 3.3. Capitalization and Authority. (a) The authorized capital stock of the Company consists of 2,000,000 shares of common stock, par value $ 0.10 per share (the "Jameco Common Stock"); 360,000 shares of Jameco Common Stock are duly and validly issued of which 311,375.25 are outstanding. Each of such outstanding Shares is fully paid and nonassessable and owned as indicated on Exhibit 1.1 hereto. 48,624.75 of the issued Shares are held in the treasury of the Company as of the date hereof and no shares are reserved for issuance. There are no other shares of capital stock of the Company outstanding and no outstanding options, warrants, convertible or exchangeable securities, subscriptions, rights (including any preemptive rights), stock appreciation rights, calls or commitments of any character whatsoever requiring the issuance, sale, redemption, repurchase, registration or voting of shares of any capital stock of the Company, and there are no contracts or other agreements to issue additional shares of capital stock of the Company or any options, warrants, convertible or exchangeable securities, subscriptions, rights (including any preemptive rights), stock appreciation rights, calls or commitments of any character whatsoever relating to such shares.

(b) The Company has full corporate power and authority to enter into any agreement, document and instrument executed and delivered or to be executed and delivered by it pursuant to or as contemplated by this Agreement and to comply with its obligations hereunder and thereunder. The execution, delivery and performance by the Company of each such other agreement, document and instrument have been duly authorized by all necessary action of the Company and its stockholders and no other action on the part of the Company or its stockholders is required in connection therewith. Each agreement, document and instrument executed and delivered or to be executed and delivered by the Company pursuant to or as contemplated by this Agreement (to the extent it contains obligations to be performed by the Company) constitutes or will when executed and delivered constitute, a valid and binding obligation of the Company, enforceable in accordance with its terms, subject to the laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules and laws governing specific performance, injunctive relief and other equitable remedies. The execution, delivery and performance by the Sellers of their respective obligations under this Agreement and each such other agreement, document and instrument:

(i) do not and will not violate any provision of the certificate of incorporation or by-laws of the Company;

(ii) do not and will not violate any statute, law, rule and regulation, which is applicable to the Company or any of its assets, properties, or businesses, or violate any judgment, ruling, order, writ, injunction, award, decree, statute, law, ordinance, code, rule or regulation of any court or foreign, federal, state, county or local government or any other governmental, regulatory or administrative agency or authority which is applicable to the Company or any of its assets, properties or businesses; and

(iii) except as set forth on Schedule 3.3, do not and will not result in a breach of, constitute a default under, accelerate any obligation under, or give rise to a right of termination of any indenture or loan or credit agreement or any other agreement, contract, instrument, Lien, permit, authorization, order, writ, judgment, injunction, decree, determination or arbitration award, whether written or oral, to which the Company is a party or by which the property of the Company is bound or affected, or result in the creation or imposition of any Lien on any of the assets of the Company.

Section 3.4. Certificate of Incorporation and By-Laws; Minute Books.
Copies of the certificate of incorporation and by-laws of the Company and all amendments to each have heretofore been delivered to the Buyer and such copies are true, complete and accurate. The records of the board of directors' and shareholders' meetings contained in the minute books of the Company are true and accurate records of those meetings. The stock transfer ledger of the Company is true and accurate.

Section 3.5. Governmental Approvals. Other than in connection, or in compliance, with the provisions of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, and the rules and regulations promulgated thereunder (the "HSR Act") or as set forth on Schedule 3.5, no notice to, filing or registration with, or permit, license, variance, waiver, exemption, franchise, order, consent, authorization or approval of, any foreign, federal, state, county or local government or any other governmental, regulatory or administrative agency or authority (collectively, "Permits") is required by the Company for the conduct of its business as currently conducted or for the consummation of the transactions contemplated hereby. The Company has obtained or has applied for all Permits listed on Schedule 3.5. All the Permits listed on Schedule 3.5 (except those that are identified on such Schedule as "pending" or "applied for") are valid and in full force and effect and, except as set forth in Schedule 3.5 hereto, the Company is operating in compliance therewith except where a contrary state of facts would not result in a Material Adverse Effect. None of the Permits is subject to termination by its express terms as the result of the consummation of the transactions contemplated by this Agreement.

Section 3.6. Financial Statements. The balance sheet of the Company as at December 31, 1993 and the related statements of earnings and retained earnings and cash flow for the year then ended, including the notes thereto, certified by KPMG Peat Marwick, independent certified public accountants, copies of which are attached hereto as Schedule 3.6(a), fairly present the financial position of the Company as at such date and the results of operations, the changes in retained earnings and cash flow of the Company, for the year then ended in accordance with generally accepted accounting principles applied on a consistent basis. The combined balance sheets of the Company and Innovative Computer and Innovative Systems as at December 31, 1992 and 1991 and the related statements of earnings and retained earnings, and cash flows for the years then ended, including the notes thereto, certified by KPMG Peat Marwick, independent certified public accountants, are attached hereto as Schedule 3.6(b). The combining schedules-balance sheets of the Company as at December 31, 1991 and 1992 and the combining schedules of operations and retained earnings for the years then ended included in Schedule 3.6(b) are fairly stated in all material respects in relation to the combined financial statements contained in Schedule 3.6(b) taken as a whole. The unaudited balance sheet of the Company as at June 30, 1994 and the related unaudited statements of earnings and retained earnings for the six-month period then ended, copies of which are attached hereto as Schedule 3.6(c), are true and correct copies of management statements prepared for internal use by the management of the Company. Such statements fairly present the financial position of the Company as at such date and the results of operations for the period then ended in accordance with generally accepted accounting principles (except as set forth in Schedule 3.6(d)) applied on a consistent basis with the financial statements contained in Schedule 3.6(a). The foregoing financial statements are hereinafter referred to collectively as the "Financials;"

the unaudited balance sheet as at June 30, 1994 included in the Financials is hereinafter referred to as the "Balance Sheet;" and June 30, 1994 is hereinafter referred to as the "Balance Sheet Date." Schedule 3.6(e) sets forth on an itemized basis all reserves of the Company reflected on the Company's balance sheet as of June 30, 1994. See Schedule 3.6(f) for information concerning a liability of the Company arising from the repurchase by the Company of certain shares of common stock of the Company.

Section 3.7. No Material Adverse Change. Since March 31, 1994, there has been no change which, individually or in the aggregate, has had or is reasonably likely to have a Material Adverse Effect (other than any Material Adverse Effect resulting from conditions prevailing in the economy or the U.S. plumbing products industry generally) and, to the best of the Principal Sellers' Knowledge, no such change is threatened. Since March 31, 1994, there has not been any damage, destruction or loss to the Company or any of its properties, assets or businesses which has or is reasonably likely to have, individually or in the aggregate, a Material Adverse Effect whether or not covered by insurance. Anything contained herein to the contrary notwithstanding, any environmental matter or condition (including any environmental matter or condition which may give rise to an Environmental Claim as defined in Section 9.6 hereof) relating to the Company, or any of its properties (including, without limitation, the Premises or any Property) shall not be the subject of the representations and warranties contained in this Section 3.7.

Section 3.8. Tax Matters.

(a) Except as set forth on Schedule 3.8:

(i) The Company has paid or caused to be paid all Taxes required to be paid by it through the date hereof, whether disputed or not (other than current Taxes the liability for which is adequately reserved for on the Financials).

(ii) The Company, in accordance with applicable law, has filed all Tax Returns required to be filed by it through the date hereof, and all such returns correctly and accurately set forth the amount of any Taxes relating to the period covered by such Tax Returns. As of the time of filing, the foregoing Tax Returns correctly reflected the facts regarding the income, businesses, assets, operations, activities, status or other matters of the Company or any other information required to be shown thereon. A list of all Tax Returns filed with respect to the Company since January 1, 1989 is set forth in Schedule 3.8, and said Schedule 3.8 indicates those Tax Returns that have been audited or currently are the subject of an audit. The Company has delivered to the Buyer complete and correct copies of all Tax Returns, examination reports and statements of deficiencies assessed against or agreed to by the Company for the year 1989 and all subsequent years through 1992 and has made available all such documents for prior years to the extent that the same are available. Schedule 3.8 sets forth all federal Tax elections under the Internal Revenue Code of 1986, as amended (the "Code"), that are in effect with respect to the Company or for which an application by the Company is pending.

(iii) Neither the Internal Revenue Service ("IRS") nor any other governmental authority is now asserting or, to the best of the Principal Sellers' Knowledge, threatening to assert against the Company any deficiency or claim for additional Taxes. No claim has ever been made by an authority in a jurisdiction where the Company does not file reports and returns that the Company is or may be subject to taxation by that jurisdiction. There are no security interests on any of the assets of the Company that arose in connection with any failure (or alleged failure) to pay any Tax. The Company has never entered into a closing agreement pursuant to section 7121 of the Code.

(iv) There has not been any audit since January 1, 1988 of any Tax Return filed by the Company, no audit of any Tax Return of the Company is in progress, and the Company has not been notified by any Tax authority that any such audit is contemplated or pending. No extension of time with respect to any date on which a Tax Return was or is to be filed by the Company is in force, and no waiver or agreement by the Company is in force for the extension of time for the assessment or payment of any Taxes.

(v) The Company has never consented to have the provisions of section 341(f)(2) of the Code applied to it. The Company has not agreed to make nor is it required to make any adjustment under section 481(a) of the Code by reason of a change in accounting method or otherwise. The Company (A) has never made any payments, (B) is not obligated to make any payments, or (C) is not a party to any agreement that under certain circumstances would obligate it to make any payments, that will not be deductible under section 280G of the Code. The Company has disclosed on its income Tax Returns all positions taken therein that could give rise to a penalty for underpayment of federal Tax under section 6662 of the Code (or any corresponding provision of state, local or foreign tax law). The Company has never had any liability for unpaid Taxes because it is a member of an "affiliated group" (as defined in section 1504(a) of the Code). The Company has never filed, and has never been required to file, a consolidated, combined or unitary tax return with any entity. The Company is not a party to any tax sharing agreement.

(vi) The Company computes its federal taxable income under the accrual method of accounting. For purposes of computing taxable income, all inventories of the Company are maintained on a last-in, first-out ("LIFO") basis. Such inventory methods are correct in all material respects for income tax purposes.

(vii) The Company has withheld and paid all Taxes required to have been withheld and paid in connection with amounts paid or owing to any employee, independent contractor, creditor, stockholder or other third party.

(b) Schedule 3.8 sets forth with respect to the Company a tax basis balance sheet as of December 31, 1993.

(c) For purposes of this section 3.8, all references to sections of the Code shall include any predecessor provisions to such sections and any similar provisions of federal, state, local or foreign law.

Section 3.9. Compliance with Law. Except as set forth on Schedule 3.9 and except with respect to Environmental Laws (which are not the subject of this section 3.9), the Company has not violated or failed to comply with and is not violating or failing to comply with, nor has the Company received notice of any violation of or failure to comply with any judgment, ruling, order, writ, injunction, award, decree, statute, law, ordinance, code, rule or regulation, of any court or foreign, federal, state, county or local government or any other governmental, regulatory or administrative agency or authority applicable to it or to its assets, properties, businesses or operations, except where any such violation or failure to comply would not, individually or in the aggregate, have a Material Adverse Effect. Except as set forth on Schedule 3.9 and except as with respect to Environmental Laws (which are not the subject of this section 3.9), the conduct of the Company's business is in conformity with all foreign, federal, state, county and local energy, public utility, health or occupational safety, regulatory and administrative requirements, except where any such violation or nonconformity would not, individually or in the aggregate, have a Material Adverse Effect.

Section 3.10. Litigation. Except as set forth on Schedule 3.10 hereto:
(i) there are no outstanding judgments, rulings, orders, writs, injunctions, awards or decrees of any court or any foreign, federal, state, county or local government or any other governmental, regulatory or administrative agency or authority or arbitral tribunal against or involving the Company or any of the Sellers that relate to the businesses of the Company or the Shares, (ii) the Company is not a party to, or to the best of the Principal Sellers' Knowledge, threatened with, any litigation or judicial, governmental, regulatory, administrative or arbitration proceeding, and
(iii) there is no litigation or proceeding, in law or in equity, or any proceeding or governmental investigation before any commission or other administrative authority pending, or, to the best of the Principal Sellers' Knowledge, threatened, against any of the Sellers or the transactions contemplated hereby or whereby timely performance by the Sellers according to the terms of this Agreement may be prohibited, prevented or delayed.

Section 3.11. Agreements. Schedule 3.11 hereto sets forth all of the following contracts and other agreements to which the Company is a party or by or to which its assets, properties or businesses are bound or subject:
(i) currently effective contracts and other agreements with any current or former officer, director, employee, consultant, agent or shareholder;
(ii) contracts and other agreements outside the ordinary course of the Company's business involving annual payments under any such contract or other agreement or under any related series of contracts or other agreements of at least $50,000 for the sale of materials, supplies, equipment, merchandise or services; (iii) contracts and other agreements outside the ordinary course of the Company's business involving payments since March 31, 1994 under any such contract or other agreement or under any related series of contracts or other agreements of at least $50,000 for the purchase or acquisition of materials, supplies, equipment, merchandise or services and any contracts and other agreements providing for the purchase of all or substantially all of its requirements or a particular product from a supplier where such requirement or product is not readily available from alternative sources at comparable prices; (iv) distributorship, representative, management, marketing, sales agency, printing or advertising contracts and other similar agreements not terminable upon not more than thirty (30) days notice; (v) contracts and other similar agreements for the grant to any Person of any preferential rights to purchase any of the assets, properties or business of the Company; (vi) joint venture contracts and other similar agreements; (vii) contracts and other agreements under which the Company has guaranteed the obligations of any Person or under which any Seller has guaranteed the obligations of the Company; (viii) contracts and other agreements under which the Company agrees to indemnify any Person or to share Tax liability with any Person that will exist at Closing;
(ix) contracts and other agreements limiting the freedom of the Company to engage in any line of business or to engage in business in any geographic area; (x) contracts and other agreements relating to the acquisition by the Company of any operating business or the capital stock of any Person; (xi) any indenture, mortgage, promissory note, loan agreement, guaranty or other agreement or commitment for the borrowing of money and any related security instrument; (xii) any registration rights agreements, warrants, warrant agreements or other rights to subscribe for securities, any voting agreements, voting trusts, shareholder agreements or other similar arrangements or any stock purchase or repurchase agreements or stock restriction agreements; and (xiii) leases of real or personal property with annual payments in excess of $25,000. All of the contracts and other agreements set forth on Schedule 3.11 hereto are in full force and effect as of the date hereof. To the best of the Principal Sellers' Knowledge, the descriptions of the oral contracts set forth in Schedule 3.11 are true, accurate and complete in all material respects.

Neither the Company nor, to the best of the Principal Sellers' Knowledge, any other party to any contract, agreement, lease or instrument of the Company, is in default in complying with any provisions of any of the above, and no condition or event or facts exist which, with notice, lapse of time or both would constitute a default thereof on the part of the Company or, to the best of the Principal Sellers' Knowledge, on the part of any other party thereto in any such case that could have a Material Adverse Effect.

Section 3.12. Title to Properties. The Company owns no real property.
The personal property reflected on the Balance Sheet, together with dispositions and additions in the ordinary course of business since the Balance Sheet Date, is all of the personal property used in the operation of the Company and, assuming no changes in Environmental Laws or other laws, is all of the personal property necessary for the operation of the Company as currently conducted on the date hereof. Except as otherwise indicated in Schedule 3.12 or in the Balance Sheet, none of the personal property of the Company is subject to any Lien or conditional sale agreement. The Balance Sheet reflects all personal property of the Company, subject to dispositions and additions in the ordinary course of business consistent with this Agreement.

Section 3.13. Accounts Receivable; Loans to Affiliates. (a) Except as disclosed in Schedule 3.13(a), all accounts receivable reflected on the Balance Sheet (net of applicable reserves) and all accounts receivable arising subsequent to the Balance Sheet Date have arisen in the ordinary course of business, represent valid and enforceable obligations to the Company and are fully collectable and subject to no set-off or counterclaim, except for discounts, returns, payment terms and allowances arising in the ordinary course of the Company's business. Schedule 3.13(a) hereto sets forth a true and correct aged list of all accounts receivable of the Company at June 30, 1994.

(a) Except as set forth on Schedule 3.13(b), the Company has no accounts or loans receivable from any Person which is affiliated with the Company or any director or officer of the Company.

Section 3.14. Inventory. Except as disclosed in Schedule 3.14, all inventory items shown on the Balance Sheet or existing at the date hereof are of a quality and quantity saleable in the ordinary course of business of the Company. The values of the inventories stated in the Balance Sheet reflect the normal inventory valuation policies of the Company on a FIFO basis and were determined in accordance with generally accepted accounting principles and methods consistently applied. Purchase commitments for raw materials and parts are not in excess of normal requirements and none is at a price materially in excess of current market prices.

Section 3.15. Intangible Property. (a) All patents, patent applications, trade names, trademarks, trademark registration applications, copyrights and copyright registration applications presently owned by or licensed to the Company or used or to be used by the Company in its business as presently conducted are listed in Schedule 3.15 hereto. All of the patents and registered trademarks of the Company and all of the patent applications, trademark registration applications and copyright registration applications of the Company have been duly registered in, filed in or issued by the United States Patent and Trademark Office, the New York Department of State, the United States Register of Copyrights or the corresponding offices of other countries identified on said Schedule, and have been properly maintained and renewed in accordance with all applicable provisions of law and administrative regulations in the United States and each such country. Except as set forth in Schedule 3.15, present use by the Company of said patents, trade names, trademarks, or copyrights does not require the consent of any other Person and the same are freely transferable by the Company (except as otherwise provided by law). Except as set forth in Schedule 3.15, the Company has exclusive ownership or exclusive license to use all patents, trade names, trademarks or copyrights used or to be used by it in its business as conducted free and clear of any attachments, Liens, royalties, license fees or adverse claims and neither the present activities nor products of the Company infringe any such patents, trade names, or trademarks of others. Except as set forth in Schedule 3.15, (i) no other Person has an interest in or right or license to use, or the right to license others to use, any of said patents, patent applications, trade names, trademarks, or copyrights, (ii) there are no claims or demands of any other Person pertaining thereto and no proceedings have been instituted, or are pending or, to the best of the Principal Sellers' Knowledge, threatened, which challenge the rights of the Company in respect thereof, (iii) none of the patents, trade names, trademarks, or copyrights listed in Schedule 3.15 is subject to any outstanding order, decree, judgment or stipulation, or, to the best of the Principal Sellers' Knowledge, is being infringed by others, (iv) no proceeding charging the Company with infringement of any adversely held patent, trade name, trademark or copyright has been filed or, to the best of the Principal Sellers' Knowledge, is threatened to be filed, and (v) to the best of the Principal Sellers' Knowledge, there exists no unexpired patent or patent application which includes claims that would have a Material Adverse Effect.

(a) Except as set forth in Schedule 3.15 hereto, the Company has the right to use, free and clear of any claims or rights of others, all trade secrets, inventions, customer lists and manufacturing and secret processes required for or incident to the manufacture or marketing of all products presently sold, manufactured, licensed, under development or produced by it, including products licensed from others, and to the best of the Principal Sellers' Knowledge, any products formerly sold by the Company. Any payments required to be made by the Company for the use of such trade secrets, inventions, customer lists and manufacturing and secret processes are described in Schedule 3.15. To the best of the Principal Sellers' Knowledge, the Company is not using or in any way making use of any confidential information or trade secrets of any third party, including without limitation, a former employer of any present or past employee of the Company or of any of the predecessors of the Company.

Section 3.16. Liens. Except as set forth on Schedule 3.16, and except with respect to (i) assets, properties and businesses disposed of, or subject to purchase or sales orders, in the ordinary course of business since the Balance Sheet Date; or (ii) Liens securing Taxes, assessments, governmental, regulatory or administrative charges or levies, or the claims of materialmen, carriers, landlords and like Persons, which are not yet due and payable (collectively, "Permitted Liens"), the Company owns outright and has good and marketable title to all of its assets, properties and businesses, including, without limitation, all of the assets, properties and businesses reflected on the Balance Sheet, in each case, free and clear of any Lien.

Section 3.17. Indebtedness. Except as set forth on Schedule 3.17, all Indebtedness of the Company as at the Balance Sheet Date is set forth in the Balance Sheet. All Indebtedness which has arisen after the Balance Sheet Date has arisen in the ordinary course of business and represents valid Indebtedness of the Company. As used herein, "Indebtedness" shall mean all items which, in accordance with generally accepted accounting principles (except as otherwise indicated on Schedule 3.6(d)), would be included in determining total liabilities as shown on the liability side of a balance sheet as at the date Indebtedness is to be determined.

Section 3.18. Liabilities. As of the Balance Sheet Date and the Closing Date, as applicable, the Company has no liabilities of any nature, whether accrued, absolute, contingent or otherwise, asserted or unasserted, known or unknown, whether or not such liabilities are required to be reported by generally accepted accounting principles (including, without limitation, liabilities as guarantor or otherwise with respect to obligations of others, or liabilities for Taxes due or then accrued or to become due or contingent or potential liabilities relating to activities of the Company or the conduct of its businesses prior to the Balance Sheet Date or the Closing Date, as applicable, regardless of whether claims in respect thereof had been asserted as of such date), which liabilities, when taken individually or in the aggregate, have had or are reasonably likely to have a Material Adverse Effect, except liabilities (i) stated or adequately reserved against on the Financials or reflected in the footnotes thereto; (ii) reflected in Schedules (including, without limitation, Schedule 3.18) to this Agreement; (iii) incurred in the ordinary course of business of the Company subsequent to the Balance Sheet Date and on a basis consistent with the terms of this Agreement; or (iv) relating to Environmental Claims.

Section 3.19. Labor Matters. Schedule 3.19 hereto sets forth the only contracts or other agreements that exist between the Company and a union representing any of the employees of the Company. The Company has not taken any action that would constitute a plant closing or mass lay-off within the meaning of the Workers Adjustment and Retraining Notification Act. At June 10, 1994, the Company employed approximately 361 full-time employees and one part-time employee. The Company is not delinquent in payments to any of its employees for any wages, salaries, commissions, bonuses or other direct compensation for any services performed for it to the date hereof or amounts required to be reimbursed to such employees. Except as set forth in Schedule 3.19, the Company has no policy, practice, plan or program of

paying severance pay or any form of severance compensation in connection with the termination of employment. The Company is in compliance in all material respects with all applicable laws and regulations respecting labor, employment, fair employment practices, terms and conditions of employment, and wages and hours. Except as set forth on Schedule 3.19 hereto, there are no charges of employment discrimination or unfair labor practices, nor are there any strikes, slowdowns, stoppages of work, or any other concerted interference with normal operations existing, pending, or to the best of the Principal Sellers' Knowledge, threatened against or involving the Company. To the best of the Principal Sellers' Knowledge, no question concerning representation exists respecting the employees of the Company. There are no grievances, complaints or charges that have been filed or, to the best of the Principal Sellers' Knowledge, threatened against the Company under any dispute resolution procedure (including, but not limited to, any proceedings under any dispute resolution procedure under any collective bargaining agreement) that if decided adversely to the Company would be reasonably likely to have a Material Adverse Effect, and no claim therefor has been asserted. Except as set forth in Schedule 3.19, no collective bargaining agreements are in effect or are currently being or are about to be negotiated by the Company. The Company is, and at all times since November 6, 1986 has been, in compliance in all material respects with the requirements of the Immigration Reform Control Act of 1986. There are no changes pending with respect to (including, without limitation, resignation of) the senior management or key supervisory personnel of the Company nor has the Company received any notice or information concerning any prospective change with respect to the senior management or key supervisory personnel of the Company.

Section 3.20. Employee Benefit Plans.

(a) Schedule 3.20 sets forth a list of every Employee Program that has been maintained by the Company at any time during the three-year period ending on the date hereof.

(b) Each Employee Program which has been maintained by the Company and which has at any time been intended to qualify under section 401 (a) or 501(c)(9) of the Code has received a favorable determination or approval letter from the IRS regarding its qualification under such section and has, in fact, been operated in accordance with the applicable section of the Code from the effective date of such Employee Program through and including the Closing (or, if earlier, the date that all of such Employee Program's assets were distributed). Except as set forth in Schedule 3.20, no event or omission has occurred which would cause any such Employee Program to lose its qualification under the applicable Code section.

(c) Except as set forth in Schedule 3.20, the Company has complied in all material respects with any law applicable to it with respect to the Employee Programs that have been maintained by the Company. Except as set forth in Schedule 3.20, with respect to any Employee Program now or heretofore maintained by the Company, there has occurred no "prohibited transaction" as defined in section 406 of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or section 4975 of the Code, or breach of any duty under ERISA or other applicable law (including, without limitation, any health care continuation requirements or any other Tax law requirements, or conditions to favorable tax treatment, applicable to such plan), which could result, directly or indirectly (including, without limitation, through any obligation of indemnification or contribution), in any Taxes, penalties or other liability to the Company or any Affiliate. No litigation, arbitration, or governmental administrative proceeding (or investigation) or other proceeding (other than those relating to routine claims for benefits) is pending or, to the best of the Principal Sellers' Knowledge, threatened with respect to any such Employee Program.

(d) Except as set forth on Schedule 3.20, neither the Company nor any Affiliate has incurred any termination liability under Title IV of ERISA which will not be paid in full prior to the Closing. There has been no "accumulated funding deficiency" (whether or not waived) with respect to any Employee Program ever maintained by the Company or any Affiliate and subject to Code section 412 or ERISA section 302. Except as set forth on Schedule 3.20, with respect to any Employee Program maintained by the Company or any Affiliate and subject to Title IV of ERISA, there has been no (nor will there be any as a result of the transaction contemplated by this Agreement) (i) "reportable event," within the meaning of ERISA section 4043, or the regulations thereunder (for which the notice requirement is not waived under 29 C.F.R. Part 2615) or (ii) event or condition which presents a material risk of plan termination or any other event that may cause the Company or any Affiliate to incur liability or have a lien imposed on its assets under Title IV of ERISA. All payments and/or contributions required to have been made (under the provisions of any agreements or other governing documents or applicable law) with respect to all Employee Programs ever maintained by the Company or any Affiliate, for all periods prior to the Closing, either have been made or have been accrued (and all such unpaid but accrued amounts are described on Schedule 3.20). Except as set forth on Schedule 3.20, as of the Closing Date, no Employee Program maintained by the Company or any Affiliate and subject to Title IV of ERISA (other than a Multiemployer Plan) will have any "unfunded benefit liability" within the meaning of ERISA section 4001(a)(18). With respect to each Multiemployer Plan maintained by the Company or any Affiliate, Schedule 3.20 states the estimated amount of withdrawal liability, as determined in good faith by the Sellers after consultation with the plan administrator thereof, that would be incurred by the Company or such Affiliate if there were a cessation of operations or of the obligation to contribute to such plan as of the Closing Date. None of the Employee Programs ever maintained by the Company or any Affiliate has ever provided health care or any other non-pension benefits to any employees after their employment was terminated (other than as required by part 6 of subtitle B of title I of ERISA) or has ever promised to provide such post-termination benefits.

(e) The representations made in Subsections (a), (b), (c) and (d) with respect to any Multiemployer Plan are made to the best of the Principal Sellers' Knowledge only, unless otherwise specifically provided therein.

(f) With respect to each Employee Program maintained by the Company within the three years preceding the date hereof (other than a Multiemployer Plan), complete and correct copies of the following documents (if applicable to such Employee Program) have previously been delivered or made available to the Buyer: (i) all documents embodying or governing such Employee Program, and any funding medium for the Employee Program (including, without limitation, trust agreements) as they may have been amended to the date hereof; (ii) the most recent IRS determination or approval letter with respect to such Employee Program under Code section 401 or 501(c)(9), and any applications for determination or approval subsequently filed with the IRS; (iii) the three most recently filed IRS Forms 5500, with all applicable schedules and

accountants' opinions attached thereto; (iv) the summary plan description for such Employee Program (or other descriptions of such Employee Program provided to employees) and all modifications thereto; and (v) any insurance policy (including any fiduciary liability insurance policy) related to such Employee Program. With respect to such Employee Program maintained by the Company which is a Multiemployer Plan, complete and correct copies of the following documents have been previously been delivered or made available to the Buyer: (i) any participation, adoption or other agreement relating to the Company's participation in or contribution under such Plan and (ii) any material correspondence or reports relating to such Plan received by the Company within the last three years.

(g) Except as set forth on Schedule 3.20 and except for union plans to which the Company makes contributions, each Employee Program maintained by the Company as of the date hereof is subject to termination by the Board of Directors of the Company without any further liability or obligation on the part of the Company to make further contributions to any trust maintained under any such Employee Program following such termination.

(h) For purposes of this section 3.20:

(i) "Employee Program" means (A) all employee benefit plans within the meaning of ERISA section 3(3), including, but not limited to, multiple employer welfare arrangements (within the meaning of ERISA section 3(40)), plans to which more than one unaffiliated employer contributes and employee benefit plans (such as foreign or excess benefit plans) which are not subject to ERISA; and (B) all stock option plans, bonus or incentive award plans, severance pay policies or agreements, deferred compensation agreements, supplemental income arrangements, vacation plans, and all other employee benefit plans, agreements, and arrangements not described in (A) above. In the case of an Employee Program funded through an organization described in Code section 501(c)(9), each reference to such Employee Program shall include a reference to such organization;

(ii) An entity "maintains" an Employee Program if such entity sponsors, contributes to, or provides (or has promised to provide) benefits under such Employee Program, or has any obligation (by agreement or under applicable law) to contribute to or provide benefits under such Employee Program, or if such Employee Program provides benefits to or otherwise covers employees of such entity (or their spouses, dependents, or beneficiaries);

(iii) An entity is an "Affiliate" of the Company for purposes of this section 3.20 if it would have ever been considered a single employer with the Company under ERISA section 4001(b) or part of the same "controlled group" as the Company for purposes of ERISA section 302(d)(8)(C); and

(iv) "Multiemployer Plan" means a (pension or non-pension) employee benefit plan to which more than one employer contributes and which is maintained pursuant to one or more collective bargaining agreements.

Section 3.21. Environmental Matters. (a) For purposes of this Agreement, the following terms shall have the following meanings:

(i) "Environment" shall mean soil (surface and subsurface), surface waters and ground waters, ambient air, and any improvements on any real property. The real property located at 248 Wyandanch Avenue, Wyandanch, New York is hereinafter referred to as the "Premises" and all real properties owned and/or operated by the Company and any of its predecessors on or prior to the Closing Date are hereinafter collectively referred to as the "Property."

(ii) "Environmental Laws" shall mean (a) all federal, state, county and local statutes, laws and ordinances, and rules and regulations adopted pursuant thereto, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. section 9601, et seq.; the Hazardous Materials Transportation Act, as amended, 49 U.S.C. section 1801 et seq.; the Resource Conservation and Recovery Act, as amended, 42 U.S.C. section 6901 et seq.; the Federal Water Pollution Control Act, as amended, 33 U.S.C. 1251 et seq.; the Clean Air Act, as amended, 42 U.S.C. 7401 et seq.; the Toxic Substances Control Act, as amended, 15 U.S.C. 2601 et seq., the New York Environmental Conservation Law; and the laws of Suffolk County (collectively, the "Statutes") relating to the protection of human health (except for OSHA) and the Environment, including without limitation: all Statutes relating to reporting, licensing, permitting, investigating or remediating emissions, discharges, release or threat of release of any Hazardous Materials in the Environment or relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of any Hazardous Material; and (b) all federal, state, county and local common law relating to the protection of human health and the Environment, including, but not limited to, nuisance and trespass.

(iii) "Hazardous Materials" shall mean (a) any toxic substance or hazardous waste, substance or related material, or any pollutant or contaminant; (b) radon gas, asbestos in any form which is or could become friable, urea formaldehyde foam insulation, petroleum and petroleum products, transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls in excess of federal, state or local safety guidelines, whichever are more stringent; (c) any substance, gas, material or chemical which is included in the definition of "hazardous substances," "toxic substances," "hazardous materials," "hazardous wastes" or words of similar import under any legal requirement including but not limited to the Environmental Laws, and (d) any other chemical, material, gas or substance, the storage, exposure to or release of which is or may hereafter be prohibited, limited or regulated by any governmental or quasi-governmental entity having jurisdiction over the Property or the operations or activity at the Property, or any chemical, material, gas or substance that does or may pose a hazard or risk to human health or the Environment.

(iv) "Maintenance Plan" shall mean that certain maintenance plan dated January, 1993, prepared by AKRF, Inc., with respect to the Premises identified in such plan as Site #1-52-006, as may be amended from time to time.

(b) To the best of the Principal Sellers' Knowledge, all Hazardous Materials transported at the Company's request from the Property were transported by a duly licensed entity.

(c) The Premises are presently classified as a Class 4 site on the New York State Inactive Hazardous Waste List. A complete copy of the Maintenance Plan which has been approved by the New York State Department of Environmental Conservation (the "NYSDEC") as in effect at the date hereof is attached hereto as Schedule 3.21.

Section 3.22. Insurance. Schedule 3.22 hereto sets forth all policies or binders of fire, earthquake, liability, workmen's compensation, vehicular or other insurance held by or on behalf of the Company, including, without limitation, policies covering the years 1991, 1992, and 1993 for which all premiums due and owing have been paid, specifying the insurer, the policy number or covering note number with respect to binders, and setting forth the deductible and aggregate limit of any of the insurer's liability thereunder and the period covered. Such policies and binders are in full force and effect. The Company is not in default with respect to any provision contained in any such policy or binder and has not failed to give any notice or present any claim under any such policy or binder in due and timely fashion. The Company has not received a notice of cancellation or nonrenewal of any such policy or binder, and no Principal Seller has any Knowledge of any state of facts which is reasonably likely to be the basis for termination of any such insurance.

Section 3.23. Operations of the Company. Except as set forth on Schedule 3.23 hereto, since March 31, 1994, the Company has not:

(i) amended its certificate of incorporation or by-laws or merged with or into or consolidated with any other Person, subdivided or in any way reclassified any shares of its capital stock or changed or agreed to change in any manner the rights of its outstanding capital stock or the character of its business;

(ii) issued, sold, purchased or redeemed, or entered into any contracts or other agreements to issue, sell, purchase or redeem, any shares of its capital stock or any options, warrants, convertible or exchangeable securities, subscriptions, rights (including preemptive rights), stock appreciation rights, calls or commitments of any character whatsoever relating to its capital stock;

(iii) entered into any contract or other agreement with any labor union or association representing any employee; or adopted, entered into or amended any employee benefit plan or made any change in the actuarial methods or assumptions used in funding any defined benefit pension plan, or made any change in the assumptions or factors used in determining benefit equivalencies thereunder;

(iv) declared, set aside or paid any dividends or declared, set aside or made any distributions of any kind to its shareholders, or made any direct or indirect redemption, retirement, purchase or other acquisition of any shares of its capital stock;

(v) adopted a plan of liquidation or resolutions providing for the liquidation, dissolution, merger, consolidation or other reorganization of the Company;

(vi) made any change in its accounting methods, principles or practices or made any change in depreciation or amortization policies or rates adopted by it, except insofar as may have been required by a change in generally accepted accounting principles, including, without limitation, any change in its methods, principles or practices regarding reserves or accruals;

(vii) revalued any portion of its assets, properties or businesses including, without limitation, any write-down of the value of inventory or other assets or any write-off of notes or accounts receivable other than in the ordinary course of business in a manner consistent with past practice;

(viii) incurred any indebtedness except in the ordinary course of business or become subject to any increase in its obligations as a guarantor or otherwise become contingently, as a guarantor or otherwise, liable with respect to the obligations of others; or cancelled any material debt or claim owing to, or waived any material right of, the Company;

(ix) suffered any damage, destruction or loss, whether or not covered by insurance, affecting any of the properties, assets or business of the Company which is reasonably likely to have a Material Adverse Effect;

(x) made any wage or salary increase or bonus, or increase in any other direct or indirect compensation, for or to any of its officers, directors, employees, consultants or agents or any accrual for or contract or other agreement to make or pay the same, other than customary merit increases made in the ordinary course of business in a manner consistent with past practice, or entered into any employment agreement, or any amendment to any such existing agreement, with any officer, director or employer of the Company;

(xi) incurred any obligation or liability to any of the Company's officers, directors, stockholders or employees, or made any loans or advances to any of the Company's officers, directors, stockholders or employees, except normal compensation, advances and expense allowances payable to officers or employees or otherwise engaged in any transaction with affiliates other than transactions with Jamaica Manufacturing (Canada) Ltd. in the ordinary course of business;

(xii) made any payment or commitment to pay severance or termination pay to any of its officers, directors, or executive employees;

(xiii) purchased any capital asset for an amount in excess of $25,000, or except for Tangible Property acquired in the ordinary course of

business in a manner consistent with past practice, made any acquisition of all or any part of the assets, properties, capital stock or business of any other Person;

(xiv) entered into any lease (as lessor or lessee), except for immaterial equipment leases in the ordinary course of business consistent with past practice; sold, abandoned or made any other disposition of any of its assets or properties necessary in the conduct of its business; granted or suffered any Lien on any of its assets or properties, except in the ordinary course of its business; entered into or amended any contract or other agreement to which it is a party or by or to which it or its assets, properties or businesses are bound or subject, except in the ordinary course of business in a manner consistent with past practice, or pursuant to which it agrees to indemnify any Person or to refrain from competing with any Person;

(xv) entered into any other material transaction other than transactions in the ordinary course of business including, without limitation, entering into any agreement with Retail Products Marketing Services or any of its principals, including John A. Grieco; or

(xvi) agreed to do any of the foregoing.

Section 3.24. No Broker. No broker, finder, agent or similar intermediary has acted for or on behalf of the Company or any of the Sellers in connection with this Agreement or the transactions contemplated hereby, and no broker, finder, agent or similar intermediary is entitled to any broker's, finder's or similar fee or other commission in connection therewith based on any contract or other agreement with the Company or any of the Sellers or any action taken by the Company or any of the Sellers; provided, however, that the Sellers have utilized the services of TM Capital Corp. and will be solely responsible for the fees and expenses of such firm.

Section 3.25. Banking Relations. All of the arrangements which the Company has with any banking institution are described in Schedule 3.25, indicating with respect to each of such arrangements the type of arrangement maintained (such as checking account, borrowing arrangements, safe deposit box, etc.) and the Person or Persons authorized in respect thereof.

Section 3.26. Transactions with Interested Persons. Except as set forth in Schedule 3.26, none of the Company, any Seller, or any officer or director of the Company owns directly or indirectly on an individual or joint basis any material interest in, or serves as an officer or director or in another similar capacity of, any competitor or supplier of the Company or any organization which has a material contract or arrangement with the Company.

Section 3.27. List of Certain Employees.

(a) Schedule 3.27 contains a true and complete list of all current directors and officers of the Company and a list of all managers, employees and consultants of the Company who, individually, have received or are scheduled to receive from the Company for the fiscal year of the Company ending December 31, 1994, an annual salary of $50,000 or more (excluding bonuses and other compensation). In each case Schedule 3.27 includes the current job title and aggregate annual salary of each such individual.

Section 3.28. Customers and Distributors. Schedule 3.28 contains a true and complete list of any customer, representative or distributor (whether pursuant to a commission, royalty or other arrangement) who accounted for more than 2% of the sales of the Company for the twelve months ended December 31, 1993 or the six months ended as of the Balance Sheet Date (collectively, the "Customers and Distributors"). The relationships of the Company with the Customers and the Distributors are good commercial working relationships. Except as set forth in Schedule 3.28, no Customer or Distributor has cancelled or otherwise terminated its relationship with the Company, or has during the last twelve months decreased materially its services, supplies or materials to the Company or its usage or purchase of the services or products of the Company. No Customer or Distributor has, to the best of the Principal Sellers' Knowledge, any plan or intention to terminate, to cancel or otherwise materially and adversely modify its relationship with the Company or to decrease materially or limit its services, supplies or materials to the Company or its usage, purchase or distribution of the services or products of the Company.

Section 3.29. No Government Contracts. The Company is not a party to any contract or subcontract with any agency of the United States Government. The Company has not been suspended or debarred from bidding on, or receiving contracts or subcontracts from, any agency of the United States Government.

Section 3.30. Backlog. As of July 22, 1994, the Company has a backlog of firm orders for the sale or lease of products or services, for which revenues have not been recognized by the Company, as set forth in Schedule 3.30.

Section 3.31. Warranty and Related Matters. There are no existing or, to the best of the Principal Sellers' Knowledge, threatened product liability, warranty or other similar claims against the Company for products or services that are defective or fail to meet any product or service warranties except as disclosed in Schedule 3.31 hereto. There are no statements, citations, correspondence or decisions by any government or political subdivision thereof, whether federal, state, local or foreign, or any agency or instrumentality of any such government or political subdivision, or any court or arbitrator (collectively, "Governmental Bodies") stating that any product manufactured, marketed or distributed at any time by the Company (the "Company Products") is defective or unsafe or fails to meet any product warranty or any standards promulgated by any such Governmental Body. Except as set forth on Schedule 3.31, there have been no recalls ordered by any such Governmental Body with respect to any Company Product. To the best of the Principal Sellers' Knowledge, there exists (a) no fact relating to any Company Product that may impose upon the Company a duty to recall any Company Product or a duty to warn customers of a defect in any Company Product, (b) no latent or overt design, manufacturing or other defect in any Company Product, or (c) no material liability for warranty or other claims or

returns with respect to any Company Product except in the ordinary course of business consistent with the past experience of the Company for such kind of claims and liabilities. No claim has been asserted against the Company for renegotiation of any business, including, without limitation, a price redetermination in any material amount, and, to the best of the Principal Sellers' Knowledge, there are no facts upon which any such claim could be based.

Section 3.32. Disclosure. To the best of the Principal Sellers' Knowledge, the representations and warranties contained in this Agreement do not contain any untrue statement with respect to the business heretofore conducted by the Company, and do not omit to state a fact with respect to the business heretofore conducted by the Company required to be stated therein or necessary in order to make such representations and warranties not misleading in light of the circumstances under which they were made, which misstatement or omission could reasonably foreseeably result in a Material Adverse Effect (other than any Material Adverse Effect resulting from conditions prevailing in the economy or the U.S. plumbing products industry generally). There are no facts known to the Principal Sellers which, insofar as can reasonably be foreseen, may in the future have a Material Adverse Effect (other than any Material Adverse Effect resulting from conditions prevailing in the economy or the U.S. plumbing products industry generally) which have not been specifically disclosed herein or in a Schedule furnished herewith.

Article IV

INDIVIDUAL REPRESENTATIONS AND WARRANTIES OF EACH OF THE SELLERS

Each of the Sellers severally as to himself, herself or itself represents and warrants to the Buyer as follows:

Section 4.1. Title to Shares. Such Seller is the direct record and beneficial owner of the Shares set forth opposite such Seller's name on Exhibit 1.1 hereto, free and clear of any Lien, and, upon delivery of and payment for such Shares as herein provided, the Buyer will acquire good and valid title thereto, free and clear of any Lien and without any restrictive legend except with respect to applicable securities laws.

Section 4.2. Authority Relative to this Agreement. Such Seller has the full legal right and power and all authority and approval required to enter into, execute and deliver this Agreement and each other agreement or instrument entered into or to be entered into in connection herewith to which such Seller is a party, and to perform fully such Seller's obligations hereunder and thereunder. The execution and delivery of this Agreement and each such other instrument and the consummation of the transactions contemplated hereby have been duly authorized by the trustees of Ilene's Trust, Staci's Trust and Joshua's Trust (collectively, the "Trustees") and no other proceedings on the part of the Trustees are necessary to authorize the execution, delivery and performance of this Agreement and each such other instrument and the consummation of the transactions contemplated hereby and thereby. This Agreement and each such other instrument have been duly executed and delivered by such Seller and this Agreement constitutes the valid and binding obligation of each such Seller enforceable against such Seller in accordance with its terms, subject to the laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules and laws governing specific performance, injunctive relief and other equitable remedies.

Section 4.3. Absence of Conflicts. The execution, delivery and performance by such Seller of this Agreement and each such other agreement, document and instrument: (i) does not and will not violate any provision of such Seller's declaration of trust, if applicable; (ii) does not and will not violate any statutes, laws, rules and regulations which are applicable to such Seller or any of its respective assets, properties or businesses, including such Seller's Shares, or violate any judgment, ruling, order, writ, injunction, award, decree, statute, law, ordinance, code, rule or regulation of any court or foreign, federal, state, county or local government or any other governmental, regulatory or administrative agency or authority which is applicable to such Seller or any of its respective assets, properties or businesses, including such Seller's Shares; and (iii) except as set forth on Schedule 4.3, does not and will not result in a breach of, constitute a default under, accelerate any obligation under, or give rise to a right of termination of any indenture or loan or credit agreement or any other agreement, contract, instrument, Lien, lease, permit, authorization, order, writ, judgment, injunction, decree, determination or arbitration award to which such Seller is a party or by which the property of such Seller is bound or affected, or result in the creation or imposition of any Lien on any of the assets of such Seller, including such Seller's Shares.

Article V

REPRESENTATIONS AND WARRANTIES OF THE BUYER

The Buyer represents and warrants to the Sellers as follows:

Section 5.1. Organization. The Buyer is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware, and has the requisite corporate power and lawful authority to own, lease and operate its assets, properties and business and to carry on its business as it is now being conducted.

Section 5.2. Authority Relative to this Agreement. The Buyer has full corporate power and authority to enter into this Agreement and any agreement, document and instrument executed and delivered or to be executed and delivered by it pursuant to or as contemplated by this Agreement and to comply with its obligations hereunder and thereunder. The execution, delivery and performance by the Buyer of this Agreement and each such other agreement, document and instrument have been duly authorized by all necessary action of the Buyer and its stockholders and no other action on the part of the Buyer or its stockholders is required in connection therewith. This Agreement and each agreement, document and instrument executed and delivered or to be executed and delivered by the Buyer pursuant to or as contemplated by

this Agreement constitutes or will when executed and delivered constitute, a valid and binding obligation of the Buyer, enforceable in accordance with its terms, subject to the laws of general application relating to bankruptcy, insolvency and the relief of debtors and rules and laws governing specific performance, injunctive relief and other equitable remedies.

Section 5.3. Certificate of Incorporation and By-Laws. Copies of the certificate of incorporation and by-laws of the Buyer and all amendments to each have heretofore been delivered to the Sellers and such copies are true, complete and accurate.

Section 5.4. Absence of Conflicts. The execution, delivery and performance by the Buyer of this Agreement and each such other agreement, document and instrument: (i) do not and will not violate any provision of the certificate of incorporation or by-laws of the Buyer;
(ii) do not and will not violate any statutes, laws, rules and regulations which are applicable to such Buyer or any of its assets, properties or businesses or violate any judgment, ruling, order, writ, injunction, award, decree, statute, law, ordinance, code, rule or regulation of any court or foreign, federal, state, county or local government or any other governmental, regulatory or administrative agency or authority which is applicable to such Buyer or any of its assets, properties or businesses; and
(iii) do not and will not result in a breach of, constitute a default under, accelerate any obligation under, or give rise to a right of termination of any indenture or loan or credit agreement or any other agreement, contract, instrument, Lien, permit, authorization, order, writ, judgment, injunction, decree, determination or arbitration award, whether written or oral, to which the Buyer is a party or by which the property of the Buyer is bound or affected, or result in the creation or imposition of any Lien on any of the assets of the Buyer.

Section 5.5. No Broker. No broker, finder, agent or similar intermediary has acted for or on behalf of the Buyer in connection with this Agreement or the transactions contemplated hereby, and no broker, finder, agent or similar intermediary is entitled to any broker's, finder's, or similar fee or other commission in connection therewith based on any contract or other agreement with the Buyer or any action taken by the Buyer.

Section 5.6. Absence of Litigation. There is no litigation or proceeding, in law or in equity, and there are no proceedings or governmental investigations before any commission or other administrative authority pending, or, to the best of Buyer's Knowledge, threatened, against Buyer or the transactions contemplated hereby or whereby timely performance by Buyer according to the terms of this Agreement may be prohibited, prevented or delayed.

Section 5.7. Purchase for Investment. The Buyer acknowledges that the Shares have not been registered under the Securities Act of 1933, as amended (the "Securities Act"), or under applicable state securities laws and that the Shares may not be sold, transferred, offered for sale, pledged, hypothecated or otherwise disposed of without registration under the Securities Act and any applicable state securities laws, except pursuant to an exception from such registration available under the Securities Act and applicable state securities laws. The Buyer is purchasing the Shares solely for investment with no present intention to distribute any of the Shares to any Person.

Section 5.8. Governmental Approvals. Other than in connection, or in compliance, with the provisions of the HSR Act or as set forth in Schedule 5.8, no notice to, filing or registration with, or Permits of any foreign, federal, state, county or local government or any other governmental, regulatory or administrative agency or authority are necessary for the consummation of the transactions contemplated hereby.

Article VI

COVENANTS AND AGREEMENTS

Section 6.1. Insurance. From and after the Closing Date until the date 18 months thereafter and provided that such policies are commercially available, the Buyer shall or shall cause the Company to maintain in full force and effect liability insurance providing the Company with substantially similar coverage as the liability policies specified on Schedule 3.22 including with respect to products manufactured or sold by the Company prior to the Closing. In the event that any such policy is not commercially available, the Buyer shall promptly provide written notice to the Representatives.

Section 6.2. Payment of Debt, etc.

(a) At the Closing, each Seller and any affiliate of each Seller including, but not limited to, HM, shall pay to the Company any amounts owed by such Person to the Company net of any amounts owed to them by the Company. The Sellers have delivered to the Buyer on the date hereof Schedule 6.2 setting forth all such amounts owed, which Schedule they represent to be accurate and complete. Any amounts paid hereunder shall be in immediately available funds.

(b) At the Closing, Harry, or his designee, may acquire the Company's interest in Guardian Life Insurance policies 2583480 and 2650931 ("Harry's Policies") free and clear of any Liens upon payment to the Company of the cash surrender value of Harry's Policies as of the Closing Date. Upon such payment, the Company shall take whatever action is necessary to assign all the rights in Harry's Policies to Harry, or his designee, and deliver physical possession of Harry's Policies to Harry or his designee.

(c) At the Closing, the Company shall pay $328,977.20 to Innovative Computer in satisfaction of the net intercompany payables due and owing between the Company and Innovative Computer.

(d) At the Closing, the Company shall pay all amounts, by reducing the purchase price as provided in section 1.2(b), previously paid by the

Company with respect to the car provided by the Company to Rosewitha Lipman, and any financing arrangements with respect to such car shall be terminated or assigned to Harry or his designee, with all amounts due and payable in connection therewith being paid by Harry.

(e) If any indebtedness of the Company described in item 11 of Schedule 3.11 (the "Bank Indebtedness") shall become subject to default solely as a result of the transactions contemplated hereunder thereby resulting in acceleration thereof by the lenders, the Buyer shall cause such Bank Indebtedness to be paid. Any such default or acceleration shall not be deemed to constitute a breach of a representation, warranty, covenant or agreement by any Seller hereunder, it being the express intention of the parties hereto that obtaining the consent of either The Chase Manhattan Bank, N.A. or National Bank Westminster U.S.A. to continue such Bank Indebtedness following the Closing shall not be a condition to any parties' obligations hereunder and that all responsibility and liability for a default including repayment of such Bank Indebtedness (including prepayment penalties, if any) in whole or in part shall be the obligations of the Company and not of the Sellers.

Section 6.3. New York State Filings. The Representatives and the Buyer shall timely and promptly make all filings that are necessary to obtain from the New York State tax authorities a Form TP-582, Tentative Assessment setting forth the amount, if any, of the New York State Real Property Transfer Gains Tax liability due with respect to the sale of the Shares by the Sellers.

Section 6.4. Further Assurances. In addition to the actions, contracts and other agreements and documents and other papers specifically required to be taken or delivered pursuant to this Agreement, each of the parties hereto shall execute such contracts and other agreements and documents and other papers and take such further actions as may be reasonably required or desirable to carry out the provisions hereof and the transactions contemplated hereby.

Section 6.5. No Section 338 Election. Buyer shall not make an election pursuant to section 338 of the Code or corresponding provision of state or local law with respect to the acquisition of the Shares.

Section 6.6. Arbitration. Any dispute arising out of or relating to this Agreement that cannot be settled by good faith negotiation between the parties shall be submitted by either party to ENDISPUTE (the "Arbitrator") for final and binding arbitration in Boston, Massachusetts pursuant to ENDISPUTE'S Arbitration Rules.

Section 6.7. Tax Refunds and Rebates. In the event that the Company receives any refunds or rebates of Taxes relating to periods prior to the Closing Date, the Company shall promptly remit such refunds and rebates to the Representatives.

Section 6.8. Payment of Employee Bonuses. At the Closing, the Company shall make a total payment of $312,500 to certain key employees of the Company in accordance with the written instructions provided to the Buyer by the Representatives. Such payment shall be treated as additional compensation by the Company and the recipient employees for Tax purposes. At the Closing, the Buyer shall provide to the Representatives satisfactory evidence of such payments. The Company shall deduct such payments in the tax period that begins on the day after the Closing.

Section 6.9. Subsequent Tax Filings.

(a) In anticipation that, upon the acquisition of the Shares by the Buyer, the Company will be included in the consolidated federal income tax return filed by the Buyer affiliated group, Sellers shall, for Federal income tax purposes, prepare and file a Federal income tax return for the Company for the portion of the taxable year ending on the Closing Date (hereinafter, the "Short Period Return"), together with any tax due. Such return shall be prepared in a manner consistent with prior practice and in accordance with applicable law. Buyer shall have the right to review such tax return. Buyer shall be responsible for preparing and filing all of the Company's federal tax returns, with respect to the period commencing on the date after the Closing.

(b) Buyer shall, at its own expense, prepare all state and local income Tax Returns for the taxable years which end after the Closing Date, in accordance with applicable law. To the extent that such income tax returns include and reflect a period prior to the day after the Closing Date, the Principal Sellers shall be liable for any state and local income Taxes to the extent of the "properly accrued" amount of such liability with respect to the period ending on or before the Closing Date, less any estimated Tax payments that were made prior to the Closing Date and any amounts for state and local income Taxes that were properly accrued or reflected on the Balance Sheet. The term "properly accrued" for purposes of this section 6.9(b) means the amount of state or local income Tax that is deemed to have accrued as of the Closing Date, and shall be calculated by utilizing the income and deductions reflected on the Short Period Return referred to in section 6.9(a), and modified only to the extent required by state or local tax laws. The Principal Sellers shall have the right to review such state and local Tax Returns.

Section 6.10. Establishment of Pension Plan.

(a) As soon as practicable after the Closing Date, the Principal Sellers agree to cause Innovative Computer to establish an employee pension plan (a "New Plan") for the benefit of those active and former employees of Innovative Computer (the "Innovative Participants") who on the Closing Date are entitled to benefits under the Jameco Industries, Inc. Pension Plan (the "Pension Plan"). The New Plan shall be substantially the same in all material respects as the Pension Plan as in effect on the Closing Date, except to the extent that any changes are required by the Internal Revenue Service in order to maintain the qualification of such plan under Section 401(a) of the Code. The New Plan shall grant credit to the Innovative Participants for all service and compensation prior to the Closing Date to the extent credited under the Pension Plan as of the Closing Date for purposes of determining eligibility, vesting and benefit accrual. In consideration of the transfer of assets described in (b) below, the New Plan shall assume and discharge all liabilities and obligations of the Pension Plan for benefits in respect of the Innovative

Participants. The costs and expenses with respect to the establishment of the New Plan shall be the sole responsibility of Innovative Computer.

(b) As soon as practicable after the Closing Date and after the expiration of 30 days following the filing of Internal Revenue Service Form 5310-A, Buyer shall cause to be transferred form the trustee or other funding medium of the Pension Plan to the trustee or other funding medium of the New Plan a proportionate amount of each Pension Plan asset, to the extent practicable, which in the aggregate shall be equal in value on the date of transfer to the value of the Pension Plan assets that has been determined by Sedgewick Noble Lowndes to be assets of the Pension Plan allocable to the Innovative Participants consistent with the manner in which such allocation has been made and reflected in the Pension Plan's actuarial reports in prior years and which shall be reviewed by and subject to the consent of The Wyatt Company, which consent shall not be unreasonably withheld or delayed. The Principal Sellers shall cause Innovative Computer to cooperate with Buyer in the gathering of the necessary data to be used by The Wyatt Company for this purpose. The amount so transferred, and the liabilities assumed by the New Plan, shall be reduced by any distribution or other benefit payments that are made under the Pension Plan with reference to any Innovative Participant who retires, dies or otherwise terminates his service with Sellers after the Closing Date and before the transfer of assets described in this section 6.10. Buyer shall cause the benefit payments referred to in the preceding sentence to be made from the Pension Plan until the transfer of assets described in this section 6.10 shall occur.

(c) The Buyer and the Principal Sellers shall take or cause to be taken all such action as may be necessary to effectuate the transfer to the New Plan of Pension Plan assets as described in (b) above, and to the extent required by applicable law, the Buyer and the Principal Sellers shall file Internal Revenue Service Form 5310-A including the appropriate actuarial certification provided by Sedgewick Noble Lowndes in respect of such transfer and take any other actions as may be required pursuant to section 414(l) of the Code.

Article VII

CONDITIONS PRECEDENT TO THE OBLIGATION OF THE BUYER TO CLOSE

The obligation of the Buyer to enter into and complete the Closing is subject, at its option, to the fulfillment on or prior to the Closing Date of the following conditions, any one or more of which may be waived by it in its sole discretion:

Section 7.1. Representations and Covenants. The representations and warranties of the Sellers contained in this Agreement shall be true, complete and accurate on and as of the Closing Date with the same force and effect as though made on and as of the Closing Date. The Sellers shall have performed and complied with all covenants and agreements required by this Agreement to be performed or complied with by the Sellers on or prior to the Closing Date. The Sellers shall have delivered to the Buyer a certificate, dated the Closing Date and signed by the Representative, to the foregoing effect and stating that all conditions to the Buyer's obligations hereunder have been satisfied or waived.

Section 7.2. Good Standing Certificates. The Sellers shall have delivered to the Buyer: (i) copies of the certificate of incorporation, including all amendments thereto, of the Company, certified by the Secretary of State or other appropriate official of its jurisdiction of incorporation of the Company and (ii) certificates from the Secretary of State or other appropriate official of the jurisdiction of incorporation to the effect that the Company is in good standing and subsisting in such jurisdiction.

Section 7.3. Permits and Approvals. Any and all Permits and other consents set forth on Schedule 7.3 shall have been obtained.

Section 7.4. Legislation. No legislation shall have been proposed or enacted, and no statute, law, ordinance, code, rule or regulation shall have been adopted, revised or interpreted, by any foreign, federal, state, county or local government or any other governmental, regulatory or administrative agency or authority, which would require, upon or as a condition to the acquisition of the Shares by the Buyer, the divestiture or cessation of the conduct of any business presently conducted by the Company and no such divestiture or cessation shall have been required in order to satisfy the condition to closing set forth in section 7.10.

Section 7.5. Legal Proceedings. No suit, action, claim, proceeding or investigation shall have been instituted by or before any court or any foreign, federal, state, county or local government or any other governmental, regulatory or administrative agency or authority seeking to restrain, prohibit or invalidate the sale of the Shares to the Buyer hereunder or the consummation of the transactions contemplated hereby or to seek damages in connection with such transactions or which might affect the right of the Buyer to own, operate or control, after the Closing, the assets, properties and businesses of the Company.

Section 7.6. Stock Certificates. The Sellers shall have tendered to the Buyer the stock certificate or certificates representing all of the Shares in accordance with section 1.1 hereof, duly endorsed in blank or with duly executed stock powers attached, in proper form for transfer and with appropriate transfer stamps, if any, affixed.

Section 7.7. Opinion of Counsel to the Sellers and the Company. The Buyer shall have received the favorable opinion of Salamon, Gruber, Newman, Blaymore & Rothschild, P.C., counsel to the Company and the Sellers, dated the Closing Date, addressed to the Buyer, in the form of Exhibit 7.7 hereto.

Section 7.8. Resignation of Directors and Officers. The Buyer shall have received the resignation, dated the Closing Date, of those officers and members of the Board of Directors of the Company and JESC as shall be designated by the Buyer.

Section 7.9. Employment Agreements. Each of Harry, Michael and Sidney shall have executed and delivered to the Company employment agreements in the form of Exhibits 7.9(a), 7.9(b) and 7.9(c) hereto, respectively.

Section 7.10. Hart-Scott-Rodino. The waiting period specified in the HSR Act, including any extensions thereof, shall have expired or otherwise terminated, and neither the Buyer nor the Sellers shall be subject to any injunction or temporary restraining order against consummation of the transactions contemplated hereby.

Section 7.11. Real Property Contract. The transactions contemplated by the Real Property Contract shall have been consummated.

Section 7.12. Escrow Agreement. The Escrow Agreement shall have been executed and delivered by the Representatives, the Buyer and the Escrow Agent.

Article VIII

CONDITIONS PRECEDENT TO THE OBLIGATION OF THE SELLERS TO CLOSE

The obligation of the Sellers to enter into and complete the Closing is subject, at the option of the Representatives, to the fulfillment on or prior to the Closing Date of the following conditions, any one or more of which may be waived by the Representatives in their sole discretion:

Section 8.1. Representations and Covenants. The representations and warranties of the Buyer contained in this Agreement shall be true, complete and accurate on and as of the Closing Date with the same force and effect as though made on and as of the Closing Date. The Buyer shall have performed and complied with all covenants and agreements required by this Agreement to be performed or complied with by it on or prior to the Closing Date. The Buyer shall have delivered to the Representatives a certificate, dated the Closing Date and signed by an officer of the Buyer, to the foregoing effect and stating that all conditions to the Sellers' obligations hereunder have been satisfied or waived.

Section 8.2. Governmental Permits and Approvals. Any and all Permits and other consents set forth on Schedule 8.2 shall have been obtained.

Section 8.3. Legal Proceedings. No suit, action, claim, proceeding or investigation shall have been instituted before any court or any foreign, federal, state, county or local government or any other governmental, regulatory or administrative agency or authority seeking to restrain, prohibit or invalidate the sale of the Shares to the Buyer hereunder or the consummation of the transactions contemplated hereby or to seek damages in connection with such transactions.

Section 8.4. Closing Payment. At the Closing, the Buyer shall have paid the Closing Payment to the Representatives as provided in section 1.2 (c).

Section 8.5. Employment Agreements. The Company shall have executed and delivered to each of Harry, Michael and Sidney employment agreements in the form of Exhibits 7.9(a), 7.9(b) and 7.9(c) hereto, respectively.

Section 8.6. Opinion of Counsel to the Buyer. The Seller shall have received the favorable opinion of Goodwin, Procter & Hoar, counsel to the Buyer, dated the Closing Date, addressed to the Representatives, in the form of Exhibit 8.6 hereto.

Section 8.7. Hart-Scott-Rodino. The waiting period specified in the HSR Act, including any extensions thereof, shall have expired or otherwise terminated, and neither the Buyer nor the Sellers shall be subject to any injunction or temporary restraining order against consummation of the transactions contemplated hereby.

Section 8.8. Real Property Contract. The transactions contemplated by the Real Property Contract shall have been consummated.

Section 8.9. Escrow Agreement. The Escrow Agreement shall have been executed and delivered by the Representatives, the Buyer and the Escrow Agent and the Buyer shall have made the Escrow Payment in accordance with section 1.2(d).

Section 8.10. Good Standing Certificate. The Buyer shall have delivered to the Representatives: (i) copies of the certificate of incorporation, including all amendments thereto, of the Buyer, certified by the Secretary of State or other appropriate official of its jurisdiction of incorporation, and (ii) certificates from the Secretary of State or other appropriate official of such jurisdiction of incorporation to the effect that the Buyer is in good standing and subsisting in such jurisdiction.

Section 8.11. Harry's Policies. At the Closing, the Company shall have assigned, if so elected by Harry, all its right, title and interest in and to Harry's Policies free and clear of all Liens to Harry or his designee, provided, however, that the Company shall be paid the cash surrender value thereof as of the Closing Date.

Section 8.12. Guaranty Agreement. The Guaranty Agreement shall have been executed and delivered by the Guarantor to the Sellers.

Article IX

INDEMNIFICATION

Section 9.1. Survival. The representations and warranties in Articles III and IV as of the date hereof (in each case as qualified in the Schedules) are the only representations and warranties made by the Sellers to the Buyer with respect to the sale of the Shares. The representations and warranties in Article V as of the date hereof (in each case as qualified in the Schedules) are the only representations and warranties made by the Buyer to the Sellers with respect to the purchase of the Shares. All representations, warranties, agreements, covenants and obligations herein shall survive the Closing until their respective expiration pursuant to sections 9.3(c), 9.5(b), 9.6(c), 9.2(f) or 9.2(g) and shall not merge into the performance of any obligation by any party hereto regardless of any investigation except as provided in the last sentence of this section 9.1. Anything contained herein to the contrary notwithstanding, no party hereto may rely on any representation or warranty made by another party herein or in any Schedule if such party had actual knowledge that such representation or warranty was not true, complete and accurate in all material respects on and as of the date hereof and no Buyer Indemnified Party or Seller Indemnified Party shall have any right to indemnification pursuant to this Article or otherwise with respect to any such representation or warranty; provided, however, that nothing in this section 9.1 shall limit or in any way affect the rights of Buyer Indemnified Parties to indemnification or reimbursement for Tax, pension or Environmental Claims as provided in sections 9.2(c), 9.2(f), 9.2(g) and 9.6, which shall be available in accordance with the terms hereof regardless of any knowledge or investigation of any party hereto.

Section 9.2. Indemnification by the Principal Sellers. The Principal Sellers severally in accordance with the percentages set forth on Schedule 9.2 hereto on behalf of themselves and their respective successors, executors, administrators, estates, heirs, assigns and trusts funded with the proceeds of the Shares shall, subject to sections 9.3 and 9.6, indemnify and hold harmless subsequent to the Closing the Guarantor, the Buyer and each of their direct or indirect Subsidiaries (including the Company after the Closing) and their successors, assigns, officers, directors, employees and agents (a "Buyer Indemnified Party") from and against any and all losses, liabilities, claims, obligations, damages, deficiencies, actions, suits, proceedings, demands, assessments, orders, judgments, fines, penalties, costs and expenses (including without limitation the reasonable fees, disbursements, and expenses of attorneys, accountants and consultants) of any kind or nature whatsoever (whether or not arising out of third-party claims and including all amounts paid in investigation, defense or settlement of the foregoing) other than consequential damages (except as specifically provided for to the contrary in section 9.6), which may be sustained or suffered by any such Buyer Indemnified Party (a "Loss" or "Losses"), based upon, arising out of, by reason of or otherwise in respect of:

(a) any breach of any representation or warranty made by the Principal Sellers in Article III or by any Seller in Article IV of this Agreement;

(b) any breach of any covenant or agreement made by any Seller in this Agreement;

(c) Losses with respect to Taxes of the Company (including any predecessor or affiliate thereof) which relate to periods prior to the Closing Date, including, but not limited to, the failure of the Company (i) to pay or adequately accrue for all Taxes for its fiscal year ended December 31, 1993 and for the fiscal year which will end on the Closing Date and (ii) to make all payments of estimated Taxes for its fiscal year ended December 31, 1993 and for the fiscal year which will end on the Closing Date which are required to be made before the Closing Date to avoid any estimated Tax penalties or interest charges;

(d) liabilities (including, without limitation, (i) any and all claims for injury (including death), claims for damage, or product liability claims resulting from products sold or services provided by the Company prior to the Closing Date, (ii) other personal injury or property damage claims relating to events occurring prior to the Closing Date, (iii) amounts due in connection with any Employee Program maintained or contributed to by the Company prior to the Closing Date and (iv) Losses relating to the failure of the Company to comply with applicable laws or regulations) relating to activities of the Company or the conduct of its businesses prior to the Closing Date except for liabilities (I) stated or adequately reserved against on the Financials or reflected in the footnotes thereto, (II) reflected in the Schedules to this Agreement or (III) incurred in the ordinary course of the business of the Company subsequent to the Balance Sheet Date and on a basis consistent with the terms of this Agreement;

(e) any fees or expenses (including legal fees and accounting fees) relating primarily to this Agreement or any transactions contemplated hereby incurred by the Company prior to the Closing, provided that the Company may accrue non-transactional legal and accounting expenses of the Company from the Balance Sheet Date through the date hereof, provided that in the event of any payment or accrual of any transactional fees and expenses, the Representatives shall make prompt reimbursement thereof, which reimbursement shall not be made from the Escrow Fund. The Buyer shall have the right to audit the legal fees and accounting expenses of the Company to verify that they are non- transaction related.

(f) any Losses or Taxes incurred on or prior to September 30, 1997 in connection with or arising out of or resulting from or incident to (i) claims with respect to benefits under the Pension Plan (other than claims for benefits in the ordinary course pursuant to the Pension Plan) which relate to acts or omissions occurring prior to the Closing Date,
(ii) the submission by the Company of the Pension Plan to the Internal Revenue Service requesting that the Internal Revenue Service issue a favorable determination letter to the effect that the Pension Plan is a qualified plan under Section 401(a) of the Code, (iii) any other determination by the Internal Revenue Service that the Pension Plan was not or, but for the payment of any such amounts, would not be deemed to be a qualified plan under Section 401(a) of the Code as a result of the terms or operation of the Pension Plan as of or prior to the Closing Date,
(iv) any other operational or compliance requirement with respect to the Pension Plan prior to the Closing Date, and (v) a breach of section 6.10 hereof; provided, however, that the indemnification provided for under

(ii) and (iii) hereof with respect to any settlement agreed to with the Internal Revenue Service shall be contingent on the Buyer Indemnified Parties receiving the consent of the Representatives to such settlement prior to its payment, which consent shall not be unreasonably withheld or delayed; and

(g) any Losses or Taxes relating to any withdrawal liability actually incurred by the Company on or prior to July 28, 1999 under Title IV of ERISA with respect to the Local 888 Pension Fund identified on Schedule 3.20; provided, however, that no Losses shall be payable under this section 9.2(g) in excess of the amount of such withdrawal liability if the Company had withdrawn from the plan on the Closing Date as provided in writing to the Representatives and the Company by the actuary for the plan as decreased 20% of the original amount thereof on each anniversary of the Closing Date.

The Company shall control and conduct any proceeding which may give rise to any indemnification pursuant to Section 9.2(f) or 9.2(g), provided that the Company shall consult with the Representatives in connection therewith and shall use reasonable efforts in good faith to present any reasonable positions of the Representatives in connection with any such proceedings.

The rights of Buyer Indemnified Parties to recover indemnification in respect of any occurrence referred to in clauses (b) through (g) of this section 9.2 shall not be limited by the fact that such occurrence may not constitute an inaccuracy in or breach of any representation or warranty referred to in clause (a) of this section 9.2.

Section 9.3. Limitations on Indemnification by the Principal Sellers. The rights of Buyer Indemnified Parties entitled to indemnification under this Article IX shall be limited as follows:

(a) General Threshold. Subject to the exceptions set forth in sections 9.3(d) and 9.6, the Principal Sellers shall not be obligated to indemnify Buyer Indemnified Parties except to the extent the cumulative amount of Losses exceeds Two Hundred Fifty Thousand Dollars ($250,000), whereupon the amount of all such Losses in excess of One Hundred Twenty Five Thousand Dollars ($125,000) shall be recoverable in accordance with the terms hereof.

(b) General Maximum Indemnification. Subject to the exceptions set forth in section 9.3(d), the Principal Sellers shall not be obligated to indemnify Buyer Indemnified Parties after the cumulative amount of any Loss (including any Loss with respect to Environmental Claims pursuant to section 9.6, but subject to section 9.3(d)(ii)) paid by Seller Indemnified Parties to or on behalf of any Buyer Indemnified Parties under this Agreement exceeds Six Million Seven Hundred Fifty Thousand Dollars ($6,750,000).

(c) Time Limits for Claims. Except as provided in section 9.6(c) relating to Environmental Claims and sections 9.2(f) and 9.2(g) relating to certain pension matters, no claim for indemnification may be made by any Buyer Indemnified Party with respect to Losses unless the written notice required by section 9.8 hereof in respect of such Losses shall have been received by the Representatives on a date prior to the date 18 months following the Closing Date; provided, however, that the limitation of this paragraph (c) shall not apply to Losses described in section 9.3(d), indemnification with respect to which shall expire upon the termination of the applicable statute of limitations relating to the subject matter covered by such section; and provided further, however, that anything contained herein to the contrary notwithstanding, if prior to the applicable date of expiration a specific state of facts shall have become known which is reasonably likely to constitute or give rise to any Loss as to which indemnity is reasonably likely to be payable and a Buyer Indemnified Party shall have timely given written notice of such facts to the Representatives, then the right to indemnification with respect thereto shall remain in effect until such matter shall have been finally determined and disposed of, and any indemnification due in respect thereof shall have been paid.

(d) Dollar-for-Dollar Claims.

(i) Notwithstanding anything contained herein to the contrary, Buyer Indemnified Parties shall not be subject to any limitation, whether pursuant to this section 9.3 hereof or otherwise, and shall be entitled to dollar-for-dollar recovery, in seeking indemnification from the Principal Sellers with respect to the following:

(1) Losses arising from common law fraud or willful breach (but not as a result of negligence, inadvertency or recklessness) on the part of any Seller;

(2) Losses involving a breach by any Seller of any of the representations, warranties and covenants contained in sections 3.3, 3.23(iv), 3.24 and 4.1.;

(3) Losses referred to in sections 9.2(c) or 9.2(e); and

(4) Losses for fines or penalties referred to in the last paragraph of
Section 9.6(b).

(ii) Indemnification pursuant to this section 9.3(d) shall not be counted against the maximum amount set forth in section 9.3(b), except that the first $1,500,000 of Losses referred to in section 9.2(c) shall be so counted.

(iii)Indemnification pursuant to sections 9.2(f) and 9.2(g) shall not be subject to section 9.3(a) but shall be subject to section 9.3(b).

Section 9.4. Indemnification by Buyer. The Buyer on behalf of itself and its successors and assigns shall, subject to sections 9.5 and 9.6, indemnify and hold harmless subsequent to the Closing each Seller and each of their executors, administrators, estates, heirs, successors and assigns, HM and each of its partners, officers and agents (a "Seller Indemnified Party") from and against any and all losses, liabilities, claims, obligations, damages, deficiencies, actions, suits, proceedings, demands, assessments, orders, judgments, fines, penalties, costs and expenses (including without limitation the reasonable fees, disbursements, and expenses of attorneys, accountants and consultants) of any kind or nature whatsoever (whether or not arising out of third-party claims and including all amounts paid in investigation, defense or settlement of the foregoing), other than consequential damages, which may be sustained or suffered by any such Seller Indemnified Party (a "Seller Loss" or "Seller Losses"), based upon, arising out of, by reason of or otherwise in respect of:

(a) any breach of any representation or warranty made by the Buyer in Article V of this Agreement; and

(b) any breach or any covenant or agreement made by the Buyer in this Agreement.

The rights of Seller Indemnified Parties to recover indemnification in respect of any occurrence referred to in clause (b) of this section 9.4 shall not be limited by the fact that such occurrence may not constitute an inaccuracy in or breach of any representation or warranty referred to in clause (a) of this section 9.4.

Section 9.5. Limitation on Indemnification by Buyer. The Rights of Seller Indemnified Parties entitled to indemnification under this Article IX shall be limited as follows:

(a) General Threshold. Subject to the exceptions set forth in section 9.5(c), the Buyer shall not be obligated to indemnify Seller Indemnified Parties except to the extent the cumulative amount of Seller Losses exceeds Two Hundred Fifty Thousand Dollars ($250,000), whereupon the amount of such Seller Losses in excess of One Hundred Twenty Five Thousand Dollars ($125,000) shall be recoverable in accordance with the terms hereof.

(b) Time Limits for Claims. Except as provided in section 9.6(c) as to Environmental Claims, no claim for indemnification may be made by any Seller Indemnified Party with respect to Seller Losses unless the written notice required by section 9.8 hereof in respect of such Seller Losses shall have been received by the Buyer on a date prior to the date 18 months following the Closing Date; provided, however, that the limitation of this paragraph (b) shall not apply to Seller Losses described in section 9.5(c), indemnification with respect to which shall expire upon the termination of the applicable statute of limitations relating to the subject matter covered by such section; and provided further, however, that, anything contained herein to the contrary notwithstanding, if prior to the applicable date of expiration a specific state of facts shall have become known which is reasonably likely to constitute or give rise to any Seller Loss as to which indemnity is reasonably likely to be payable and a Seller Indemnified Party shall have timely given written notice of such facts to the Buyer, then the right to indemnification with respect thereto shall remain in effect until such matter shall have been finally determined and disposed of, and any indemnification due in respect thereof shall have been paid.

(c) Dollar-for-Dollar Claims. Notwithstanding anything herein to the contrary, Seller Indemnified Parties shall not be subject to any limitation, whether pursuant to this section 9.5 or otherwise, and shall be entitled to dollar-for-dollar recovery, in seeking indemnification from the Buyer with respect to the following:

(i) Seller Losses arising from common law fraud or willful breach (but not as a result of negligence, inadvertency or recklessness) on the part of the Buyer; and

(ii) Seller Losses involving a breach by the Buyer of any of its agreements and covenants contained in section 6.1.

Section 9.6. Responsibility for Environmental Claims.

(a) Environmental Claims; Limitations. Anything contained herein to the contrary notwithstanding, it is the express intention of the parties that the allocation of costs and expenses among the parties with respect to Environmental Claims shall be governed exclusively by the express provisions of this section 9.6. Without limiting the foregoing sentence, no representation, warranty, covenant or agreement in this Agreement other than the provisions of this section 9.6 shall be the basis for any Seller liability to any Buyer Indemnified Party or for any Buyer liability to any Seller Indemnified Party in respect of any Environmental Claim.

For the purposes of this section 9.6 only, the term "Loss" or "Losses" shall include Losses and Seller Losses sustained or suffered by any Buyer Indemnified Party or any Seller Indemnified Party. For the purposes of this Agreement, an "Environmental Claim" shall mean any claim for a Loss, including, for purposes of this section 9.6 only any consequential damages, incurred, resulting or arising directly or indirectly from the use, storage, discharge, presence or transportation, in each case prior to the Closing Date, of any Hazardous Materials on, in, upon or from any Property, including, without limitation, any such Loss resulting from the transportation or shipping of Hazardous Materials from any Property, or the migration from any Property at any time of any Hazardous Materials deposited upon or released from any Property prior to the Closing Date, or the violation prior to the Closing Date of any Environmental Law (as in effect on or prior to the Closing Date).

Further, the term Loss from an Environmental Claim shall be deemed to include (in addition to those items referred to as a Loss in section 9.2 hereof or as a Seller Loss in section 9.4 hereof), but shall not be limited to, remediation, fines and penalties, and any Buyer Indemnified Party or Seller Indemnified Party may seek to recover costs associated therewith under the provisions of this section 9.6. Notwithstanding the

foregoing provisions, any Losses paid or accruable prior to the Closing Date (other than Losses referred to in the final paragraph of this section 9.6(a)) by the Company or the Sellers for any Environmental Claims shall not be subject to reimbursement to the Seller Indemnified Parties pursuant to this section 9.6. Losses for Environmental Claims shall not include any costs and expenses relating to:

(i) the operation from and after the Closing Date of the waste water treatment discharge system presently existing on the Premises, including the various pipes, tanks and leaching pools used to dispose of the Company's waste water, or improvements thereto not required under Environmental Laws (as in effect as of the Closing Date), provided, however, that if, as of the Closing Date, the waste water treatment discharge system and the effluent therefrom are not in compliance with applicable laws, including Environmental Laws, or, independent of such compliance, the operation or the structural integrity of this system in the ordinary course is causing the release of any contamination onto, upon or from the Premises, the parties hereby agree that any costs or expenses sustained or incurred to achieve such compliance or address any such release shall be shared on the basis of section 9.6(b); or

(ii) the fulfillment from and after the Closing Date of the Company's obligations and responsibilities under the Maintenance Plan only with respect to the monitoring and testing of ground water at those monitoring wells as presently in existence on the Premises and the supplying of testing results from such monitoring wells to the NYSDEC, provided, however, that the foregoing exclusions in this paragraph are not intended to exclude (from the definition of an Environmental Claim) a Loss, including, but not limited to, remediation, fines or penalties, incurred, resulting, or arising from a condition, event or omission occurring prior to the Closing Date pursuant to the Maintenance Plan or otherwise.

With respect to the exclusions set forth in subsections (i) and (ii) above, where the cause of any such Loss cannot be reasonably directly attributed to the post-Closing Date operation or fulfillment, respectively, then for purposes of this section 9.6, the parties shall assume that the event occurred prior to the Closing Date.

If and to the extent that an Environmental Claim involves remediation, wherever reasonably practicable under the circumstances, the Buyer shall give the Representatives the reasonable opportunity to review and comment upon any agreement proposed to be entered into by any Buyer Indemnified Party in connection with any remediation; provided, however, that the foregoing shall not limit any Buyer Indemnified Party's right to take any action that it deems reasonable or the fact that any such amounts shall constitute Losses for the purposes of this section 9.6. For purposes of this section 9.6, the reasonableness of any Buyer Indemnified Party's actions shall be judged from the perspective of a reasonable owner of a business who intends to own and operate the business for the indefinite foreseeable future and not from the perspective of an indemnitor who may not be responsible for Losses incurred after 30 months from the Closing Date.

Notwithstanding any of the foregoing provisions of this section 9.6, the parties hereby agree to remediate those portions of the Premises described in an agreed upon preliminary plan of remediation and further agree to the terms of such plan as well as acknowledge that the costs of such remediation, together with any modifications or additions to the plan of remediation (which shall be reviewed with the Representatives as set forth in the immediately preceding paragraph) hereafter deemed reasonable by any Buyer Indemnified Party, are subject to indemnification under the terms of this section 9.6, including the limitations set forth in section 9.6(b) hereof.

(b) Subject to section 9.6(a) hereof, the Principal Sellers, on the one hand, and the Buyer and the Company, on the other hand, shall be responsible for Losses incurred by any Buyer Indemnified Party or Seller Indemnified Party based upon, arising out of or by reason of other otherwise in respect of any Environmental Claims in the following amounts: (i) the first $2,400,00 of such Losses shall be payable 50% jointly and severally by the Buyer and the Company and 50% by the Principal Sellers; (ii) the next $2,600,000 of such Losses shall be payable 62.5% jointly and severally by the Buyer and the Company and 37.5% by the Principal Sellers; (iii) the next Losses until the cumulative amount of any such Losses paid by the Principal Sellers (and not otherwise reimbursed by Buyer Indemnified Parties hereunder) under this Agreement equals $6,750,000 (as reduced by Losses previously paid by the Principal Sellers pursuant to this Article IX, subject to section 9.3(d) hereof) shall be payable 75% jointly and severally by the Buyer and the Company and 25% by the Principal Sellers; and (iv) the Principal Sellers shall have no indemnification or other reimbursement obligations under this section 9.6 for any additional Losses from Environmental Claims incurred by any Buyer Indemnified Party and any further Seller Losses from any Environmental Claims shall not be subject to reimbursement under the terms of this section 9.6 and each party shall bear its own Losses in such cases.

The Buyer or the Company, jointly and severally, on the one hand, and the Principal Sellers, on the other hand, as applicable, shall promptly reimburse each other for any Losses incurred by any Buyer Indemnified Party or any Seller Indemnified Party resulting from any Environmental Claims to the extent necessary to give full effect to the provisions of section 9.6(b)(i), (ii) and (iii), as further contemplated by sections 9.8 and 9.11 hereof. Anything contained herein to the contrary notwithstanding, any amounts payable by the Principal Sellers with respect to any Losses related to Environmental Claims shall be expressly subject to the limits contained in section 9.3(b) but shall not be subject the limits contained in section 9.3(a) and shall be paid on a several basis as contemplated in section 9.2.

The parties agree that the costs of any remediation after the Closing Date within the parameters of this Agreement, including, but not limited, to remediation mandated by the government or regulatory agency thereof, shall be addressed by the indemnification and reimbursement provisions of this section 9.6 and not by the dollar for dollar indemnification under section 9.3(d)(i)(4) hereof. Notwithstanding the foregoing, the parties further agree that the Principal Sellers shall pay any penalties or fines assessed by any government or regulatory agency thereof for non-compliance with, or the lack of timeliness of complying with, the reporting, disclosure or any other requirements of the Maintenance Plan or applicable laws or regulations, including Environmental Laws, in connection with any activity, including, without limitation, investigation or remediation, conducted prior the Closing Date regarding the Property and such fines and penalties shall not be considered to be Losses under this section 9.6. To the extent that any such fines or penalties are assessed against any Buyer Indemnified Party, including the Company, the Buyer Indemnified Party shall be entitled to recover such costs dollar for dollar from the Principal Sellers pursuant to section 9.3(d)(i)(4) hereof and such Losses shall not be counted against the formula set forth in this section 9.6(b) and shall not be subject to the limits contained in

section 9.3(a), 9.3(b) and 9.6(c) hereof.

(c) Time Limits for Claims. No claim for indemnification or reimbursement may be made by any Buyer Indemnified Party or Seller Indemnified Party with respect to Losses for Environmental Claims unless the written notice required by section 9.8 hereof in respect of such Losses shall have been received by the Representatives or the Buyer (as the case may be) on a date prior to the date 30 months following the Closing Date; provided, however, that notwithstanding anything contained herein to the contrary, if prior to the applicable date of expiration an Environmental Claim shall have been made or if a specific set of facts shall have become known which is reasonably likely to constitute or give rise to any Loss as to which indemnity or reimbursement is reasonably likely to be payable under this section 9.6 and a Buyer Indemnified Party or Seller Indemnified Party shall have given written notice of such Environmental Claims or facts to the Representatives or the Buyer (as the case may be), then the mutual right to indemnification or reimbursement with respect thereto shall remain in full force and effect until said matter shall have been finally determined and disposed of, and any indemnification or reimbursement due in respect thereof shall have been paid.

(d) Covenant not to Sue, etc. The Buyer shall not and shall use reasonable efforts to cause each Buyer Indemnified Party (including the Company) not to commence any action against any Seller Indemnified Party or interplead or implead any Seller Indemnified Party into any action with respect to any Environmental Claim. The Sellers shall not and shall use reasonable efforts to cause each Seller Indemnified Party not to commence any action against any Buyer Indemnified Party (including the Company) or interplead or implead any Buyer Indemnified Party (including the Company) into any action with respect to any Environmental Claim. Nothing herein shall limit any party's right to enforce its rights under this section 9.6 and any such action shall proceed separately from any proceeding relating to any Environmental Claim.

(e) Agreement Controls. The allocation of Losses among the parties with respect to Environmental Claims contained in section 9.6(b) hereof shall be governed exclusively by such provision notwithstanding any allocation of such costs and expenses among the parties that might be made pursuant to common law, any other Environmental Law or otherwise in the absence of the express agreement contained in this section 9.6 (b).

(f) Environmental Claims above the Cost Sharing Formula. Each party shall bear its own Losses resulting from any Environmental Claims incurred by any Buyer Indemnified Party or Seller Indemnified Party in excess of the amounts referred to in sections 9.6(b)(i), (ii) and (iii).

Section 9.7. Escrow Fund.

(a) In the event of any Loss, a Buyer Indemnified Party shall be required to seek indemnification or reimbursement from the Escrow Fund prior to obtaining recovery from any Principal Seller directly, but shall have recourse to the Principal Sellers to the extent contemplated herein if and to the extent the Escrow Fund is insufficient fully to provide for such claims. The Representatives and Buyer shall agree to give prompt direction to the Escrow Agent directing the release of funds to satisfy indemnification or reimbursement obligations arising out of this Article IX.

(b) At such time as the federal and New York State Tax audits described in Schedule 9.7 are finally resolved at the administrative level, the Buyer and the Representatives shall provide prompt notice to the Escrow Agent in the form of Exhibit 1 to the Escrow Agreement directing the Escrow Agent to distribute to the Representatives the positive difference, if any, between up to $1,500,000 of the then existing balance of the Escrow Fund and the sum of (i) the Losses paid, if any, to resolve the specified Tax audits and (ii) the amounts necessary to cover any pending claims for indemnification made by any Buyer Indemnified Party pursuant to this Article IX. At such time as the Buyer Indemnified Parties' right to indemnification or reimbursement for Environmental Claims has expired pursuant to section 9.6(c), the Buyer and the Representatives shall provide prompt notice to the Escrow Agent in the form of Exhibit 1 to the Escrow Agreement directing the Escrow Agent to distribute to the Representatives the remaining balance, if any, of the Escrow Fund, less the amounts necessary to cover any pending claims of indemnification made by any Buyer Indemnified Party pursuant to this Article IX, including any amounts sufficient to cover any pending Tax audit matters not yet resolved. The monies finally distributed to the Representatives hereunder shall include any interest or other amounts earned on the Escrow Fund.

Section 9.8. Notice; Defense of Claims. (a) A Buyer Indemnified Party or a Seller Indemnified Party is referred to herein as an "Indemnified Party." The party providing indemnification to an Indemnified Party is referred to herein as an "Indemnifying Party." An Indemnified Party shall give written notice to the Indemnifying Party (and the Escrow Agent, if indemnification is being claimed from the Escrow Fund) promptly, and in any event not later than 60 Business Days after assertion of any written claim by any third party or the discovery of any facts upon which an Indemnified Party intends to base a claim for indemnification or reimbursement pursuant to this Article IX, specifying in reasonable detail the amount, nature and source of the claim, and including therewith copies of any notices or other documents received from third parties with respect to such claim; provided, however, that failure to give such notice shall not limit the right of an Indemnified Party to recover indemnity or reimbursement except to the extent that the Indemnifying Party suffers any material damages as a result of such failure. The Indemnified Party shall also provide the Indemnifying Party with such further information concerning any such claims as the Indemnifying Party may reasonably request by written notice.

(b) Within 30 days after receiving notice of a claim for indemnification or reimbursement, the Indemnifying Party shall, by written notice to the Indemnified Party (and the Escrow Agent, if indemnification is being claimed from the Escrow Fund), either (1) concede or deny liability for the claim in whole or in part, or (2) in the case of a claim asserted by a third party, advise that the matters set forth in the notice are, or will be, subject to contest or legal proceedings not yet finally resolved. If the Indemnifying Party concedes liability in whole or in part, it shall, within 15 days of such concession, (i) pay the amount of the claim to the Indemnified Party to the extent of the liability conceded and/or (ii) if indemnification or reimbursement is being claimed from the Escrow Fund, provide joint notice with the Indemnified Party to the Escrow Agent

that a payment should be made to the Indemnified Party from the Escrow Fund indicating the amount of such distribution. Any such payment shall be made in immediately available funds equal to the amount of such claim so payable. If the Indemnifying Party denies liability in whole or in part or advises that the matters set forth in the notice are, or will be, subject to contest or legal proceedings not yet finally resolved, then the Indemnifying Party or the Escrow Agent (as the case may be) shall make no distribution (except for the amount of any conceded liability payable as set forth above) until the matter is resolved in accordance with this Agreement.

(c) In the event an indemnification claim relates to any suit, action or proceeding brought by any third party against an Indemnified Party, the Indemnifying Party and the Indemnified Party shall have the right, at Indemnifying Party's expense, with counsel to the mutual satisfaction of such parties, to jointly control the defense of any such suit, action or proceeding. The Indemnifying Party shall have no liability for the Indemnified Parties' legal fees and expenses other than those with respect to the counsel retained to the mutual satisfaction of such parties. The Indemnifying Party and the Indemnified Party shall consult and cooperate in good faith with each other with respect to all significant aspects of any such defense. Such cooperation shall include but not be limited to keeping the other party informed of all material developments with regard to the defense and providing the other party with copies of all pleadings and other material correspondence with respect to any such defense. No settlement of any action for which indemnification may be payable hereunder shall be made without the prior written consent of the Indemnified Party and the Indemnifying Party, which consent will not be unreasonably withheld or delayed; provided, however, that if any Indemnified Party refuses or fails to consent to a proposed settlement and the matter is thereafter disposed of at a greater cost than would have resulted if such settlement had been consented to, the Indemnifying Party shall not be responsible for such incremental cost. The provisions of this section 9.8(c) shall not apply to: (i) Tax matters, for which the provisions of section 9.8(d) shall apply, (ii) Environmental Claims referred to in section 9.8(e), and (iii) certain pension matters subject to sections 9.2(f) and 9.2(g).

(d) In the case of any proposed or actual assessment of Tax liabilities for which any Buyer Indemnified Party is entitled to indemnification from the Principal Sellers as provided herein, in addition to the provisions set forth above in sections 9.8(a) and 9.8(b), the Representatives (at the Principal Sellers' expense) may request that the Company contest such proposed or actual assessment in the manner directed by the Representatives (in consultation with the Buyer) through the administrative review or appeal procedures available under the relevant Tax laws and regulations. If the pursuit of such administrative remedies by the Company is unsuccessful, the Buyer shall be entitled to cause the Company to pay the Tax (and any penalties and interest) and be entitled to indemnification from the Principal Sellers; provided, however, that if within ten (10) days of receipt from the Buyer of notice of its intention to do so, the Representatives shall notify the Buyer of its desire to contest the proposed or assessed Tax deficiency in the courts, the Principal Sellers shall be entitled to do so at the Principal Sellers' expense, provided (i) there is, in the opinion of the Principal Sellers' counsel acceptable to the Buyer (exercised in good faith), a reasonable likelihood of prevailing on the merits of such proposed or assessed Tax deficiency, (ii) the Representatives in good faith diligently contest such proposed or assessed Tax deficiency and (iii) the Principal Sellers pay (subject to their entitlement to a refund if their efforts are successful) the deficiency and any penalties and interest, provided, however, that if the Principal Sellers elect to litigate the Tax controversy in a court in which litigation of the Tax controversy prior to the payment of the asserted Tax liability is possible, then the Principal Sellers shall not be obligated to pay such Tax until ten (10) days after the filing with the court of the papers necessary to confer jurisdiction on the court. The Buyer shall cause the Company to cooperate with the Representatives for such purposes. The Buyer shall be entitled to prompt reimbursement for any out-of-pocket expenses incurred from time to time by the Buyer or the Company pursuant to this section 9.8(d).

(e) The Company shall control and conduct any proceeding which may give rise to any indemnification pursuant to section 9.6, subject to the provisions of section 9.6.

Section 9.9. Characterization of Indemnity Payments. The Buyer and the Sellers agree to treat any payment made by the Principal Sellers under this Article IX as an adjustment to the Purchase Price.

Section 9.10. Recoveries. The amount of any Losses suffered, sustained, incurred or required to be paid by any Indemnified Person shall be reduced by the amount of any insurance proceeds and other amounts paid to the Indemnified Person by any Person not a party to this Agreement. In calculating any Losses for which indemnification is provided under this Article IX or for which the allocation and reimbursement of Losses is provided under section 9.6, the amount of any such Losses shall be made on an after-tax basis as defined in section 9.12.

Section 9.11. Payment of Losses. The Indemnifying Person shall pay to the Indemnified Person in immediately available funds the amount of any Loss to which the Indemnified Person may become entitled by reason of the provisions of this Article IX, such payment to be made within fifteen
(15) days after such Losses are finally determined either by mutual agreement of the parties hereto or the Arbitrator.

Section 9.12. Meaning of After-Tax Basis

(a) For purposes of this Article IX, all indemnification payments shall be made on an "after-tax" basis to a Buyer Indemnified Party. For the purpose of this agreement on an "after-tax basis" shall be made net of Tax Benefits, which the Buyer Indemnified Party has received or will receive in the taxable year in which the Loss is paid or incurred in respect of the Loss giving rise to such payment. As used herein, the term "Tax Benefit" shall mean the Federal, state and local tax savings that have resulted or will result from any tax deduction or tax credit that (i) the Buyer Indemnified Party has claimed or will claim (as described in sec- tion 9.12(b)) on a Federal, state or local income tax return filed for the tax year of the Company in which the Loss is paid or incurred and (ii) is directly attributable to such Loss. The term "Tax Benefit" shall not include any tax savings attributable to a depreciation, amortization or similar deduction attributable to the required capitalization of a Loss. It shall be assumed that the Buyer Indemnified Party is subject to the maximum marginal Federal, state and local tax rates for a corporation doing business in New York, unless the Buyer Indemnified Party's independent certified public accountant certifies that such Buyer Indemnified

Party is subject to a different rate, in which case such different rate shall apply.

(b) Each Buyer Indemnified Party agrees that it will, in good faith, claim on a current basis all deductions to which it is legally entitled as a result of a Loss. As used herein "good faith" shall mean the obligation to claim, for Federal, state and local income tax purposes, all tax deductions and tax credits to which the Buyer Indemnified Party is entitled, and would otherwise reflect on an income tax return in a manner that is consistent with prior practice and in accordance with applicable law, without regard to the entitlement of such Buyer Indemnified Party to any indemnification payment pursuant to the terms of Article IX. In the event that the Representatives assert that the Buyer Indemnified Party has breached its good faith obligation, in accordance with this good faith standard, by failing to claim all tax deductions and tax credits that are available to the Company, the determination of whether the Buyer Indemnified Party has breached its good faith obligation shall be made by the Arbitrator.

Article X

MISCELLANEOUS

Section 10.1. Certain Definitions. As used in this Agreement, the following terms shall have the following meanings unless the context otherwise requires:

(a) "Agreement" means this Stock Purchase Agreement.

(b) "Arbitrator" shall have the meaning set forth in section 6.6 hereof.

(c) "Balance Sheet Date" shall have the meaning set forth in section 3.6 hereof.

(d) "Balance Sheet" shall have the meaning set forth in section 3.6 hereof.

(e) "Business Day" means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day in which banking institutions in Nassau County, New York, are authorized or obligated by law or executive order to close. Any event the scheduled occurrence of which would fall on a day which is not a Business Day shall be deferred until the next succeeding Business Day.

(f) "Buyer Indemnified Party" shall have the meaning set forth in section 9.2 hereof.

(g) "Buyer" means Jameco Acquisition Corporation, a Delaware corporation.

(h) "Closing Date" means the date upon which the Closing occurs.

(i) "Closing Payment" shall have the meaning set forth in section 1.2(b) hereof.

(j) "Closing" shall mean the closing referred to in section 2.2 hereof.

(k) "Code" shall mean the Internal Revenue Code of 1986, as amended.

(l) "Company" means Jameco Industries, Inc., a New York corporation.

(m) "David" means David Chasin, an individual.

(n) "Employee Program" shall have the meaning set forth in section 3.20 hereof.

(o) "Environment" shall have the meaning set forth in section 3.21 hereof.

(p) "Environmental Claim" shall have the meaning set forth in section 9.6(a) hereof.

(q) "Environmental Laws" shall have the meaning set forth in section 3.21 hereof.

(r) "Escrow Agent" shall have the meaning set forth in section 1.2(d) hereof.

(s) "Escrow Agreement" shall have the meaning set forth in section 1.2(d) hereof.

(t) "Escrow Fund" shall have the meaning set forth in section 1.2(d) hereof.

(u) "Escrow Payment" shall have the meaning set forth in section 1.2(b) hereof.

(v) "Ethel" means Ethel S. Lipman, an individual.

(w) "Financials" shall have the meaning set forth in section 3.6 hereof.

(x) "Guarantor" shall mean Watts Industries, Inc., a Delaware corporation.

(y) "Guaranty Agreement" shall mean the guaranty agreement of the Guarantor in the form of Exhibit 10.1 hereof.

(z) "Gloria" means Gloria Lipman, an individual.

(aa) "Harry's Policies" shall have the meaning set forth in section 6.2(b) hereof.

(ab) "Harry" means Harry Lipman, an individual.

(ac) "Hazardous Material" shall have the meaning set forth in section 3.21 hereof.

(ad) "HM" shall mean H.M. Realty Co.

(ae) "HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; and the rules and regulations promulgated thereunder.

(af) "Ilene Trust" means the Walter Lipman Trust for the benefit of Ilene Burstein, an individual.

(ag) "IRS" shall mean the Internal Revenue Service.

(ah) "JESC" shall mean Jameco Export Sales Corporation, a U.S. Virgin Islands corporation.

(ai) "Joshua Trust" means the Walter Lipman Trust for the benefit of Joshua Burstein, an individual.

(aj) "Innovative Computer" means Innovative Computer Concepts, Inc.

(ak) "Innovative Systems" means Innovative Computer Systems, Inc.

(al) "Kenneth" means Kenneth S. Lipman, an individual.

(am) "Knowledge" means, (a) with respect to the Principal Sellers, actual knowledge of any Principal Seller after completion of a reasonable investigation including, but not limited to, discussion and review of this Agreement with Sidney, Joel Sandberg, William Caufield and John A. Grieco, (b) with respect to any Seller, actual knowledge of such Seller and, (c) with respect to the Buyer, actual knowledge of the Buyer or any director or officer of the Buyer after completion of a reasonable investigation.

(an) "Lien" means and includes any lien, security interest, pledge, charge, option, right of first refusal, claim, mortgage, lease, easement or any other encumbrance or charge of any nature whatsoever.

(ao) "Loss" or "Losses" shall have the meanings set forth in section 9.2 hereof as modified by sections 9.6 and 9.10.

(ap) "Maintenance Plan" shall have the meaning set forth in section 3.21 hereof.

(aq) "Material Adverse Effect" means, with respect to the Company, any change which, individually or in the aggregate, would have an adverse effect material to the businesses, assets, properties, operations, results of operations or condition (financial or otherwise) or prospects of the Company taken as a whole.

(ar) "Michael" means Michael Lipman, an individual.

(as) "NYSDEC" means New York State Department of Environmental Conservation.

(at) "Permits" shall have the meaning set forth in section 3.5 hereof.

(au) "Person" means any individual, corporation, general or limited partnership, firm, joint venture, association, enterprise, joint stock company, trust, unincorporated organization or other entity.

(av) "Peter" means Peter A. Lipman, an individual.

(aw) "Pension Plan" shall have the meaning set forth in section 6.10 hereof.

(ax) "Premises" shall have meaning set forth in section 3.21(a)(i) hereof.

(ay) "Principal Sellers" means Harry, Michael and Walter.

(az) "Property" shall have the meaning set forth in section 3.21 hereof.

(ba) "Purchase Price" shall mean the purchase price of $29,503,030 for the sale of the Shares.

(bb) "Real Property Contract" shall have the meaning set forth in section 10.15 hereof.

(bc) "Representatives" shall have the meaning set forth in section 2.1 hereof.

(bd) "Securities Act" means the Securities Act of 1933, as amended.

(be) "Seller Indemnified Party" shall have the meaning set forth in section 9.4 hereof.

(bf) "Seller Loss" or "Seller Losses" shall have the meanings set forth in section 9.4 hereof as modified by section 9.6.

(bg) "Sellers" means Harry, Michael, Walter, Sidney, David, Kenneth, Peter, Ethel, Gloria, the Ilene Trust, the Staci Trust and the Joshua Trust.

(bh) "Shares" shall mean all of the issued and outstanding shares of capital stock of the Company owned by the Sellers.

(bi) "Sidney" means Sidney Greenberg, an individual.

(bj) "Staci Trust" means the Walter Lipman Trust for the benefit of Staci Burstein, an individual.

(bk) "Subsidiary" shall have the meaning set forth in section 3.2 hereof.

(bl) "Tangible Property" means machinery, equipment, furniture, leasehold improvements, fixtures, vehicles, structures, any related capital items and other tangible property and which is treated by the Company as depreciable or amortizable property.

(bm) "Tax Return" means all returns, reports, forms or other information required to be filed with, or supplied to, any taxing authority (federal, state, local, foreign or otherwise) with respect to any Taxes.

(bn) "Tax" or "Taxes" means all taxes, estimated taxes, charges, fees, levies or other assessments, including, without limitation, all net income, gross income, gross receipts, sales, use, rental, ad valorem, value added, transfer, transfer gains, franchise, profits, alternative minimum, license, withholding, employment, payroll, disability, excise, estimated, severance, stamp, occupation, property or other taxes, customs, duties, fees, assessments or charges of any kind whatsoever, together with any interest and any penalties, additions to tax or additional amounts imposed by any taxing authority (domestic or foreign).

(bo) "Tax Benefit" shall have the meaning set forth in section 9.12 hereof.

(bp) "Walter" means Walter Lipman, an individual.

Section 10.2. Fees and Expenses. Each of the parties hereto shall pay its own fees and expenses incident to the negotiation, preparation and execution of this Agreement, including the fees and expenses of any attorneys and accountants retained by such party in connection with the transactions contemplated hereby, except that the Company may bear any of the foregoing expenses of the Buyer if the transactions contemplated hereby are consummated and of the Sellers if the transaction contemplated hereby are not consummated.

Section 10.3. Notices. Any notice or other communication required or which may be given hereunder shall be in writing and shall be delivered personally, telecopied, or sent by certified, registered, or overnight courier, postage prepaid, to the parties at the following addresses or at such other addresses as shall be specified by the parties by like notice, and shall be deemed given when so delivered personally, telecopied, or if mailed, two days after the date of mailing, as follows:

(i) If to the Buyer, to it at:

Jameco Acquisition Corp.

815 Chestnut Street
North Andover, MA 01845
Attention: President

with a copy to:

Watts Industries, Inc. 815 Chestnut Street North Andover, MA 01845 Attention: Corporate Counsel

with a copy to:

John R. LeClaire, P.C.

Goodwin, Procter & Hoar
Exchange Place
Boston, MA 02109

(ii) If to the Representatives, to them at:

Harry Lipman
c/o Jameco Industries, Inc. 248 Wyandanch Avenue Wyandanch, New York 11798

Michael Lipman
c/o Jameco Industries, Inc. 248 Wyandanch Avenue Wyandanch, New York 11798

with a copy to:

Salamon, Gruber, Newman, Blaymore & Rothschild, P.C.

97 Powerhouse Road, Suite 102
Roslyn Heights, NY 11577
Attention: David Gruber, Esq.

and a copy to:

Battle Fowler
Park Avenue Tower 75 E. 55th Street New York, NY 10022 Attention: Thomas E. Kruger

Section 10.4. Entire Agreement. This Agreement (including the Exhibits and Schedules hereto and the documents referred to herein and therein), the Escrow Agreement, the Guaranty Agreement and the Real Property Contract contain the entire agreements among the parties with respect to the purchase of the Shares and supersede all prior contracts and other agreements, written or oral, with respect thereto.

Section 10.5. Waivers and Amendments. This Agreement may be amended, modified, superseded, canceled, renewed or extended, and the terms and conditions hereof may be waived, only by a written instrument signed by the parties hereto or, in the case of a waiver, by the party waiving compliance. The parties agree that the Representatives shall have the authority to act on behalf of the Sellers for the purpose of executing amendments and waivers to this Agreement. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any right, power or privilege hereunder, nor any single or partial exercise of any right, power or privilege hereunder, preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder. The rights and remedies of any party arising out of or otherwise in respect of any inaccuracy in or breach of any representation or warranty, or any failure to perform or comply with any covenant or agreement, contained in this Agreement shall in no way be limited by the fact that the act, omission, occurrence or other state of facts upon which any claim of any such inaccuracy, breach or failure is based may also be the subject matter of any other representation, warranty, covenant or agreement contained in this Agreement (or in any other agreement between the parties) as to which there is no inaccuracy, breach or failure.

Section 10.6. Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with and subject to, the laws of the State of New York applicable to agreements made and to be performed entirely within such State.

Section 10.7. Binding Effect; Benefit. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and permitted assigns, executors, administrators, estates, heirs and trusts. Nothing in this Agreement, expressed or implied, is intended to confer on any Person other than the parties hereto and any Indemnified Person or their respective successors and assigns, any rights, remedies, obligations or liabilities under or by reason of this Agreement.

Section 10.8. No Assignment. This Agreement is not assignable except by operation of law.

Section 10.9. Variations in Pronouns. All pronouns and any variations thereof refer to the masculine, feminine or neuter, singular or plural, as the identity of the person or persons may require.

Section 10.10. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

Section 10.11. Exhibits and Schedules. The Exhibits and Schedules to this Agreement are a part of this Agreement as if set forth in full herein. Any reference to this Agreement or any provision hereof shall be deemed to include a reference to the Schedules and Exhibits hereto. The information included in each Schedule is hereby incorporated by reference into each other Schedule hereto, so that each representation and warranty contained herein shall be deemed to refer to and incorporate the information contained in all Schedules.

Section 10.12. Headings. The headings in this Agreement are for reference purposes only and shall not in any way affect the meaning or interpretation of this Agreement.

Section 10.13. Severability. If any term, provision, covenant or restriction of this Agreement, or any part thereof, is held by a court of competent jurisdiction or any foreign, federal, state, county or local government or any other governmental, regulatory or administrative agency or authority to be invalid, void, unenforceable, or against public policy for any reason, the remainder of the terms, provisions, covenants and restrictions of this Agreement shall remain in full force and effect and shall in no way be affected, impaired or invalidated.

Section 10.14. Access to Books and Records After the Closing Date. Until the seventh (7th) anniversary of the Closing Date, Buyer shall give to Sellers during normal business hours reasonable access to the books, files and records of the Company relating solely to their respective operations prior to the Closing as Sellers shall from time to time reasonably request, but any access pursuant to this section 10.14 shall be conducted in such manner as not to interfere unreasonably with the operations of the Company after the Closing Date. Until the seventh (7th) anniversary of the Closing Date, prior to destroying or disposing of such books, files or records, Buyer shall give thirty (30) days notice to Sellers of the intended destruction or disposition, and Sellers shall have the right to take possession of the same or make copies of the same at their expense. Until the seventh (7th) anniversary of the Closing Date, promptly following Buyer's request upon reasonable notice, Sellers will use reasonable efforts to cause the independent certified public accountants regularly retained by the Company to make available to Buyer for inspection and copying, copies of all working papers and other materials in the possession of such accountants with respect to the Company, used in preparing the Financials and Sellers will make available to Buyer for such purposes all of such papers and other materials within Sellers' control.

Section 10.15. Real Property Contract. Simultaneously herewith, the Buyer has entered into a contract to purchase certain real property ("Real Property Contract") from HM. A default by either party pursuant to the terms of the Real Property Contract shall be deemed to be a default by such party under the terms of this Agreement giving to the non-defaulting party those rights and remedies set forth in this Agreement. Each Seller hereby acknowledges that pursuant to the Real Property Contract, the Buyer is purchasing real property from HM, the partners of which are Harry and Michael, for a cash payment of $5.3 million.

Section 10.16. Certain Remedies. If Buyer or any Seller should default in the performance of its obligations hereunder, the parties hereto acknowledge that their remedies at law would be inadequate and the Buyer or the Sellers, as applicable, shall, in addition to any other of its rights and remedies hereunder or otherwise, be entitled to the remedy of specific performance, and each of the parties hereto expressly waives the defense that a remedy in damages will be adequate.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

Jameco Acquisition Corp.

By:
Name: David A. Bloss, Sr.
Title: Executive Vice President

Harry Lipman, individually
and as a Representative

Michael Lipman, individually
and as a Representative

Walter Lipman

Sidney Greenberg

David Chasin

Kenneth S. Lipman

Peter A. Lipman

Ethel S. Lipman

Gloria Lipman

Walter Lipman Trust
for the benefit of Ilene Burstein

By:

Walter Lipman Trust
for the benefit of Staci Burstein

By:

Walter Lipman Trust
for the benefit of Joshua Burstein

By:

Exhibit 1.1

Seller	Number of Shares	Portion of Closing Payment to be Paid to Seller	Portion of Purchase Price to be Paid to Seller Placed in Escrow	Total Amount to be Paid to Seller
Harry Lipman	154,324.00	* $12,491,838.15	$1,858,577.39*	$14,350,415.54
Michael Lipman	70,638.50	5,842,325.02	850,723.92	6,693,048.94
Walter Lipman	37,576.75	3,107,874.41	452,549.82	3,560,424.23
Ethel S. Lipman	15,000.00	1,240,610.65	180,650.20	1,421,260.85
Sidney Greenberg	10,945.00	905,232.23	131,814.43	1,037,046.66
David Chasin	6,332.00	523,703.11	76,258.47	599,961.58
Kenneth S. Lipman	5,000.00	413,536.88	60,216.73	473,753.61
Peter Lipman	5,000.00	413,536.88	60,216.73	473,753.61
Gloria Lipman	5,000.00	413,536.88	60,216.73	473,753.61
W. Lipman Trust F/B/O I. Burstein	567.00	46,895.08	6,828.58	53,723.66
W. Lipman Trust F/B/O S. Burstein	567.00	46,895.08	6,828.58	53,723.66
W. Lipman Trust F/B/O J. Burstein	425.00	35,150.63	5,118.42	40,269.05
	311,375.25	$25,481,135.00	$3,750,000.00	$29,231,135.00

* Net amount following deductions of $271,895 for amounts owed by Harry pursuant to sections 6.2(b) and 6.2(d)

Exhibit 1.2(c)

Payment Instructions

Exhibit 1.2(d)

Escrow Agreement

Exhibit 7.7

Opinion of Salamon, Gruber, Newman, Blaymore & Rothschild, P.C.

Exhibit 7.9(a)

Employment Agreement

Exhibit 7.9(b)

Employment Agreement

Exhibit 7.9(c)

Employment Agreement

Exhibit 8.6

Opinion of Goodwin, Procter & Hoar

Exhibit 10.1

Guaranty Agreement

ESCROW AGREEMENT

This ESCROW AGREEMENT made as of the 28th day of July, 1994 by and among The First National Bank of Boston (the "Escrow Agent"), Jameco Acquisition Corporation, a Delaware corporation ("Buyer"), and Harry Lipman ("Harry") and Michael Lipman ("Michael"), as Representatives of the Sellers (the "Representatives").

WHEREAS, pursuant to a Stock Purchase Agreement dated as of even date herewith (the "Purchase Agreement") by and among Harry, Michael, Walter Lipman, Sidney Greenberg, David Chasin, Kenneth S. Lipman, Peter A. Lipman, Ethel S. Lipman, Gloria Lipman, Walter Lipman Trust for the benefit of Ilene Burstein, Walter Lipman Trust for the benefit of Staci Burstein, and Walter Lipman Trust for the benefit of Joshua Burstein (individually, a "Seller" and collectively, the "Sellers"), and Buyer, each Seller is selling to Buyer all of such Seller's shares of capital stock of Jameco Industries, Inc., a New York corporation;

WHEREAS, the Purchase Agreement provides for the indemnification of Buyer Indemnified Parties in respect of the matters set forth in Article IX thereof, subject to certain limitations; and

WHEREAS, in order to secure payment of a portion of any such indemnification, the Purchase Agreement provides for a portion of the Purchase Price payable under the Purchase Agreement to be deposited and held in escrow as hereinafter provided.

NOW, THEREFORE, in consideration of the premises and agreements of the parties contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by each party hereto, the parties agree as follows:

1. Definitions. All capitalized terms used herein which are not otherwise expressly defined herein shall have the respective meanings set forth in the Purchase Agreement.

2. Establishment of Escrow. Buyer has herewith deposited with the Escrow Agent, and the Escrow Agent hereby acknowledges receipt of, the Escrow Payment required under Section 1.2(d) of the Purchase Agreement. Such amounts and any securities, cash or other property delivered to or held by the Escrow Agent under the terms hereof, any interest and dividends thereon, less amounts distributed from time to time in accordance with Section 6 hereof, shall be referred to herein as the "Escrow Fund." The percentage beneficial interests of the Sellers (the "Interests") in the Escrow Fund are as indicated in Schedule A attached hereto. The Escrow Fund shall be segregated from the other assets of the Escrow Agent and held in trust for the benefit of the Sellers pursuant hereto.

3. Investments. The Escrow Agent shall invest cash held in the Escrow Fund as directed in writing by Buyer in taxable and tax-free obligations unconditionally guaranteed as to principal and interest, if any, by the United States Government or any agency thereof, bank certificates of deposit or repurchase agreements fully collateralized by such obligations or certificates of deposit, in each case having maturity dates that permit payments to be made from the Escrow Fund in accordance with the terms hereof and the Escrow Agent shall not be responsible for any loss incurred upon any such investment made in good faith and under circumstances not constituting gross negligence or willful misconduct. Any registered securities from time to time held in the Escrow Fund shall be registered in the name of the Escrow Agent (in its capacity as such) or its nominee. All interest, dividends and other income with respect to the Escrow Fund and any securities or other property issued with

respect to, or in exchange for any securities held in the Escrow Fund shall become a part of the Escrow Fund and shall be held hereunder upon the same terms as the cash, securities or other property with respect to or in exchange for which such interest, dividends, income or securities shall have been received.

4. Representatives of Sellers. Each Seller has appointed the Representatives to act jointly as such Seller's representative for purposes of this Agreement, and any matters related thereto, pursuant to the terms of Section 2.1 of the Purchase Agreement, the contents of which are hereby incorporated by reference. Each of the Escrow Agent and the Buyer hereby acknowledges that the Representatives have been duly authorized to act on behalf of the Sellers with respect to all matters contained in this Agreement and the Escrow Fund pursuant to the terms of Section 2.1 of the Purchase Agreement.

5. Interest Income. For income tax purposes, the interest or other amounts earned on the Escrow Fund, if any, shall be reported as income by the Buyer in the taxable year that such amounts are earned.

6. Distributions. The Escrow Agent shall promptly make distributions from the Escrow Fund to the persons and in the amounts directed upon receipt from time to time of:

(a) a written notice executed and delivered by both Buyer and the Representatives substantially in the form of Exhibit I hereto; or

(b) a written order from the Arbitrator.

7. Escrow Ledger. The Escrow Agent shall maintain, and make available to the Representatives and the Buyer upon request, a ledger setting forth (a) the amount of the Escrow Fund attributable to the deposited cash, (b) the amount of le Escrow Fund attributable to capital appreciation, if any, of the securities in which the Escrow Fund is invested, (c) the amount of the Escrow Fund attributable to interest and other income accumulation in respect to the Escrow Fund, (d) the amount of each Seller's total Interest in the Escrow Fund, and (e) the amount of each distribution made by the Escrow Agent pursuant to Section 6 hereof and the person(s) or entity(ices) to whom each such distribution was made.

8. Fair Market Value of Escrow Fund. For the purposes of this Agreement, the fair market value of the property held in the Escrow Fund shall be conclusively determined by the Escrow Agent at the time of each payment or distribution to be made out of the Escrow Fund and at the time of setting aside of a portion of the Escrow Fund for such payments.

9. Termination. This Agreement shall terminate when all the Escrow Fund has been distributed by the Escrow Agent pursuant to Section 6 hereof.

10. Duties and Responsibilities of Escrow Agent.

(a) Buyer and the Representatives acknowledge and agree that the Escrow Agent (i) shall not be responsible for any other agreement referred to herein but shall be obligated only for the performance of such duties as are specifically set forth in the Agreement; (ii) shall not be obligated to take any legal or other action hereunder which might in its good faith judgment involve any expense or liability unless it shall have been furnished with indemnification reasonably satisfactory to it; (iii) may rely on and shall be protected in acting or refraining from acting upon any written notice, instruction, instrument, statement, request or document furnished to it hereunder and believed by it in good faith to be genuine and to have been signed or presented by the proper person; and (iv) may consult counsel satisfactory to it and the written advice of such counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereafter in good faith and in accordance with such advice.

(b) Neither the Escrow Agent nor any of its directors, officers or employees shall be liable to anyone for any action taken or omitted to be taken by it or any of its directors, officers or employees hereafter except in the case of gross negligence or willful misconduct. Buyer covenants and agrees to indemnify the Escrow Agent and hold it harmless from and against any loss, liability or expense incurred by the Escrow Agent arising out of or in connection with this Agreement or with the administration of its duties hereunder unless such loss, liability or expense shall be caused by the Escrow Agent's willful misconduct or gross negligence.

(c) Buyer agrees to pay or reimburse the Escrow Agent for the Escrow Agent's reasonable compensation for its normal services hereunder in accordance with the fee schedule attached hereto as Schedule B.

The provisions of the foregoing paragraphs (b) and (c) shall survive the termination of this Agreement.

11. Resignation and Removal of Escrow Agent.

(a) The Escrow Agent may at any time resign as Escrow Agent hereunder by giving ninety (90) days' prior written notice of resignation to Buyer and the Representatives. Prior to the effective date of the resignation as specified in such notice, Buyer and the Representatives will issue to the Escrow Agent a written instruction authorizing redelivery of the Escrow Fund to a bank or trust company that they mutually select. If no successor Escrow Agent is named by Buyer and the Representatives as provided in the preceding sentence, the Escrow Agent may apply to a court of competent jurisdiction for appointment of a successor Escrow Agent.

(b) Buyer and the Representatives together shall have the right to remove the Escrow Agent hereunder by giving notice in writing to the Escrow Agent, specifying the date upon which such removal shall take effect. Prior to such removal, Buyer and the Representatives shall have jointly appointed a successor Escrow Agent.

(c) The Escrow Agent hereby agrees that, upon any termination of its services as Escrow Agent it shall turn over and deliver to the successor Escrow Agent appointed in accordance with the terms hereof all of the Escrow Fund and other amounts held by it pursuant to this Agreement and render the accounting required by
Section 13.

12. Successor Escrow Agent. Upon receipt of the Escrow Fund and any other amounts held by the Escrow Agent pursuant to this Agreement, the successor Escrow Agent shall thereupon be bound by all of the provisions hereof and the term "Escrow Agent" as used herein shall mean such successor Escrow Agent.

13. Accounting. In the event of the resignation or removal of the Escrow Agent or the termination of this Agreement pursuant to Section 9 or otherwise, the Escrow Agent shall render to Buyer and the Representatives, and to the successor Escrow Agent, if any, an accounting in writing of the property constituting the Escrow Fund and all distributions therefrom.

14. Notices. Any notice permitted or required hereunder shall be deemed to have been duly given if delivered personally or if sent by certified or registered mail or overnight courier, postage prepaid, to the parties at their respective addresses set forth below or to such other address as any party may hereafter designate.

If to Buyer:

Jameco Acquisition Corporation
c/o Watts Industries, Inc.
815 Chestnut Street
North Andover, MA 01845
Attention: President

with a copy to:

Watts Industries, Inc.
815 Chestnut Street
North Andover, MA 01845
Attention: Corporate Counsel

and with a copy to:

John R. LeClaire, P.C.
Goodwin, Procter & Hoar
Exchange Place
Boston, MA 02109

if to a Representative:

Harry Lipman and Michael Lipman
c/o Jameco Industries, Inc.
248 Wyandanch Avenue
Wyandanch, New York 11797

with a copy to:

Salmon, Grubber, Newman, Blamer & Rothschild, P.C. 97 Powerhouse Road, Suite 102
Roslyn Heights, NY 11577
Attention: David Grubber, Esq.

and a copy to:

Battle Fowler
280 Park Avenue
New York, NY 10017
Attention: Thomas E. Kruger

or if after July 31, 1994

Park Avenue Tower
75 East 55th Street
New York, NY 10022

If to the Escrow Agent:

The First National Bank of Boston
Corporate Trust Administration
150 Royall Street
Mail Stop - 450245
Canton, MA 02011
Reference: Jameco Acquisition Escrow Agreement

15. Modifications. This Agreement may not be altered or modified without the express written consent of the parties hereto. No course of conduct shall constitute a waiver of any of the terms and conditions of this Agreement, unless such waiver is specified in writing, and then only to the extent so specified. A waiver of any of the terms and conditions of this Agreement on one occasion shall not constitute a waiver of the other terms of this Agreement, or of such terms and conditions on any other occasion.

16. Assignment. No assignment of any rights or delegation of any obligations provided for herein may be made by any party hereto without the express written consent of the other parties hereto, except for the provisions hereof respecting successor Escrow Agents and the death, incapacitation or resignation of a Representative (as incorporated by reference from Section 2.1 of the Purchase Agreement). This Escrow Agreement shall inure to the benefit of and be binding upon the successors, heirs, estates, administrators, personal representatives and permitted assigns of the parties hereto.

17. Section Headings. The section headings contained in this Agreement are inserted for purposes of convenience of reference only to shall not affect the meaning or interpretation hereof.

18. Miscellaneous. This Agreement shall become binding and effective upon consummation of the Closing, and shall be construed under and governed by the laws of New York. This Agreement may be executed in any number of counterparts, each of which shall deemed an original but all of which shall constitute one agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement or caused the same to be so executed by their duly authorized representatives as of the date first set forth above.

JAMECO ACQUISITION CORPORATION

By: /s/ David A. Bloss

Title: Executive Vice President

THE FIRST NATIONAL BANK OF BOSTON

By: /s/

Title: Account Administrator

/s/ Harry Lipman
Harry Lipman, as a Representative of the Sellers

/s/ Michael Lipman
Michael Lipman as a Representative of the Sellers

Schedule A

Interests of Sellers

Seller	Portion of Escrow Payment Attributable To Each Seller	Percentage of Escrow Fund Attributable To Each Seller

Harry Lipman	$1,858,577.39	49.5620638
Michael Lipman	850,723.92	22.6859714
Walter Lipman	452,549.82	12.0679951
Ethel S. Lipman	180,650.20	4.8173386
Sidney Greenberg	131,814.43	3.5150514
David Chasin	76,258.47	2.0335592
Kenneth S. Lipman	60,216.73	1.6057795
Peter Lipman	60,216.73	1.6057795
Gloria Lipman	60,216.73	1.6057795
W. Lipman Trust F/B/O I. Burstein	6,828.58	.1820954
W. Lipman Trust F/B/O S. Burstein	6,828.58	.1820954
W. Lipman Trust F/B/O J. Burstein	5,118.42	.1364913

Schedule B

Acceptance fee (one-time charge)	$ 1,000
Administration Fee	$ 2,500
Per Investment	$ 35
Per Wire	$ 20
Per Check	$ 5
Legal Fees	Waived
Out-of-Pocket Expenses	Billed as Incurred

Exhibit 1

The First National Bank of Boston

Attention:

Dear Sirs:

Reference is made to the Escrow Agreement made as of ____ day of July, 1994 (the "Escrow Agreement") by and among The First National Bank of Boston (the "Escrow Agent"), Jameco Acquisition Corporation, a Delaware corporation ("Buyer") and Harry Lipman and Michael Lipman, as Representatives of the Sellers (the "Representatives"). All capitalized terms used herein which are not otherwise expressly defined herein shall have the respective meanings set forth in the Escrow Agreement.
Pursuant to Section 6(a) of the Escrow Agreement, the Escrow Agent is hereby directed to distribute the sum of [$_____] to [ ] in immediately available to the following account [ ]. Jameco Acquisition Corporation

By:

Title:

[President or Chairman of

Board of Directors

Michael Lipman, as
Representative

Harry Lipman, as Representative

ASSET PURCHASE AGREEMENT

by and between

CIRCLE SEAL CONTROLS, INC.,
as Buyer

and

SAES PURE GAS, INC.,
as Seller

August 4, 1994

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SCHEDULES

ASSET PURCHASE AGREEMENT dated as of August 4, 1994 by and between Circle Seal Controls, Inc., a Delaware corporation ("Buyer") and SAES Pure Gas, Inc., a California corporation ("Seller").

WHEREAS, subject to the terms and conditions set forth herein, Buyer desires to purchase from Seller, and Seller desires to sell, transfer and assign to Buyer, substantially all of the properties and assets comprising the business which manufactures and sells the Cryolab product line of the Seller (the "Cryolab Business").

NOW, THEREFORE, in order to consummate said purchase and sale and in consideration of the mutual agreements set forth herein, the parties hereto agree as follows:

SECTION 1. PURCHASE AND SALE OF ASSETS.

1.1 Sale of Assets.

(a) Subject to the provisions of this Agreement, at the Closing (as defined in Section 1.4 hereof) Seller shall sell, transfer and assign to Buyer and Buyer shall acquire all right, title and interest in and to all of the properties, assets and business of the Cryolab Business (except as hereinafter provided in Section 1.1(b)) of every kind and description, tangible and intangible, real, personal or mixed, and wherever located, including without limitation, the following:

(i) all inventory, stock in trade, work-in-progress, finished goods and raw materials of or relating to the Cryolab Business (collectively, the "Inventory"), including without limitation as set forth on Schedule 1.1(a)(i) attached hereto;

(ii) all patterns, drawings, toolings and dies owned by Seller or in which Seller has any rights or interest which are used in the Cryolab

Business, it being understood by the parties hereto that at the Closing Seller shall provide Buyer with written information as to the name, address and telephone number of each foundry where patterns are located as well as information identifying each pattern located at each such foundry (the "Pattern Information");

(iii) machinery and the equipment listed on Schedule 1.1(a)(iii) attached hereto,all tools, spare parts, fixtures, castings, and other tangible assets related to or used in connection with such scheduled machinery and equipment and all other tools, spare parts, fixtures and other tangible assets used in the Cryolab Business (collectively, the "Equipment");

(iv) all goodwill and intellectual property rights, including trade secrets, proprietary information, designs, styles, technologies, inventions, know-how, formulae, processes, procedures, research records, test information, software and software documentation, market surveys, marketing know-how and manufacturing, research and technical information, trade names, copyrights and copyright registrations, service marks and trademarks (including applications and registrations therefor), patents and patent applications (including without limitation the trade names, copyrights and copyright registrations, service mark and trademark registrations and applications and patents and patent applications described in Schedule 1.1(a)(iv) attached hereto), the "Cryolab" name and all related and associated logos and trademarks, and all licenses to or from third parties with respect to the foregoing or rights related thereto, in each case relating primarily to or otherwise necessary to the operation of the Cryolab Business; and

(v) all other assets and properties of every nature whatsoever tangible and intangible, and wherever located, used or held for use primarily in connection with the Cryolab Business or otherwise necessary to the operation of the Cryolab Business, including without limitation rights under contracts or agreements with representatives marketing and selling the products of the Cryolab Business, copies of customer lists, customer records and histories, customer invoices (for last three (3) years), lists of suppliers and vendors and all records relating thereto, all records with respect to the repair business of the Cryolab Business, engineering drawings, records with respect to production, engineering, product development, costs, advertising matter, catalogues, photographs, sales materials, purchasing materials, media materials, manufacturing and quality control records and procedures, research and development, files, data and laboratory books, media materials and plates and other records used primarily in connection with the Cryolab Business or otherwise necessary to the operation of the Cryolab Business.

The assets, property and business of Seller being sold to and purchased by Buyer under this Section 1.1(a) are hereinafter sometimes referred to as "Subject Assets."

(b) Notwithstanding the foregoing, there shall be excluded from such purchase and sale the following property and assets of Seller:

(i) the assets listed on Schedule 1.1(b) attached hereto;

(ii) cash, bank deposits and bank accounts of Seller;

(iii) all accounts receivable of Seller, including without limitation intercompany receivables; and

(iv) all assets of Seller not used or held for use primarily in connection with the Cryolab Business or otherwise necessary to the operation of the Cryolab Business.

The assets, property and business of Seller which are excluded from the Subject Assets under this Section 1.1(b) are hereinafter sometimes referred to as "Excluded Assets."

1.2 Liabilities. Except for the Sales Order Liabilities (as defined below), Buyer shall not assume or be bound by any obligations or liabilities of Seller or any affiliate of Seller of any kind or nature, known, unknown, accrued, absolute, contingent or otherwise, whether now existing or hereafter arising whatsoever. Seller shall be responsible for and pay any and all losses, damages, obligations, liens, assessments, judgments, fines, disposal and other costs and expenses, liabilities and claims, including, without limitation, interest, penalties and reasonable fees of counsel, engineers and experts, as the same are incurred, of every kind or nature whatsoever (all the foregoing being a "Claim" or the "Claims"), made by or owed to any person to the extent any of the foregoing relates to (a) Seller's operations and assets other than the operations and assets of the Cryolab Business, (b) the Excluded Assets or (c) the operations and assets of the Cryolab Business and arises in connection with or on the basis of events, acts, omissions, conditions or any other state of facts occurring or existing prior to or on the Closing Date (including, in each case, without limitation, any Claim relating to or associated with product liability matters, warranty claims, tax matters, pension and benefits matters, any failure to comply with applicable laws and/or permitting or licensing requirements, personal injury and property damage matters and environmental and worker health and safety matters). Buyer shall be responsible for and pay any and all Claims to the extent they relate to
(x) the Sales Order Liabilities or (y) the operation by Buyer of the Subject Assets after the Closing Date and arise in connection with or on the basis of events, acts, omissions, conditions or any other state of facts occurring or existing after the Closing Date (including, in each case, without limitation, any Claim relating to or associated with product liability matters, warranty claims, tax matters, pension and benefit matters, any failure to comply with applicable laws and/or permitting or licensing requirements, personal injury and property damage matters and environmental and worker health and safety matters). Any Claim, other than for the payment of liabilities, relating to operations and assets of the Seller and arising in connection with or on the basis of events, acts, omissions, conditions or any other state of facts occurring or existing both before and after the Closing Date will be apportioned between Seller and Buyer according to their relative degrees of causation as may be reasonably determined by Seller and Buyer under the circumstances; provided, however, that Buyer will not be considered to have caused the relevant problem to any extent for purposes of this Agreement if it takes all reasonable actions to address such problem after first obtaining actual knowledge thereof notwithstanding the fact that the relevant problem may have continued to exist for a period of time after the Closing

Date. Pursuant to the foregoing, Seller agrees with Buyer that Seller shall be solely responsible for any and all warranty claims or claims for injury (including death) or claims for damage, direct or consequential, resulting from or connected with products or services of the Cryolab Business sold or provided on or prior to the Closing Date, and Buyer shall have no liability for such claims. Buyer agrees with Seller that Buyer shall be solely responsible for any and all warranty claims or claims for injury (including death) or claims for damage, direct or consequential, resulting from or connected with products or services sold or provided by Buyer after the Closing Date, and, subject to Seller's indemnification obligations under Section 6 hereof, Seller shall have no liability for such claims.

(b) Upon the sale and purchase of the Subject Assets, Buyer agrees to perform in accordance with their terms only the obligations of Seller under the unfilled portions of those sale orders from customers of the Cryolab Business as set forth on Schedule 1.2(b)(i) (the "Acquired Sales Orders"). The liabilities to be assumed by Buyer pursuant to the preceding sentence are hereinafter sometimes referred to as the "Sales Order Liabilities." The assumption of the Sales Order Liabilities by Buyer hereunder shall not enlarge any rights of third parties under contracts or arrangements with Buyer or Seller or any of their respective affiliates or subsidiaries. Notwithstanding anything contained in this Section 1.2 to the contrary, the only liabilities and obligations of Seller existing on or prior to the Closing Date (including, without limitation, contractual liabilities and obligations) to be assumed by Buyer under this Agreement are the Sales Order Liabilities.

1.3 Purchase Price and Payment. In consideration of the sale by Seller to Buyer of the Subject Assets, subject to the assumption by Buyer of the Sales Order Liabilities, Buyer shall pay to Seller on the Closing Date by federal funds wire transfer in immediately available funds to an account designated by Buyer, the sum of $886,122.03 (the "Purchase Price").

1.4 Place of Closing; Closing Date. The closing of the purchase and sale provided for in this Agreement (herein called the "Closing") shall be held at the offices of Goodwin, Procter & Hoar, Exchange Place, Boston, Massachusetts 02109, on August 1, 1994, or at such other place or earlier or later date as may be fixed by mutual agreement of Buyer and Seller (the "Closing Date").

1.5 Transfer of Subject Assets. At the Closing, Seller shall deliver or cause to be delivered to Buyer good and sufficient instruments of transfer transferring to Buyer title to all of the Subject Assets. Such instruments of transfer (a) shall be in the form which is usual and customary for transferring the type of property involved under the laws of the jurisdictions applicable to such transfers,
(b) shall be in form and substance satisfactory to Buyer and its counsel, (c) shall effectively vest in Buyer good and marketable title to all of the Subject Assets free and clear of all liens, restrictions and encumbrances, and (d) where applicable, shall be accompanied by evidence of the discharge of all liens and encumbrances against the Subject Assets.

1.6 Delivery of Records and Contracts. At the Closing, Seller shall deliver or cause to be delivered to Buyer all of the Acquired Sales Orders. Seller shall also deliver to Buyer at the Closing, or substantially concurrently with the removal by Buyer of the Subject Assets, all of Seller's business records, books and other data relating to the assets, business and operations of the Cryolab Business, to the extent the same constitute part of the Subject Assets. Seller at the Closing shall also provide Buyer with written information as to the name, address and telephone number of each printer where literature plates are located as well as information identifying each literature plate located at each such printer (the "Literature Plate Information").

1.7 Further Assurances. Seller from time to time after the Closing at the request of Buyer and without further consideration shall (a) execute and deliver further instruments of transfer and assignment (in addition to those delivered under Section 1.6) and take such other actions as Buyer may reasonably require to more effectively transfer and assign to, and vest in, Buyer each of the Subject Assets and (b) cooperate with and provide assistance to Buyer in removing the Subject Assets from Seller's premises (or wherever located) as more fully described in Section 3.6 hereof.

1.8 Allocation of Purchase Price. The purchase price payable by Buyer pursuant to Section 1.3 and the amount of the Sales Order Liabilities assumed by Buyer shall represent payment for the Subject Assets and the covenants set forth in Section 3.7 hereof in the amounts set forth on Schedule 1.8 hereto. The amounts reflected in said Schedule shall represent the fair market values of the Subject Assets at the Closing, to the best of the knowledge and belief of the parties hereto. At or as soon as practicable after the Closing, Buyer and Seller shall execute an IRS Form 8594 in accordance with the allocation set forth in said Schedule and in compliance with Section 1060 of the Internal Revenue Code of 1986, as amended, and the rules and regulations thereunder. All tax returns and reports filed by Buyer and Seller with respect to the transactions contemplated by this Agreement shall be consistent with such Schedule.

SECTION 2. REPRESENTATIONS AND WARRANTIES OF SELLER.

2.1 Making of Representations and Warranties. Seller hereby makes the representations and warranties contained in this
Section 2. For the purposes of this Section 2, references to the "knowledge" or "best knowledge" of Seller shall be deemed to include such knowledge as any executive officer of Seller actually has or reasonably ought to have in the prudent exercise of his or her duties.

2.2 Organization and Qualifications of Seller. Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of California with full power and authority to own or lease its properties and to conduct its business in the manner and in the places where such properties are owned or leased or such business is conducted by it.

2.3 Authority. The Seller has full corporate power and authority to execute, deliver and perform this Agreement and each other agreement or instrument contemplated hereby and the execution and delivery of this Agreement and each other agreement or instrument contemplated hereby and the performance of all obligations hereunder and thereunder have been duly authorized by all necessary action of Seller. This Agreement and each other agreement, document and instrument executed by Seller pursuant to or in connection with this Agreement constitute, or when

executed and delivered will constitute, valid and binding obligations of Seller, enforceable in accordance with their respective terms. The execution, delivery and performance by the Seller of this Agreement and each other agreement, document and instrument executed and delivered by the Seller pursuant to this Agreement and the execution, delivery and performance by the Seller of any agreements, documents and instruments required to be executed and delivered by it pursuant to this Agreement:

(i) do not and will not violate any provision of the Articles of Incorporation or By-laws of Seller, each as amended or restated to date;

(ii) do not and will not violate any law or regulation applicable to Seller or require Seller to obtain any approval, authorization, declaration, consent or waiver of, or make any filing with or give notice to, any person, entity or public or governmental authority that has not been obtained, made or given; and

(iii) do not and will not result in a breach of, constitute a default under, accelerate any obligation under, require a consent under or give rise to a right of termination of any indenture or loan or credit agreement or any other agreement, contract, instrument, mortgage, lien, lease, permit, license, authorization, order, writ, judgment, injunction, decree, determination or arbitration award to which the Seller is a party or by which Seller or the property of Seller is bound or affected, or result in the creation or imposition of any mortgage, pledge, lien, security interest or other charge or encumbrance on any property or asset owned by Seller or on any of the Subject Assets.

2.4 Title to Properties; Liens; Condition of Properties.

(a) The Subject Assets do not include any real property or leases. Seller owns all of the Subject Assets and Seller has and is conveying to Buyer hereunder good and marketable title to all of its personal property, tangible and intangible, included in the Subject Assets. None of such property or assets of Seller tangible or intangible, is subject to any mortgage, pledge, lien, conditional sale agreement, security interest, encumbrance or other charge or restraint on transfer (collectively "Liens"). No financing statement under the Uniform Commercial Code with respect to any of the Subject Assets has been filed in any jurisdiction, and Seller has not signed any such financing statement or any security agreement authorizing any secured party thereunder to file any such financing statement. The Subject Assets and Excluded Assets listed on Schedule 1.1(b) are all of the assets necessary for the operation of the business of the Cryolab Business as the same has been operated prior to the date hereof. The Subject Assets (including the Equipment) (i) are in working order (reasonable wear and tear excepted, and in each case taking into account age), (ii) have been and shall through the Closing be maintained in a manner consistent with the past maintenance practices of Seller, (iii) are suitable for the manufacture of parts in accordance with the engineering specifications for Cryolab Products and (iv) to the best knowledge of Seller, conform with all applicable California and federal statutes, ordinances, regulations and laws.

(b) Upon delivery to Buyer of the instruments of transfer referred to in Section 1.6 hereof, Buyer will receive good, marketable and valid title to all of the Subject Assets, free and clear of all liens, encumbrances, charges, equities and claims of every kind.

2.5 Location of Subject Assets. The tangible Subject Assets are located at Seller's facility at 4175 Santa Fe Road, San Luis Obispo, California (the "Facility"), with the exception of (a) patterns (which are located as set forth in the Pattern Information provided pursuant to Section 1.1(a)(ii)) and (b) literature plates (which are located as set forth in the Literature Plate Information provided pursuant to Section 1.6).

2.6 Undisclosed Liabilities. Except as set forth on Schedule 2.6, Seller has no material liabilities of any nature, whether accrued, absolute, contingent or otherwise, asserted or unasserted, known or unknown, which relate primarily to the Cryolab Business.

2.7 Inventories. All of the Inventory is in existence on the date hereof. The Inventory complies with the descriptions and specifications set forth on Schedule 1.1(a)(i) and the Inventory consisting of component parts is of a quality sufficient to permit Buyer to manufacture products of the Cryolab Business in a manner consistent with all of such descriptions and specifications. On the date hereof, the Inventory is of the types, quantities and quality necessary to conduct the business of the Cryolab Business in a manner consistent with past practices. All of the items included in the Inventory are of a quality and quantity salable in the ordinary course of business of Seller. The values of the Inventory items as set forth on Schedule 1.1(a)(i) are true and correct and reflect valuations not in excess of the net realizable values of such items in the ordinary course of business.

2.8 Patents, Trade Names, Trademarks and Copyrights. All patents, patent applications, trade names, trademarks, trademark applications and registrations, copyrights or other proprietary rights owned by or licensed to Seller and used or to be used by or in connection with the Cryolab Business (the "Intangible Rights") are listed on Schedule 2.8 attached hereto. Except as set forth on said Schedule, all of the registered patents, trademarks and copyrights constituting Proprietary Rights have been duly registered in, filed in or issued by the United States Patent and Trademark Office, the United States Register of Copyrights or the corresponding offices of other countries identified on said Schedule, and have been properly maintained and renewed in accordance with all applicable provisions of law and administrative regulations in the United States and each such country. Except as set forth in said Schedule, the Intangible Rights are freely transferable and Seller has exclusive ownership or exclusive license to use all of the Intangible Rights free and clear of any attachments, liens, encumbrances or adverse claims. Except as set forth on said Schedule, (a) no other person has a license to use, or the right to license others to use, and, to the best knowledge of Seller, no person has an interest in or right to, any of the Intangible Rights, (b) there are no claims or demands of any other person or entity pertaining thereto and no proceedings have been instituted, or are pending or to the best knowledge of Seller, threatened, which challenge the rights of Seller in respect thereof, (c) none of the Intangible Rights is subject to any outstanding order, decree, judgment or stipulation or, to the best knowledge of Seller, is being infringed by others, (d) no proceeding charging Seller with infringement of any patent, trade name, trademark or copyright that is used by or in connection with the Cryolab Business has been filed or, to the best knowledge of Seller, is threatened to be filed and
(e) there does not exist (i) any unexpired patent with claims relating to products of the Cryolab Business or to apparatus, methods or designs

employed by the Cryolab Business in manufacturing its products or (ii) to the best knowledge of Seller, any invention, patent or application therefor which could reasonably be expected to adversely affect any such product, apparatus, method or design of the Cryolab Business.

2.9 Trade Secrets and Customer Lists. Seller has the right to use, free and clear to the best knowledge of Seller of any claims or rights of others, all trade secrets, customer lists, manufacturing and secret processes required for or incident to the manufacture or marketing of (a) all products formerly or presently produced by the Cryolab Business and (b) all products currently under development by the Cryolab Business, including products licensed from others (hereinafter collectively referred to as the "Proprietary Information"). The Cryolab Business is not using or in any way making use of any confidential information or trade secrets of any third party in violation of such third party's rights, including without limitation, any former employer of any present or past employee of Seller or any person or entity affiliated with any of them.

2.10 Financial Statements. Seller has delivered to Buyer unaudited statements of income for the Cryolab Business for each of the twelve-month periods ended December 31, 1991, 1992 and 1993, and for the six-month period ended June 30, 1994, certified by Seller's Chief Financial Officer, copies of which are attached hereto as Schedule 2.10 (the "Income Statements"). The Income Statements (except for the six-month period ended June 30, 1994) were prepared by Seller based on the audited statements of income of Seller for the periods covered thereby, as certified by Seller's independent public accountants (the "Audited Income Statements"). The Income Statements (i) have been prepared in accordance with generally accepted accounting principles applied consistently during the periods covered thereby (except for the absence of accompanying footnotes), (ii) have been prepared on a basis consistent with the Audited Income Statements, (iii) are complete and correct in all material respects, (iv) present fairly the results of operations of the Cryolab Business for the periods covered thereby and (v) contain no omission of a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

2.11 Litigation. Except as set forth on Schedule 2.11, there is no litigation, claim or governmental, arbitration or other proceeding, investigation, order or decree pending or in effect or, to the best knowledge of Seller, threatened against Seller relating to or affecting any of the Subject Assets or the Cryolab Business. All of the matters set forth on Schedule 2.11 are subject to and are being defended by Seller's insurance carrier.

2.12 Compliance with Laws. To the best knowledge of Seller, the Cryolab Business and the Subject Assets have been and as of the date hereof are in compliance with all applicable laws, rules, regulations, codes, ordinances, requirements and orders of governments or governmental bodies, and Seller has received no notice asserting any noncompliance therewith. In addition, all engineering drawings included in the Subject Assets are in full compliance with all applicable industry standards, guidelines and regulations, including without limitation industry standard ANSI Y14.5, to the extent applicable to the Cryolab Business.

2.13 Insurance. Schedule 2.13 identifies all policies of insurance in effect as of the date of this Agreement covering the assets, properties and business of the Cryolab Business. Said insurance policies are in full force and effect and all premiums with respect thereto are currently paid. Seller's product liability insurance provides for occurrence based coverage. Except as set forth on Schedule 2.13, there have been no material losses, claims or settlements during the last three fiscal years.

2.14 Finder's Fee. Seller has not incurred or become liable for any broker's commission or finder's fee relating to or in connection with the transactions contemplated by this Agreement.

2.15 Permits; Governmental Consents. To the best knowledge of Seller, Seller has obtained and is operating in compliance with all franchises, licenses, permits, registrations, applications, certifications, code approvals and other approvals (collectively the "Permits") which are required primarily to permit it to conduct the business of the Cryolab Business and each such Permit is valid and in full force and effect. As of the Closing Date, to the extent Seller is allowed to do so, Seller is conveying and assigning to Buyer each Permit, other than those Permits required to operate the Facility. Seller is not subject to or bound by any agreement, judgment, decree or order which may materially and adversely affect any of the Subject Assets or the business, prospects or condition (financial or otherwise) of the Cryolab Business. No consent, approval, or authorization of, or declaration, filing or registration with, any United States federal, foreign or state governmental or regulatory authority is required to be made or obtained by Seller in connection with the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated by this Agreement.

2.16 Material Adverse Change. Except as specifically disclosed on Schedule 2.16 to this Agreement, since December 31, 1993:

(a) there has not been any material adverse change in the business, results of operations, condition (financial or otherwise), properties, assets, liabilities or obligations of the Cryolab Business;

(b) there has not been any damage, destruction or loss (whether or not covered by insurance), materially and adversely affecting the business, prospects, results of operations, condition (financial or otherwise) assets or properties of the Cryolab Business;

(c) there has not been any change in the relationships of Seller with respect to its suppliers, distributors, licensees, licensors, customers or others with whom it has business relationships which would have a material adverse effect on the Cryolab Business, and Seller does not have knowledge of any fact or contemplated event which may cause any such material adverse change;

(d) the business conducted by the Cryolab Business has been conducted and carried on only in the ordinary and regular course; and

(e) there has not been any alteration or change in the methods of operation employed by the Cryolab Business.

2.17 Government Contracts. Seller has no pending or proposed contracts or subcontracts with any agency of the United States Government relating to the Cryolab Business.

2.18 Products. Except as set forth on Schedule 2.13, there are no existing or, to the best knowledge of Seller, threatened product liability, warranty or other similar claims, or, to the best knowledge of Seller, any facts upon which a claim of such nature could be based, against Seller for products or services of the Cryolab Business which are defective or fail to meet any product or service warranties. There are no statements, citations or decisions by any government or political subdivision thereof, whether federal, state, local or foreign, or any agency or instrumentality of any such government or political subdivision, or any court or arbitrator (collectively, "Governmental Bodies") stating that any product manufactured, marketed or distributed by the Cryolab Business at any time on or prior to the Closing Date ("Cryolab Products") is defective or unsafe or fails to meet any product warranty or any standards promulgated by any such Governmental Body. There have been no recalls ordered by any such Governmental Body with respect to any Cryolab Product. Seller does not know and has no reason to know of (a) any fact relating to any Cryolab Product that may impose upon Seller a duty to recall any Cryolab Product or a duty to warn customers of a defect in any Cryolab Product, (b) any latent or overt design, manufacturing or other defect in any Cryolab Product, or (c) any material liability for warranty or other claims or returns with respect to any Cryolab Product. The sales and advertising brochures and literature relating to the Cryolab Products do not contain any material omission or misstatement.

2.19 Suppliers, Customers and Distributors. Schedule 2.19 sets forth all of the suppliers, customers and distributors (inclusive of sales representatives and agents) of Seller with respect to the Cryolab Business. The relationships of Seller with such suppliers, customers and distributors are good commercial working relationships and
(a) no person or entity listed on Schedule 2.19 within the last 12 months has threatened in writing to cancel or otherwise terminate, or to the best knowledge of Seller intends to cancel or otherwise terminate, the relationship of such person with Seller, (b) no such person or entity has during the last twelve months modified materially, and Seller has no knowledge that such persons or entities intend to materially modify their relationship in such a way as to cause a materially adverse effect on the Cryolab Business.

2.20 Disclosure. The representations, warranties and statements made or contained in this Agreement, in the documents, certificates, filings, Schedules and Exhibits given or delivered by Seller in connection with and pursuant to this Agreement and in any other written materials relating to the Cryolab Business provided by Seller to Buyer or any of its affiliates, do not either individually or when taken together, contain any untrue statement of a material fact, and do not omit to state a material fact required to be stated therein or necessary in order to make such representations, warranties and statements not misleading in light of the circumstances in which they were made or delivered. Other than as specifically disclosed herein or in the Schedules hereto, Seller is unaware of any facts which could reasonably be expected to result in a material adverse impact on the Subject Assets or on the business, properties, prospects, operations or condition (financial or otherwise) of the Cryolab Business.

2.21 Backlog. As of the date hereof, the Cryolab Business has a backlog of firm written non-contingent orders for the sale of products for which revenues have not been fully recognized by Seller, as set forth in Schedule 2.21 hereto (the "Backlog") and the amount of the Backlog reflected on such Schedule is true and correct.

2.22 Contracts. Except for contracts, commitments, plans, agreements and licenses listed in Schedule 2.22 attached hereto (true and complete copies (or, in the case of oral agreements, written descriptions) of which have been delivered to Buyer), Seller is not a party to or subject to any of the following contracts or agreements, in each case which relates primarily to, or is necessary in connection with the operation of, the Cryolab Business:

(a) any contract or agreement for the purchase of any commodity, material or equipment, except purchase orders in the ordinary course of the Cryolab Business;

(b) any other contracts or agreements creating any obligation of Seller of $10,000 or more with respect to any such contract or $50,000 in the aggregate with respect to all such contracts, except purchase orders in the ordinary course of the Cryolab Business;

(c) any contract or agreement providing for the purchase of all or substantially all of its requirements of a particular product from a supplier;

(d) any contract or agreement which by its terms does not terminate or is not terminable without penalty by Seller or any successor or assign within one year after the date hereof;

(e) any contract or agreement for the sale or lease of its products, except sales orders in the ordinary course of the Cryolab Business;

(f) any contract with any sales agent or distributor of products of Seller;

(g) any contract containing covenants limiting the freedom of Seller to compete in any line of business or with any person or entity;

(h) any contract or agreement for the purchase of any fixed asset for a price in excess of $2,500 whether or not such purchase is in the ordinary course of business;

(i) any license agreement (as licensor or licensee);

(j) any indenture, mortgage, promissory note, loan agreement, guaranty or other agreement or commitment for the borrowing of money and any related security agreement;

(k) any contract or agreement with any officer, employee, director or stockholder of Seller or with any persons or organizations controlled by or affiliated with any of them; or

(l) any oral contract, agreement, arrangement or understanding involving (individually or in the aggregate) more than $10,000 which pertains to the suppliers or customers of the Cryolab Business.

All contracts, agreements, leases and instruments to which Seller is a party or by which the Seller is obligated, in each case which relate primarily to the Cryolab Business, including without limitation any relating to continuing warranty or service obligations (collectively, the "Cryolab Contracts"), are valid and are in full force and effect and constitute legal, valid and binding obligations of Seller enforceable in accordance with their respective terms. To the best knowledge of Seller, each Cryolab Contract constitutes the legal, valid and binding obligation of each party thereto other than Seller enforceable in accordance with its terms. Neither Seller nor, to the best knowledge of Seller, any other party to any Cryolab Contract is in material default in complying with any provisions thereof, and no condition or event or facts exist which, with notice, lapse of time or both would constitute a material default thereof on the part of Seller or, to the best knowledge of Seller, on the part of any other party thereto.

SECTION 3. COVENANTS OF SELLER.

3.1 Making of Covenants and Agreements. Seller hereby covenants and agrees as set forth in this Section 3.

3.2 Breach of Representations and Warranties. Promptly upon the occurrence of, or promptly upon becoming aware of the impending or threatened occurrence of any event which would cause or constitute a breach, or would with the giving of notice, the passage of time or both constitute a breach of (a) any of the representations and warranties of Seller contained in or referred to in this Agreement or in any Schedule referred to in this Agreement, (b) any other provision of this Agreement, or (c) any other agreement executed and delivered in connection with this Agreement, Seller shall give detailed written notice thereof to Buyer and shall use its best efforts to prevent or promptly remedy the same.

3.3 Expenses. All expenses of Seller in connection with the negotiation and performance of this Agreement and the transactions contemplated hereby and all transfer, excise or other taxes payable by any party to this Agreement to any jurisdiction by reason of the sale and transfer of the Subject Assets pursuant to this Agreement, if any (excluding any such taxes arising solely from the identity or location of Buyer or any affiliate of Buyer), shall be paid by Seller out of the proceeds of the sale of the Subject Assets or otherwise, and, no such expenses shall be payable by Buyer or any affiliate of Buyer.

3.4 Notification. Until the third anniversary of the Closing Date, Seller hereby agrees to give Buyer written notice of any change of Seller's address within five days after such change, specifying such new address.

3.5 Non-Use of Trade Names, etc. After the Closing Date, neither Seller, nor any person controlling, controlled by or under common control with Seller will for any reason, directly or indirectly, for itself or any other person, (a) use any Intangible Rights transferred pursuant to this Agreement, or (b) use or disclose any trade secrets, confidential information, know-how, proprietary information or other intellectual property described in
Section 1.1(a)(iv) hereof and transferred pursuant to this Agreement, except (i) Seller may disclose such information to Buyer in connection with the operation of the Cryolab Business by Buyer after the Closing Date and (ii) Seller may, for a period of 180 days after the Closing Date, continue to use the name "Cryolab" to the extent it is contained in product literature which relates both to Cryolab Products and other products of Seller which do not compete with Cryolab Products.

3.6 Access and Cooperation of Seller. In connection with the relocation of the Subject Assets from the Facility (or wherever located) to Buyer's premises (the "Relocation"), Seller shall cooperate with and assist Buyer and comply with all reasonable requests of Buyer at the Facility. Seller shall use its best efforts to provide Buyer with access to Seller's premises at all times during normal working hours until the Relocation has been completed. In addition, Seller shall provide Buyer with use of forklifts, trucks and other materials handling equipment, as well as sufficient labor to accomplish the Relocation. Buyer shall reimburse Seller, subject to reasonable substantiation and documentation, for actual out-of-pocket expenses incurred by Seller after the date of this Agreement in connection with the Relocation. Any labor costs incurred by Seller for Seller's employees assisting with the Relocation shall be reimbursed by Buyer at hourly rates agreed upon in advance without any payments by Buyer on account of or with respect to the cost of any benefits (health, retirement, etc.) incurred by Seller with respect to such employees. Buyer agrees to defend, indemnify and hold Seller harmless from and against any and all claims for property damage arising out of the Relocation which are caused by negligent acts of Buyer or its employees or agents. Buyer agrees not to cross claim against Seller in the event that any action is brought against Buyer for personal injury arising out of the Relocation which is caused by a negligent act of Buyer or its employees or agents.

3.7 Non-Competition. Seller, in order to induce Buyer to enter into this Agreement, expressly covenants and agrees that neither Seller nor any of its affiliates will, directly or indirectly, (a) for a period of ten (10) years following the Closing Date disclose or furnish to any person, other than Buyer, any proprietary information of, or confidential information concerning, the Cryolab Business except as required by law; and (b) for

a period of two (2) years following the Closing Date anywhere in the United States or in any foreign country, own, manage, operate, join, control, or participate in or be connected with any business, individual, partnership, firm or corporation, which is at the time engaged, wholly or partly, in the design, manufacture, development, distribution, marketing or sale of any valves designed for and/or used in any Cryogenic application. For purposes of this Agreement, the term "Cryogenic" means any gas or liquid exhibiting a temperature of -100 F (minus one hundred degrees Fahrenheit) or lower. Seller agrees that this provision is reasonable in view of the nature of the business being transferred and the relevant market for the Seller's products and services and that any breach hereof would result in continuing and irreparable harm to Buyer and would adversely affect the value to Buyer of the Subject Assets and related goodwill being transferred under this Agreement. The Seller expressly covenants and agrees that the remedy at law for any breach of this Section 3.7 will be inadequate and that, in addition to any other remedies Buyer may have, Buyer shall be entitled to temporary and permanent injunctive relief without the necessity of proving actual damage. To the extent that any part of this provision may be invalid, illegal or unenforceable for any reason, it is intended that such part shall be enforceable to the extent that a court of competent jurisdiction shall determine that such part if more limited in scope would have been enforceable and such part shall be deemed to have been so written and the remaining parts shall as written be effective and enforceable in all events.

3.8 Sales Orders. Seller will not send any invoices to, or request payment in any other manner from, customers of the Cryolab Business for sales orders unfulfilled as of the Closing Date. Any and all amounts received by Seller from any such customer in respect of any such unfulfilled sales order shall be promptly remitted to Buyer.

3.9 Notification of Foundries, Printers, Etc. Seller agrees from time to time, as often as is reasonably requested by Buyer, that Seller shall contact the foundries, printers, and other entities, respectively, where the patterns and literature plates acquired by Buyer pursuant to this Agreement are located, and notify them that Buyer has acquired such patterns and literature plates and that Buyer is the lawful owner thereof and Seller shall otherwise cooperate as requested by Buyer to effect the transfer to Buyer of such patterns and literature plates.

SECTION 4. REPRESENTATIONS AND WARRANTIES OF BUYER.

4.1 Making of Representations and Warranties. As a material inducement to Seller to enter into this Agreement and consummate the transactions contemplated hereby, Buyer hereby makes the representations and warranties to the Seller contained in this Section 4.

4.2 Organization of Buyer. Buyer is a corporation duly organized, validly existing and in good standing under the laws of Delaware with full corporate power and authority to own or lease its properties and to conduct its business in the manner and in the places where such properties are owned or leased or such business is conducted by it.

4.3 Authority of Buyer. Buyer has full corporate power and authority to enter into this Agreement and each agreement, document and instrument to be executed and delivered by Buyer pursuant to this Agreement and to carry out the transactions contemplated hereby. The execution, delivery and performance by Buyer of this Agreement and each such other agreement, document and instrument have been duly authorized by all necessary action of Buyer and no other action on the part of Buyer is required in connection therewith. This Agreement and each other agreement, document and instrument executed and delivered by Buyer pursuant to this Agreement constitute valid and binding obligations of Buyer enforceable in accordance with their terms. The execution, delivery and performance by Buyer of this Agreement and each such agreement, document and instrument:

(i) do not and will not violate any provision of the certificate of incorporation or by-laws of Buyer;

(ii) do not and will not violate any laws of the United States, or any state or other jurisdiction applicable to Buyer or require Buyer to obtain any approval, consent or waiver of, or make any filing with, any person or entity (governmental or otherwise) that has not been obtained or made; and

(iii) do not and will not result in a breach of, constitute a default under, accelerate any obligation under, or give rise to a right of termination of any indenture or loan or credit agreement or any other agreement, contract, instrument, mortgage, lien, lease, permit, authorization, order, writ, judgment, injunction, decree, determination or arbitration award, whether written or oral, to which Buyer is bound or affected.

4.4 Litigation. There is no litigation pending or, to the best knowledge of Buyer, threatened against Buyer which would prevent or hinder the consummation of the transactions contemplated by this Agreement.

4.5 Finder's Fees. Except for the fees of Penrose Associates, which shall be paid solely by Buyer, Buyer has not incurred or become liable for any broker's commission or finder's fee relating to or in connection with the transactions contemplated by this Agreement.

4.6 Reliance. Buyer is relying on each of the representations and warranties of Seller contained in this Agreement.

SECTION 5. COVENANTS OF BUYER.

5.1 Making of Covenants and Agreements. Buyer hereby covenants and agrees as set forth in this Section 5.

5.2 Accounts Receivable. Buyer agrees to promptly remit to Seller any amounts received by Buyer with respect to Seller's accounts receivable.

Buyer agrees to cooperate with Seller to inform customers of the Cryolab Business with outstanding accounts receivable due to Seller as of the Closing Date that payments should be directed to Seller and not to Buyer.

5.3 Inventory. Buyer agrees to use commercially reasonable efforts in the ordinary course of business to sell the Inventory, except the parties recognize a reserve of $104,000 for obsolete or scrap inventory items for which Buyer shall have no such obligation.

5.4 Insurance. Buyer (or its affiliates) shall continue to maintain for a period of five years after the Closing, product liability insurance in the amount of at least $2,000,000 (and on such other terms and conditions as are customarily contained in such policies of Buyer and its affiliates) and such insurance shall apply to products sold or provided by Buyer after the Closing Date.

5.5 Confidentiality. In the event that Buyer should acquire any proprietary or confidential information of or concerning SAES and/or the business of SAES in connection with or as a result of the transactions contemplated by this Agreement, Buyer agrees not to disclose and to maintain the confidentiality of such information, except Buyer may disclose any such information (i) to the extent required by law and (ii) which relates to the operation of the Cryolab Business.

5.6 Notification. Until the third anniversary of the Closing Date, Buyer hereby agrees to provide to Seller written notice of any change of Buyer's address within five days after such change, specifying such new address.

5.7 Acquired Sales Orders. Upon the sale and purchase of the Subject Assets, Buyer agrees to pay, perform and discharge in accordance with their terms only the Sales Order Liabilities.

SECTION 6. SURVIVAL OF WARRANTIES.

6.1 Survival of Warranties. All representations, warranties, agreements, covenants and obligations herein or in any schedule, exhibit, certificate or financial statement delivered by any party incident to the transactions contemplated hereby are material, shall be deemed to have been relied upon by the parties receiving the same and shall survive the Closing (subject to Section 7.1 hereof) regardless of any investigation and shall not merge into the performance of any obligation by any party hereto.

SECTION 7. INDEMNIFICATION.

7.1 Indemnification by Seller. Seller (subject to the following paragraph of this Section 7.1), agrees to defend, indemnify and hold Buyer, its parent and its and their respective subsidiaries and affiliates and persons serving as officers, directors, partners or employees thereof (individually a "Buyer Indemnified Party" and collectively the "Buyer Indemnified Parties") harmless from and against any and all Claims (as defined in Section 1.2 hereof), whether or not arising out of third-party claims, without regard to any investigation by any of the Buyer Indemnified Parties and including all reasonable amounts paid in investigation, defense or settlement of the foregoing, which may be sustained or suffered by any of them based upon, arising out of, by reason of or otherwise in respect of or in connection with (a) any inaccuracy in or breach of any representation or warranty made by Seller in this Agreement or in any Schedule, exhibit, certificate, agreement or other document delivered hereunder or in connection with this Agreement, or any claim, action or proceeding asserted or instituted or arising out of any matter or thing covered by such representations or warranties (collectively, "Buyer Representation and Warranty Claims"); (b) any breach of any covenant or agreement made by Seller in this Agreement or in any Schedule, exhibit, certificate, agreement or other instrument delivered under or in connection with this Agreement, or any claim, action or proceeding asserted or instituted arising out of any matter or thing covered by any such covenant or agreement;
(c) any Claim relating to the business or operations of Seller other than the Cryolab Business; (d) any Claim relating to the operations and assets of the Cryolab Business which arises in connection with or on the basis of events, acts, omissions, conditions or any other state of facts occurring or existing prior to or on the Closing Date (including, in each case, without limitation, any Claim relating to or associated with the litigation set forth on Schedule 2.11, warranty claims or claims for injury (including death) or claims for damage, direct or consequential, resulting from or connected with products or services of the Cryolab Business sold or provided on or prior to the Closing Date, product liability matters, warranty claims, tax matters, pension and benefits matters, any failure to comply with applicable laws and/or permitting or licensing requirements, personal injury and property damage matters and environmental and worker health and safety matters); or (e) any Claim relating to the Unsalable Inventory Amount (as defined in Section 7.5) (collectively, "Inventory Claims"). The rights of Buyer Indemnified Parties to recover indemnification in respect of any occurrence referred to in clause (b),
(c), (d) or (e) of this Section 7.1 shall not be limited by the fact that such occurrence may not constitute an inaccuracy in or breach of any representation or warranty referred to in clause (a) of this Section 7.1.

The right of Buyer Indemnified Parties to recover indemnification under this Section 7.1 shall be subject to the following limitations:

(i) No indemnification shall be payable by Seller with respect to Buyer Representation and Warranty Claims and Inventory Claims unless the total of all amounts payable pursuant to this Section 7.1 shall exceed $25,000 in the aggregate, whereupon the total amount of such Claims shall be recoverable in accordance with the terms thereof, provided that such $25,000 limitation shall not apply with respect to Claims involving intentional misrepresentation or intentional concealment.

(ii) All rights to indemnification under Sections 7.1(a) and 7.2(a) with respect to Buyer Representation and Warranty Claims and Seller Representation and Warranty Claims, respectively, shall expire on the Second Anniversary Date, except that Buyer Representation and Warranty Claims and Seller Representation and Warranty Claims relating to or involving intentional misrepresentation or intentional

concealment shall survive until and shall expire on the date three months after the termination of the applicable statute of limitations relating thereto. Notwithstanding the preceding sentence, if on or prior to the second anniversary of the Closing Date (the "Second Anniversary Date") a specific state of facts shall have become known which may give rise to a claim for indemnification under Section 7.1(a) or 7.2(a), as the case may be, and an Indemnified Party shall have given written notice of such facts known by such Indemnified Party at such time to Seller in the case of a Buyer Indemnified Party, or to Buyer in the case of a Seller Indemnified Party, then the right to indemnification with respect thereto shall remain in effect without regard to when such matter shall be finally determined and disposed of. All rights with respect to indemnification with respect to Inventory Claims shall expire on the day after the third anniversary of the Closing Date (the "Third Anniversary Date"). All rights to indemnification under Sections 7.1(a) and 7.2(a) with respect to claims other than Buyer Representation and Warranty Claims, Seller Representation and Warranty Claims and Inventory Claims shall, except as they may otherwise be extended, survive until and shall expire on the date three months after the termination of the applicable statute of limitations relating thereto. The limitations herein with respect to Buyer Representation and Warranty Claims and Seller Representation and Warranty Claims shall not limit the rights of any Indemnified Party with respect to any other claims.

(iii) Notwithstanding anything contained in this
Section 7 to the contrary, Seller shall not be required to indemnify Buyer Indemnified Parties with respect to (A) Buyer Representation and Warranty Claims and Inventory Claims in an aggregate amount in excess of $500,000, except with respect to claims relating to or involving intentional misrepresentation or intentional concealment, as to which no such limit shall apply, and (B) Inventory Claims in an aggregate amount in excess of $250,000, except with respect to claims relating to or involving intentional misrepresentation or intentional concealment, as to which no such limit shall apply.

(iv) No indemnification shall be payable with respect to Inventory Claims until after the Second Anniversary Date, at which time such indemnification, if any, shall be payable, but Seller shall not (subject to the following sentence) be required to pay an amount in excess of an aggregate amount (the "Initial Inventory Claims Amount") equal to the lesser of (A) $125,000 or (B) 50% of the Inventory Claims. The amount of any Inventory Claims remaining unpaid following payment of the Initial Inventory Claims Amount (the "Unpaid Inventory Claims Amount") shall (subject to the limitation set forth in Section 7.1(iii)(B) hereof) be paid by Seller to the relevant Buyer Indemnified Party on the Third Anniversary Date; provided, however, that if following the Second Anniversary Date and prior to the Third Anniversary Date items of Inventory with respect to which Inventory Claims were made are sold, the Unpaid Inventory Claims Amount shall be reduced by an amount (the "Inventory Sales Amount") equal to the lesser of (X) the aggregate amount of Inventory Claims represented by such sold Inventory items or (Y) the actual aggregate net sales proceeds to Buyer in respect of such sold Inventory items; provided further, however, that if the Inventory Sales Amount exceeds the Unpaid Inventory Claims Amount, Buyer shall pay to Seller on the Third Anniversary Date the amount of such excess.

7.2 Indemnification by Buyer. Buyer agrees to defend, indemnify and hold Seller, its parent and its and their respective subsidiaries and affiliates and persons serving as officers, directors, partners or employees thereof (individually a "Seller Indemnified Party" and collectively the "Seller Indemnified Parties") harmless from and against any and all Claims (as defined in Section 1.2 hereof), whether or not arising out of third-party claims and including all reasonable amounts paid in investigation, defense or settlement of the foregoing, which may be sustained or suffered by any of them based upon, arising out of, by reason of or otherwise in respect of or in connection with (a) any inaccuracy in or breach of any representation or warranty made by Buyer in this Agreement or in any Schedule, exhibit, certificate, agreement, or other document delivered hereunder or in connection with this Agreement, or any claim, action or proceeding asserted or instituted or arising out of any matter or thing covered by such representations or warranties ("Seller Representation and Warranty Claims"); (b) any breach of any covenant or agreement made by Buyer in this Agreement or in any Schedule, exhibit, certificate, agreement or other instrument delivered under or in connection with this Agreement, or any claim, action or proceeding asserted or instituted arising out of any matter or thing covered by any such covenant or agreement; (c) any Claim relating to the operation by Buyer of the Subject Assets after the Closing Date which arises in connection with or on the basis of events, acts, omissions, conditions or any other state of facts occurring or existing after the Closing Date (including, in each case, without limitation, any Claim relating to or associated with warranty claims or claims for injury (including death) or claims for damage, direct or consequential, resulting from or connected with products or services sold or provided by Buyer after the Closing Date, product liability matters, warranty claims, tax matters, pension and benefit matters, any failure to comply with applicable laws and/or permitting or licensing requirements, personal injury and property damage matters and environmental and worker health and safety matters); and (d) the non-performance of the Sales Order Liabilities to the extent assumed by Buyer hereunder as they become due, in accordance with their respective terms.

The rights of Seller Indemnified Parties to recover indemnification under this Section 7.2 shall be subject to the following limitations:

(i) No indemnification shall be payable by Buyer with respect to Seller Representation and Warranty Claims unless the total of all amounts payable pursuant to this Section 7.2 shall exceed $25,000 in the aggregate, whereupon the total amount of such Claims shall be recoverable in accordance with the terms thereof, provided that such $25,000 limitation shall not apply with respect to Claims involving intentional misrepresentation or intentional concealment.

(ii) Notwithstanding anything contained in this
Section 7 to the contrary, Buyer shall not be required to indemnify Seller Indemnified Parties with respect to Seller Representation and Warranty Claims in an aggregate amount in excess of $500,000, except with respect to claims relating to or involving intentional misrepresentation or intentional concealment, as to which no such limit shall apply.

7.3 Notice; Defense of Claims. Promptly after receipt by an indemnified party of notice of claims of third parties or litigation filed with respect to, or the commencement of any governmental proceeding or investigation relating to, any claim, liability or expense to which the indemnification obligations hereunder would apply, the indemnified party shall give notice thereof in writing to the indemnifying party, but the

omission to so notify the indemnifying party promptly will not relieve the indemnifying party from any liability except to the extent that the indemnifying party shall have been prejudiced as a result of the failure or delay in giving such notice. Such notice shall state in reasonable detail the information then available regarding the amount and nature of such claim, liability or expense and shall specify the provision or provisions of this Agreement under which the liability or obligation is asserted. If within 20 days after receiving such notice the indemnifying party gives written notice to the indemnified party stating that it disputes and intends to defend against such claim, liability or expense at its own cost and expense, then counsel for the defense shall be selected by the indemnifying party (subject to the consent of the indemnified party which consent shall not be unreasonably withheld) and the indemnified party shall make no payment on such claim, liability or expense as long as the indemnifying party is conducting a good faith and diligent defense. Notwithstanding anything herein stated, the indemnified party shall at all times have the right fully to participate in such defense at its own expense directly or through counsel and shall have the right to consent to any settlement proposed by the indemnifying party, which consent shall not be unreasonably withheld; provided, however, if the named parties to the action or proceeding include both the indemnifying party and the indemnified party and representation of both parties by the same counsel would be inappropriate under applicable standards of professional conduct, the expense of separate counsel for the indemnified party shall be paid by the indemnifying party. If no such notice of intent to dispute and defend is given by the indemnifying party, or if such diligent good faith defense is not being or ceases to be conducted, the indemnified party shall, at the expense of the indemnifying party, undertake the defense of (with counsel selected by the indemnified party), and shall have the right to compromise or settle (exercising reasonable business judgment) such claim, liability or expense. The indemnified party shall make available all information and assistance that the indemnifying party may reasonably request and shall cooperate with the indemnifying party in such defense.

7.4 Satisfaction of Indemnification Obligations. Any indemnity payable pursuant to this Section 7 shall be paid within the later of (a) ten (10) days after the indemnified party's request therefor (in the case of claims not involving a third party) or (b) ten (10) days prior to the date on which the loss upon which the indemnity is based is required to be satisfied by the indemnified party. In order to satisfy any indemnification obligations of Seller, Buyer shall have the right (in addition to collecting directly from Seller in whole or in part, at its option) to set off the amount of any indemnification owed to it or its affiliates under Section 7.1 against any amounts otherwise due from Buyer or its affiliates to Seller (including without limitation any amounts due under Section 7.1(iv) hereof).

7.5 Unsalable Inventory. For purposes of this Agreement, the term "Unsalable Inventory Amount" means the amount, if any, by which (a) the aggregate value of any Inventory set forth on Schedule 2.11 which is not sold on or prior to the Second Anniversary Date exceeds (b) the amount of the reserve for obsolete or scrap inventory set forth on Schedule 1.1(a)(i). For purposes of determining the value of any Inventory remaining unsold, the value of such Inventory shall be as reflected on Schedule 1.1(a)(i). For purposes of determining whether an Inventory item has been sold, all parts included in products manufactured and sold by Buyer after the Closing (or which would have been included in such products but for the fact that Buyer modified such product after the Closing Date, unless such modification was made by Buyer as a result of facts which would result in a breach of any of the representations or warranties contained in Section 2 of this Agreement) which are the same as parts which are included in the Inventory, shall be deemed to have been sold whether or not such parts were in fact included in the Inventory or whether Buyer purchased or manufactured such parts after the Closing.

SECTION 8. MISCELLANEOUS.

8.1 Law Governing. This Agreement shall be construed under and governed by the laws of the Commonwealth of Massachusetts without regard to the conflicts of laws provisions thereof.

8.2 Notices. All communications, notices and consents provided for herein shall be in writing and be given in person or by means of telex, facsimile or other means of wire transmission (with request for assurance of receipt in a manner typical with respect to communications of that type) or by mail, and shall become effective
(x) on delivery if given in person, (y) on the date of transmission if sent by telex, facsimile or other means of wire transmission, or
(z) four business days after being deposited in the United States mails, with proper postage, for first-class registered or certified mail, prepaid.

Notices shall be addressed as follows:

If to Buyer, to:

c/o Watts Industries, Inc.
815 Chestnut Street
North Andover, MA 01845

Attn: President
Facsimile Number: 508-688-5841

With a copy to:

c/o Watts Industries, Inc. 815 Chestnut Street
North Andover, MA 01845 Attn: Suzanne M. Zabitchuk, Esq.

Facsimile Number: 508-688-5841

Goodwin, Procter & Hoar

Exchange Place
Boston, MA 02109
Attn: John R. LeClaire, P.C.

Facsimile Number: 617-523-1231

If to Seller:

SAES Pure Gas, Inc.
4175 Santa Fe Road
San Luis Obispo, CA 93401

Attn: President
Facsimile Number: 805-541-9399

With a copy to:

Martin J. Tangeman, Esq.

Sinsheimer, Schiebelhut & Baggett

1010 Peach Street
P.O. Box 31
San Luis Obispo, CA 93406-0031 Facsimile Number: 805-541-2802

provided, however, that if any party shall have designated a different address by notice to the others in accordance with this Section 8.2, then to the last address so designated.

8.3 Prior Agreements Superseded. This Agreement supersedes all prior understandings and agreements among the parties relating to the subject matter hereof.

8.4 Assignability. This Agreement shall not be assignable by any party, except by Buyer to an affiliate of Buyer (which assignment shall not relieve Buyer of any of its obligations hereunder), without the prior written consent of the other parties hereto. This Agreement (including without limitation the provisions of Section 7) shall be binding upon and enforceable by, and shall inure to the benefit of, the parties hereto and their respective successors, heirs, executors, administrators and permitted assigns.

8.5 Captions and Gender. The captions in this Agreement are for convenience only and shall not affect the construction or interpretation of any term or provision hereof. The use in this Agreement of the masculine pronoun in reference to a party hereto shall be deemed to include the feminine or neuter pronoun, as the context may require.

8.6 Certain Definitions. For purposes of this Agreement, the term:

(a) "affiliate" of a person shall mean a person that directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control with, the first mentioned person;

(b) "control" (including the terms "controlled by" and "under common control with") means the possession, directly or indirectly or as trustee or executor, of the power to direct or cause the direction of the management policies of a person, whether through the ownership of stock, as trustee, partner or executor, by contract or credit arrangement or otherwise;

(c) "person" means an individual, corporation, partnership, association, trust or any unincorporated organization; and

(d) "subsidiary" of a person means any corporation more than 50 percent of whose outstanding voting securities, or any partnership, joint venture or other entity more than 50 percent of whose total equity interest, is directly or indirectly owned by such person.

8.7 Execution in Counterparts. For the convenience of the parties and to facilitate execution, this Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same document.

8.8 Amendments; Waivers. This Agreement may not be amended or modified except by a writing duly and validly executed by each party hereto. Compliance with any condition or covenant set forth herein may not be waived except by a writing duly and validly executed by the party or parties to be bound. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver

thereof, nor shall any waiver on the part of any party of any such right, power or privilege, or any single or partial exercise of any such right, power or privilege, preclude any further exercise thereof or the exercise of any other such right, power or privilege.

8.9 Severability. Each of the provisions contained in this Agreement shall be severable and the unenforceability of one shall not affect the enforceability of any other provision or the remainder of this Agreement.

8.10 Bulk Sales Law. Buyer waives compliance by Seller with the provisions of any applicable bulk sales, fraudulent conveyance or other law for the protection of creditors, and Seller agrees (in addition to and independent of Seller's indemnification obligations contained in Section 7) to indemnify and hold Buyer harmless from, and reimburse Buyer for, any loss, cost, expense, liability or damage (including reasonable counsel fees and disbursements and expenses) which Buyer may suffer or incur by virtue of the non-compliance by Seller with such laws.

8.11 Publicity and Disclosures. Buyer and its affiliates and Seller shall be permitted to make such press releases and disclosures of the transactions contemplated by this Agreement as they desire, provided however, (i) the Purchase Price shall not be publicly disclosed, unless in the reasonable opinion of the disclosing party such disclosure is required to comply with the laws, rules or regulations now applicable to it or which in the future become applicable to it and (ii) neither Seller nor its affiliates in any such press release shall refer to Buyer, Watts Industries, Inc. or any affiliate of either one, except solely to disclose the name Circle Seal Controls, Inc. as the Buyer hereunder.

8.12 Consent to Jurisdiction and Service. Each of the parties hereto consents to personal jurisdiction, service of process and venue in the federal or state courts of Massachusetts with respect to any and all claims or disputes between the parties, arising directly or indirectly in connection with this Agreement and the related agreements and schedules, including but not limited to any and all claims for indemnification and other rights established by this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the date first set forth above by their duly authorized representatives.

BUYER:

CIRCLE SEAL CONTROLS, INC.

By:/s/Rick L Needham
Rick L. Needham
President

SELLER:

SAES PURE GAS, INC.

By:

Francesco della Porta

Chief Executive Officer

STOCK PURCHASE AGREEMENT

This agreement is made and entered into in Amsterdam on November 18, 1994 by and between:

WATTS INDUSTRIES EUROPE BV ("Watts Europe"), incorporated as a besloten vennootschap met beperkte aansprakelijkheid under the laws of The Netherlands, having its registered office at Kollergang 14, 6961 LZ Eerbeek, The Netherlands, represented by Mr. Johan van Kouterik, acting pursuant to the Power of Attorney, a copy of which is attached hereto as Annex 1,

KF INDUSTRIES EUROPE BV ("KF"), incorporated as a besloten vennootschap met beperkte aansprakelijkheid under the laws of The Netherlands, having its registered office at Kollergang 14, 6961 LZ Eerbeek, The Netherlands, represented by Mr. Michael O. Fifer, acting pursuant to the Power of Attorney, a copy of which is attached hereto as Annex 2, of the one part,

PHILABEL INTERNATIONAL NV ("Philabel International"), a Netherlands Antilles company with principal offices at 22 Julianaplein, Curacao, Netherlands Antilles, a share capital of 100 thousand Dutch Guilders, represented by Mr. J.W.E. Moret, acting pursuant to the Power of Attorney, a copy of which is attached hereto as Annex 3 (Philabel International being hereinafter sometimes referred to also as "Seller"),

Mr. Antonio Vienna ("A. Vienna") , an Italian citizen domiciled in Milano, Via Archimede, 57, fiscal code no. VNN NNG 4lMl9 B045V, and

G.I.V.A. SpA ("GIVA"), an Italian company with principal offices at Via Risorgimento, 63, Mazzo di Rho (Milano), a share capital of 14,600,000,000 Italian lire, enrolled in the Register of Companies with the Tribunal of Brescia, no. 36646, tax and VAT code no. 02917180172, represented by the sole director A. Vienna, duly empowered as attested by the certificate issued on September 12, 1994 by the Tribunal of Brescia, copy of which is attached hereto as Annex 4 (A. Vienna and GIVA being hereinafter referred to as "Guarantors") _____ of the other part.

WHEREAS:

A. Seller owns all the shares representing the entire outstanding share capital of Philabel NV (the "Holding Company"), a Dutch company with principal offices at 504 Herengracht, 1017, CB Amsterdam, the Netherlands, a share capital of 3,651,000 Dutch Guilders, divided into 36,500 ordinary and 10 preference bearer shares of 100 Dutch Guilders each (the "Shares");

B. Seller represents and warrants that the Holding Company is the beneficial owner of a shareholding participation consisting of 100% (one hundred per cent) of the shares of Pibiviesse SpA (the "Company) an Italian company with principal offices at Via Di Vittorio 43, Mazzo di Rho (Milano), Italy, a share capital of 2,000,000,000 (two billion) Italian Lire, divided into 20,000 (twenty thousand) ordinary shares of 100,000 (one hundred thousand) Italian Lire each, enrolled in the register of Companies with the Tribunal of Milano, no. 245162/6485/12, tax and VAT code no. 07798890153;

C. the Company in turn owns a quota having a par value of 32,000,000(thirty-two million) Italian Lire constituting 80% (eighty per cent) of the entire share capital of De Martin Giuseppe e Figli Srl (the "Quota"), an Italian Company with registered office at Via Fratelli Bandiera, 47, Robecco sul Naviglio, Milano, Italy, a share capital of 40,000,000 (forty million) Italian Lire, enrolled in the Register of Companies of Milano no. 239552/6393/2, tax and VAT code no. 00000450155 ("De Martin"), the remaining 20% (twenty per cent) of the share capital of De Martin being owned as to 10% (ten per cent) by Mr. Mario Oreste De Martin and as to 10% (ten per cent) by Mr. Enzo Corbella (collectively, the "Minority Shareholders of De Martin");

D. prior to the date hereof, the Company had the following further participations:
(a) 231,300 (two hundred thirty-one thousand three hundred) shares of 10,000 (ten thousand) Italian Lire each representing 70.09% (seventy point zero nine per cent) of the entire share capital of Forgiatura A. Vienna SpA ("Forgiatura Vienna") ;
(b) 3,200 (three thousand two hundred) shares of 10,000 (ten thousand) Italian Lire each representing 16% (sixteen per cent) of the entire share capital of La Valvomeccanica SpA ("Valvomeccanica"); and
(c) 4,050,000 (four million fifty thousand) shares of 1,000 (one thousand) Italian Lire each representing 32.4% (thirty-two point four per cent) of the entire share capital of Nuova Breda Fucine SpA ("Nuova Breda") ;

E. Seller represents that, pursuant to prior understandings reached with Watts Industries, Inc., a U.S. corporation directly or indirectly controlling Watts Europe and KF ("Watts"), it procured the following actions and transactions to be taken and accomplished on or before the date hereof:
(a) all outstanding options or other rights to acquire Shares (as hereinafter defined) have been cancelled or waived;
(b) the Company has sold and transferred to GIVA or a company designated by GIVA, which acquired and became transferee of, all the shares of Forgiatura Vienna, Valvomeccanica and Nuova Breda (the "Sale and Purchase of Certain Participations") , and the Company received the following amounts in consideration of said sales of shares:
(i) 6,260,000,000 (six billion two hundred sixty million) Italian Lire for the shares of Forgiatura Vienna;
(ii) 402,000,000 (four hundred two million) Italian Lire for the shares of Valvomeccanica; and
(iii) 100,000 (one hundred thousand) Italian Lire for the shares of Nuova Breda, while the Company retained its participation in De Martin;

(c) all intercompany accounts between any and all companies directly or indirectly controlled by GIVA including Forgiatura Vienna, Valvomeccanica and Nuova Breda (collectively, the "GIVA Group"), of the one part, and the Company, De Martin (sometimes collectively referred to as the "Operating Companies") and the Holding Company, of the other part, have been offset against each other and the net balance

of the offset has been paid by the debtor party to the creditor party, except that trade debts of the Operating Companies to companies of the GIVA Group have been excluded from said offset, with the understanding that they will be paid in accordance with their respective terms; and

(d) all intercompany agreements, contracts, undertakings and arrangements in existence between all the companies of the GIVA Group, as well as any other company in which
A. Vienna has a participation (with the only exception of the existing rent agreements between the Company and Immobiliare Danubio Srl ("Immobiliare Danubio") and La Valvomeccanica), of the one part, and the Holding Company, the Company and De Martin, of the other part, have been terminated by mutual agreement of the relevant parties thereto and neither party thereto has any further claim or action against the others; and

F. the parties desire to set out herein the definitive terms and conditions for the sale and purchase of the Shares and of the Quota, now, therefore, in consideration of the mutual understandings and covenants contained herein Watts Europe, KF and the Designated Company (as hereinafter defined), collectively referred to as "Buyers", Seller and Guarantors agree as follows.

ARTICLE 1 - RECITALS AND ANNEXES
The recitals set out above and the Annexes attached hereto form an integral and substantive part of this stock purchase agreement (the "Agreement").

ARTICLE 2 - SALE AND PURCHASE OF THE QUOTA AND OF THE SHARES
Subject to the terms and conditions set out herein:
(a) the Company sells and transfers to the company designated by Watts Europe prior to the date hereof (the "Designated Company"), which acquires and becomes transferee of, the Quota (the "Sale and Purchase of the Quota");
(b) promptly after the Sale and Purchase of the Quota, Seller sells and transfers to KF and Watts Europe, which accept and become transferee of, the Shares (the "Sale and Purchase of the Shares") as follows:
(i) no. 36,135 (thirty-six thousand one hundred thirty-five) ordinary Shares and no. 10 preference Shares, corresponding to 99% (ninety-nine per cent) of the entire share capital of the Holding Company to KF; and
(ii) no. 365 (three hundred sixty-five) Shares, corresponding to 1% (one per cent) of the entire share capital of the Holding Company to Watts Europe.

ARTICLE 3 - PRICES

3.1 The price for the Quota has been jointly determined in the amount of 510 (five hundred ten) million Italian Lire (the "Price for the Quota"). The Price for the Quota is fixed and not subject to adjustment, without prejudice however to the representations and warranties of Seller concerning De Martin set out in the Agreement.

3.2 Using the method of calculation previously agreed, the price for the Shares has been jointly determined as follows:
(a) the total amount of 29,827, 193,801 (twenty-nine billion eight hundred twenty-seven million one hundred ninety-three thousand eight hundred one) Italian Lire (the "Provisional Portion of the Price"), which has been calculated based on the balance sheet of the Company as of September 30, 1994 attached hereto as Annex 5 (the "Reference Balance Sheet") , it being specified that:
(i) the Reference Balance Sheet; and
(ii) the Provisional Portion of the Price have been prepared in accordance with the criteria agreed between the parties set out in the schedule attached hereto as Annex 6 (the "Agreed Criteria"); plus

(b) deferred and conditional amounts (the "Deferred Portion of the Price") equal to:
(i) 11.25% (eleven point twenty-five per cent) of the portion of Net Product Revenues of the Company (as hereinafter defined) exceeding 60 (sixty) billion Italian Lire per annum, limited to a three-year period starting from January 1, 1995 and up to a total aggregate amount of 4,500 (four thousand five hundred) million Italian lire, with the understanding that each amount possibly due by Buyers hereunder shall be paid within 75 (seventy-five) days from the end of each of the calendar years 1995, 1996, 1997; and
(ii) 15% (fifteen per cent) of the portion of Net Product Revenues obtained in the aggregate by the Company in the calendar years 1995, 1996 and 1997 which exceeds 220 (two hundred twenty) billion Italian lire up to a total amount of 1,500 (one thousand five hundred) million Italian lire, with the understanding that the amount possibly due by Buyers hereunder shall be paid within March 15, 1998. For the above purposes, "Net Product Revenues" means gross revenues obtained by the Company from sales of products less indirect taxes on sales, duties, transport and insurance costs, discounts, allowances or returns. In the event that, on or before the date on which a Deferred Portion of the Price is due by Buyers hereunder, an award is rendered in favour of Buyers pursuant to the arbitration provisions set out hereinafter, and any amounts due by Seller in accordance with such arbitration award have not been paid by Seller to Buyers, then said unpaid amount shall be deducted from the Deferred Portion of the Price.

3.3 Buyer shall refrain from doing or procuring the Company to do any actions or omissions mainly intended to circumvent or limit the effects of the provisions set out in the preceding sub-paragraph
3.2 (b) .

3.4 The Provisional Portion of the Price is subject to adjustment (the "Price Adjustment") in accordance with the provisions set out hereinafter.

3.5 The obligation of Buyers to pay to Seller the Price Adjustment, if any, is assisted by a bank guarantee issued by Credit Lyonnais Bank Nederland NV, Rotterdam, in favour of Seller for an amount equal to 15% (fifteen per cent) of the Provisional Portion of the Price, conforming

to the text attached hereto as Annex 7 (the "Buyers I First Bank Guarantee").

3.6 The obligation of Buyers to pay to Seller the Deferred Portion of the Price is also assisted by a bank guarantee issued by Credit Lyonnais Bank Nederland NV, Rotterdam, in favour of Seller for an amount up to 6, 000, 000, 000 (six billion) Italian Lire (the "Buyers I Second Bank Guarantee") , conforming to the text attached hereto as Annex 8.

ARTICLE 4 - CLOSING

4.1 on the date hereof (the "Closing Date"), immediately after the execution of the Agreement, the following actions and transactions are taken and accomplished:
(a) in Milano, at the offices of Mr. Giuseppe Gasparrini, Notary Public, Via Manzoni, 20, Milano, at 11, 30 a.m., the Sale and Purchase of the Quota is made by means of execution by the Company and the Designated Company of a deed of sale drawn up by notary in accordance with Italian law;
(b) in Amsterdam, at the offices of Clifford Chance, Apollolaan, 171, 1077 Amsterdam, at 11:45 a.m., the Sale and Purchase of the Shares is made by due delivery of the share certificates in respect of the Shares from Seller to Buyers in accordance with Dutch law;
(c) Buyers (pro-quota between them) pay to Seller 90% (ninety per cent) of the Provisional Portion of the Price (the "Amount Paid at Closing") by bank wire transfer to the bank accounts indicated by the selling party;
(d) Buyers deliver to Seller the Buyers' First Bank Guarantee and the Buyers' Second Bank Guarantee;
(e) Seller delivers to KF a bank guarantee issued by ABN-Amro Bank Nederland NV, in favour of KF, conforming to the text attached hereto as Annex 9 (the "Seller's Bank Guarantee") , for an amount equal to 15% (f if teen per cent) of the Amount Paid at Closing (subject to a possible reduction as per separate written understandings), to guarantee payment of indemnifications, if any, due by Seller to Buyers in accordance with the provisions set out hereinafter, with the understanding that the rights of Buyers under the Seller's Bank Guarantee shall be without prejudice to, and not in limitation of, the rights of Buyers deriving from the Agreement;
(f) having all the directors and statutory auditors, if any, of the Holding Company, the Company and De Martin, submitted their written resignations effective as of the Closing Date, without costs for the Holding Company, the Company and De Martin, the Shareholders Meetings of the Holding Company, the Company and De Martin appoint new directors and statutory auditors, where necessary, to replace the resigning directors and statutory auditors in accordance with the written instructions given by Buyer prior to the date hereof; and
(g) the following additional agreements, contracts or undertakings (the "Additional Agreements") are executed by all the relevant parties thereto:
(i) non-competition and non-disclosure undertakings by A. Longhi to the Company;
(ii) employment contract between a company controlled by Watts Europe and R. Bartolena and a letter relating thereto;
(iii) letter-agreement between the Company and BM International Srl ("BMI"), providing inter alia for termination by mutual consent of the existing Agency Agreement, three-years noncompetition and ten-years non-disclosure undertakings by BMI; and
(iv) letter-agreement between Forgiatura Vienna and the Company, concerning supplies of forgings by Forgiatura Vienna to the Company.

4.2 Within 7 (seven) days from the Closing Date Buyers shall procure that the Designated Company pays to the Company the Price for the Quota.

ARTICLE 5 - OUTSTANDING BANK GUARANTEES

5.1 Starting from the Closing Date, Buyers shall indemnify and keep Seller and/or the other companies of the GIVA Group harmless from any damages, costs or expense deriving from or connected with the enforcement by creditors of the Company or De Martin of any outstanding guarantees or similar undertakings issued or procured by Seller and/or other companies of the GIVA Group in the interest of either the Company or De Martin and in favour of creditors of the same as listed in the schedule attached hereto as Annex 10 (the "Outstanding Guarantees in Favour of Creditors of the Operating Companies"). Buyers also undertakes to endeavour to obtain, in co-operation with Seller and as soon as practicable after the Closing Date, the full release of Seller and/or other companies of the GIVA Group having issued or procured Guarantees in Favour of Creditors of the Company or De Martin from any obligations deriving to them from said Outstanding Guarantees in Favour of Creditors of the Operating Companies.

5.2 Starting from the Closing Date, Seller shall indemnify and keep Buyers, the Holding Company and the Operating Companies harmless from any damage, cost or expense deriving from or connected with the enforcement by creditors of companies of the GIVA Group of any outstanding guarantees or similar undertakings issued or procured by the Company in favour of creditors of any company of the GIVA Group as listed in the schedule attached hereto as Annex 11 (the "Outstanding Guarantees issued by the Company in Favour of Creditors of Companies of the GIVA Group"). Seller also undertakes to endeavour to obtain, as soon as practicable after the Closing Date, the full release of the Company from any obligations deriving to from the Outstanding Guarantees issued by the Company in Favour of Creditors of Operating Companies of the GIVA Group.

ARTICLE 6 - ADJUSTMENT OF THE PROVISIONAL PORTION OF THE PRICE AND

DEFERRED PORTION OF THE PRICE

6.1 Within 75 (seventy-five) days from the Closing Date (the "Term"):
(a) for the purpose of the Price Adjustment Seller shall, in cooperation with Buyers and the company and with the assistance of Deloitte & Touche s.n.c., Milano, designated by Buyers and of a public accountant designated by Seller, draw up the balance sheet of the Company as of the Closing Date (the "Closing Balance Sheet") using the Agreed Criteria; and

(b) the adjusted price for the Shares (the "Adjusted Price") shall be calculated based on the Closing Balance Sheet always using the Agreed Criteria.

6.2 The amount equal to the difference between the Amount Paid at Closing and the Adjusted Price (the "Adjustment") shall be due by Buyers (proquota) to Seller or by Seller to Buyers (always pro-quota), as the case may be, and payable as provided for hereinafter.

6.3 In the event that, within the Term, Seller and Buyers do not agree on the Closing Balance Sheet or on whether or not the Adjustment is due or on the amount thereof, the matter will be promptly submitted by Seller or Buyers to Reconta Ernst & Young s.a.s., Milano (the "Expert") .

6.4 The Expert will be required to communicate its determination within 20 (twenty) business days in writing at the same time to Seller and Buyers. The determination of the Expert shall be final and binding.

6.5 If the Adjustment is agreed between Seller and Buyers or determined and communicated by the Expert as provided for above, then Seller or Buyers, as the case may be, shall make payment within 7 (seven) working days from the date of the agreement between Seller and Buyers or from receipt of the communication by the Expert as the case may be, by bank wire transfer to the bank account to be indicated in a timely manner by the relevant party.

6.6 Buyers shall procure that the Company as soon as practicable after the end of the calendar years 1995, 1996 and 1997 communicates the data required to calculate the Deferred Portion of the Price and shall make payment of the relevant amounts due to Seller, if any, in accordance with the provisions of paragraph 3.2 above.

6.7 In the event that, within the date on which a payment, if any, of a Deferred Portion of the Price is due, Seller and Buyers do not agree on whether or not a payment of Deferred Portion of the Price is due by Buyers to Seller or on the amount thereof, the matter will be promptly submitted by Buyers or Seller to the Expert for final determination applying the provisions of paragraphs 6.4 and 6.5 above.

ARTICLE 7 - REPRESENTATIONS AND WARRANTIES

7.1 Seller and Guarantors hereby jointly and severally represent and warrant each of the statements set out in Annex 12 and in the schedules annexed thereto (the "Representations and Warranties") , with the understanding that the Representations and Warranties will survive the transfer of the Quota and the transfer of the Shares in accordance with the provisions set out hereinafter.

7.2 Any due diligence investigations made by Buyer or disclosures made by Seller or Guarantors to Buyers prior to the date hereof do not limit the Representations and Warranties or affect the rights of Buyers under the Agreement in any manner whatsoever.

ARTICLE 8 - INDEMNIFICATION

8.1 Seller and Guarantors shall be jointly and severally liable to indemnify and hold Buyers, the Company and De Martin harmless from and against any liability, claim or damage arising from or otherwise connected with any material breach of this Agreement, and in particular of the Representations and Warranties, or any contingent liability arising from or otherwise connected with facts, acts or omissions of Seller, the Holding Company or the Operating Companies occurred before the Closing Date, except only for:
(a) liabilities of the Company:
(i) reflected in the Reference Balance Sheet; or
(ii) incurred in the ordinary course of business since the date of the Reference Balance Sheet until the Closing Date; or
(iii) already taken into account for the purpose of the Price Adjustment; or
(b) liabilities of De Martin reflected in its December 31, 1993 balance sheet or incurred in the ordinary course of business since that date and until the Closing Date.

8.2 Any indemnification by Seller and/or Guarantors pursuant to the preceding paragraph (the "Indemnification") shall be deemed a reduction of the Adjusted Price.

8.3 Without prejudice to other provisions of the Agreement, in the event that Buyers become aware of facts that could give rise to a claim to Seller concerning environmental matters, Buyers shall inform Seller and Guarantors as soon as possible with a view to permit Seller to carry out remedial actions to minimize damage.

ARTICLE 9 - THIRD PARTY IS CLAIMS

9.1 Buyers shall give promptly notice to Seller of any third party Is claim against the Holding Company or the Operating Companies (the "Third Party's Claim") which may result in a claim by Buyers pursuant to the Agreement.

9.2 Within 30 (thirty) days from the above communication of the Buyers, Seller shall communicate to Buyers its decision whether it intends to defend such Third Party Is Claim or not.

9.3 If Seller decides to defend the Third Party's Claim:
(a) Buyers shall permit Seller to defend such Third Party' s Claim in the name of the Holding Company, the Company or De Martin, as the case may be, through counsel selected and paid by Seller and acceptable to Buyers; and
(b) Seller shall request its counsel to consult and fully cooperate at all times in such defence with counsel designated and paid by Buyers or the Holding Company, the Company or De Martin.

9.4 If Seller decides not to defend the Third Party's Claim or if Seller fails to communicate its decision pursuant to paragraph 9.2 above, Buyers and the Holding Company, the Company or De Martin, as the case may be, shall be free to defend, settle or compromise, in whole or in part, such Third Party's Claim, it being understood and agreed that all expenses connected therewith shall be part of the relevant Buyers claim.

9.5 In all cases Seller and Buyers shall cooperate in good faith in the defence or settlement of the Third Party's Claims, taking into account their respective interests as well as those of the Holding Company, the Company or De Martin.

ARTICLE 10 - LIMITATIONS

10.1 In order for a claim under the Agreement (a "Claim") to be validly made, Buyers shall have to give notice in writing to Seller and Guarantors:
(a) with respect to any Claim concerning taxes, duties, labour, social security or environmental matters before the expiration of a period of 6 (six) years from the Closing Date; or
(b) with respect to any Claim concerning matters other than those referred to under (a) above, before the expiration of a period of 3 (three) years from the Closing Date.

10.2 The Indemnification possibly due by Seller or Guarantors in accordance herewith shall be limited to a maximum amount equal to the amount of the Adjusted Price plus any amount paid by Buyers as Deferred Portion of the Price.

ARTICLE 11 - BOARD OF DIRECTORS OF THE COMPANY

11.1 Seller and Buyers shall procure that, in the years 1995, 1996 and 1997, A. Vienna (or another person designated by Seller) is at all times a member of the Board of Directors of the Company, the other being persons appointed upon designation by Watts Europe.

11.2 During the above mentioned three-year period:
(a) Watts and Buyers undertake not to interfere in the sales policy of the Company as established by its Board of Directors;
(b) the Board of Directors shall not delegate to
A. Vienna operating powers; and
(c) the Board of Directors will convene at least three times per year.

ARTICLE 12 - LEASE CONTRACTS

12.1 Seller and Guarantors warrant that, until August 31, 1995, the Company shall have the right to continue to use the plants and offices presently used at Mazzo di Rho and Nerviano, under the lease contracts currently in force (the "Existing Lease Contracts") upon their respective contractual terms and conditions, except that the Existing Lease Contracts shall, as of the Closing Date, be amended to provide that:
(a) ordinary maintenance will be for the account of the Company, while extra-ordinary maintenance will be for the account of the owner; and
(b) costs for insurance against fire shall be for the account of the Company.

12.2 Guarantors further undertake to provide to the Company, and Buyers shall cause the Company to enter into, a new lease contract and an option (the "Option") to obtain lease of an additional industrial building (collectively, the Lease Contracts") in accordance with the following agreed scheme:
(a) Guarantors shall procure that the owner of the New Plant and Offices (as hereinafter defined) gives the Buyer 90 (ninety) days prior written notice that the same are available for lease to the Company and Buyer shall procure that, within 30 (thirty) days from receipt of said notice, the Company provides to the owner the lay-out of the production facilities to be installed at the care and expense of the Company at the New Plant, including a detailed description of the location of main equipment, electric and other connections and any other data as required to permit the normal operation of the New Plant as of the effective date of the relevant lease contract (the "First New Lease Contract");
(b) the object of the New First Lease Contract will be:
(i) a new 12,000 (twelve thousand) square meters plant in finished conditions and ancillary land at Nerviano (the "New Plant") ;
(ii) the 1,588 (one thousand five hundred eighty-eight) square meters of existing offices and ancillary services at Nerviano (the "Offices") ; and
(iii) 2,800 (two thousand eight hundred) square meters of existing industrial buildings at Mazzo di Rho, all as better described in the schedule attached hereto as Annex 13;
(c) the rent to be provided for in the New First Lease Contract shall be 1.3 (one point three) billion Italian Lire in the aggregate;
(d) the New Plant and Offices at Nerviano shall be available by August 31, 1995, so that the First Lease Contract may be effective from September 1, 1995 at the latest, with the understanding that should the First New Lease Contract not be effective, for any reason, by September 1, 1995, the Company shall be entitled to continue to use the plants and offices object of the Existing Lease Contract at the same terms and conditions until the First Lease Contract becomes effective, without prejudice to any other right or remedy of Buyers hereunder;
(e) the Option will be exercisable by the Company within one year from the Closing Date and if it is exercised:
(i) Guarantors shall procure that an additional 3,000 (three thousand) square meters industrial building conforming to the specifications set out in the schedule attached hereto as Annex

14 (the "Expansion") is constructed at Nerviano adjacent to the New Plant; and
(ii) the Expansion shall be leased to the Company within I (one) year from the date of exercise of the Option pursuant to a lease contract (the "Second New Lease Contract") providing for a rent of 400 (four hundred million) Italian Lire per year;
(f) the Lease Contracts shall inter alia provide that:
(i) ordinary maintenance shall be for the account of the Company;
(ii) extraordinary maintenance for the account of the owner;
(iii) the Company shall at its expense insure the real estate leased against fire for a value of 15 (fifteen) billion Italian Lire, subject to yearly revision at the request of the Company, designating the owner as beneficiary;
(iv) taxes shall be paid by the party responsible for such tax under applicable provisions of law and, if no provision exists, then by Immobiliare Danubio;
(g) the Lease Contracts shall have a term of 6 plus 6 years, as per law, provided that the owner and the Company shall be entitled to terminate them not before the expiry of the first six-year period or, in case of renewal, not before the expiry of the second six-year period, with the understanding that, if the Company exercises the Option and does not renew the First New Lease Contract having decided to relocate its industrial activity and related offices, the relevant parties shall terminate by mutual agreement the Second New Lease Contract effective as of the same date of termination of the First New Lease Contract.

12.3 The Guarantors further warrant that:
(a) all existing polychlorinated biphenols ("PCB") transformers will at the care and expense of the owner thereof be removed from the New Plant, in accordance with applicable environmental laws and regulations, as a condition precedent for the First Lease Contract to enter into force, with the understanding that replacement with non-PCB trans formers will be at the care and expense of the Company;
(b) at the execution of the First New Lease Contract, the owner of the plants and offices presently used by the Company at Mazzo di Rho will accept termination of the Existing Lease Contracts, without any burden upon the Company; and
(c) Buyers will have the first refusal right to purchase, directly or through the Company or another designee, the New Plant, Offices and the Expansion, if any, in the event any third party makes an offer to buy the same during the term (or renewal thereof) of the Lease Contracts; in such event, Seller shall give written notice to Buyers and they will have a period of 30 (thirty) days to indicate whether or not they intend to exercise such first refusal right.

12.4 Watts guarantees payments by the Company under the Existing Lease Contracts, the First New Lease Contract and the Second New Lease Contract, if any, in accordance with the terms set out in a separate letter delivered at the Closing Date to Immobiliare Danubio.

ARTICLE 13 - NON-COMPETITION AND NON-DISCLOSURE

13.1 GIVA, acting also in the name and on behalf of all other companies of the GIVA Group and A. Vienna acting also in the name and on behalf of all companies directly or indirectly controlled by him, hereby undertake not to compete directly or indirectly for a period of 3 (three) years from the Closing Date with the Company, the Buyers, Watts or other Watts affiliates in the design, manufacture, development, distribution, marketing or sales of any product or data related to ball and gate valves for the oil and gas market in the countries listed in the schedule attached hereto as Annex 15, without the express written consent of Watts, which shall be in its sole discretion, exception made for the production of plug valves ("valvole a maschio") manufactured by La Valvomeccanica.

13.2 GIVA, acting also in the name and on behalf of all other companies of the GIVA Group and A. Vienna, acting also in the name and on behalf of all companies directly or indirectly controlled by him, further undertake for a period of 10 (ten) years from the Closing Date to keep strictly secret, not to disclose to third parties and not to use, directly or indirectly, any and all confidential data and information, including confidential data and information of commercial nature, relating to the Company, Buyers, Watts or other Watts affiliates or their respective activities.

ARTICLE 14 - TAXES AND EXPENSES

14.1 No broker's or finder's fee is to be paid in connection with the transactions contemplated herein.

14.2 The costs, including notarial fees and taxes, for the Sale and Purchase of the Quota shall be for the account of the Designated Company and the costs, including notarial fees and taxes for the Sale and Purchase of the Shares shall be for the account of Seller.

14.3 The costs connected with the intervention of the Expert, if any, shall be equally shared between Seller, of the one part, and Buyers, of the other part.

14.4 Seller and Buyers shall each bear all their costs and expense in connection with the negotiation and consummation of the transactions contemplated herein, including fees due to their own financial and other advisors and consultants and costs and expense connected with instrumental activities or transactions undertaken with a view to enter into the transactions contemplated herein, and shall indemnify the other against any claim by third parties relating to such costs, fees and expense.

ARTICLE 15 - ENTIRE AGREEMENT - AMENDMENTS

15.1 The Agreement and the Additional Agreements merge and supersede any prior written or verbal understandings between the parties in connection with the subject matters thereof.

15.2 The Agreement prevails over any deed or form executed in accordance herewith to effect the Sale and Purchase of the Quota and the Sale and Purchase of the Shares.

15.3 Any amendments or supplements to the Agreement or the Additional Agreements shall only be valid and effective if in writing and duly executed by all parties thereto.

ARTICLE 16- SEVERABILITY

Should one or more provisions contained herein be invalid or unenforceable under the applicable provisions of law, such provisions shall be severed from the Agreement and the parties shall in good faith negotiate and agree to replace such provisions with other(s) having the same economic effect to the maximum extent as permitted by the law.

ARTICLE 17- CONFIDENTIALITY

17.1 Each party shall keep the contents of the Agreement strictly confidential, except for disclosures to legal consultants and auditors or disclosures required by provisions of laws or regulations applicable to each of the parties.

17.2 The originals pertaining to Buyers, Watts and the Company shall be kept in their files at the European or U.S. headquarters and photocopies will be made and delivered only in accordance with the provisions of the preceding paragraph 17.1.

ARTICLE 18 - GUARANTORS

18.1 Guarantors execute the Agreement to guarantee to Buyers the full and faithful performance of all the obligations assumed herein by Seller, the Holding Company and BMI.

18.2 Watts, represented by Mr. Michael 0. Fifer duly empowered by the Board resolution copy of which is attached hereto as Annex 16, executes the Agreement in so far as it is concerned, to guarantee to Seller the full and faithful performance of all obligations assumed herein by Buyers.

ARTICLE 19 - SUCCESSORS AND ASSIGNEES

19.1 The Agreement is binding on the parties and their respective successors in business.

19.2 Neither party shall assign the Agreement or rights and obligations deriving from the Agreement to a third party, without first obtaining the written consent of the other parties.

ARTICLE 20 - NOTICES

20.1 Any notice or communication by one party to the other parties in connection with the Agreement shall be in writing and delivered in person or sent by registered letter and telefax as follows:
if to Seller: Philabel International N.V.

22, Julianaplein
Curagao (Netherlands Antilles)
telefax: (599) 9617879
Attention: EquityTrust (Curacao) NV

if to Guarantors, to their common representative A. Vienna:

Mr. Antonio Vienna c/o Studio Beretta
Via Archimede, 57
Milano
telefax: (2) 70124648

if to Buyers: Watts Industries, Inc.
815 Chestnut Street
North Andover, Massachusetts 01845
telefax: (508) 6882976
Attention: Corporate Counsel

Watts Industries Europe BV
Kollergang 14
6961 LZ Eerbeek
(the Netherlands)

telefax: (31) 833854192
Attention: C.F.O.

20.2 Notices delivered in person shall be effective immediately. Notices sent by telefax shall be effective immediately if sent on a business day or, if not, on the first subsequent business day. Notices sent by registered letter shall be effective upon receipt, unless the letter confirms a previous notice by telefax.

ARTICLE 21 - COUNTERPARTS

The Agreement has been drawn up in seven counterparts one for each party, each of which is an original and all of which constitute one and the same document.

ARTICLE 22 - GOVERNING LAW

The Agreement shall be governed by, and construed in accordance with, Italian substantive law.

ARTICLE 23 - CONTROVERSIES

23.1 In the event of any dispute arising between the parties howsoever in connection with the Agreement the parties shall endeavour in good faith to settle such disputes amicably.

23.2 Should the parties be unable to reach an amicable solution, then any such dispute (including, but not limited to, those concerning validity, interpretation, breach, termination, prejudicial or competence matters) will be finally settled upon request by any party by a three members arbitration panel under the arbitration provisions of the Canton Zilrich, expressly excluding the application of Art. 176 et seq. of the Federal Law on Private International Law.

23.3 Any party wishing to submit a dispute to arbitration shall inform the other parties in dispute by registered letter. Within 15 (fifteen) days of receipt of such communication, the parties in dispute will by mutual agreement appoint three arbitrators, including the umpire. Failing agreement in whole or in part, the arbitrators) required to compose the arbitration panel shall be appointed, upon request by any party, by the President pro-tempore of the Tribunal of Commerce of the Canton Zilrich.

23.4 The arbitration shall be held in Zurich in the English language.

23.5 Procedural rules shall be those set out in the March 27 - August 27, 1969 "Concordat". Substantive law shall be Italian law.

23.6 The parties as of now waive deposit of the award and notification through judicial authority pursuant to Art. 35.5 of the "Concordat".

23.7 The arbitration award shall be rendered within 90 (ninety) days and shall be final and binding upon the parties. In witness whereof, the parties have caused the Agreement to be executed by their duly empowered representatives on the day and place first above written.

WATTS INDUSTRIES EUROPE BV

By:/s/ Johan van Kouterik
(Johan van Kouterik), Vice President

KF INDUSTRIES EUROPE BV

By:/s/ Michael O. Fifer
(Michael O. Fifer), President

PHILABEL INTERNATIONAL NV

By:/s/ J.W.E. Moret
(J.W.E. Moret),
Attorney-in-Fact

/s/ Antonio Vienna
Mr. Antonio Vienna

G.I.V.A. SpA

By:/s/ Antonio Vienna
(Antonio Vienna), Sole Director

and, in so far as they are concerned,

WATTS INDUSTRIES, INC.

By:/s/ Michael Fifer
(Michael O. Fifer), Vice President

PIBIVIESSE SpA

By:/s/ Antonio Vienna
(Antonio Vienna), President

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Annex 9

Form of Seller's Bank Guarantee

To: KF Industries Europe BV

_____, [Closing Date]

Guarantee no.: _____

Whereas:

A. on the date hereof, PHILABEL INTERNATIONAL NV (the "Seller"), Mr. Antonio Viena and G.I.V.A. SpA (the "Guarantors"), of the one part, and WATTS INDUSTRIES EUROPE B.V. ("Watts Europe") and KF INDUSTRIES EUROPE BV ("KF"), of the other part, entered into a stock purchase agreement (the "Agreement") having as object the sale from Seller to Buyers of 100% of the shares representing the entire share capital of PHILABEL NV (the "Holding Company"), which in turn owns 100% of the shares representing the entire share capital of Pibiviesse SpA, Mazzo di Rho, Milano;

B. the sale and purchase of the Holding Company contemplated by the Agreement (the "Sale and Purchase") has been made on the date hereof (the "Closing Date");

C. the Agreement provides inter alia that the Seller assumes the obligation to pay to Watts Europe and KF (collectively the "Buyers") certain indemnifications upon certain terms and conditions (the "Indemnification");

D. the Agreement further provides that, to guaranty payment of Indemnifications due to Buyers, if any, Seller has to deliver to KF at the Closing Date a bank guarantee, issued by a first class bank in favour of KF for the total amount of 4,026,671,163 (four billion twenty-six million six hundred seventy-one thousand one hundred sixty-three) Italian Lire; and

E. the Agreement also provides that all disputes arising in connection with the Agreement shall be finally settled by arbitration under Italian law in accordance with the Swiss rules of civil procedure, now, therefore, on order of Seller the undersigned _____ (the "Bank"), represented by _____, hereby irrevocably issues this guarantee for the total amount of 4,026,671,163 (four billion twenty-six million six hundred seventy-one thousand one hundred sixty-three) Italian Lire in favour and to the benefit of KF to guaranty payment to Buyers of Indemnifications, if any. On _____, 1997 the total amount of this guarantee shall be automatically reduced from 4,026,671,163 (four billion twenty-six million six hundred seventy-one thousand one hundred sixty-three) to 2,013,335,581 (two billion thirteen million three hundred thirty-five thousand five hundred eighty-one) Italian Lire, unless the Bank has received prior to such date of _____ 1997 a written communication by KF (the "KF's Communication") stating that a claim or claims of Buyers with respect to Indemnifications is or are pending. Accordingly, the undersigned Bank irrevocably undertakes to immediately pay to KF any amount -- up to the said maximum amount of 4,026,671,163 (four billion twenty-six million six hundred seventy-one thousand one hundred sixty-three) Italian Lire, as it may be reduced as above to 2,013,335,581 (two billion thirteen million three hundred thirty-five thousand five hundred eighty-one) Italian Lire -- which may be due to Buyers as resulting from a written statement signed by KF and Seller or pursuant to an arbitration award rendered under the Agreement and as indicated in such arbitration award, upon receipt by our bank of a written request of payment by KF accompanied by an original of the above statements signed by Buyers and Seller or a certified copy of said arbitration award, as of now waiving the right to request that KF or Buyers first bring action against Seller and/or Guarantors and any other possible exception and notwithstanding any possible opposition by the Seller, Guarantors or anybody else. This guarantee may be enforced one or more times, up to the said maximum amount of 4,026,671,163 (four billion twenty-six million six hundred seventy-one thousand one hundred sixty-three) Italian Lire, as it may be reduced as above to 2,013,335,581 (two billion thirteen million three hundred thirty-five thousand five hundred eighty-one) Italian Lire, and within the limit of the amount of this guarantee which remains outstanding after any previous payment made by the Bank to KF under this guarantee. This guarantee shall be valid until six years from the Closing Date (the "Term"), provided that, in the event that prior to such Term KF has delivered to the Bank a written communication stating that an arbitration proceeding is pending under the Agreement ("KF's Arbitration Communication"), accompanied by a certified copy of the request for arbitration made by any part to the Agreement, then the validity of this guarantee shall automatically extend until the expiration of the thirtieth day after the date on which the arbitration award has been rendered in the above arbitration proceeding (the "Extended Term"). Upon expiration of Term, or of the Extended Term in the event of pending arbitration, as the case may be, should this Bank have not received any request of payment of this guarantee by KF in the manner set forth herein, then this guarantee shall cease to have any effect, irrespective of whether or not the original counterpart is returned to the Bank. Any communication by the Buyers to the Bank contemplated in this guarantee will be made by means of registered letter sent by mail or hand delivered. This guarantee shall be governed by and interpreted according to Italian law.

Bank

Annex 12

Representations and Warranties

The Representations and Warranties of Seller and Guarantors are as set forth hereinafter.

A. With respect to the Holding Company

(a) Good standing The Holding Company is a company duly organized, validly existing and in good standing under the laws of the Netherlands.

(b) By-laws and Corporate Records Correct and complete copy of the Bylaws of the Holding Company has been delivered to Buyers prior to the date hereof.

(c) Shares Seller has full legal title to the Shares and full right, power and authority to sell, transfer and deliver the Shares to Buyers. The Shares have been duly and validly is sued, are fully paid up and represent 100% (one hundred per cent) of the issued and outstanding share capital of the Holding Company.The Shares are free and clear of any pledges, liens, encumbrances, restrictions or commitments and of any rights of third parties. There are no other shares or bonds issued by the Holding Company, as well as no outstanding options, warrants or any other rights of third parties to purchase or otherwise acquire shares or bonds, whether issued or not, of the Holding Company or a share in the profits of the Holding Company and no depository receipts have been issued. The share certificates in respect of the Shares delivered by Seller to Buyers at the Closing Date are valid, represent the totality of the Shares and delivery thereof by Seller to Buyers vests in Buyers legal and beneficial title to the Shares.

(d) Assets and Liabilities The Holding Company is a company having as its main asset a participation consisting in 100% of the shares representing the entire share capital of the Company. The Holding Company has no actual or contingent liabilities (apart from its share capital and an amount due for taxes and duties, including corporate tax, which amount is fully covered by cash at hand) and no obligations or commitments of any kind, either contractual or otherwise, to any third party.

(e) Compliance with Laws The Holding Company has complied with and is not in default under or in violation of any law, statute, rule, regulation, ordinance, code, license, permit, authorization or other provisions applicable to it, including in particular those concerning tax and environmental matters.

B. With respect to the Operating Companies

(a) Title to the Company's Shares and to the Quota The Holding Company has full legal title to the Company's shares and full right, power and authority to sell, transfer and deliver them to Buyers.The Company has full legal title to the Quota and full right, power and authority to sell and transfer the Quota to the Designated Company.

(b) Shares and Quota The Company Is shares have been duly and validly issued, are fully paid up and represent 100% (one hundred per cent) of the issued and outstanding shares of the Company. The Company's shares are free and clear of any pledges, liens, encumbrances, restrictions or commitments and of any rights of third parties. There are no other shares, or bonds issued by the Company, as well as no outstanding options, warrants or any other rights of third parties to purchase or otherwise acquire shares or bonds of the Company. The Quota is fully paid up and constitutes 80% (eighty per cent) of the entire share capital of De Martin. The Quota is free and clear of any pledges, liens, encumbrances, restrictions or commitments and of any rights of third parties. The Company is not party to any shareholders' agreement or any other agreement with the Minority Shareholders of De Martin.

(c) Bylaws and Corporate Records Correct and complete copy of the updated Bylaws of the operating Companies have been delivered to Buyers prior to the date hereof.The corporate records of the Operating Companies are regularly kept and all minutes of the shareholders and the board of directors meetings have been entirely and regularly recorded therein.

(d) Good standing Each of the Operating Companies is a company duly organized, validly existing and in good standing under the laws of Italy, has full right and authority to own its property and to carry on its business as now conducted and has all legal permits, licenses and any other authorizations required to own and operate its assets, and to engage in its business as presently conducted. There are no pending or threatened conditions or events regarding the continued use of the facilities owned or leased by the operating Companies at the present operating locations.

(e) Compliance with Laws Each of the Operating Companies has complied with and is not in default under or in violation of any law, statute, rule, regulation, ordinance, code, license, permit, authorization or other provisions relating to it or its properties and assets or applicable to its business or products, including in particular, but, not limited to, those concerning tax, social, labor, environmental, health and security, and building matters.

(f) Reference Balance Sheet The Reference Balance Sheet has been prepared in accordance with the law and accounting principles generally accepted in Italy, as well as with the Agreed Criteria, and are true, real and correct and fairly present the financial position of the Company and the situation of its business as of the date thereof, its assets and liabilities and the results of its operations. The Company has no liabilities or obligations, either accrued, absolute, contingent or otherwise, except
(i) to the extent specifically set forth in the Reference Balance Sheet; or (ii) normal liabilities incurred in the ordinary course of business since the date of the Reference Balance Sheet and until the Closing Date.

(g) Balance Sheets The approved balance sheets of the Operating Companies as at December 31, 1993, copies of which have been delivered to Buyers prior to the date hereof, have been prepared in accordance with the law and accounting principles generally accepted in Italy, and are true, real and correct and fairly present the financial position of the Company and the situation of its business as of the date thereof, its assets and liabilities and the results of its operations. De Martin has no liabilities or obligations, either accrued, absolute, contingent or otherwise not reflected in its balance sheet as at December 31, 1993, except normal liabilities incurred in the ordinary course of business since the date of its approved balance sheet for the year 1993 and until the Closing Date. There are no adverse changes in the financial and economic situation of De Martin at the Closing Date with respect to its financial and economic situation at December 31, 1993.

(h) Conduct of Business From September 1, 1994 and until the Closing Date the Company has conducted its business in the normal and regular course which includes, without limitation:
(i) no payment of dividends or other distribution to shareholders;

(ii) no issuance or redemption of capital stock of the Company or options or rights to purchase stock of the Company;
(iii) no agreements for any transaction or series of related transactions having an aggregate value in excess of 200 (two hundred) million Italian lire, except for ordinary product sales;
(iv) no agreements to borrow or lend any amount of money or to guarantee any obligations; and
(v) no material change in management or personnel nor in personnel policies, practices or remunerations, and Seller has not encumbered or granted any rights with respect to the assets of the Company.

(i) Interest in Other Entities The Company has no subsidiaries and does not own, directly or indirectly, any interest or investment in any corporation, partnership or other entity, except for the participation in De Martin described in the Agreement. De Martin has no participations.

(j) Title to Properties and Assets The Operating Companies own outright and have full legal title to all properties and assets reflected in the Reference Balance Sheet, as far as the Company is concerned, and in the balance sheet as at December 31, 1993, as far as De Martin is concerned, as being owned by it, respectively. All such properties and assets owned by the Operating Companies constitute all assets required to conduct business as currently conducted and are subject to no liens, pledges, mortgages, encumbrances, reservations of ownership of any kind.

(k) Conditions of Fixed Assets All real property and other fixed assets used by the Operating Companies conform to applicable laws and regulations. All required licenses, permits and other authorizations required for the operation of the Operating Companies' business as presently conducted are in full force and effect. All machinery and equipment used by the Operating Companies are in good operating conditions, except for ordinary wear and tear.

(l) Inventories The inventories of raw materials, supplies,work in process and finished goods reflected in the Reference Balance Sheet as well as those acquired after the date thereof are properly valued and recorded in accordance with accounting principles generally accepted in Italy as well as with the Agreed Criteria and consist of items usable and saleable in the ordinary course of business, and are not obsolete, except as otherwise set forth in the Reference Balance Sheet, or in the books of account of the Company. The same applies to De Martin, with reference to its approved balance sheet as at December 31, 1993.

(m) Credits All accounts, notes receivable and other credits of the Operating Companies created until the Closing Date, have arisen from bona fide transactions, are valid, genuine and collectible at their respective maturity dates.

(n) Industrial Property Rights Each of the Operating Companies owns or has licenses or other rights to use all patents, patent applications, inventions, trademarks, trade names, copyrights, trade secrets and know how presently used, related to, or necessary for its business as presently conducted. The patents and patent applications of the Operating Companies are listed in Schedule A attached hereto. The Trademarks and trademarks applications of the Operating Companies are listed in Schedule B attached hereto.No proceedings or claims for infringement of any rights of a third party has been received, is pending or is known to be threatened against the Operating Companies and none of the Operating Companies products infringes any rights of third parties, except for the litigations described in Schedule C attached hereto, with the express understanding that Seller and Guarantors shall keep harmless and indemnify the Company from any and all costs, expenses, (including legal fees) and damages deriving from, or connected with, said litigations described in Schedule C.

(o) Taxes Each of the Operating Companies has filed for correct amounts with the appropriate authorities all tax declarations required by law to be filed. No tax requests, claims or proceedings are pending or, to the best knowledge of Sellers, threatened against the operating Companies. All taxes, including those related to the Sale and Purchase of Certain Participations, which are due and payable by the Operating Companies until the Closing Date have been paid or adequately reserved for, as the case may be. Notwithstanding anything to the contrary hereinabove, Seller and Guarantors will not have any liability for direct taxes due by the Company in connection with the Sale and Purchase of the Quota.

(p) Compliance with Environmental, Health and Safety Legislation Each of the Operating Companies does not violate nor has violated any environmental, health or safety rules currently in force. All necessary licenses, permits, approvals and authorizations for the performance of the activity carried out by the operating Companies, and particularly building permits and operating licenses granted by competent authorities, are in full force and effect and Sellers and the Operating Companies have not been informed or have no knowledge of any reason why any of these permits should be suspended, cancelled, revoked or not renewed. The Operating Companies have made all investments necessary to maintain the business in compliance with said permits, licenses, authorizations and approvals, as well as with applicable environmental health and safety rules.
Each of the Operating Companies has paid until the Closing Date all duties, levies, taxes and fees, if any, especially those concerning the waste disposal or water discharges, as well as all other duties, levies or taxes imposed on the activity of the Companies.
Each of the Operating Companies has satisfied its obligations, if any, of keeping books and registers that are mandatory under environmental legislation and has made all filings required by law.
No inspections have been made by governmental agencies during the last five years from which any liability has been assessed against or paid by the Operating Companies or their directors and there are no other open inspections pending resolution.
Each of the Operating Companies has received no notice or has no knowledge after due inquiry, that any toxic or hazardous substances, solid waste or any other pollutants, contaminants or chemicals, as regulated by the applicable laws, which they have disposed of, or arranged for the disposal of, have been found at any site where there exists a release or a threatened release of those substances.
None of the properties owned or leased by the Operating Companies has been used by any of them for the handling, processing, treatment, storage or disposal of hazardous substances other than in the conduct of the Operating Companies' operations in accordance with applicable laws. All wastes have been disposed of in accordance with applicable laws and regulations.
There have been no releases of toxic or hazardous substances by the Operating Companies outside or into properties owned or leased by the

Operating Companies or, to the best of Seller's knowledge, by others into properties owned or leased by the Operating Companies. Any charges, costs and expenses deriving from, or connected with said releases or waste disposals offsite or any soil or groundwater contaminations that occurred before the Closing Date will be borne by Seller until the time period for a Claim by Buyers concerning environmental matters has expired pursuant to the Agreement.
Without limitation to the foregoing and with regard to underground tanks existing at facilities owned or leased by the operating Companies, it is stipulated that, should applicable provisions of law or orders of authorities require removal, or anyhow prudent in the reasonable business judgment of an owner with a long term perspective of owning and operating the business, upgrading, decontamination or any other remedial actions, including with regard to contamination of soils and/or groundwater, any charges, costs and related expenses shall be for the account of Seller.

(q) Material Contracts The contracts, agreements or other contractual engagements whether written or verbal presently in force with the Operating Companies, which are material for the Operating Companies (i.e. having either a value exceeding 150 (one hundred fifty) million Italian lire or a term exceeding 1 (one) year, as well as all the consultancy agreements (the "Contracts") are listed or (if verbal) fully described in Schedule D attached hereto.Each of the Operating Companies is not in breach under any of the contracts, agreements or other contractual engagements to which it is a party.

(r) Penalties for Late Deliveries Penalties due by the Operating Companies for late deliveries of products ordered by clients before the Closing Date shall not exceed
500 (five hundred) million Italian Lire, excluding from calculation penalties already paid by the Operating Companies before the date of the Closing Balance Sheet.

(s) Cancellation of Contracts Except for the Supply Agreement dated August 31, 1994 between Shell U.K. Exploration and Production and the Company, there are no Contracts having clauses which give the right to the respective counterparts to cancel such Contracts and/or to be entitled to receive any compensation or modify the terms thereof (including payment and/or restitution terms) , because of the Transfer.

(t) Employees and Managers The list of managers, employees and workers of the Operating Companies setting out the relevant salaries and compensations is attached hereto as Schedule E and Buyers acknowledge that the Company will hire two managers and seven employees effective as of November 21, 1994. Except as disclosed in Schedule F attached hereto, each of the Operating Companies is not a party to, nor otherwise bound by:
(i) any "Accordo Aziendale", (ii) any prof it sharing, deferred compensation, bonus, retainer, health, welfare or incentive plan or agreement whether legally binding or not; (iii) any plan or policy providing for 'fringe benefits" to its employees in excess to what is provided for in the applicable collective agreement, including but not limited to vacation, disability, sick leave, medical, hospitalization, life insurance and other insurance plans, and related benefits; (iv) any retirement or pension plan. There are no loans presently outstanding between each of the Operating Companies and any of their directors or managers and other employees or workers, except for loans granted, pursuant to law, as an advance payment of their leaving indemnities. The amount shown on the Reference Balance Sheet for staff leaving indemnities represents the full amount which the Company would have been required to pay to its employees for all periods through the date of the Reference Balance Sheet to cover staff leaving indemnities if their employment relationship with the Company had been terminated on that date. There are no other costs payable upon termination of employment for all periods through the date mentioned above. The same applies to De Martin, with reference to its approved balance sheet as at December 31, 1993. Each of the Operating Companies has filed and performed all declarations, returns and other accomplishments required with respect to its social security and welfare charges, as well as those charges of their employees to be withheld by the employer, have been paid in full or withheld until the Closing Date; and no claim or proceeding is pending, has been notified or is otherwise in progress or known to be threatened with regard to social and welfare charges.

(u) Insurance Policies The insurance policies of the operating Companies are listed in Schedule G attached hereto. Such insurance policies have been regularly paid and there are no outstanding claims in respect thereof.

(v) Bank Accounts and Loans All bank accounts maintained by the operating Companies, as well as on all credit facilities of the Operating Companies, are listed in the Schedule H attached hereto.

(x) Litigations Except as set forth in Schedule I attached hereto there are no actions, suits, investigations of proceedings pending nor to the knowledge of Seller, threatened against the Operating Companies, in any court or by or before any authorities and/or arbitral or similar bodies; each of the Operating Companies is not subject to any order judgment or decree or the like with any authority; there are no claims pending, nor to the best knowledge of Seller threatened, against any of the Operating Companies.

(y) Product liability and defective goods Product liability in connection with goods shipped by the Operating Companies prior to the Closing Date shall be for the account of Seller, which shall keep harmless and indemnify the Operating Companies from any costs, expenses or damages deriving therefrom or connected therewith. Any liability (including costs, expenses or damages for replacement, remedial actions or warranty) for defective goods shipped by the Operating Companies prior to the Closing Date shall be for the account of Seller to the extent not covered by specific reserves in the Reference Balance Sheet or in the balance sheet of De Martin at December 31, 1993. Any third party claim will be handled in accordance with the provisions of Art. 9 of the Agreement.

(z) No adverse events There are no events known to Seller or Guarantors that, either individually or in the aggregate, may have a material adverse effect upon the business or assets of the Operating Companies.

End of Filing