

WATTS WATER TECHNOLOGIES INC

FORM 10-Q (Quarterly Report)

Filed 5/13/1998 For Period Ending 3/31/1998

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

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

FORM 10-Q

[X] Quarterly report pursuant to Section 13 or 15(d) of the
Securities Exchange Act of 1934

For the quarterly period ended March 31, 1998

or

[] Transition report pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

For the transition period from _____ to _____

Commission file number 0-14787

WATTS INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State of incorporation)

(I.R.S. Employer Identification No.)

04-2916536

815 Chestnut Street, North Andover, MA

(Address of principal executive offices)

01845

(Zip Code)

Registrant's telephone number, including area code: (978) 688-1811

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at April 30, 1998
Class A Common, \$.10 par value	16,756,027
Class B Common, \$.10 par value	10,296,827

WATTS INDUSTRIES, INC. AND SUBSIDIARIES

INDEX

Part I. Financial Information Page #

Item 1. Financial Statements

Condensed Consolidated Balance Sheets at March 31, 1998 and June 30, 1997	3
Condensed Consolidated Statements of Operations for the Three Months Ended March 31, 1998 and March 31, 1997	4
Condensed Consolidated Statements of Operations for the Nine Months Ended	

March 31, 1998 and March 31, 1997 5

Condensed Consolidated Statements of Cash
Flows for the Nine Months Ended

March 31, 1998 and March 31, 1997 6

Notes to Condensed Consolidated Financial Statements 7-10

Item 2. Management's Discussion and Analysis of

	Financial Condition and Results of Operations	11-15
Part II.	Other Information	
Item 1.	Legal Proceedings	15-17
Item 6.	Exhibits and Reports on Form 8-K	17
	Signatures	18
	Exhibit Index	19
	Exhibit 27.1 - Financial Data Schedule-March 31, 1998	20
	Exhibit 27.2 - Restated Financial Data Schedule-March 31, 1997	21
	Exhibit 27.3 - Restated Financial Data Schedule-September 30, 1996	22

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS WATTS INDUSTRIES, INC. AND SUBSIDIARIES CONDENSED CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	(Unaudited) Mar. 31, 1998	(Audited) June 30, 1997
	-----	-----
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 9,954	\$ 13,904
Short-term investments	257	518
Trade accounts receivable, less allowance for doubtful accounts of \$8,592 at March 31, 1998 and \$7,945 at June 30, 1997	140,392	121,349
Inventories:		
Raw materials	64,306	64,261
Work in process	37,216	26,030
Finished goods	90,502	80,926
	-----	-----
Total Inventories	192,024	171,217
Prepaid expenses and other assets	13,169	13,087
Deferred income taxes	21,616	22,480
Net assets held for sale	2,046	3,037
	-----	-----
Total Current Assets	379,458	345,592
	-----	-----
PROPERTY, PLANT AND EQUIPMENT:		
Property, plant and equipment, at cost	298,996	281,231
Accumulated depreciation	(140,609)	(128,537)
	-----	-----
Property, plant and equipment, net	158,387	152,694
	-----	-----
OTHER ASSETS:		
Goodwill, net of accumulated amortization of \$15,799 at March 31, 1998 and \$13,484 at June 30, 1997	119,985	110,928
Other	13,769	12,869
	-----	-----
TOTAL ASSETS	\$ 671,599	\$ 622,083
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY CURRENT LIABILITIES:

Accounts payable	\$ 46,459	\$ 48,896
Accrued expenses and other liabilities	59,351	53,738
Accrued compensation and benefits	15,519	15,834
Income taxes payable	7,911	-
Current portion of long-term debt	1,583	2,422
	-----	-----
Total Current Liabilities	130,823	120,890
	-----	-----
LONG-TERM DEBT, NET OF CURRENT PORTION	133,006	125,937
DEFERRED INCOME TAXES	16,365	16,675
OTHER NONCURRENT LIABILITIES	12,037	13,796
MINORITY INTEREST	11,787	11,146
STOCKHOLDERS' EQUITY:		
Preferred Stock, \$.10 par value; 5,000,000 shares authorized; no shares issued or outstanding	-	-
Class A Common Stock, \$.10 par value; 1 vote per share; 80,000,000 shares authorized; issued and outstanding: 16,451,077 shares at March 31, 1998 and 15,797,460 shares at June 30, 1997	1,645	1,580
Class B Common Stock, \$.10 par value; 10 votes per share; 25,000,000 shares authorized; issued and outstanding: 10,701,777 at March 31, 1998 and 11,215,627 shares at June 30, 1997	1,070	1,121
Additional paid-in capital	47,598	44,643
Retained earnings	327,834	293,170
Cumulative translation adjustment	(10,566)	(6,875)
	-----	-----
Total Stockholders' Equity	367,581	333,639
	-----	-----
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 671,599	\$ 622,083
	=====	=====

See accompanying notes to condensed consolidated financial statements.

WATTS INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share information)

(Unaudited)	Three Months Ended	
	Mar. 31, 1998	Mar. 31, 1997
	-----	-----
Net sales	\$ 183,615	\$ 184,191
Cost of goods sold	119,381	120,461
	-----	-----
GROSS PROFIT	64,234	63,730
Selling, general & administrative expenses	40,835	40,983
	-----	-----
OPERATING INCOME	23,399	22,747
	-----	-----
Other (income) expense:		
Interest income	(659)	(125)
Interest expense	2,677	2,715
Other, net	(183)	(280)
	-----	-----
	1,835	2,310
	-----	-----
INCOME BEFORE INCOME TAXES	21,564	20,437
Provision for income taxes	7,523	7,548
	-----	-----
NET INCOME	\$ 14,041	\$ 12,889
	=====	=====
Income per common share :		
Basic	\$ 0.52	\$ 0.48
	=====	=====
Diluted	\$ 0.51	\$ 0.47
	=====	=====
Dividends per common share	\$ 0.0875	\$ 0.0775
	=====	=====

See accompanying notes to condensed consolidated financial statements.

WATTS INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Dollars in thousands, except per share information)

(Unaudited)

	Nine Months Ended	
	Mar. 31, 1998	Mar. 31, 1997
Net sales	\$ 542,273	\$ 534,419
Cost of goods sold	350,424	350,181
GROSS PROFIT	191,849	184,238
Selling, general & administrative expenses	121,575	118,087
OPERATING INCOME	70,274	66,151
Other (income) expense:		
Interest income	(1,243)	(397)
Interest expense	7,653	7,938
Other, net	778	171
	7,188	7,712
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	63,086	58,439
Provision for income taxes	21,816	21,454
INCOME FROM CONTINUING OPERATIONS	41,270	36,985
Income from discontinued operations, net of taxes	-	79
Gain on disposal of discontinued operations, net of taxes	-	3,208
NET INCOME	\$ 41,270	\$ 40,272
Income per common share :		
Basic		
Continuing operations	\$ 1.52	\$ 1.36
Discontinued operations	-	-
Gain on disposal of discontinued operations	-	0.12
Net Income	\$ 1.52	\$ 1.48
Diluted		
Continuing operations	\$ 1.51	\$ 1.35
Discontinued operations	-	-
Gain on disposal of discontinued operations	-	0.12
Net Income	\$ 1.51	\$ 1.47
Dividends per common share	\$ 0.2425	\$ 0.2175

See accompanying notes to condensed consolidated financial statements.

WATTS INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)
(Unaudited)

	Nine Months Ended	
	Mar. 31, 1998	Mar. 31, 1997
OPERATING ACTIVITIES		
Income from continuing operations	\$ 41,270	\$ 36,985
Adjustments to reconcile net income from continuing operations to net cash provided by continuing operating activities:		
Restructuring payments	(1,523)	(4,335)
Depreciation and amortization	17,136	17,026
Deferred income taxes	533	1,080
Gain on disposal of assets	(1,170)	(561)
Equity in undistributed earnings of affiliates	(77)	-
Changes in operating assets and liabilities, net of effects from acquisitions and dispositions:		
Accounts receivable	(18,594)	(16,966)
Inventories	(16,070)	(2,612)
Prepaid expenses and other assets	(1,225)	(2,621)
Accounts payable, accrued expenses and other liabilities	10,980	(3,369)
Net cash provided by continuing operations	31,260	24,627
Net cash provided by discontinued operations	-	653

NET CASH PROVIDED BY OPERATING ACTIVITIES	31,260	25,280
INVESTING ACTIVITIES		
Additions to property, plant and equipment	(21,927)	(21,075)
Proceeds from sale of assets	7,335	1,756
Increase in other assets	(1,043)	(771)
Discontinued Operations:		
Additions to property, plant and equipment	-	(142)
Proceeds from disposal of discontinued operations	-	90,581
Business acquisitions, net of cash acquired	(22,495)	(37,575)
Net changes in short-term investments	260	-
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	(37,870)	32,774
FINANCING ACTIVITIES		
Proceeds from long-term borrowings	73,491	91,376
Payments of long-term debt	(67,102)	(119,088)
Proceeds from exercise of stock options	2,699	746
Dividends paid	(6,569)	(5,932)
Purchase and retirement of common stock	-	(23,069)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	2,519	(55,967)
Effect of exchange rate changes on cash and cash equivalents	141	1,293
CHANGE IN CASH AND CASH EQUIVALENTS	(3,950)	3,380
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	13,904	-
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 9,954	\$ 3,380

See accompanying notes to condensed consolidated financial statements.

WATTS INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. In the opinion of management, the accompanying unaudited, condensed, consolidated financial statements contain all necessary adjustments, consisting only of adjustments of a normal recurring nature, to present fairly Watts Industries, Inc.'s Condensed Consolidated Balance Sheet as of March 31, 1998, its Condensed Consolidated Statements of Operations for the three and nine months ended March 31, 1998 and 1997, and its condensed Consolidated Statements of Cash Flows for the nine months ended March 31, 1998 and 1997.

The balance sheet at June 30, 1997 has been derived from the audited financial statements at that date. Certain amounts have been reclassified to conform with the 1998 presentation. The accounting policies followed by the Company are described in the June 30, 1997 financial statements which are contained in the Company's 1997 Annual Report. It is suggested that these financial statements be read in conjunction with the financial statements and notes included in the 1997 Annual Report to Stockholders.

2. During September 1997, a wholly owned subsidiary of the Company purchased the Orion Fittings Division of Kelstan Plastic Products, Ltd. The Orion Fittings Division has manufactured corrosion resistant polyolefin piping systems for laboratory drainage and high purity process installations since 1963. The product line includes pipe, fittings, sinks, neutralizing tanks, pH alarm and monitoring systems and sediment interceptors. Sales have been concentrated in the Canadian market and were approximately \$584,000 for the twelve months ended August 31, 1997.

During December 1997, a wholly owned subsidiary of the Company purchased the pneumatic valve and motion switch business of Aerodyne Controls Corporation. The Aerodyne product line consists of high quality valve components for medical, analytical, military and aerospace applications. Sales for the twelve months ended October 1997 were approximately \$7,000,000.

During March 1998, a wholly owned subsidiary of the Company purchased the solenoid valve business of Atkomatic Valve Company. The Atkomatic product line consists of heavy duty process solenoid valves for clean air, gases, liquids, steam and corrosive and cryogenic fluids. Sales for the twelve months ended September 30, 1997 were \$4,500,000.

During March 1998, a wholly owned subsidiary of the Company purchased Telford Valve & Specialties, Inc. of Edmonton, Canada. Telford manufactures check valves, pipeline closures, and specialty gate valves that are used in industrial and oil and gas applications. Telford is also a distributor and authorized repair facility for a number of other independent manufacturers of oilfield products. Current annualized sales are approximately \$15,000,000.

The aggregate purchase price for these acquisitions was \$22,495,000.

3. During fiscal year ended June 30, 1996, the Company decided to undertake certain restructuring initiatives aimed at improving the efficiency of certain of its continuing operations. The two most significant of those initiatives were the consolidation and downsizing of Pibiviesse S.p.A. and the relocation of Jameco Industries, Inc. from Wyandanch, New York to the Company's existing Spindale, North Carolina manufacturing facility. In connection with this restructuring plan and during the year ended June 30, 1996, the Company recorded a \$25,415,000 restructuring charge for related severance costs, plant closure costs and asset write-downs.

Cash payments for accrued employee severance and other plant closure costs were \$1,523,000 during the nine months ended March 31, 1998, and the Company's remaining accrued restructuring liability was \$2,301,000 at March 31, 1998. It is expected that the restructuring initiatives will be substantially complete by June 30, 1998. The Company expects that some settlement payments will be paid subsequent to June 30, 1998.

Since commencement of the restructuring plan, there has been a related net reduction of 246 employees. As of March 31, 1998, there are approximately 50 additional restructuring related terminations that are expected to occur.

4. On September 4, 1996, the Company sold its Municipal Water Group of businesses. Sales revenue from these businesses amounted to \$14,027,000 during the period between July 1, 1996 and September 4, 1996. This revenue, net of all related expense including income taxes, has been classified as income from discontinued operations in the accompanying statement of operations for the nine months ended March 31, 1997.

5. During the quarter ended December 31, 1997, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 128 Earnings per Share. SFAS 128 required the Company to change the method formerly used to compute earnings per share and to restate all prior periods presented. The requirements for calculating basic earnings per share excludes the dilutive effect of securities. Diluted earnings per share assumes the conversion of all dilutive securities. The following table sets forth the reconciliation of the calculation per SFAS 128:

	For the Three Months Ended March 31, 1998		
	Income	Shares	Per Share
	(Numerator)	(Denominator)	Amount
Basic EPS			
Net Income	\$14,041,000	27,162,904	\$.52
Effect of Dilutive Securities - primarily stock options	-	424,539	
Diluted EPS	\$14,041,000	27,587,443	\$.51

For the Nine Months Ended March 31, 1998

	Income	Shares	Per Share
	(Numerator)	(Denominator)	Amount
Basic EPS			
Net Income	\$41,270,000	27,082,038	\$1.52
Effect of Dilutive Securities - primarily stock options	-	337,762	
Diluted EPS	\$41,270,000	27,419,800	\$1.51

At March 31, 1998, there were no outstanding options to purchase shares of common stock with exercise prices greater than the average market price of the common shares during the three-month and nine-month periods then ended.

	For the Three Months Ended March 31, 1997		
	Income	Shares	Per Share
	(Numerator)	(Denominator)	Amount
Basic EPS			
Net Income	\$12,889,000	27,029,898	\$.48
Effect of Dilutive Securities - primarily stock options	-	275,854	
Diluted EPS	\$12,889,000	27,305,752	\$.47

For the Nine Months Ended March 31, 1997

	Income (Numerator)	Shares (Denominator)	Per Share Amount
Basic EPS			
Income from Continuing Operations	\$36,985,000	27,224,419	\$1.36
Income from Discontinued Operations	79,000	-	-
Gain on Disposal of Discontinued Operations	3,208,000		.12
Net Income	\$40,272,000		\$1.48
Effect of Dilutive Securities - primarily stock options	-	161,311	
Diluted EPS	\$40,272,000	27,385,730	\$1.47

Options to purchase 26,500 shares and 689,100 shares of common stock at prices ranging from \$22.13 to \$26.13 were outstanding during the three-month and nine-month periods ended March 31, 1997, respectively. These options were not included in the related computations of diluted EPS since the exercise price of the options was greater than the average market price of the common shares during those respective periods.

6. During June 1997, the Company entered into a joint venture agreement with the sales agent who markets imported vitreous china and faucets into the do-it-yourself ("DIY") market. Prior to the July 1997 commencement of operations by the joint venture, the related sales were recorded as part of the Company's Jameco business. The Company now has a 49% minority interest in the new joint venture and reports activities on the equity basis, thus excluding these sales from the Company's consolidated revenues. Revenues in fiscal 1997 were \$13,415,000 for this business.

During December 1997, the Company sold a small Italian valve manufacturing division which was not part of the Company's core business. The division's sales for the six-month period ended December 31, 1997 were \$3,386,000.

7. On March 27, 1998, the Company entered into an amended and restated \$125 million revolving credit agreement with a group of commercial banks to replace the existing agreement. The agreement expires on March 27, 2003. Interest payable on borrowings is variable based upon the Company's option of selecting either a LIBOR rate plus 0.165%, Prime Rate, or a competitive money market rate to be specified by the lender.

8. The Company has developed comprehensive global plans to assess and address in a timely manner its information systems including customer service, production, distribution and financial systems in conjunction with the year 2000. As part of these plans, the Company is also communicating with its suppliers, distributors and others with whom it conducts business to coordinate year 2000 compliance. The implementation of these plans is not expected to have a material adverse effect on the results of operations or the financial condition of the Company. However if the Company, its suppliers or distributors are unable to fully implement these plans related to year 2000 risk on a timely basis, it could result in a financial risk.

9. The Company uses foreign currency forward exchange contracts to reduce the impact of currency fluctuations on certain anticipated intercompany purchase transactions that are expected to occur within the fiscal year and other known exposures. The notional amount of such contracts and the related realized and unrealized gains and losses as of March 31, 1998 are not material.

10. Information in "Note (12) Contingencies and Environmental Remediation" set forth in the Registrant's Form 10-K is incorporated herein by reference. Also see Part II, Item 1.

Item 2. WATTS INDUSTRIES, INC. AND SUBSIDIARIES

Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Three Months Ended March 31, 1998 Compared to Three Months Ended March 31, 1997

Net sales decreased \$576,000 (0.3%) to \$183,615,000. An analysis of this change in net sales is as follows:

Internal Growth	\$ 3,961,000	2.2%	
Acquisitions	3,625,000		2.0%
Jameco Sales now through Joint Venture and Divestitures	(5,062,000)		(2.8%)
Foreign Exchange Rate Effect	(3,100,000)	(1.7%)	

Total Decrease

\$ (576,000) (0.3%)

The increase in net sales from internal growth is primarily attributable to increased unit shipments of European oil and gas valves and increased unit shipments of North American plumbing and heating valves. These increases were partially offset by decreased unit shipments of domestic oil and gas valves. Last year's sales included \$3,010,000 for a segment of the Jameco business for imported vitreous china and faucets in which the Company now has a 49% minority interest, thereby eliminating these sales from current year results. The unfavorable effect that changes in foreign exchange rates had on sales was primarily attributable to the Company's European operations. The Company intends to maintain its strategy of seeking acquisition opportunities as well as expanding its existing market position to achieve sales growth.

During December 1997, the Company sold a small Italian valve manufacturing division which was not part of the Company's core business. The division's sales for the three-month period ended March 31, 1997 were \$1,454,000.

Gross profit increased \$504,000 (0.8%) and increased as a percentage of net sales from 34.6% to 35.0%. This percentage increase is primarily attributable to improved gross margins for European oil and gas valves and domestic plumbing and heating valves. The gross margin on oil and gas valves improved due to increased sales volumes and factory efficiencies. The gross margin on domestic plumbing and heating valves increased primarily due to an improved sales mix. These improvements were partially offset by manufacturing inefficiencies associated with the relocation of the Jameco product line into a Watts Regulator factory in Spindale, North Carolina.

Selling, general and administrative expenses decreased \$148,000 (0.4%) to \$40,835,000. This decrease is primarily attributable to the impact of foreign exchange rate changes and the elimination of the operating expenses associated with the segment of the Jameco business in which the Company now maintains a 49% minority interest. These reductions were partially offset by the inclusion of the expenses of acquired companies and increased variable selling expenses.

The decrease in the effective tax rate from 36.9% to 34.9% was primarily attributable to the implementation of tax planning strategies intended to reduce income tax expense.

Net income increased \$1,152,000 (8.9%) to \$14,041,000.

The Company's consolidated results of operations are impacted by the effect that changes in foreign currency exchange rates have on its international subsidiaries' operating results. Changes in foreign exchange rates had an adverse effect on net income for the quarter ended of approximately \$350,000.

Results of Operations

Nine Months Ended March 31, 1998 Compared to Nine Months Ended March 31, 1997

Net sales from continuing operations increased \$7,854,000 (1.5%) to \$542,273,000. An analysis of this change in net sales is as follows:

Internal Growth	\$12,669,000	2.4%		
Acquisitions/New Joint Ventures	21,039,000	3.9%		
Jameco Sales now through Joint Venture and Divestitures	(12,521,000)	(2.3%)		
Foreign Exchange Rate Effect	(13,333,000)	(2.5%)		
Total Increase			\$ 7,854,000	1.5%

The increase in net sales from internal growth is primarily attributable to increased unit shipments of oil and gas valves and increased unit shipments of plumbing and heating valves. The increased sales due to acquisitions is primarily attributable to the inclusion of the sales of Ames, acquired in January 1997. Last year's sales included \$9,271,000 for a segment of the Jameco business for imported vitreous china and faucets in which the Company now has a 49% minority interest, thereby eliminating these sales from current year results. The unfavorable effect that changes in foreign exchange rates had on sales was primarily attributable to the Company's European operations. The Company intends to maintain its strategy of seeking acquisition opportunities as well as expanding its existing market position to achieve sales growth.

During December 1997, the Company sold a small Italian valve manufacturing division which was not part of the Company's core business. The division's sales for the six-month period ended December 31, 1997 were \$3,386,000.

Gross profit from continuing operations increased \$7,611,000 (4.1%) and increased as a percentage of net sales from 34.5% to 35.4%. This percentage increase is primarily attributable to improved gross margins for European oil and gas valves and the inclusion of the gross margin of Ames which operates at a higher gross margin than the Company average. These improvements were partially offset by manufacturing inefficiencies associated with the relocation of the Jameco product line into a Watts Regulator factory in Spindale, North Carolina.

Selling, general and administrative expenses increased \$3,488,000 (3.0%) to \$121,575,000. This increase is primarily attributable to the inclusion of the expenses of Ames and other acquired companies and increased variable selling expenses. This increase was partially offset by the effect of the change in foreign exchange rates and the exclusion of the expenses of the Jameco joint venture.

Interest income increased \$846,000 to \$1,243,000 due to an increased level of cash and short-term investments.

Other nonoperating expense increased by \$607,000 (355.0%) to \$778,000 for the nine months ended March 31, 1998. Minority interest expense charges, resulting from the improved operating results of the two Chinese joint ventures, were recognized during this period. Increased charges were partially offset by gains recognized on the sale of a Canadian manufacturing facility and a small Italian valve manufacturing division.

The effective tax rate for continuing operations decreased from 36.7% to 34.6% primarily due to the implementation of tax planning strategies intended to reduce income tax expense.

Income from continuing operations increased \$4,285,000 (11.6%) to \$41,270,000.

The Company's consolidated results of operations are impacted by the effect that changes in foreign currency exchange rates have on its international subsidiaries' operating results. Changes in foreign exchange rates had an adverse effect on income from continuing operations of approximately \$1,400,000.

In the quarter ended September 30, 1996 the Company sold its Municipal Water Group of companies. This divestiture resulted in an after-tax gain of \$3,208,000, or \$.12 earnings per share on both a basic and diluted basis for the period ended March 31, 1997.

Liquidity and Capital Resources

During the nine-month period ended March 31, 1998, the Company generated \$31,260,000 in cash flow from operations, which was principally used to fund capital expenditures of \$21,927,000. These capital expenditures were primarily for manufacturing machinery and equipment as part of the Company's commitment to continuously improve its manufacturing capabilities. The Company's capital expenditure budget for fiscal 1998 is \$29,500,000.

During the nine months ended March 31, 1998, the Company sold one of its facilities in Canada, consolidating the operations into another existing Canadian plant. Additionally, the Company sold a small Italian valve manufacturing division (ISI) which was not part of the Company's core business. The proceeds for these two transactions totaled \$7,135,000.

On December 18, 1997, the Company acquired Aerodyne Controls Corporation ("Aerodyne") located in Ronkonkoma, New York. Aerodyne is a manufacturer of pneumatic valve and motion switches. Aerodyne's sales for the twelve months ended October 1997 were approximately \$7,000,000. Customers are primarily in the medical, analytical, military and aerospace markets.

On March 26, 1998, the Company acquired Telford Valve and Specialties, Inc. ("Telford") located in Edmonton, Alberta, Canada. Telford manufactures check valves, pipeline closures, and specialty gate valves that are used in industrial and oil and gas applications. Telford is also a distributor and authorized repair facility for a number of other independent manufacturers of oil field products. Current annualized sales are approximately \$15,000,000.

The aggregate purchase price for the acquisitions of Aerodyne, Telford, and other product line acquisitions during the nine months ended March 31, 1998 is \$22,495,000.

The Company has available an unsecured \$125,000,000 line of credit which expires on March 27, 2003. The Company's intent is to utilize this credit facility to support the Company's acquisition program, working capital requirements of acquired companies and for general corporate purposes. As of March 31, 1998, \$35,000,000 was borrowed under this line of credit. Working capital was \$248,635,000 at March 31, 1998 compared to \$224,702,000 at June 30, 1997.

The ratio of current assets to current liabilities was 2.9 to 1 at both March 31, 1998 and June 30, 1997. Cash and short-term investments were \$10,211,000 at March 31, 1998 compared to \$14,422,000 at June 30, 1997. Debt as a percentage of total capital employed was 26.8% at March 31, 1998 compared to 27.8% at June 30, 1997. At March 31, 1998, the Company was in compliance with all covenants related to its existing debt.

The Company from time to time is involved with environmental proceedings and incurs costs on an ongoing basis related to environmental matters. The Company currently anticipates that it will not incur significant expenditures in fiscal 1998 in connection with any of these environmentally contaminated sites.

The Company anticipates that available funds and those funds provided from current operations will be sufficient to meet current operating requirements and anticipated capital expenditures for at least the next 24 months.

The Company has developed comprehensive global plans to assess and address in a timely manner its information systems including customer service, production, distribution and financial systems in conjunction with the year 2000. As part of these plans, the Company is also communicating with its suppliers, distributors and others with whom it conducts business to coordinate year 2000 compliance. The implementation of these plans is not expected to have a material adverse effect on the results of operations or the financial condition of the Company. However if the Company, its suppliers or distributors are unable to fully implement these plans related to year 2000 risk on a timely basis, it could result in a financial risk.

The Company uses foreign currency forward exchange contracts to reduce the impact of currency fluctuations on certain intercompany purchase transactions that will occur within the fiscal year and other known foreign currency exposures. The notional amount of such contracts and the related realized and unrealized gains and losses as of March 31, 1998 are not material.

Certain statements contained herein are forward looking. Many factors could cause actual results to differ from these statements, including loss of market share through competition; introduction of competing products by other companies; pressure on prices from competitors, suppliers, and/or customers; regulatory obstacles; lack of acceptance of new products; changes in the plumbing and heating and oil and gas markets; changes in global demand for the Company's products; changes in distribution of the Company's products; interest rates; foreign exchange fluctuations; cyclicity of industries in which the Company markets certain of its products and general and economic factors in markets where the Company's products are sold, manufactured or marketed; and other factors discussed in the Company's reports filed with the Securities and Exchange Commission.

Statement of Financial Accounting Standards ("SFAS") No. 130, Reporting Comprehensive Income, and SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information, become effective during fiscal year 1999. At that time, the Company will report net income as currently reported and will begin to also report "comprehensive income" which will include the effect of currency translation adjustments. As the Company adopts SFAS No. 131, it will make the required disclosures concerning its segments.

Part II. Other Information

Item 1. Legal Proceedings

The Company, like other worldwide manufacturing companies, is subject to a variety of potential liabilities connected with its business operations, including potential liabilities and expenses associated with possible product defects or failures and compliance with environmental laws. The Company maintains product liability and other insurance coverage which it believes to be generally in accordance with industry practices. Nonetheless, such insurance coverage may not be adequate to protect the Company fully against substantial damage claims which may arise from product defects and failures.

Leslie Controls, Inc. and Spence Engineering Company, both subsidiaries of the Company, are involved as third-party defendants in various civil product liability actions pending in the U.S. District Court, Northern District of Ohio. The underlying claims have been filed by present or former employees of various shipping companies for personal injuries allegedly received as a result of exposure to asbestos. The shipping companies contend that they installed in their vessels certain valves manufactured by Leslie Controls and/or Spence Engineering which contained asbestos. Leslie Controls is also a defendant in two similar matters pending in Superior Court of California, San Francisco County. The Company has resort to certain insurance coverage with respect to these matters. Coverage has been disputed by certain of the carriers and, therefore, recovery is questionable, a factor which the Company has considered in its evaluation of these matters. The Company has established certain reserves which it currently believes are adequate in light of the probable and estimable exposure of pending and threatened litigation of which it has knowledge. Based on facts presently known to it, the Company does not believe the outcome of these proceedings will have a material adverse effect on its financial condition, results of operations or its liquidity.

On June 25, 1997, a complaint entitled State of California ex rel. Nora Armenta v. James Jones Company, Mueller Co., Tyco International, Ltd. and Watts Industries, Inc. was filed under seal in the Superior Court of Los Angeles County, California, alleging violations of the California False Claims Act. The Company became aware of the action in April 1998. The complaint alleges that since at least 1987, James Jones Company, (which was a subsidiary of the Company until September 1996 when it was sold to Tyco International Ltd.), sold products utilized in municipal water systems within the State of California which failed to meet contractually specified industry standards and falsely certified that such standards had been met. The complaint alleges that the municipal entities have suffered tens of millions of dollars of damages as a result of the defective products, and seeks injunctive relief, treble damages, civil penalties of up to \$10,000 for each violation of the California False Claims Act, costs and attorney's fees. The Company has undertaken the defense of the action on behalf of other named defendants subject to contractual limitations with respect to its indemnification obligations. The action is filed by a former employee of James Jones Company, and no government entity is currently a party by intervention in the action. The Company intends to vigorously defend the action.

Certain of the Company's operations generate solid and hazardous wastes, which are disposed of elsewhere by arrangement with the owners or operators of disposal sites or with transporters of such waste. The Company's foundry and other operations are subject to various federal, state and local laws and regulations relating to environmental quality. Compliance with these laws and regulations requires the Company to incur expenses and monitor its operations on an ongoing basis. The Company cannot predict the effect of future requirements on its capital expenditures, earnings or competitive position due to any changes in federal, state or local environmental laws, regulations or ordinances.

The Company is currently a party to or otherwise involved with various administrative or legal proceedings under federal, state or local environmental laws or regulations involving a number of sites, in some cases as a participant in a group of potentially responsible parties ("PRPs"). Three of these sites, the Sharkey and Combe Landfills in New Jersey, and the San Gabriel Valley/El Monte, California water basin site, are listed on the National Priorities List. With respect to the Sharkey Landfill, the Company has been allocated .75% of the remediation costs, an amount which is not material to the Company. No allocations have been made to date with respect to the Combe Landfill or San Gabriel Valley sites. The EPA has formally notified several entities that they have been identified as being potentially responsible parties with respect to the San Gabriel Valley site. As the Company was not included in this group, its potential involvement in this matter is uncertain at this point given that either the PRPs named to date or the EPA could seek to expand the list of potentially responsible parties. In addition to the foregoing, the Solvent Recovery Service of New England site and the Old Southington landfill site, both in Connecticut, are on the National Priorities List, but, with respect thereto, the Company has resort to indemnification from third parties and based on currently available

information, the Company believes it will be entitled to participate in a de minimis capacity. During the quarter ending March 31, 1998, the Company received an administrative order from the New Hampshire Department of Environmental Services with respect to certain regulatory issues concerning its Franklin, New Hampshire operation. The Company has appealed this administrative order. The state agency has not as of yet issued any fines or penalties in connection with this matter.

With respect to the Combe Landfill, the Company is one of approximately 30 potentially responsible parties. The Company and all other PRPs received a Supplemental Directive from the New Jersey Department of Environmental Protection & Energy in 1994 seeking to recover approximately \$9 million in the aggregate for the operation, maintenance, and monitoring of the implemented remedial action taken up to that time in connection with the Combe Landfill North site. Certain of the PRPs, including the Company, are currently negotiating with the state only to assume maintenance of this site in an effort to reduce future costs. The Company and the remaining PRPs have also received a formal demand from the U.S. Environmental Protection Agency to recover approximately \$17 million expended to date in the remediation of this site. The EPA has filed suit against certain of the PRPs, and the Company has been named a third-party defendant in this litigation.

Based on facts presently known to it, the Company does not believe that the outcome of these environmental proceedings will have a material adverse effect on its financial condition. The Company has established balance sheet accruals which it currently believes are adequate in light of the probable and estimable exposure of pending and threatened environmental litigation and proceedings of which it has knowledge. Given the nature and scope of the Company's manufacturing operations, there can be no assurance that the Company will not become subject to other environmental proceedings and liabilities in the future which may be material to the Company.

Item 6. Exhibits and Reports on Form 8-K

- (a) The exhibits are furnished elsewhere in this report.
- (b) There were no reports filed on Form 8-K for the quarter ended March 31, 1998.

SIGNATURES

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

WATTS INDUSTRIES, INC.

Date: May 13, 1998

By: /s/ Timothy P.Horne
Timothy P. Horne

Chairman and Chief

Executive Officer

Date: May 13, 1998

By: /s/ Kenneth J. McAvoy
Kenneth J. McAvoy
Chief Financial Officer
and Treasurer

EXHIBIT INDEX

Listed and indexed below are all Exhibits filed as part of this report.

Exhibit No.	Description
3.1	Restated Certificate of Incorporation, as amended. (1)
3.2	Amended and Restated By-Laws. (2)
10.28	Amended and Restated Revolving Credit Agreement dated March 27, 1998 between and among Watts Investment Company, certain financial institutions, BankBoston N.A., as Administrative Agent, and the Registrant as Guarantor. *
11	Computation of earnings per share (3)
27.1	Financial Data Schedule-March 31, 1998*
27.2	Restated Financial Data Schedule-March 31, 1997*
27.3	Restated Financial Data Schedule-September 30, 1996*
(1)	Incorporated by reference to the relevant exhibit to the

Registrant's Annual Report on Form 10-K filed with the Securities and Exchange Commission on September 28, 1995.

(2) Incorporated by reference to the relevant exhibit to the Registrant's Current Report on Form 8-K filed with the Securities and Exchange Commission on May 15, 1992.

(3) Incorporated by reference to the Notes to Condensed Consolidated Financial Statements, Note 5, of this Report.

*Filed herewith.

**AMENDED AND RESTATED
REVOLVING CREDIT AGREEMENT**

Dated as of
March 27, 1998
among

WATTS INVESTMENT COMPANY,

WATTS INDUSTRIES, INC., as Guarantor,

**THE FINANCIAL INSTITUTIONS LISTED ON
SCHEDULE 1 HERETO,**
BANKBOSTON, N.A. (f/k/a/ The First National Bank of Boston), as Administrative Agent and Competitive Bid Agent
and
BANCOSTON SECURITIES INC., as Arranger

TABLE OF CONTENTS

Page	
1. DEFINITIONS AND RULES OF INTERPRETATION.	2
1.1. Definitions.	2
1.2. Rules of Interpretation.	16
2. THE REVOLVING CREDIT FACILITY AND THE COMPETITIVE LOAN FACILITY.	17
2.1. Commitment to Lend.	17
2.2. Facility Fee.	17
2.3. Reduction of Total Commitment.	18
2.4. The Notes.	18
2.5. Interest on Revolving Credit Loans and Competitive Loans.	19
2.6. Requests for Revolving Credit Loans.	19
2.7. Conversion Options for Revolving Credit Loans.	20
2.7.1. Conversion to Different Type of Revolving Credit Loan.	20
2.7.2. Continuation of Type of Revolving Credit Loan.	20
2.7.3. Eurodollar Rate Loans.	21
2.8. Funds for Revolving Credit Loans.	21
2.8.1. Funding Procedures.	21
2.8.2. Advances by Administrative Agent.	21
2.9. Pro Rata Treatment.	22
2.10. Competitive Bid Procedures.	22
2.10.1. Competitive Loan Request.	22
2.10.2. Bids by Banks.	23
2.10.3. Notice to Borrower of Bids.	24
2.10.4. Acceptance and Rejection of Bids.	24
2.10.5. Notification to Banks.	25
2.10.6. Competitive Bid Agent as Bidder.	25
2.10.7. Notices.	26
3. REPAYMENT OF REVOLVING CREDIT LOANS AND COMPETITIVE LOANS.	26
3.1. Maturity.	26
3.1.1. Revolving Credit Loans.	26
3.1.2. Competitive Loans.	26
3.2. Mandatory Repayments of Revolving Credit Loans.	26
3.3. Optional Repayments of Revolving Credit Loans.	26
3.4. No Optional Repayments of Competitive Loans.	27
3.5. Method of Certain Prepayments and Repayments.	27
4. CERTAIN GENERAL PROVISIONS.	27
4.1. Arrangement Fee.	27
4.2. Administrative Agent's Fee.	27
4.3. Funds for Payments.	28
4.3.1. Payments to Administrative Agent.	28
4.3.2. No Offset, etc.	28
4.4. Computations.	28
4.5. Inability to Determine Eurodollar Rate.	29

4.6. Illegality.	29		
4.7. Additional Costs, etc.	30		
4.8. Capital Adequacy.	31		
4.9. Certificate.	32		
4.10. Indemnity.	32		
4.11. Interest on Overdue Amounts.	32		
5. GUARANTY.	32		
5.1. Guaranty.	32		
5.2. Guaranty Absolute.	33		
5.3. Effectiveness; Enforcement.	34		
5.4. Waivers.	34		
5.5. Subrogation Waiver.	34		
6. REPRESENTATIONS AND WARRANTIES.	35		
6.1. Corporate Authority.	35		
6.1.1. Incorporation; Good Standing.	35		
6.1.2. Authorization.	35		
6.1.3. Enforceability.	36		
6.2. Governmental Approvals.	36		
6.3. Title to Properties; Leases.	36		
6.4. Fiscal Year and Financial Statements.	36		
6.4.1. Fiscal Year.	36		
6.4.2. Financial Statements.	36		
6.5. No Material Changes, etc.	37		
6.6. Franchises, Patents, Copyrights, etc.	37		
6.7. Litigation.	37		
6.8. No Materially Adverse Contracts, etc.	38		
6.9. Compliance With Other Instruments, Laws, etc.	38		
6.10. Tax Status.	38		
6.11. No Event of Default.	38		
6.12. Holding Company and Investment Company Acts.	38		
6.13. Absence of Financing Statements, etc.	39		
6.14. Certain Transactions.	39		
6.15. Employee Benefit Plans.	39		
6.15.1. In General.	39		
6.15.2. Terminability of Welfare Plans.	40		
6.15.3. Guaranteed Pension Plans.	40		
6.15.4. Multiemployer Plans.	41		
6.16. Regulations U and X.	41		
6.17. Ineligible Securities.	41		
6.18. Environmental Compliance.	41		
6.19. Subsidiaries, etc.	44		
6.20. Disclosure.	44		
6.21. Year 2000 Compliance.	44		
7. AFFIRMATIVE COVENANTS OF THE BORROWER AND THE PARENT.	44		
7.1. Punctual Payment.	44		
7.2. Maintenance of Office.	44		
7.3. Records and Accounts.	45		
7.4. Financial Statements, Certificates and Information.	45		
7.5. Notices.	46		
7.5.1. Defaults.	46		
7.5.2. Environmental Events.	47		
7.5.3. Notice of Litigation and Judgments.	47		
7.5.4. Fiscal Year.	48		
7.6. Corporate Existence; Maintenance of			
		Properties.	48
		7.7. Insurance.	48
		7.8. Taxes.	48
7.9. Inspection of Properties and Books, etc.	49		
7.9.1. General.	49		
7.9.2. Communication with Accountants.	49		
7.10. Compliance with Laws, Contracts,			
		Licenses, and Permits.	50
		7.11. Employee Benefit Plans.	50
		7.12. Use of Proceeds.	51

8. CERTAIN NEGATIVE COVENANTS OF THE BORROWER AND THE PARENT.	51
8.1. Restrictions on Indebtedness.	51
8.2. Restrictions on Liens.	53
8.3. Restrictions on Investments.	54
8.4. Distributions.	56
8.5. Merger, Consolidation.	56
8.5.1. Mergers and Acquisitions.	56
8.5.2. Disposition of Assets.	57
8.6. Sale and Leaseback.	57
8.7. Compliance with Environmental Laws.	58
8.8. Employee Benefit Plans.	58
8.9. Certain Transactions.	59
9. FINANCIAL COVENANTS OF THE BORROWER AND THE PARENT.	59
9.1. Fixed Charge Coverage Ratio.	59
9.2. Leverage Ratio.	59
10. CONDITIONS TO EFFECTIVENESS.	60
10.1. Loan Documents.	60
10.2. Certified Copies of Charter Documents.	60
10.3. Corporate Action.	60
10.4. Incumbency Certificate.	60
10.5. Assignment and Acceptance.	61
10.6. Opinion of Counsel.	61
10.7. Proceedings and Documents.	61
10.8. Payment of Fees.	61
11. CONDITIONS TO ALL BORROWINGS.	61
11.1. Representations True; No Event of Default.	61
11.2. No Legal Impediment.	62
11.3. Governmental Regulation.	62
12. EVENTS OF DEFAULT; ACCELERATION; ETC.	62
12.1. Events of Default and Acceleration.	62
12.2. Termination of Commitments.	66
12.3. Remedies.	66
12.4. Distribution of Proceeds.	67
13. SETOFF.	67
14. THE ADMINISTRATIVE AGENT AND THE COMPETITIVE BID AGENT.	68
14.1. Authorization.	68
14.2. Employees and Agents.	69
14.3. No Liability.	69
14.4. No Representations.	69
14.4.1. General.	69
14.4.2. Closing Documentation, etc.	70
14.5. Payments.	71
14.5.1. Payments to Administrative Agent.	71
14.5.2. Distribution by Administrative Agent.	71
14.5.3. Delinquent Banks.	71
14.6. Holders of Notes.	72
14.7. Indemnity.	72
14.8. Agent as Bank.	72
14.9. Resignation.	72
14.10. Notification of Defaults and Events of Default.	73
15. EXPENSES.	73
16. INDEMNIFICATION.	74
17. TREATMENT OF CERTAIN CONFIDENTIAL INFORMATION.	75
17.1. Sharing of Information with Section 20 Subsidiary.	75
17.2. Confidentiality.	75
17.3. Prior Notification.	76
17.4. Other.	76
18. SURVIVAL OF COVENANTS, ETC.	76
19. ASSIGNMENT AND PARTICIPATION.	77
19.1. Conditions to Assignment by Banks.	77
19.2. Certain Representations and Warranties;	

19.7. Assignee or Participant Affiliated with the Borrower.	80
19.8. Miscellaneous Assignment Provisions.	81
19.9. Assignment by Borrower.	81
20. NOTICES, ETC.	82
21. GOVERNING LAW.	82
22. HEADINGS.	83
23. COUNTERPARTS.	83
24. ENTIRE AGREEMENT, ETC.	83
25. WAIVER OF JURY TRIAL.	83
26. CONSENTS, AMENDMENTS, WAIVERS, ETC.	84
27. SEVERABILITY.	85
28. TRANSITIONAL ARRANGEMENTS.	85
28.1. Original Credit Agreement Superseded.	85
28.2. Return and Cancellation of Notes.	85
28.3. Interest and Fees Under Superseded Agreement.	85

Exhibits & Schedules

Exhibit A-1	
Form of Revolving Credit Note	
Exhibit A -2	
Form of Amended and Restated Revolving Credit Note	
Exhibit B-1 -	
Form of Competitive Bid Request	
Exhibit B-2 -	
Form of Notice of Competitive Bid Request	
Exhibit B-3 -	
Form of Competitive Bid	
Exhibit B-4 -	
Form of Competitive Bid Accept/Reject Letter	
Exhibit C -	
Form of Loan Request	
Exhibit D -	
Form of Compliance Certificate	
Exhibit E -	
Form of Legal Opinion	
Exhibit F -	
Form of Assignment and Acceptance	

Schedule 1 -	
Banks, Commitments, Commitment Percentages, Domestic Lending Offices, Eurodollar Lending Offices	
Schedule 6.3 -	
Leased Property	
Schedule 6.7 -	
Litigation	
Schedule 6.13 -	
Financing Statements	
Schedule 6.18 -	
Environmental Matters	
Schedule 6.19 -	
Subsidiaries	
Schedule 8.1 -	
Existing Indebtedness	
Schedule 8.2 -	
Liens	
Schedule 8.3 -	
Investments	

AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT

This AMENDED AND RESTATED REVOLVING CREDIT AGREEMENT is made as of March 27, 1998, by and among (a) WATTS INVESTMENT COMPANY (the "Borrower") a Delaware corporation having its principal place of business at 801 West Street, Second Floor, Wilmington, Delaware, 19801 (b) WATTS INDUSTRIES, INC. (the "Parent"), a Delaware corporation having its principal place of business at 815 Chestnut Street, North Andover, Massachusetts 01845, as guarantor hereunder (the "Guarantor"), (c) the financial institutions listed on Schedule 1 hereto and such other financial institutions that are or may become parties to this Credit Agreement from time to time in accordance with the provisions hereof, (d) BANKBOSTON, N.A. ("BankBoston," formerly known as The First National Bank of Boston), as administrative agent (the "Administrative Agent") and competitive bid agent (the "Competitive Bid Agent") for itself and the other Banks (as defined herein), and (e) BANCOSTON SECURITIES INC., a Massachusetts corporation, as the arranger (the "Arranger").

WHEREAS, pursuant to a Revolving Credit Agreement dated as of August 30, 1994 (as amended from time to time, the "Original Credit Agreement"), by and among the Borrower, BankBoston and the other Banks (as defined therein) and the Parent, the Banks made loans available to the Borrower for the purposes described therein; and WHEREAS, the Borrower has requested to amend and restate the Original Credit Agreement to, among other things, continue to provide financing for the funding of future acquisitions and for general corporate purposes, and the Banks are willing to amend and restate the Original Credit Agreement and to continue to provide such financing on the terms and conditions set forth herein; NOW, THEREFORE, the Borrower, the Parent, the Banks, the Administrative Agent and the Competitive Bid Agent agree that on and as of the Closing Date (as hereinafter defined), the Original Credit Agreement is hereby amended and restated in its entirety and shall remain in full force and effect only as expressly set forth herein.

1. DEFINITIONS AND RULES OF INTERPRETATION.

1.1. Definitions. The following terms shall have the meanings set forth in this S.1 or elsewhere in the provisions of this Credit Agreement referred to below:

Administrative Agent. As defined in the preamble hereto.

Administrative Agent's Head Office. The Administrative Agent's head office located at 100 Federal Street, Boston, Massachusetts 02110, or at such other location as the Agent may designate from time to time. Administrative Agent's Special Counsel. Bingham Dana LLP or such other counsel as may be approved by the Administrative Agent.

Affiliate. Any Person that would be considered to be an affiliate of the Parent or the Borrower under Rule 144(a) of the Rules and Regulations of the Securities and Exchange Commission, as in effect on the date hereof, if such Person were issuing securities.

Agents. The Administrative Agent and the Competitive Bid Agent.

Applicable Margin. A percentage to be determined for each fiscal quarter as of the last day of the previous fiscal quarter based on the higher of the Parent's senior unsecured debt ratings as published by either (i) Moody's Investors Services, Inc. or (ii) Standard & Poor's Rating Group on such date, in accordance with the schedule set forth below:

Rating
S&P/Moody's

Applicable
Margin

A/A2 or Higher

0.150%

A-/A3

0.165%

BBB+/Baa 1

0.185%

BBB/Baa2

0.220%

BBB-/Baa3

0.315%

Less than BBB-/Baa3

0.500%

If the Parent's senior unsecured debt rating as published by each of the Rating Agencies varies by (i) one rating level, the Applicable Margin will be determined based upon the higher of the two ratings and (ii) more than one rating level, the Applicable Margin will be determined based upon one rating level above the lower of the two ratings.

Assignment and Acceptance. See S.19.1.

Balance Sheet Date. June 30, 1997.

BankBoston. BankBoston, N.A.

Banks. BankBoston and the other lending institutions listed on Schedule 1 hereto and any other Person who becomes an assignee of any rights and obligations of a Bank pursuant to S.19.

Base Rate. The higher of (i) the annual rate of interest announced from time to time by BankBoston at its head office in Boston, Massachusetts, as its "base rate" and (ii) one-half of one percent (1/2%) above the Federal Funds Effective Rate. For the purposes of this definition, "Federal Funds Effective Rate" shall mean, for any day, the rate per annum equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers, as published for such day (or if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average of the quotations for such day on such transactions received by the Agent from three funds brokers of recognized standing selected by the Agent. Base Rate Loans. Revolving Credit Loans bearing interest calculated by reference to the Base Rate. Borrower. As defined in the preamble hereto. Business Day. Any day on which banking institutions in Boston, Massachusetts are open for the transaction of banking business and, in the case of Eurodollar Rate Loans, also a day which is a Eurodollar Business Day. Capital Assets. Fixed

assets, both tangible (such as land, buildings, fixtures, machinery and equipment) and intangible (such as patents, copyrights, trademarks, franchises and good will); provided that Capital Assets shall not include any item customarily charged directly to expense or depreciated over a useful life of twelve (12) months or less in accordance with generally accepted accounting principles.

Capital Expenditures. Amounts paid or indebtedness incurred by the Parent or any of its Subsidiaries in connection with the purchase or lease by the Parent or any of its Subsidiaries of Capital Assets that would be required to be capitalized and shown on the balance sheet of such Person in accordance with generally accepted accounting principles.

Capitalized Leases. Leases under which the Parent or any of its Subsidiaries is the lessee or obligor, the discounted future rental payment obligations under which are required to be capitalized on the balance sheet of the lessee or obligor in accordance with generally accepted accounting principles.

CERCLA. See S.6.18.

Closing Date. March 27, 1998.

Code. The Internal Revenue Code of 1986. Commitment. With respect to each Bank, the amount set forth on Schedule 1 hereto as the amount of such Bank's commitment to make Loans to the Borrower, as the same may be reduced from time to time; or if such commitment is terminated pursuant to the provisions hereof, zero.

Commitment Percentage. With respect to each Bank, the percentage determined by dividing such Bank's Commitment by the aggregate Commitments of all of the Banks. Each Bank's Commitment Percentage as of the Closing Date is set forth on Schedule 1 hereto. Competitive Bid. An offer by a Bank to make a Competitive Loan pursuant to S.2.10 hereof. Competitive Bid Accept/Reject Letter. A notification made by the Borrower to the Competitive Bid Agent pursuant to S.2.10 hereof in the form of Exhibit B-4 hereto. Competitive Bid Agent. As defined in the preamble hereto.

Competitive Bid Rate. As to any Competitive Bid made by a Bank pursuant to S.2.10 hereof, the Money Market Rate offered by the Bank making such Competitive Bid. Competitive Bid Request. A request made pursuant to S.2.10 hereof in the form of Exhibit B-1 hereto.

Competitive Borrowing. A borrowing consisting of a Competitive Loan or concurrent Competitive Loans from the Bank or Banks whose Competitive Bids have been accepted by the Borrower under the bidding procedure described in S.2.10 hereof.

Competitive Loan. A loan from a Bank to the Borrower pursuant to the bidding procedure described in S.2.10 hereof. Each Competitive Loan shall bear interest at the Money Market Rate specified by the Bank making such Competitive Loan in its Competitive Bid. Consolidated or consolidated. With reference to any term defined herein, shall mean that term as applied to the accounts of the Parent and its Subsidiaries, consolidated in accordance with generally accepted accounting principles.

Consolidated Net Income (or Deficit). The consolidated net income (or deficit) of the Parent and its Subsidiaries, after deduction of all expenses, taxes, and other proper charges, determined in accordance with generally accepted accounting principles, after eliminating therefrom all extraordinary nonrecurring items of income or loss.

Consolidated Net Worth. Consolidated Total Assets minus Consolidated Total Liabilities, and minus, to the extent otherwise includable in the computation of Consolidated Net Worth, any subscriptions receivable for the purchase of capital stock.

Consolidated Total Assets. All assets of the Parent and its Subsidiaries determined on a consolidated basis in accordance with generally accepted accounting principles. Consolidated Total Interest Expense. For any period, the aggregate amount of interest required to be paid or accrued by the Parent and its Subsidiaries during such period on all Indebtedness of the Parent and its Subsidiaries outstanding during all or any part of such period, whether such interest was or is required to be reflected as an item of expense or capitalized, including payments consisting of interest in respect of Capitalized Leases and plus, without duplication, commitment fees, agency fees, facility fees, balance deficiency fees and similar fees or expenses in connection with the borrowing of money.

Consolidated Total Liabilities. All liabilities of the Parent and its Subsidiaries determined on a consolidated basis in accordance with generally accepted accounting principles.

Conversion Request. A notice given by the Borrower to the Agent of the Borrower's election to convert or continue a Loan in accordance with 2.7.

Credit Agreement. This Amended and Restated Revolving Credit Agreement, including the Schedules and Exhibits hereto.

Default. See 12.

Distribution. The declaration or payment of any dividend on or in respect of any shares of any class of capital stock of any of the Borrower, the Parent or any of their Subsidiaries, other than dividends payable solely in shares of common stock of such Person; the purchase, redemption, or other retirement of any shares of any class of capital stock of any of the Borrower, the Parent or any of their Subsidiaries (or any options, warrants or other rights to acquire shares of such capital stock), directly or indirectly through a Subsidiary of such Person or otherwise; the return of capital by any of the Borrower, the Parent or any of their Subsidiaries to its shareholders as such; or any other distribution on or in respect of any shares of any class of capital stock of any of the Borrower, the Parent or any of their Subsidiaries. Dollars or \$. Dollars in lawful currency of the United States of America.

Domestic Lending Office. Initially, the office of each Bank designated as such in Schedule 1 hereto; thereafter, such other office of such Bank, if any, located within the United States that will be making or maintaining Base Rate Loans.

Drawdown Date. The date on which any Loan is made or is to be made, and the date on which any Revolving Credit Loan is converted or continued in accordance with 2.7. Earnings Before Interest, Taxes, Depreciation and Amortization. The Consolidated Net Income (or Deficit) of the Parent and its Subsidiaries for any period, after all expenses and other proper charges but before payment or provision for any income taxes or interest expense for such period, plus depreciation and amortization for such period, determined in accordance with generally accepted accounting principles.

Eligible Assignee. Any of (i) a commercial bank or finance company organized under the laws of the United States, or any State thereof or the District of Columbia, and having total assets in excess of \$5,000,000,000; (ii) a commercial bank organized under the laws of any other country which is a member of the Organization for Economic Cooperation and Development (the "OECD"), or a political subdivision of any such country, and having total assets in excess of \$5,000,000,000, provided that such bank is acting through a branch or agency located in the country in which it is organized or another country which is also a member of the OECD; and (iii) if, but only if, an Event of Default has occurred and is continuing, any other bank, insurance company, commercial finance company or other financial institution or other Person approved by the Agent, such approval not to be unreasonably withheld. Employee Benefit Plan. Any employee benefit plan within the meaning of 3(3) of ERISA maintained or contributed to by any of the Borrower, the Parent or any ERISA Affiliate, other than a Multiemployer Plan.

Environmental Laws. See 6.18(a).

ERISA. The Employee Retirement Income Security Act of 1974.

ERISA Affiliate. Any Person which is treated as a single employer with either of the Borrower or the Parent under 414 of the Code.

ERISA Reportable Event. A reportable event with respect to a Guaranteed Pension Plan within the meaning of 4043 of ERISA and the regulations promulgated thereunder as to which the requirement of notice has not been waived.

Eurocurrency Reserve Rate. For any day with respect to a Eurodollar Rate Loan, the maximum rate (expressed as a decimal) at which any lender subject thereto would be required to maintain reserves under Regulation D of the Board of Governors of the Federal Reserve System (or any successor or similar regulations relating to such reserve requirements) against "Eurocurrency Liabilities" (as that term is used in Regulation D), if such liabilities were outstanding. The Eurocurrency Reserve Rate shall be adjusted automatically on and as of the effective date of any change in the Eurocurrency Reserve Rate.

Eurodollar Business Day. Any day on which commercial banks are open for international business (including dealings in Dollar deposits) in London or such other eurodollar interbank market as may be selected by the Agent in its sole discretion acting in good faith.

Eurodollar Lending Office. Initially, the office of each Bank designated as such in Schedule 1 hereto; thereafter, such other office of such Bank, if any, that shall be making or maintaining Eurodollar Rate Loans.

Eurodollar Rate. For any Interest Period with respect to a Eurodollar Rate Loan, the rate of interest equal to (i) the rate at which BankBoston's Eurodollar Lending Office is offered Dollar deposits, at or about 10:00 a.m., Boston time, two Eurodollar Business Days prior to the beginning of such Interest Period in the interbank eurodollar market where the eurodollar and foreign currency and exchange operations of such Eurodollar Lending Office are customarily conducted, for delivery on the first day of such Interest Period for the number of days comprised therein and in an amount comparable to the amount of the Eurodollar Rate Loan of BankBoston to which such Interest Period applies, divided by (ii) a number equal to 1.00 minus the Eurocurrency Reserve Rate, if applicable.

Eurodollar Rate Loans. Revolving Credit Loans bearing interest calculated by reference to the Eurodollar Rate.

Event of Default. See 12.

Existing Indebtedness. See 8.1(f).

Facility Fee. See 2.2.

Facility Fee Rate. For any date of determination, a percentage to be determined for such date based on the higher of the Parent's senior unsecured debt ratings as published by either (i) Moody's Investors Services, Inc. or (ii) Standard & Poor's Rating Group on such date, in accordance with the schedule set forth below:

Rating
S&P/Moody's

Facility Fee
Rate

A/A2 or Higher	0.070%
A-/A3	0.075%
BBB+/Baa 1	0.090%
BBB/Baa2	0.105%
BBB-/Baa3	0.135%
Less than BBB-/Baa3	0.250%

If the Parent's senior unsecured debt rating as published by each of the Rating Agencies varies by (i) one rating level, the Facility Fee Rate will be determined based upon the higher of the two ratings and (ii) more than one rating level, the Facility Fee Rate will be determined based upon one rating level above the lower of the two ratings.

Fee Letter. See 4.1.

Fixed Charge Coverage Ratio. For any period, the ratio of (i) the result of (A) Earnings Before Interest, Taxes, Depreciation and Amortization minus (B) Capital Expenditures, to (ii) the sum of (A) Consolidated Total Interest Expense (without duplication of any interest taken into account in the computation of the Fixed Charged Coverage Ratio in any prior period) plus (B) current maturities of long-term Indebtedness due and payable during such period in accordance with generally accepted accounting principles, in each case for the Parent and its Subsidiaries on a consolidated basis for such period.

generally accepted accounting principles. (i) When used in 8.1 or 9, whether directly or indirectly through reference to a capitalized term used therein, means (A) principles that are consistent with the principles promulgated or adopted by the Financial Accounting Standards Board and its predecessors, in effect for the fiscal year ended on the Balance Sheet Date, and (B) to the extent consistent with such principles, the accounting practice of the Parent reflected in its financial statements for the year ended on the Balance Sheet Date, and (ii) when used in general, other than as provided above, means principles that are (A) consistent with the principles promulgated or adopted by the Financial Accounting Standards Board and its predecessors, as in effect from time to time and (B) consistently applied with past financial statements of the Parent adopting the same principles, provided that in each case referred to in this definition of "generally accepted accounting principles" a certified public accountant would, insofar as the use of such accounting principles is pertinent, be in a position to deliver an unqualified opinion (other than a qualification regarding changes in generally accepted accounting principles) as to financial statements in which such principles have been properly applied.

Guaranteed Obligations. See 5.1.

Guaranteed Pension Plan. Any employee pension benefit plan within the meaning of 3(2) of ERISA currently maintained or contributed to by the Borrower or any ERISA Affiliate the benefits of which are guaranteed on termination in full or in part by the PBGC pursuant to Title IV of ERISA, other than a Multiemployer Plan.

Hazardous Substances. See 6.18(b).

Indebtedness. With respect to the Borrower, the Parent or any of their Subsidiaries and whether recourse is secured by or is otherwise available against all or only a portion of the assets of the Borrower, the Parent or any of their Subsidiaries and whether or not contingent, but without duplication:

(i) every obligation of the Borrower, the Parent or any of their Subsidiaries for money borrowed,

(ii) every obligation of the Borrower, the Parent or any of their Subsidiaries evidenced by bonds, debentures, notes or other similar instruments, including obligations incurred in connection with the acquisition of property, assets or businesses,

(iii) every reimbursement obligation of the Borrower, the Parent or any of their Subsidiaries with respect to letters of credit, bankers' acceptances or similar facilities issued for the account of the Borrower, the Parent or any of their Subsidiaries,

(iv) every obligation of the Borrower, the Parent or any of their Subsidiaries issued or assumed as the deferred purchase price of property or services (including securities repurchase agreements but excluding trade accounts payable or accrued liabilities arising in the ordinary course of business which are not overdue or which are being contested in good faith),

(v) every obligation of the Borrower, the Parent or any of their Subsidiaries under any Capitalized Lease,

(vi) every obligation of the Borrower, the Parent or any of their Subsidiaries under any Synthetic Lease,

(vii) all sales by the Borrower, the Parent or any of their Subsidiaries of (A) accounts or general intangibles for money due or to become due, (B) chattel paper, instruments or documents creating or evidencing a right to payment of money or (C) other receivables (collectively "receivables"), whether pursuant to a purchase facility or otherwise, other than in connection with the disposition of the business operations of the Borrower, the Parent or any of their Subsidiaries relating thereto or a disposition of defaulted receivables for collection and not as a financing arrangement, and together with any obligation of the Borrower, the Parent or any of their Subsidiaries to pay any discount, interest, fees, indemnities, penalties, recourse, expenses or other amounts in connection therewith,

(viii) every obligation of the Borrower, the Parent or any of their Subsidiaries (an "equity related purchase obligation") to purchase, redeem, retire or otherwise acquire for value any shares of capital stock of any class issued by the Borrower, the Parent or any of their Subsidiaries, any warrants, options or other rights to acquire any such shares, or any rights measured by the value of such shares, warrants, options or other rights,

(ix) every obligation of the Borrower, the Parent or any of their Subsidiaries under any forward contract, futures contract, swap, option or other financing agreement or arrangement (including, without limitation, caps, floors, collars and similar agreements), the value of which is dependent upon interest rates, currency exchange rates, commodities or other indices,

(x) every obligation in respect of Indebtedness of any other entity (including any partnership in which the Borrower, the Parent or any of their Subsidiaries is a general partner) to the extent that the Borrower, the Parent or any of their Subsidiaries is liable therefor as a result of the ownership interest of Borrower, the Parent or any of their Subsidiaries in or other relationship with such entity, except to the extent that the terms of such Indebtedness provide that the Borrower, the Parent or any of their Subsidiaries is not liable therefor and such terms are enforceable under applicable law,

(xi) every obligation, contingent or otherwise, of the Borrower, the Parent or any of their Subsidiaries guaranteeing, or having the economic effect of guarantying or otherwise acting as surety for, any obligation of a type described in any of clauses (i) through (x) (the "primary obligation") of the Borrower, the Parent or any of their Subsidiaries (the "primary obligor"), in any manner, whether directly or indirectly, and including, without limitation, any obligation of the Borrower, the Parent or any of their Subsidiaries (A) to purchase or pay (or advance or supply funds for the purchase of) any security for the payment of such primary obligation, (B) to purchase property, securities or services for the purpose of assuring the payment of such primary obligation, or (C) to maintain working capital, equity capital or other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such primary obligation. The "amount" or "principal amount" of any Indebtedness at any time of determination represented by

(v) any Indebtedness, issued at a price that is less than the principal amount at maturity thereof, shall be the amount of the liability in respect thereof determined in accordance with generally accepted accounting principles,

(w) any Capitalized Lease shall be the principal component of the aggregate of the rentals obligation under such Capitalized Lease payable over the term thereof that is not subject to termination by the lessee, (x) any sale of receivables shall be the amount of unrecovered capital or principal investment of the purchaser (other than the Borrower or any of its wholly-owned Subsidiaries) thereof, excluding amounts representative of yield or interest earned on such investment, (y) any Synthetic Lease shall be the stipulated loss value, termination value or other equivalent amount and (z) any equity related purchase obligation shall be the maximum fixed redemption or purchase price thereof inclusive of any accrued and unpaid dividends to be comprised in such redemption or purchase price. Ineligible Securities. Securities which may not be underwritten or dealt in by member banks of the Federal Reserve System under Section 16 of the Banking Act of 1933 (12 U.S.C. 24, Seventh), as amended. Interest Payment Date. (i) As to any Base Rate Loan, the fifteenth day of each calendar month, (ii) as to any Eurodollar Rate Loan in respect of which the Interest Period is (A) 3 months or less, the last day of such Interest Period, (B) more than 3 months but less than or equal to 6 months, the date that is 3 months from the first day of such Interest Period, and, in addition, the last day of such Interest Period and (C) more than 6 months, the date that is 3 months from the first day of such Interest Period, the date that is 6 months from the first day of such Interest Period, and, in addition, the last day of such Interest Period, and (iii) as to any Competitive Loan, the last day of the Interest Period. Interest Period. With respect to each Loan, (i) initially, the period commencing on the Drawdown Date of such Loan and ending on the last day of one of the periods set forth below, as selected by the Borrower in a Loan Request (A) for any Base Rate Loan, the last day of the calendar month, (B) for any Eurodollar Rate Loan, 1, 2, 3, 4, 5, or 6 months and, with the prior written consent of each of the Banks, 9 months, and (C) for any Competitive Loan, overnight, 30, 60 or 90 days; and (ii) thereafter, each period commencing on the last day of the next preceding Interest Period applicable to such Loan and ending on the last day of one of the periods set forth above, as selected by the Borrower in a Conversion Request; provided that all of the foregoing provisions relating to Interest Periods are subject to the following:

(a) if any Interest Period with respect to a Eurodollar Rate Loan would otherwise end on a day that is not a Eurodollar Business Day, that Interest Period shall be extended to the next succeeding Eurodollar Business Day, unless the result of such extension would be to carry such Interest Period into another calendar month, in which event such Interest Period shall end on the immediately preceding Eurodollar Business Day;

(b) if any Interest Period with respect to a Base Rate Loan would end on a day that is not a Business Day, that Interest Period shall end on the next succeeding Business Day;

(c) if any Interest Period with respect to a Competitive Loan would end on a day that is not a Business Day, that Interest Period shall end on the next succeeding Business Day;

(d) if the Borrower shall fail to give notice as provided in 2.7, the Borrower shall be deemed to have requested a conversion of the affected Eurodollar Rate Loan to a Base Rate Loan and the continuance of all Base Rate Loans as Base Rate Loans on the last day of the then current Interest Period with respect thereto;

(e) any Interest Period that begins on the last Eurodollar Business Day of a calendar month (or on a day for which there is no numerically

corresponding day in the calendar month at the end of such Interest Period) shall end on the last Eurodollar Business Day of a calendar month; and

(f) any Interest Period relating to any Eurodollar Rate Loan or Competitive Loan that would otherwise extend beyond the Maturity Date shall end on the Maturity Date. Investments. All expenditures made and all liabilities incurred (contingently or otherwise) for the acquisition of stock or Indebtedness of, or for loans, advances, capital contributions or transfers of property to, or in respect of any guaranties (or other commitments as described under Indebtedness), or obligations of, any Person. In determining the aggregate amount of Investments outstanding at any particular time: (i) the amount of any Investment represented by a guaranty shall be taken at not less than the principal amount of the obligations guaranteed and still outstanding; (ii) there shall be included as an Investment all interest accrued with respect to Indebtedness constituting an Investment unless and until such interest is paid; (iii) there shall be deducted in respect of each such Investment any amount received as a return of capital (but only by repurchase, redemption, retirement, repayment, liquidating dividend or liquidating distribution); (iv) there shall not be deducted in respect of any Investment any amounts received as earnings on such Investment, whether as dividends, interest or otherwise, except that accrued interest included as provided in the foregoing clause (ii) may be deducted when paid; and (v) there shall not be deducted from the aggregate amount of Investments any decrease in the value thereof. Loan Documents. This Credit Agreement and the Notes. Loan Request. See 2.6. Loans. The Revolving Credit Loans and the Competitive Loans. Majority Banks. As of any date, the Banks holding at least fifty-one percent (51%) of the outstanding principal amount of the Notes on such date; and if no such principal is outstanding, the Banks whose aggregate Commitments constitutes at least fifty-one percent (51%) of the Total Commitment. For purposes of determining the Majority Banks, each outstanding Competitive Borrowing shall be deemed to have been made by all of the Banks pro rata in accordance with their respective Commitment Percentages; provided, however, for purposes of declaring the Loans to be due and payable pursuant to 12, and for all purposes after the Loans become due and payable or the Total Commitment expires or is terminated, Majority Banks shall mean the Banks holding fifty-one percent (51%) of the actual outstanding principal amount of the Notes on such date. Maturity Date. March 27, 2003. Money Market Rate. The fixed rate of interest (expressed in the form of a decimal to no more than four decimal places) quoted by a Bank on the first day of any Interest Period which rate such Bank is willing to charge with respect to a Competitive Loan to be made by such Bank during such Interest Period. Multiemployer Plan. Any multiemployer plan within the meaning of 3(37) of ERISA maintained or contributed to by any of the Borrower, the Parent or any ERISA Affiliate. Note Record. A Record with respect to a Note. Notes. See 2.4. Obligations. All indebtedness, obligations and liabilities of any of the Borrower, the Parent and any of their Subsidiaries to any of the Banks and the Agent, individually or collectively, existing on the date of this Credit Agreement or arising thereafter, direct or indirect, joint or several, absolute or contingent, matured or unmatured, liquidated or unliquidated, secured or unsecured, arising by contract, operation of law or otherwise, arising or incurred under this Credit Agreement or any of the other Loan Documents or in respect of any of the Loans or any of the Notes or other instruments at any time evidencing any thereof. Original Credit Agreement. As defined in the preamble hereto. Other Indebtedness. See 8.1(h). outstanding. With respect to the Loans, the aggregate unpaid principal thereof as of any date of determination. Parent. As defined in the preamble hereto. PBGC. The Pension Benefit Guaranty Corporation created by 4002 of ERISA and any successor entity or entities having similar responsibilities. Permitted Liens. Liens, security interests and other encumbrances permitted by 8.2. Person. Any individual, corporation, partnership, trust, unincorporated association, business, or other legal entity, and any government or any governmental agency or political subdivision thereof. Rating Agencies. Moody's Investors Services, Inc. and Standard & Poor's Rating Group. Real Estate. All real property at any time owned or leased (as lessee or sublessee) by any of the Borrower, the Parent or any of their Subsidiaries. Record. The grid attached to a Note, or the continuation of such grid, or any other similar record, including computer records, maintained by any Bank with respect to any Loan referred to in such Note. Revolving Credit Loans. Revolving credit loans (i.e., Base Rate Loans and Eurodollar Rate Loans) made or to be made by the Banks to the Borrower pursuant to 2.

Section 20 Subsidiary. A Subsidiary of the bank holding company controlling any Bank, which Subsidiary has been granted authority by the Federal Reserve Board to underwrite and deal in certain Ineligible Securities. Subsidiary. Any corporation, association, trust, partnership, joint venture, or other business entity of which the designated parent shall at any time own directly or indirectly through a Subsidiary or Subsidiaries at least a majority (by number of votes) of the outstanding Voting Stock.

Synthetic Lease. Any lease treated as an operating lease under generally accepted accounting principles and as a loan or financing for U.S. income tax purposes. Total Commitment. The sum of the Commitments of the Banks, as in effect from time to time.

Total Funded Debt. The principal amount of Indebtedness for borrowed money (including obligations under Capitalized Leases allocable to principal) of the Parent and its Subsidiaries on a consolidated basis. Type. As to any Revolving Credit Loan its nature as a Base Rate Loan or a Eurodollar Rate Loan. Voting Stock. Stock or similar interests, of any class or classes (however designated), the holders of which are at the time entitled, as such holders, to vote for the election of a majority of the directors (or persons performing similar functions) of the corporation, association, trust, partnership, joint venture, or other business entity involved, whether or not the right so to vote exists by reason of the happening of a contingency. Year 2000 Risk. The risk that computer applications used by the Borrower, the Parent or any of their Subsidiaries may be unable to recognize and properly perform date-sensitive functions involving certain dates prior to, and any date after, December 31, 1999.

1.2. Rules of Interpretation.

(a) A reference to any document or agreement shall include such document or agreement as amended, modified or supplemented from time to time in accordance with its terms and the terms of this Credit Agreement.

(b) The singular includes the plural and the plural includes the singular.

(c) A reference to any law includes any amendment or modification to such law.

(d) A reference to any Person includes its permitted successors and permitted assigns.

(e) Accounting terms not otherwise defined herein have the meanings assigned to them by generally accepted accounting principles applied on a consistent basis by the accounting entity to which they refer.

(f) The words "include," "includes" and "including" are not limiting.

(g) All terms not specifically defined herein or by generally accepted accounting principles, which terms are defined in the Uniform Commercial Code as in effect in the Commonwealth of Massachusetts, have the meanings assigned to them therein, with the term "instrument" being that defined under Article 9 of the Uniform Commercial Code.

(h) Reference to a particular " " refers to that section of this Credit Agreement unless otherwise indicated.

(i) The words "herein," "hereof," "hereunder" and words of like import shall refer to this Credit Agreement as a whole and not to any particular section or subdivision of this Credit Agreement.

2. THE REVOLVING CREDIT FACILITY AND THE COMPETITIVE LOAN FACILITY.

2.1. Commitment to Lend. Subject to the terms and conditions set forth in this Credit Agreement, each of the Banks severally agrees to lend to the Borrower and the Borrower may borrow, repay, and reborrow from time to time between the Closing Date and the Maturity Date upon notice by the Borrower to the Administrative Agent given in accordance with 2.6, such sums as are requested by the Borrower up to a maximum aggregate principal amount outstanding (after giving effect to all amounts requested) at any one time not to exceed such Bank's Commitment minus the sum of (i) the aggregate principal amount of such Bank's outstanding Revolving Credit Loans and (ii) the amount by which the Competitive Loans outstanding at such time shall be deemed to have used such Commitment pursuant to 2.9 hereof, provided that the sum of the outstanding amount of the Revolving Credit Loans (after giving effect to all amounts requested) plus the outstanding amount of the Competitive Loans shall not at any time exceed the Total Commitment. The Revolving Credit Loans shall be made pro rata in accordance with each Bank's Commitment Percentage. Each request for a Revolving Credit Loan hereunder shall constitute a representation and warranty by the Borrower that the conditions set forth in 10 and 11.1, in the case of any Loans made on or prior to the Closing Date, and 11.1, in the case of all other Loans, have been satisfied on the date of such request.

2.2. Facility Fee. The Borrower agrees to pay to the Administrative Agent for the accounts of the Banks in accordance with their respective Commitment Percentages a facility fee (the "Facility Fee") calculated at a rate per annum equal to the Facility Fee Rate determined as of the last day of the calendar quarter for which such Facility Fee is to be determined (or, in the case of Facility Fee payments to be made prior the last day of the calendar quarter, the Facility Fee Rate determined as of such date) on the average daily amount during such calendar quarter or portion thereof of the Total Commitment in effect during such calendar quarter. The Facility Fee shall be payable quarterly in arrears on the first day of each calendar quarter for the immediately preceding calendar quarter commencing on the first such date following the date hereof, with a final payment on the Maturity Date or any earlier date on which the Commitments shall terminate.

2.3. Reduction of Total Commitment. The Borrower shall have the right at any time and from time to time upon ten (10) Business Days prior written notice to the Administrative Agent to reduce by \$2,000,000 or integral multiples of \$1,000,000 in excess thereof or terminate entirely the unborrowed portion of the Total Commitment, whereupon the Commitments of the Banks shall be reduced pro rata in accordance with their respective Commitment Percentages of the amount specified in such notice or, as the case may be, terminated. Promptly after receiving any notice of the Borrower delivered pursuant to this 2.3, the Administrative Agent will notify the Banks of the substance thereof. Upon the effective date of any such reduction or termination, the Borrower shall pay to the Administrative Agent for the respective accounts of the Banks the full amount of any Facility Fee then accrued on the amount of the reduction. No reduction of the Commitments may be reinstated.

2.4. The Notes. The Loans shall be evidenced by separate promissory notes of the Borrower in substantially the form of Exhibit A-1 or A-2 hereto (each a "Note"), dated as of the Closing Date and completed with appropriate insertions. One Note shall be payable to the order of each Bank in a principal amount equal to such Bank's Commitment or, if less, the aggregate outstanding amount of all Revolving Credit Loans and Competitive Loans made by such Bank, plus interest accrued thereon, as set forth below. The Borrower irrevocably authorizes each Bank to make or cause to be made, at or about the time of the Drawdown Date of any Revolving Credit Loan or Competitive Loan or at the time of receipt of any payment of principal on such Bank's Note, an appropriate notation on such Bank's Note Record reflecting the making of such Revolving Credit Loan or Competitive Loan or (as the case may be) the receipt of such payment. The outstanding amount of the Revolving Credit Loans and Competitive Loans set forth on such Bank's Note Record shall be prima facie evidence of the principal amount thereof owing and unpaid to such Bank, but the failure to record, or any error in so recording, any such amount on such Bank's Note Record shall not limit or otherwise affect the obligations of the Borrower hereunder or under any Note to make payments of principal of or interest on any Note when due.

2.5. Interest on Revolving Credit Loans and Competitive Loans. Except as otherwise provided in 4.11,

(a) Each Base Rate Loan shall bear interest for the period commencing with the Drawdown Date thereof and ending on the last day of the Interest Period with respect thereto at the Base Rate.

(b) Each Eurodollar Rate Loan shall bear interest for the period commencing with the Drawdown Date thereof and ending on the last day of the Interest Period with respect thereto equal to the Eurodollar Rate determined for such Interest Period plus the Applicable Margin.

(c) Each Competitive Loan shall bear interest for the period commencing with the Drawdown Date thereof and ending on the last day of the Interest Period with respect thereto at the Money Market Rate offered by the Bank making such Competitive Loan and accepted by the Borrower pursuant to 2.10 hereof.

(d) The Borrower promises to pay interest on each Revolving Credit Loan and Competitive Loan in arrears on each Interest Payment Date with respect thereto. Each payment of interest on any Competitive Borrowing shall be allocated pro rata among the Banks participating in such Competitive Borrowing in accordance with the respective amounts of accrued and unpaid interest on their outstanding Competitive Loans comprising such Competitive Borrowing.

2.6. Requests for Revolving Credit Loans. The Borrower shall give to the Administrative Agent written notice in the form of Exhibit C hereto (or telephonic notice confirmed in a writing in the form of Exhibit C hereto) of each Revolving Credit Loan requested hereunder (a "Loan Request") (i) no later than 10:00 a.m. (Boston time) on the proposed Drawdown Date of any Base Rate Loan, and (ii) no less than three (3) Eurodollar Business Days prior to the proposed Drawdown Date of any Eurodollar Rate Loan. Each such notice shall specify (A) the principal amount of the Revolving Credit Loan requested, (B) the proposed Drawdown Date of such Revolving Credit Loan, (C) the Interest Period for such Revolving Credit Loan and (D) the Type of such Revolving Credit Loan. Promptly upon receipt of any such notice, the Administrative Agent shall notify each of the Banks thereof. Each such notice shall be irrevocable and binding on the Borrower and shall obligate the Borrower to accept the Revolving Credit Loan requested from the Banks on the proposed Drawdown Date. Each Loan Request shall be in a minimum aggregate amount of \$2,000,000 or integral multiples of \$1,000,000 in excess thereof.

2.7. Conversion Options for Revolving Credit Loans.

2.7.1. Conversion to Different Type of Revolving Credit Loan. The Borrower may elect from time to time to convert any outstanding Revolving Credit Loan to a Revolving Credit Loan of another Type, provided that (i) with respect to any such conversion of a Eurodollar Rate Loan to a Base Rate Loan, the Borrower shall give the Administrative Agent at least two (2) Business Days prior written notice of such election, and such conversion shall only be made on the last day of the Interest Period with respect to such Eurodollar Rate Loan; (ii) with respect to any such conversion of a Base Rate Loan to a Eurodollar Rate Loan, the Borrower shall give the Administrative Agent at least three (3) Eurodollar Business Days prior written notice of such election and (iii) no Loan may be converted into a Eurodollar Rate Loan when any Default or Event of Default has occurred and is continuing. On the date on which such conversion is being made each Bank shall take such action as is necessary to transfer its Commitment Percentage of such Revolving Credit Loans to its Domestic Lending Office or its Eurodollar Lending Office, as the case may be. All or any part of outstanding Revolving Credit Loans of any Type may be converted as provided herein, provided that partial conversions shall be in an aggregate principal amount of \$2,000,000 or integral multiples of \$1,000,000 in excess thereof.

Each Conversion Request relating to the conversion of a Base Rate Loan to a Eurodollar Rate Loan shall be irrevocable by the Borrower.

2.7.2. Continuation of Type of Revolving Credit Loan. Any Revolving Credit Loans of any Type may be continued as such upon the expiration of an Interest Period with respect thereto by compliance by the Borrower with the notice provisions contained in 2.7.1; provided that no Eurodollar Rate Loan may be continued as such when any Default or Event of Default has occurred and is continuing, but shall be automatically converted to a Base Rate Loan on the last day of the first Interest Period relating thereto ending during the continuance of any Default or Event of Default of which the officers of the Administrative Agent active upon the Borrower's account have actual knowledge. In the event that the Borrower fails to provide any such notice with respect to the continuation of any Eurodollar Rate Loan as such, then such Eurodollar Rate Loan shall be automatically converted to a Base Rate Loan on the last day of the first Interest Period relating thereto. The Administrative Agent shall notify the Banks promptly when any such automatic conversion contemplated by this 2.7 is scheduled to occur.

2.7.3. Eurodollar Rate Loans. Any conversion to or from Eurodollar Rate Loans shall be in such amounts and be made pursuant to such elections so that, after giving effect thereto, the aggregate principal amount of all Eurodollar Rate Loans having the same Interest Period shall not be less than \$1,000,000 or integral multiples of \$100,000 in excess thereof.

2.8. Funds for Revolving Credit Loans.

2.8.1. Funding Procedures. Not later than 11:00 a.m. (Boston time) on the proposed Drawdown Date of any Revolving Credit Loans, each of the Banks will make available to the Administrative Agent, at the Administrative Agent's Head Office, in immediately available funds, the amount of such Bank's Commitment Percentage of the amount of the requested Revolving Credit Loans. Upon receipt from each Bank of such amount, and upon receipt of the documents required by 10 and 11 and the satisfaction of the other conditions set forth therein, to the extent applicable, the Administrative Agent will make available to the Borrower the aggregate amount of such Revolving Credit Loans made available to the Administrative Agent by the Banks. The failure or refusal of any Bank to make available to the Administrative Agent at the aforesaid time and place on any Drawdown Date the amount of its Commitment Percentage of the requested Revolving Credit Loans shall not relieve any other Bank from its several obligation hereunder to make available to the Administrative Agent the amount of such other Bank's Commitment Percentage of any requested Revolving Credit Loans.

2.8.2. Advances by Administrative Agent. The Administrative Agent may, unless notified to the contrary by any Bank on or prior to a Drawdown Date, assume that such Bank has made available to the Administrative Agent on such Drawdown Date the amount of such Bank's Commitment Percentage of the Revolving Credit Loans to be made on such Drawdown Date, and the Administrative Agent may (but it shall not be required to), in reliance upon such assumption, make available to the Borrower a corresponding amount. If any Bank makes available to the Administrative Agent such amount on a date after such Drawdown Date, such Bank shall pay to the Administrative Agent on demand an amount equal to the product of (i) the average computed for the period referred to in clause (iii) below, of the weighted average interest rate paid by the Administrative Agent for federal funds acquired by the Administrative Agent during each day included in such period, times (ii) the amount of such Bank's Commitment Percentage of such Revolving Credit Loans, times (iii) a fraction, the numerator of which is the number of days that elapse from and including such Drawdown Date to the date on which the amount of such Bank's Commitment Percentage of such Revolving Credit Loans shall become immediately available to the Administrative Agent, and the denominator of which is 365. A statement of the Administrative Agent submitted to such Bank with respect to any amounts owing under this paragraph shall be prima facie evidence of the amount due and owing to the Administrative Agent by such Bank. If the amount of such Bank's Commitment Percentage of such Revolving Credit Loans is not made available to the Administrative Agent by such Bank within three (3) Business Days following such Drawdown Date, the Administrative Agent shall be entitled to recover such amount from the Borrower on demand, with interest thereon at the rate per annum applicable to the Revolving Credit Loans made on such Drawdown Date.

2.9. Pro Rata Treatment. For purposes of determining the applicable available unused Commitments of the respective Banks at any time, each outstanding Competitive Borrowing shall be deemed to have utilized the Commitments of the Banks (including those Banks which shall not have made Competitive Loans as part of such Competitive Borrowing) pro rata in accordance with such respective Commitments.

2.10. Competitive Bid Procedures.

2.10.1. Competitive Loan Request. In order to request Competitive Bids, the Borrower shall hand deliver or telecopy (or communicate by telephone with prompt confirmation in writing) to the Competitive Bid Agent a duly completed Competitive Bid Request in the form of Exhibit B-1 attached hereto, to be received by the Competitive Bid Agent not later than 11:00 a.m. (Boston time) one (1) Business Day before a proposed Competitive Borrowing. No Base Rate Loan or Eurodollar Rate Loan shall be requested in, or made pursuant to, a Competitive Bid Request. A Competitive Bid Request that does not conform substantially to the format of Exhibit B-1 attached hereto may be rejected in the Competitive Bid Agent's sole discretion, and the Competitive Bid Agent shall promptly notify the Borrower of such rejection by telecopier (or by telephone with prompt confirmation in writing). Such request shall in each case refer to this Credit Agreement and specify (i) the date of such Competitive Borrowing (which shall be a Business Day), (ii) the aggregate principal amount thereof which shall be in a minimum principal amount of \$5,000,000 or a greater integral multiple of \$1,000,000 in excess thereof, and (iii) the Interest Period or Periods with respect thereto (which may not end after the Maturity Date). After its receipt of a Competitive Bid Request that is not rejected as aforesaid, the Competitive Bid Agent shall invite by telecopier not later than 12:00 noon (Boston time) on the date of the Competitive Bid Request, in the form set forth in Exhibit B-2 attached hereto, the Banks to bid, on the terms and conditions of this Credit Agreement, to make Competitive Loans pursuant to the Competitive Bid Request. Contemporaneously with the transmission of each Competitive Bid Request, the Borrower shall pay to the Competitive Bid Agent, for the Competitive Bid Agent's own account, a work fee in the amount of \$750.

2.10.2. Bids by Banks. Each Bank may, in its sole discretion, make one or more Competitive Bids to the Borrower responsive to a Competitive Bid Request. Each Competitive Bid by a Bank must be received by the Competitive Bid Agent via telecopier, in the form of Exhibit B-3 attached hereto, not later than 2:00 p.m. (Boston time) on the day of the Competitive Bid Request. Multiple bids may be accepted by the Competitive Bid Agent. Competitive Bids that do not conform substantially to the format of Exhibit B-3 may be rejected by the Competitive Bid Agent, and the Competitive Bid Agent shall notify the Bank making such nonconforming bid of such rejection as soon as practicable. Each Competitive Bid shall refer to this Credit Agreement, give the identity of the Bank making the bid, and specify (i) the principal amount (which shall be in a minimum principal amount of \$2,000,000 or a greater integral multiple of \$1,000,000 in excess thereof and which may equal, but not exceed, the entire principal amount of the Competitive Borrowing requested by the Borrower) of the Competitive Loan or Loans that the Bank is willing to make to the Borrower, (ii) the Competitive Bid Rate or Rates at which the Bank is prepared to make the Competitive Loan or Loans and (iii) the applicable Interest Period or Periods and the last day thereof. If any Bank shall elect not to make a Competitive Bid, such Bank shall so notify the Competitive Bid Agent by telecopier not later than 2:00 p.m. (Boston time) on the day of the Competitive Bid Request; provided, however, that failure by any Bank to give such notice shall not cause such Bank to be obligated to make any Competitive Loan as part of such Competitive Borrowing. A Competitive Bid submitted by a Bank pursuant to this 2.10.2 shall be irrevocable. Each Competitive

Bid may be greater than the Commitment of the Bank giving the bid but may not exceed the Total Commitment less all outstanding Loans.

2.10.3. Notice to Borrower of Bids. The Competitive Bid Agent shall notify the Borrower by telecopier (or by telephone promptly confirmed in writing by telecopier) not later than 3:00 p.m. (Boston time) on the day of the Competitive Bid Request of all the Competitive Bids made, the Competitive Bid Rate and the principal amount of each Competitive Loan in respect of which a Competitive Bid was made and the identity of the Bank that made each Competitive Bid. The Competitive Bid Agent shall send a copy of all Competitive Bids to the Borrower for its records as soon as practicable after completion of the bidding process set forth in this 2.10.

2.10.4. Acceptance and Rejection of Bids. The Borrower may in its sole and absolute discretion, subject only to the provisions of this 2.10.4, accept or reject any Competitive Bid referred to in 2.10.3 above. The Borrower shall notify the Competitive Bid Agent by telephone, confirmed by telecopier in the form of a Competitive Bid Accept/Reject Letter, whether and to what extent it has decided to accept or reject any or all of the Competitive Bids referred to in 2.10.3 above, not later than 4:00 p.m. (Boston time) on the day of the Competitive Bid Request; provided, however, that (i) the failure by the Borrower to give such notice shall be deemed to be a rejection of all the Competitive Bids referred to in 2.10.3 above, (ii) the Borrower shall not accept a Competitive Bid made at a particular Competitive Bid Rate if the Borrower has decided to reject a Competitive Bid made at a lower Competitive Bid Rate, (iii) the aggregate amount of the Competitive Bids accepted by the Borrower shall not exceed the principal amount specified in the Competitive Bid Request, (iv) if the Borrower shall accept a Competitive Bid or Competitive Bids made at a particular Competitive Bid Rate but the amount of such Competitive Bid or Competitive Bids shall cause the total amount of Competitive Bids to be accepted by the Borrower to exceed the amount specified in the Competitive Bid Request, then the Borrower shall accept a portion of such Competitive Bid or Competitive Bids in an amount equal to the amount specified in the Competitive Bid Request less the amount of all other Competitive Bids accepted with respect to such Competitive Bid Request, which acceptance, in the case of multiple Competitive Bids at such Competitive Bid Rate, shall be made pro rata in accordance with the amount of each such Competitive Bid at such Competitive Bid Rate, and (v) except pursuant to clause (iv) above, no Competitive Bid shall be accepted for a Competitive Loan unless such Competitive Loan is in a minimum principal amount of \$2,000,000 or a greater multiple of \$1,000,000 in excess thereof; provided further, however, that if a Competitive Loan must be in an amount less than \$2,000,000 because of the provisions of clause (iv) above, such Competitive Loan may be for a minimum of \$500,000 or any integral multiple thereof, and in calculating the pro rata allocation of acceptances of portions of multiple Competitive Bids at a particular Competitive Bid Rate pursuant to clause (iv) above the amounts shall be rounded to integral multiples of \$500,000 in a manner which shall be in the discretion of the Borrower. A notice given by the Borrower pursuant to this 2.10.4 shall be irrevocable.

2.10.5. Notification to Banks. The Competitive Bid Agent shall promptly notify each bidding Bank whether or not its Competitive Bid has been accepted (and if so, in what amount, for what Interest Period (if more than one Interest Period was offered by the bidding Bank) and at what Competitive Bid Rate) by telecopy sent by the Competitive Bid Agent, and each successful bidding Bank will thereupon become bound, subject to the other applicable conditions hereof, to make available to the Borrower, in immediately available funds, the Competitive Loan in respect of which its Competitive Bid has been accepted by not later than 11:00 a.m. (Boston time) on the requested Drawdown Date of the Competitive Borrowing. The Competitive Bid Agent shall also promptly notify the Administrative Agent of the Competitive Bids that have been accepted, the amounts thereof and the Competitive Bid Rates and the Interest Period applicable thereto.

2.10.6. Competitive Bid Agent as Bidder. If the Competitive Bid Agent shall elect to submit a Competitive Bid in its capacity as a Bank, it shall submit such bid directly to the Borrower one quarter of an hour earlier than the latest time at which the other Banks are required to submit their bids to the Competitive Bid Agent pursuant to 2.10.2 above. The Competitive Bid Agent will in no event disclose the terms of any Bank's Competitive Bid to any other Bank; provided that following the acceptance or rejection of Competitive Bids submitted in response to any Competitive Bid Request, the Competitive Bid Agent may at the request of any Bank disclose information as to the range of the Competitive Bid Rates at which Competitive Bids were submitted or accepted.

2.10.7. Notices. All notices required by this 2.10 shall be given in accordance with 21 hereto.

3. REPAYMENT OF REVOLVING CREDIT LOANS AND COMPETITIVE LOANS.

3.1. Maturity.

3.1.1. Revolving Credit Loans. The Borrower promises to pay on the Maturity Date, and there shall become absolutely due and payable on the Maturity Date, all of the Revolving Credit Loans outstanding on such date, together with any and all accrued and unpaid interest and fees thereon.

3.1.2. Competitive Loans. The Borrower promises to pay the outstanding balance of each Competitive Loan (together with any and all accrued and unpaid interest thereon) on the last day of the Interest Period applicable to such Competitive Loan and on the Maturity Date.

3.2. Mandatory Repayments of Revolving Credit Loans. If at any time the sum of the outstanding amount of the Revolving Credit Loans and the Competitive Loans exceeds the Total Commitment, then the Borrower shall immediately pay the amount of such excess to the Administrative Agent for application to the Revolving Credit Loans.

3.3. Optional Repayments of Revolving Credit Loans. The Borrower shall have the right, at its election, to repay the outstanding amount of the Revolving Credit Loans, as a whole or in part, at any time without penalty or premium, provided that the full or partial prepayment of the outstanding amount of any Eurodollar Rate Loans pursuant to this 3.3 may be made only on the last day of the Interest Period relating thereto. The Borrower shall give the Administrative Agent, no later than 10:00 a.m., Boston time, at least three (3) Business Days prior written notice, of any proposed repayment pursuant to this 3.3 of Base Rate Loans, and four (4) Eurodollar Business Days notice of any proposed repayment pursuant to this 3.3 of Eurodollar Rate Loans, in each case, specifying the proposed date of payment of Revolving Credit Loans and the principal amount to be paid. Each such partial prepayment of the Loans shall be in a minimum amount of \$2,000,000 or an integral multiple of \$1,000,000 in excess thereof, shall be accompanied by the payment of accrued interest on the principal repaid to the date of payment and shall be applied first to the principal of Base Rate Loans and then to the principal of Eurodollar Rate Loans. Each partial prepayment shall be allocated among the Banks, in proportion, as nearly as practicable, to the respective unpaid principal amount of each Bank's Revolving Credit Note, with adjustments to the extent practicable to equalize any prior repayments not exactly in proportion.

3.4. No Optional Repayments of Competitive Loans. The Borrower shall not have any right to prepay any Competitive Borrowing.

3.5. Method of Certain Prepayments and Repayments. The Borrower may prepay any Revolving Credit Loan in accordance with 3.3 hereof with the proceeds of a Competitive Borrowing or repay any Competitive Loan in accordance with 3.1.2 hereof with the proceeds of a Revolving Credit Loan; provided, however, that (a) if the principal amount of the Competitive Borrowing or Revolving Credit Loan extended by a Bank is greater than the principal amount extended by such Bank in the Revolving Credit Loan being prepaid, or the Competitive Loan being repaid, then such Bank shall pay such difference to the Administrative Agent for distribution to the Banks described in (b) below; (b) if the principal amount of the Revolving Credit Loan extended by a Bank being prepaid, or the Competitive Loan being repaid, is greater than the

principal amount of the Competitive Borrowing or Revolving Credit Loan being extended by such Bank, the Administrative Agent shall return the difference to such Bank out of amounts received pursuant to (a) above; and

(c) to the extent any Bank fails to pay the Administrative Agent amounts due from it pursuant to (a) above, any Loan or portion thereof being prepaid, in the case of Revolving Credit Loans, or repaid, in the case of Competitive Loans with such amounts shall not be deemed so prepaid or repaid, as applicable, in accordance with 3.3 or 3.1.2 hereof, as applicable, and, in each case, shall be payable by the Borrower at the applicable time provided for in this Credit Agreement.

4. CERTAIN GENERAL PROVISIONS.

4.1. Arrangement Fee. The Borrower agrees to pay to the Arranger on the Closing Date an arrangement fee in the amount set forth in the letter agreement regarding certain fees dated as of March 27, 1998 (the "Fee Letter") between the Borrower, the Parent, the Administrative Agent and the Arranger.

4.2. Administrative Agent's Fee. The Borrower shall pay to the Administrative Agent annually in advance, for the Administrative Agent's own account, on the Closing Date and on each anniversary of the Closing Date, an Administrative Agent's fee in the amount set forth in the Fee Letter dated as of March 27, 1998 between the Borrower, the Parent, the Administrative Agent and the Arranger.

4.3. Funds for Payments.

4.3.1. Payments to Administrative Agent. All payments of principal, interest, Facility Fees and any other amounts due hereunder or under any of the other Loan Documents shall be made to the Administrative Agent, for the respective accounts of the Banks and the Administrative Agent, at the Administrative Agent's Head Office or at such other location in the Boston, Massachusetts area that the Administrative Agent may from time to time designate, in each case in immediately available funds.

4.3.2. No Offset, etc. All payments by the Borrower hereunder and under any of the other Loan Documents shall be made without setoff or counterclaim and free and clear of and without deduction for any taxes, levies, imposts, duties, charges, fees, deductions, withholdings, compulsory loans, restrictions or conditions of any nature now or hereafter imposed or levied by any jurisdiction or any political subdivision thereof or taxing or other authority therein unless the Borrower is compelled by law to make such deduction or withholding. If any such obligation is imposed upon the Borrower with respect to any amount payable by it hereunder or under any of the other Loan Documents, the Borrower will pay to the Administrative Agent, for the account of the Banks or (as the case may be) the Administrative Agent, on the date on which such amount is due and payable hereunder or under such other Loan Document, such additional amount in Dollars as shall be necessary to enable the Banks or the Administrative Agent to receive the same net amount which the Banks or the Administrative Agent would have received on such due date had no such obligation been imposed upon the Borrower. The Borrower will deliver promptly to the Administrative Agent certificates or other valid vouchers for all taxes or other charges deducted from or paid with respect to payments made by the Borrower hereunder or under such other Loan Document.

4.4. Computations. All computations of interest on the Loans and of the Facility Fee and all other fees shall be based on a 360-day year and paid for the actual number of days elapsed. Except as otherwise provided in the definition of the term "Interest Period" with respect to Eurodollar Rate Loans, whenever a payment hereunder or under any of the other Loan Documents becomes due on a day that is not a Business Day, the due date for such payment shall be extended to the next succeeding Business Day, and interest shall accrue during such extension. The outstanding amount of the Loans as reflected on the Note Records from time to time shall be considered correct and binding on the Borrower unless within fifteen (15) Business Days after receipt of any notice by the Administrative Agent or any of the Banks of such outstanding amount, the Administrative Agent or such Bank shall notify the Borrower to the contrary.

4.5. Inability to Determine Eurodollar Rate. In the event, prior to the commencement of any Interest Period relating to any Eurodollar Rate Loan, the Administrative Agent shall determine that adequate and reasonable methods do not exist for ascertaining the Eurodollar Rate that would otherwise determine the rate of interest to be applicable to any Eurodollar Rate Loan during any Interest Period, the Administrative Agent shall forthwith give notice of such determination (which shall be conclusive and binding on the Borrower and the Banks) to the Borrower and the Banks. In such event (i) any Loan Request or Conversion Request with respect to Eurodollar Rate Loans shall be automatically withdrawn and shall be deemed a request for Base Rate Loans, (ii) each Eurodollar Rate Loan will automatically, on the last day of the then current Interest Period thereof, become a Base Rate Loan, and (iii) the obligations of the Banks to make Eurodollar Rate Loans shall be suspended until the Administrative Agent determines that the circumstances giving rise to such suspension no longer exist, whereupon the Administrative Agent shall so notify the Borrower and the Banks.

4.6. Illegality. Notwithstanding any other provisions herein, if any present or future law, regulation, treaty or directive or in the interpretation or application thereof shall make it unlawful for any Bank to make or maintain Eurodollar Rate Loans, such Bank shall forthwith give notice of such circumstances to the Borrower and the other Banks and thereupon (i) the commitment of such Bank to make Eurodollar Rate Loans or convert Loans of another Type to Eurodollar Rate Loans shall forthwith be suspended and (ii) such Bank's Revolving Credit Loans then outstanding as Eurodollar Rate Loans, if any, shall be converted automatically to Base Rate Loans on the last day of each Interest Period applicable to such Eurodollar Rate Loans or within such earlier period as may be required by law. The Borrower hereby agrees promptly to pay the Administrative Agent for the account of such Bank, upon demand by such Bank, any additional amounts necessary to compensate such Bank for any costs incurred by such Bank in making any conversion in accordance with this 4.6, including any interest or fees payable by such Bank to lenders of funds obtained by it in order to make or maintain its Eurodollar Loans hereunder.

4.7. Additional Costs, etc. If any present or future applicable law, which expression, as used herein, includes statutes, rules and regulations thereunder and interpretations thereof by any competent court or by any governmental or other regulatory body or official charged with the administration or the interpretation thereof and requests, directives, instructions and notices at any time or from time to time hereafter made upon or otherwise issued to any Bank or the Administrative Agent by any central bank or other fiscal, monetary or other authority (whether or not having the force of law), shall:

- (a) subject any Bank or the Administrative Agent to any tax, levy, impost, duty, charge, fee, deduction or withholding of any nature with respect to this Credit Agreement, the other Loan Documents, such Bank's Commitment or the Loans (other than taxes based upon or measured by the income or profits of such Bank or the Administrative Agent), or
- (b) materially change the basis of taxation (except for changes in taxes on income or profits) of payments to any Bank of the principal of or the interest on any Loans or any other amounts payable to any Bank or the Administrative Agent under this Credit Agreement or the other Loan Documents, or
- (c) impose or increase or render applicable (other than to the extent specifically provided for elsewhere in this Credit Agreement) any special deposit, reserve, assessment, liquidity, capital adequacy or other similar requirements (whether or not having the force of law) against assets held by, or deposits in or for the account of, or loans by, or commitments of an office of any Bank, or

(d) impose on any Bank or the Administrative Agent any other conditions or requirements with respect to this Credit Agreement, the other Loan Documents, the Loans, such Bank's Commitment, or any class of loans or commitments of which any of the Loans or such Bank's Commitment forms a part, and the result of any of the foregoing clauses (a) through (d) is:

- (i) to increase the cost to any Bank of making, funding, issuing, renewing, extending or maintaining any of the Loans or such Bank's Commitment, or
- (ii) to reduce the amount of principal, interest or other amount payable to such Bank or the Administrative Agent hereunder on account of such Bank's Commitment or any of the Loans, or
- (iii) to require such Bank or the Administrative Agent to make any payment or to forego any interest or other sum payable hereunder, the amount of which payment or foregone interest or other sum is calculated by reference to the gross amount of any sum receivable or deemed received by such Bank or the Administrative Agent from the Borrower hereunder, then, and in each such case, the Borrower will, no later than fifteen (15) days after demand made by such Bank or (as the case may be) the Administrative Agent at any time and from time to time and as often as the occasion therefor may arise, pay to such Bank or the Administrative Agent such additional amounts as will be sufficient to compensate such Bank or the Administrative Agent for such additional cost, reduction, payment or foregone interest or other sum.

4.8. Capital Adequacy. If after the date hereof any Bank or the Administrative Agent determines that (i) the adoption of or change in any law, governmental rule, regulation, policy, guideline or directive (whether or not having the force of law) regarding capital requirements for banks or bank holding companies or any change in the interpretation or application thereof by a court or governmental authority with appropriate jurisdiction, or

(ii) compliance by such Bank or the Administrative Agent or any corporation controlling such Bank or the Administrative Agent with any law, governmental rule, regulation, policy, guideline or directive (whether or not having the force of law) of any such entity regarding capital adequacy, has the effect of reducing the return on such Bank's or the Administrative Agent's commitment with respect to any Loans to a level below that which such Bank or the Administrative Agent could have achieved but for such adoption, change or compliance (taking into consideration such Bank's on the Administrative Agent's then existing policies with respect to capital adequacy and assuming full utilization of such entity's capital) by any amount deemed by such Bank or (as the case may be) the Administrative Agent to be material, then such Bank or the Administrative Agent may notify the Borrower of such fact. To the extent that the amount of such reduction in the return on capital is not reflected in the then applicable interest rate, the Borrower agrees to pay such Bank or (as the case may be) the Administrative Agent for the amount of such reduction in the return on capital as and when such reduction is determined upon presentation by such Bank or (as the case may be) the Administrative Agent of a certificate in accordance with 4.9 hereof. Each Bank shall allocate such cost increases among its customers in good faith and on an equitable basis.

4.9. Certificate. A certificate setting forth any additional amounts payable pursuant to 4.7 or 4.8 and a brief explanation of such amounts which are due, submitted by any Bank or the Administrative Agent to the Borrower, shall be conclusive, absent manifest error, that such amounts are due and owing.

4.10. Indemnity. The Borrower agrees to indemnify each Bank and to hold each Bank harmless from and against any loss, cost or expense (including loss of anticipated profits) that such Bank may sustain or incur as a consequence of (i) default by the Borrower in payment of the principal amount of or any interest on any Eurodollar Rate Loans or Competitive Loans as and when due and payable, including any such loss or expense arising from interest or fees payable by such Bank to lenders of funds obtained by it in order to maintain its Eurodollar Rate Loans or Competitive Loans, as the case may be, (ii) default by the Borrower in making a borrowing after the Borrower has given (or is deemed to have given) a Loan Request, Competitive Bid Request or a Conversion Request relating thereto in accordance with 2.6, 2.7 or 2.10 or (iii) the making of any payment of a Eurodollar Rate Loan, Competitive Loan or the making of any conversion of any Eurodollar Rate Loan to a Base Rate Loan on a day that is not the last day of the applicable Interest Period with respect thereto, including interest or fees payable by such Bank to lenders of funds obtained by it in order to maintain any such Loans.

4.11. Interest on Overdue Amounts. Overdue principal and (to the extent permitted by applicable law) interest on the Loans and all other overdue amounts payable hereunder or under any of the other Loan Documents shall bear interest compounded monthly and payable on demand at a rate per annum equal to two percent (2%) above the Base Rate until such amount shall be paid in full (after as well as before judgment).

5. GUARANTY.

5.1. Guaranty. For value received and hereby acknowledged and as an inducement to the Banks to make the Loans available to the Borrower, the Parent hereby unconditionally and irrevocably guarantees (i) the full punctual payment when due, whether at stated maturity, by acceleration or otherwise, of all Obligations of the Borrower now or hereafter existing hereunder and under the Notes and the other Loan Documents, whether for principal, interest, fees, expenses, or otherwise, (ii) the strict performance and observance by the Borrower of its obligations under this Credit Agreement and the other Loan Documents and of all agreements, warranties and covenants applicable to the Borrower in this Credit Agreement; and

(iii) the strict performance of all such obligations under this Credit Agreement and the other Loan Documents which would become due but for the operation of the automatic stay pursuant to 362(a) of the United States Bankruptcy Code and the operation of 502(b) and 506(c) of the United States Bankruptcy Code (such obligations collectively being the "Guaranteed Obligations").

5.2. Guaranty Absolute. The Parent guarantees that the Guaranteed Obligations will be paid strictly in accordance with the terms hereof and of the Notes, regardless of any law, regulation or order now or hereafter in effect in any jurisdiction affecting any of such terms or the rights of the Banks with respect thereto. The liability of the Parent under this 5 with regard to the Guaranteed Obligations of the Borrower shall be absolute and unconditional irrespective of:

- (i) any lack of validity or enforceability of this Credit Agreement with respect to the Borrower (with regard to such Guaranteed Obligations), the Notes of the Borrower, the Loan Documents, or any other agreement or instrument relating thereto;
- (ii) any change in the time of, manner or place of payment of, or in any other term of, all or any of the Guaranteed Obligations of the Borrower or any other amendment or waiver of or any consent to departure from this Credit Agreement (with regard to such Guaranteed Obligations) or the Notes of the Borrower;
- (iii) any exchange, release or nonperfection of any collateral, or any release or amendment or waiver of or consent to departure from any other guaranty, for all or any of the Guaranteed Obligations of the Borrower;
- (iv) any change in ownership of the Borrower;
- (v) any acceptance of any partial payment(s) from the Borrower; or
- (vi) any other circumstance which might otherwise constitute a defense available to, or a discharge of, the Borrower in respect of its

Guaranteed Obligations. The obligations of the Parent contained in this 5 shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the Guaranteed Obligations is rescinded or must otherwise be returned by the Banks upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, all as though such payment had not been made.

5.3. Effectiveness; Enforcement. The guaranty obligations of the Parent under this 5 shall be effective and shall be deemed to be made with respect to each Loan made to the Borrower as of the time it is made. No invalidity, irregularity or unenforceability by reason of any bankruptcy or similar law, or any law or order of any government or agency thereof purporting to reduce, amend or otherwise affect any liability of the Borrower, and no defect in or insufficiency or want of powers of the Borrower or irregular or improperly recorded exercise thereof, shall impair, affect, be a defense to or claim against such guaranty. The agreements of the Parent contained in this 5 constitute a continuing guaranty and shall (i) survive any termination of this Credit Agreement and (ii) remain in full force and effect until payment in full of, and performance of all Guaranteed Obligations and all other amounts payable under this 5. The agreements of the Parent contained in this 5 are made for the benefit of the Banks and their successors and assigns, and may be enforced from time to time as often as occasion therefor may arise and without requirement on the part of the Banks first to exercise any rights against the Borrower or to exhaust any remedies available to them against the Borrower or to resort to any other source or means of obtaining payment of any of the said obligations or to elect any other remedy.

5.4. Waivers. To the fullest extent permitted by law, the Parent hereby irrevocably waives promptness, diligence, presentment, demand, protest, notice of acceptance and any other notice with respect to any of the Guaranteed Obligations and this 5 and any requirement that the Banks protect, secure, perfect or otherwise take action to ensure any security interest or lien on any property subject thereto or exhaust any right or take any action against the Borrower or any other Person or any collateral. The Parent also irrevocably waives, to the fullest extent permitted by law, all defenses which at any time may be available to it in respect of the Guaranteed Obligations by virtue of any statute of limitations, valuation, stay, moratorium law or other similar law now or hereafter in effect.

5.5. Subrogation Waiver. Notwithstanding any term contained herein to the contrary, the Parent hereby waives all rights of subrogation, reimbursement, restitution, contribution or indemnity against the Borrower, and will not prove any claim in competition with the Administrative Agent or the Banks in respect of any payment hereunder in any bankruptcy, insolvency, or reorganization case or proceedings of any nature.

6. REPRESENTATIONS AND WARRANTIES. Each of the Borrower and the Parent represents and warrants to the Banks and the Administrative Agent as follows:

6.1. Corporate Authority.

6.1.1. Incorporation; Good Standing. (i) Each of the Borrower and the Parent is a corporation, and each of their Subsidiaries is a corporation, partnership or joint venture, duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, and (ii) each of the Borrower, the Parent and their Subsidiaries (a) has all requisite power to own its property and conduct its business as now conducted and as presently contemplated, and (b) is in good standing and is duly authorized to do business in each jurisdiction where such qualification is necessary except where a failure to be so qualified would not have a materially adverse effect on the business, assets or financial condition of any of the Borrower or the Parent individually, or the Borrower, the Parent and their Subsidiaries taken as a whole.

6.1.2. Authorization. The execution, delivery and performance of this Credit Agreement and the other Loan Documents to which the Borrower, the Parent or any of their Subsidiaries is or is to become a party and the transactions contemplated hereby and thereby (i) are within the corporate authority of such Person, (ii) have been duly authorized by all necessary corporate proceedings, (iii) do not conflict with or result in any breach or contravention of any provision of law, statute, rule or regulation to which any of the Borrower, the Parent or any of their Subsidiaries is subject or any judgment, order, writ, injunction, license or permit applicable to any of the Borrower, the Parent or any of their Subsidiaries and (iv) do not conflict with any provision of the corporate charter or bylaws of, or any agreement or other instrument binding upon, any of the Borrower, the Parent or any of their Subsidiaries or any of their respective properties.

6.1.3. Enforceability. The execution and delivery of this Credit Agreement and the other Loan Documents to which the Borrower, the Parent or any of their Subsidiaries is or is to become a party will result in valid and legally binding obligations of such Person enforceable against it in accordance with the respective terms and provisions hereof and thereof, except as enforceability is limited by bankruptcy, insolvency, reorganization, moratorium or other laws relating to or affecting generally the enforcement of creditors' rights and except to the extent that availability of the remedy of specific performance or injunctive relief is subject to the discretion of the court before which any proceeding therefor may be brought.

6.2. Governmental Approvals. The execution, delivery and performance by the Borrower, the Parent and any of their Subsidiaries of this Credit Agreement and the other Loan Documents to which such Person is or is to become a party and the transactions contemplated hereby and thereby do not require the approval or consent of, or filing with, any governmental agency or authority other than those already obtained.

6.3. Title to Properties; Leases. Except as indicated on Schedule 6.3 hereto, the Borrower, the Parent and their Subsidiaries own all of the assets reflected in the consolidated balance sheet of the Parent and its Subsidiaries as at the Balance Sheet Date or acquired since that date (except property and assets sold or otherwise disposed of in the ordinary course of business since that date and other dispositions permitted pursuant to 8.5.2 hereof), subject to no rights of others, including any mortgages, leases, conditional sales agreements, title retention agreements, liens or other encumbrances except Permitted Liens.

6.4. Fiscal Year and Financial Statements.

6.4.1. Fiscal Year. The Borrower and each of its Subsidiaries has a fiscal year which is the twelve months ending on June 30 of each calendar year, or such other date if there is a change in fiscal year end pursuant to 7.5.4.

6.4.2. Financial Statements. There has been furnished to the Administrative Agent a consolidated balance sheet of the Parent and its Subsidiaries as at the Balance Sheet Date, and a consolidated statement of income for the fiscal year then ended, certified by the Parent's independent certified public accountants. Such balance sheet and statement of income have been prepared in accordance with generally accepted accounting principles and fairly present in all material respects the financial condition of the Parent and its Subsidiaries as at the close of business on the date thereof and the results of operations for the fiscal year then ended. There are no contingent liabilities of any of the Borrower, the Parent or any of their Subsidiaries as of such date involving material amounts, known to the officers of the Borrower or the Parent not disclosed in said balance sheet and the related notes thereto.

6.5. No Material Changes, etc. As of the Balance Sheet Date and the first Drawdown Date, there has occurred no materially adverse change in the financial condition or business of any of the Borrower, the Parent or their Subsidiaries as shown on or reflected in the consolidated balance sheet of the Parent and its Subsidiaries as at the Balance Sheet Date, or the consolidated statement of income for the fiscal year then ended, other than changes in the ordinary course of business that have not had any materially adverse effect either individually or in the aggregate on the business or financial condition of the Borrower or the Parent, or of the Parent and its Subsidiaries taken as a whole. Since the Balance Sheet

Date and prior to the Closing Date, neither the Borrower nor the Parent has made any Distribution other than dividends paid by the Parent in September 1997, December 1997 and March 1998.

6.6. Franchises, Patents, Copyrights, etc. Each of the Borrower, the Parent and their Subsidiaries possesses all material franchises, patents, copyrights, trademarks, trade names, licenses and permits, and rights in respect of the foregoing, adequate for the conduct of its business substantially as now conducted without known conflict with any rights of others.

6.7. Litigation. Except as provided in Schedule 6.7 hereto, there are no actions, suits, proceedings or investigations of any kind pending or threatened in writing against any of the Borrower, the Parent or any of their Subsidiaries before any court, tribunal or administrative agency or board that, if adversely determined, might, either in any case or in the aggregate, materially adversely affect the properties, assets, financial condition or business of the Borrower, the Parent and their Subsidiaries taken as a whole or materially impair the right of the Borrower, the Parent and their Subsidiaries, considered as a whole, to carry on business substantially as now conducted by them, or for which adequate reserves are not maintained on the consolidated balance sheet of the Parent and its Subsidiaries, or which question the validity of this Credit Agreement or any of the other Loan Documents, or any action taken or to be taken pursuant hereto or thereto.

6.8. No Materially Adverse Contracts, etc. Neither the Borrower nor the Parent nor any of their Subsidiaries is subject to any charter, corporate or other legal restriction, or any judgment, decree, order, rule or regulation that has or is expected in the future to have a materially adverse effect on the business, assets or financial condition of any of the Borrower, the Parent or any of their Subsidiaries. Neither the Borrower nor the Parent nor any of their Subsidiaries is a party to any contract or agreement that has or is expected, in the judgment of the Borrower's or the Parent's officers, to have any materially adverse effect on the business of any of the Borrower, the Parent or any of their Subsidiaries.

6.9. Compliance With Other Instruments, Laws, etc. Neither the Borrower nor the Parent nor any of their Subsidiaries is in violation of any provision of its charter documents, bylaws, or any agreement or instrument to which it may be subject or by which it or any of its properties may be bound or any decree, order, judgment, statute, license, rule or regulation, in any of the foregoing cases in a manner that could materially adversely affect the financial condition, properties or business of any of the Borrower, the Parent or the Parent and its Subsidiaries taken as a whole.

6.10. Tax Status. Each of the Borrower, the Parent and their Subsidiaries (i) has made or filed all material federal and state income and all other tax returns, reports and declarations required by any jurisdiction to which any of them is subject, (ii) has paid all material taxes and other governmental assessments and charges shown or determined to be due on such returns, reports and declarations, except those being contested in good faith and by appropriate proceedings and (iii) has set aside on its books provisions reasonably adequate for the payment of all material taxes for periods subsequent to the periods to which such returns, reports or declarations apply. There are no unpaid taxes in any material amount claimed to be due by the taxing authority of any jurisdiction, and the respective officers of each of the Borrower and the Parent know of no basis for any such claim.

6.11. No Event of Default. No Default or Event of Default has occurred and is continuing.

6.12. Holding Company and Investment Company Acts. Neither the Borrower nor the Parent nor any of their Subsidiaries is a "holding company," or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company," as such terms are defined in the Public Utility Holding Company Act of 1935; nor is it an "investment company," or an "affiliated company" or a "principal underwriter" of an "investment company," as such terms are defined in the Investment Company Act of 1940.

6.13. Absence of Financing Statements, etc. Except with respect to Permitted Liens and except as set forth on Schedule 6.13 attached hereto, as of the Closing Date in respect of all active domestic operations of the Borrower and the Parent there is no financing statement, security agreement, chattel mortgage, real estate mortgage or other document filed or recorded with any filing records, registry, or other public office, that purports to cover, affect or give notice of any present or possible future lien on, or security interest in, any assets or property of any of the Borrower, the Parent or any of their Subsidiaries or rights relating thereto which would have a material adverse effect on the business, assets, property or financial condition of any of the Borrower, the Parent or any of their Subsidiaries.

6.14. Certain Transactions. Except for arm's length transactions pursuant to which the Borrower, the Parent or any of their Subsidiaries makes payments in the ordinary course of business upon terms no less favorable than such Person could obtain from third parties and except for payment of certain legal fees of a voting trust for the Horne family stock, and payment of expenses for preparation of tax returns of certain officers and directors of the Parent and its Subsidiaries and other transactions between the Borrower and the Parent or any of their Subsidiaries deemed by management of the Borrower and the Parent in good faith to be beneficial to the Borrower and the Parent, none of the officers, directors, employees or Affiliates of any of the Borrower, the Parent or any of their Subsidiaries is presently a party to any transaction with any of the Borrower, the Parent or any of their Subsidiaries (other than for services as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any officer, director, Affiliate or any such employee or, to the knowledge of the Borrower or the Parent or any of their Subsidiaries, any corporation, partnership, trust or other entity in which any officer, director, Affiliate or any such employee has a substantial interest or is an officer, director, trustee or partner.

6.15. Employee Benefit Plans.

6.15.1. In General. Each Employee Benefit Plan has been maintained and operated in compliance in all material respects with the provisions of ERISA and, to the extent applicable, the Code, including but not limited to the provisions thereunder respecting prohibited transactions and the bonding of fiduciaries and other persons handling plan funds as required by 412 of ERISA. Each of the Borrower and the Parent has heretofore delivered to the Administrative Agent the most recently completed annual report, Form 5500, with all required attachments, and actuarial statement required to be submitted under 103(d) of ERISA, with respect to each Guaranteed Pension Plan.

6.15.2. Terminability of Welfare Plans. Under each Employee Benefit Plan which is an employee welfare benefit plan within the meaning of 3 (1) or 3(2)(B) of ERISA, no benefits are due unless the event giving rise to the benefit entitlement occurs prior to plan termination (except as required by Title I, Part 6 of ERISA). Each of the Borrower, the Parent or an ERISA Affiliate thereof, as appropriate, may terminate each such Plan at any time (or at any time subsequent to the expiration of any applicable bargaining agreement) in the discretion of the Borrower, the Parent or such ERISA Affiliate, as the case may be, without liability to any Person other than those liabilities relating to events occurring prior to termination.

6.15.3. Guaranteed Pension Plans. Each contribution required to be made to a Guaranteed Pension Plan, whether required to be made to avoid the incurrence of an accumulated funding deficiency, the notice or lien provisions of 302(f) of ERISA, or otherwise, has been timely made. No waiver of an accumulated funding deficiency or extension of amortization periods has been received with respect to any Guaranteed Pension Plan, and neither the Borrower nor any ERISA Affiliate is obligated to or has posted security in connection with an amendment to a Guaranteed Pension Plan pursuant to 307 of ERISA or 401(a)(29) of the Code. No liability to the PBGC (other than required insurance

premiums, all of which have been paid) has been incurred by any of the Borrower, the Parent or any ERISA Affiliate thereof with respect to any Guaranteed Pension Plan and there has not been any ERISA Reportable Event, or any other event or condition which presents a material risk of termination of any Guaranteed Pension Plan by the PBGC. Based on the latest valuation of each Guaranteed Pension Plan (which in each case occurred within twelve months of the date of this representation), and on the actuarial methods and assumptions employed for that valuation, the aggregate benefit liabilities of all Guaranteed Pension Plans within the meaning of 4001 of ERISA did not exceed the aggregate value of the assets of all Guaranteed Pension Plans, disregarding for this purpose the benefit liabilities and assets of any Guaranteed Pension Plan with assets in excess of benefit liabilities, by more than \$2,500,000.

6.15.4. Multiemployer Plans. Neither the Borrower nor the Parent nor any ERISA Affiliate thereof has incurred any material liability (including secondary liability) to any Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan under 4201 of ERISA or as a result of a sale of assets described in 4204 of ERISA. Neither the Borrower nor the Parent nor any ERISA Affiliate thereof has been notified that any Multiemployer Plan is in reorganization or insolvent under and within the meaning of 4241 or 4245 of ERISA or that any Multiemployer Plan intends to terminate or has been terminated under 4041A of ERISA.

6.16. Regulations U and X. The proceeds of the Loans shall be used for working capital and general corporate purposes of the Borrower, the Parent and their Subsidiaries, including acquisitions permitted by 8.5.1 hereof. No portion of any Loan is to be used for the purpose of purchasing or carrying any "margin security" or "margin stock" as such terms are used in Regulations U and X of the Board of Governors of the Federal Reserve System, 12 C.F.R. Parts 221 and 224.

6.17. Ineligible Securities. No portion of the proceeds of any Loans is to be used for the purpose of (a) knowingly purchasing, or providing credit support for the purchase of, Ineligible Securities from a Section 20 Subsidiary during any period in which such Section 20 Subsidiary makes a market in such Ineligible Securities,

(b) knowingly purchasing, or providing credit support for the purchase of, during the underwriting or placement period, any Ineligible Securities being underwritten or privately placed by a Section 20 Subsidiary, or (c) making, or providing credit support for the making of, payments of principal or interest on Ineligible Securities underwritten or privately placed by a Section 20 Subsidiary and issued by or for the benefit of the Borrower or any Subsidiary or other Affiliate of the Borrower.

6.18. Environmental Compliance. Except as set forth on Schedule 6.18 attached hereto, each of Borrower and the Parent has taken all commercially reasonable steps (determined as of the time of investigation) to investigate the past and present condition and usage of the Real Estate and the operations conducted thereon and, based upon such diligent investigation, has determined that:

(a) neither the Borrower nor the Parent nor any of their Subsidiaries nor any operation on the Real Estate is in violation, or alleged violation, of any judgment, decree, order, law, license, rule or regulation pertaining to environmental matters, including without limitation, those arising under the Resource Conservation and Recovery Act ("RCRA"), the Comprehensive Environmental Response, Compensation and Liability Act of 1980 as amended ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986 ("SARA"), the Federal Clean Water Act, the Federal Clean Air Act, the Toxic Substances Control Act, or any state or local statute, regulation, ordinance, order or decree relating to health, safety or the environment (hereinafter "Environmental Laws"), which violation could reasonably be expected to have a material adverse effect on the environment or the business, assets or financial condition of the Borrower, the Parent and their Subsidiaries taken as a whole;

(b) neither the Borrower nor the Parent nor any of their Subsidiaries has received notice from any third party including, without limitation, any federal, state or local governmental authority, (i) that any one of them has been identified by the United States Environmental Protection Agency ("EPA") as a potentially responsible party under CERCLA with respect to a site listed on the National Priorities List, 40 C.F.R. Part 300 Appendix B; (ii) that any hazardous waste, as defined by 42 U.S.C. 6903(5), any hazardous substances as defined by 42 U.S.C. 9601(14), any pollutant or contaminant as defined by 42 U.S.C. 9601(33) and any toxic substances, oil or hazardous materials or other chemicals or substances regulated by any Environmental Laws ("Hazardous Substances") which any one of them has generated, transported or disposed of has been found at any site at which a federal, state or local agency or other third party has conducted or has ordered that any of the Borrower, the Parent or any of their Subsidiaries conduct a remedial investigation, removal or other response action pursuant to any Environmental Law; or

(iii) that it is or shall be a named party to any claim, action, cause of action, complaint, or legal or administrative proceeding (in each case, contingent or otherwise) arising out of any third party's incurrence of costs, expenses, losses or damages of any kind whatsoever in connection with the release of Hazardous Substances, liability for which could reasonably be expected to have a material adverse effect on the business, assets or financial condition of the Borrower, the Parent and their Subsidiaries, taken as a whole;

(c) (i) to the best of the Borrower's, the Parent's and their Subsidiaries' knowledge, no portion of the Real Estate has been used for the handling, processing, storage or disposal of Hazardous Substances except in material compliance with applicable Environmental Laws; (ii) in the course of any activities conducted by any of the Borrower, the Parent, any of their Subsidiaries or to the best knowledge of the executive officers of the Borrower or the Parent without independent investigation, operators of their properties, no Hazardous Substances have been generated or are being used on the Real Estate except in material compliance with applicable Environmental Laws; (iii) there have been no releases (i.e. any past or present releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, disposing or dumping) or threatened releases of Hazardous Substances on, upon, into or from the properties of any of the Borrower, the Parent or any of their Subsidiaries, which releases or threatened releases could reasonably be expected have a material adverse effect on the value of any of the Real Estate or adjacent properties; (iv) to the best of the Borrower's and the Parent's knowledge, there have been no releases on, upon, from or into any real property in the vicinity of any of the Real Estate which, through soil or groundwater contamination, may have come to be located on, and which would have a material adverse effect on the value of, the Real Estate; and (v) in addition, any Hazardous Substances that have been generated on any of the Real Estate have been managed or disposed of in material compliance with applicable Environmental Laws, and, to the best of the Borrower's, the Parent's, and their Subsidiaries' knowledge, without independent investigation, the transporters and facilities utilized by the Parent, the Borrower, or any of their Subsidiaries to transport or dispose of such Person's Hazardous Substances have not failed to operate in compliance with any permits authorizing such activities and are not in material violation of any applicable Environmental Laws; and (d) neither the Borrower nor the Parent nor any of their Subsidiaries nor any of the Real Estate is subject, by virtue of the transactions set forth herein and contemplated hereby, to any applicable environmental law requiring the performance of Hazardous Substances site assessments, or the removal or remediation of Hazardous Substances, or the giving of notice to any governmental agency or the recording or delivery to other Persons of an environmental disclosure document or statement.

6.19. Subsidiaries, etc. Schedule 6.19 sets forth all of the Subsidiaries of each of the Parent and the Borrower. Except as set forth on Schedule 6.19 hereto, neither the Borrower nor the Parent nor any of their Subsidiaries is engaged in any joint venture or partnership with any other person.

6.20. Disclosure. None of this Credit Agreement or any of the other Loan Documents contains any untrue statement of a material fact or omits to state a material fact (known to the Borrower, the Parent or any of their Subsidiaries in the case of any document or information not furnished by the Borrower, the Parent or any of their Subsidiaries) necessary in order to make the statements herein or therein not misleading. To the best of the Borrower's, the Parent's and their Subsidiaries' knowledge, there is no fact known to the Borrower, the Parent or any of their Subsidiaries which materially adversely affects, nor, so far as the Borrower, the Parent and their Subsidiaries can now foresee, is reasonably likely in the future to materially adversely affect, the business, assets, financial condition or prospects of the Borrower, the Parent or any of their Subsidiaries, taken as a whole, exclusive of effects resulting from changes in general economic conditions, legal standards or regulatory conditions.

6.21. Year 2000 Compliance. The Borrower, the Parent and their Subsidiaries have reviewed the major areas within their businesses and operations which could be adversely affected by, and have developed or are developing programs to address on a timely basis, the Year 2000 Risk. Based on such review and program, the Year 2000 Risk should not have a materially adverse effect on their businesses and operations.

7. AFFIRMATIVE COVENANTS OF THE BORROWER AND THE PARENT. Each of Borrower and the Parent covenants and agrees that, so long as any Obligation or Note is outstanding or any Bank has any obligation to make any Loans:

7.1. Punctual Payment. Each of the Borrower and the Parent will duly and punctually pay or cause to be paid the principal and interest on the Loans and the Facility Fee and Administrative Agent's fee provided for in this Credit Agreement, all in accordance with the terms of this Credit Agreement and the Notes.

7.2. Maintenance of Office. The Borrower and the Parent will each maintain its chief executive office in Wilmington, Delaware and North Andover, Massachusetts, respectively, or at such other place in the United States of America as such Person shall designate upon written notice to the Administrative Agent, where notices, presentations and demands to or upon such Person in respect of the Loan Documents may be given or made.

7.3. Records and Accounts. Each of the Borrower and the Parent will (i) keep, and cause each of its Subsidiaries to keep, true and accurate records and books of account in which full, true and correct entries will be made in accordance with generally accepted accounting principles, (ii) maintain adequate accounts and reserves for all taxes (including income taxes), depreciation, depletion, obsolescence and amortization of its properties and the properties of its Subsidiaries, contingencies, and other reserves, all in accordance with generally accepted accounting principles, and (iii) at all times engage KPMG Peat Marwick, any other of the six largest firms of independent certified public accountants located in the United States, or other independent certified public accountants approved by the Administrative Agent which approval shall not be unreasonably withheld, as the independent certified public accountants of the Borrower and its Subsidiaries and will not permit more than thirty

(30) days to elapse between the cessation of such firm's (or any successor firm's) engagement as the independent certified public accountants of the Borrower and its Subsidiaries and the appointment in such capacity of a successor firm as shall be satisfactory to the Administrative Agent.

7.4. Financial Statements, Certificates and Information. Each of the Borrower and the Parent will deliver to the Administrative Agent and the Banks:

(a) as soon as practicable, but in any event not later than ninety (90) days after the end of each fiscal year of the Parent, the consolidated balance sheet of the Parent and its Subsidiaries, each as at the end of such year, and the related consolidated statement of income and consolidated statement of cash flow for such year, each setting forth in comparative form the figures for the previous fiscal year and all such consolidated statements to be in reasonable detail, prepared in accordance with generally accepted accounting principles, and certified without qualification by KPMG Peat Marwick or any other of the six largest firms of independent certified public accountants located in the United States, together with a written statement from such accountants to the effect that they have read the covenants set forth in 8.1(h), 8.3(i) and (j) and 9 of this Credit Agreement and the relevant definitions and provisions applicable thereto, and that, in making the examination necessary to said certification, they have obtained no knowledge of any Default or Event of Default, or, if such accountants shall have obtained knowledge of any then existing Default or Event of Default they shall disclose in such statement any such Default or Event of Default; provided that such accountants shall not be liable to the Banks for failure to obtain knowledge of any Default or Event of Default;

(b) as soon as practicable, but in any event not later than forty-five (45) days after the end of each of the fiscal quarters of the Parent (other than the fourth fiscal quarter of each fiscal year), copies of the unaudited consolidated balance sheet of the Parent and its Subsidiaries, each as at the end of such quarter, and the related consolidated statement of income and consolidated statement of cash flow for the portion of the Parent's fiscal year then elapsed, all in reasonable detail and prepared in accordance with generally accepted accounting principles (subject to customary exceptions for interim financial statements), together with a certification by the principal financial or accounting officer of the Parent that the information contained in such financial statements fairly presents the financial position of the Parent and its Subsidiaries on the date thereof (subject to year-end adjustments);

(c) simultaneously with the delivery of the financial statements referred to in subsections (a) and (b) above, a statement certified by the principal financial or accounting officer of each of the Borrower and the Parent in substantially the form of Exhibit D hereto and setting forth in reasonable detail computations evidencing compliance with the covenants contained in 9 and (if applicable) reconciliations to reflect changes in generally accepted accounting principles since the Balance Sheet Date;

(d) promptly following the filing or mailing thereof, copies of all material of a financial nature filed with the Securities and Exchange Commission or sent generally to the stockholders of the Borrower; and

(e) from time to time such other financial data and information (including accountants' management letters) as the Administrative Agent or any Bank may reasonably request.

7.5. Notices.

7.5.1. Defaults. The Borrower will promptly notify the Administrative Agent and each of the Banks in writing of the occurrence of any Default or Event of Default. If any Person shall give any notice or take any other action in respect of a claimed default

(whether or not constituting an Event of Default) under this Credit Agreement or any other note, evidence of indebtedness, indenture or other obligation to which or with respect to which any of the Borrower, the Parent or any of their Subsidiaries is a party or obligor, whether as principal or surety, the Borrower shall forthwith give written notice thereof to each of the Banks, describing the notice or action and the nature of the claimed default.

7.5.2. Environmental Events. Each of the Borrower and the Parent will, and will cause each of its Subsidiaries to, promptly give notice to the Administrative Agent (i) of any violation of any Environmental Law that any of the Borrower, the Parent or any of their Subsidiaries reports in writing or is reportable by such Person in writing (or for which any written report supplemental to any oral report is made) to any federal, state or local environmental agency and (ii) upon becoming aware thereof, of any inquiry, proceeding, investigation, or other action, including a

notice from any agency of potential environmental liability, or any federal, state or local environmental agency or board, that has the potential to materially affect the assets, liabilities, financial conditions or operations of the Borrower, the Parent and their Subsidiaries, taken as a whole.

7.5.3. Notice of Litigation and Judgments. Each of the Borrower and the Parent will, and will cause each of its Subsidiaries to, give notice to the Administrative Agent in writing within fifteen (15) days of becoming aware of any litigation or proceedings threatened in writing or any pending litigation and proceedings affecting any of the Borrower, the Parent or any of their Subsidiaries or to which any of the Borrower, the Parent or any of their Subsidiaries is or becomes a party involving an uninsured claim against any of the Borrower, the Parent or any of their Subsidiaries that could reasonably be expected to have a materially adverse effect on any of the Borrower, the Parent or any of their Subsidiaries and stating the nature and status of such litigation or proceedings. Each of the Borrower and the Parent will, and will cause each of their Subsidiaries to, give notice to the Administrative Agent, in writing, in form and detail satisfactory to the Administrative Agent, within ten (10) days of any judgment not covered by insurance, final or otherwise, against any of the Borrower, the Parent or any of their Subsidiaries in an amount in excess of \$5,000,000.

7.5.4. Fiscal Year. Each of the Borrower and the Parent will, and will cause each of its Subsidiaries to, give notice to the Administrative Agent in writing not less than sixty (60) days prior to changing the date of its fiscal year end from that set forth in 6.4.1 of such proposed change.

7.6. Corporate Existence; Maintenance of Properties. Each of the Borrower and the Parent will do or cause to be done all things necessary to preserve and keep in full force and effect its corporate existence, rights and franchises and those of its Subsidiaries, except as otherwise permitted by 8.5.1. Each of the Borrower and the Parent (i) will cause all of its properties and those of its Subsidiaries used or useful in the conduct of its business or the business of its Subsidiaries to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment, (ii) will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Borrower or the Parent may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times, and (iii) will, and will cause each of its Subsidiaries to, continue to engage primarily in the principal lines of business now conducted by them and in similar or related businesses; provided that nothing in this 7.6 shall prevent the Borrower or the Parent from discontinuing the operation and maintenance of any of its properties or those of its Subsidiaries if such discontinuance is, in the judgment of the Borrower or the Parent, desirable in the conduct of its or their business and that do not in the aggregate materially adversely affect the business of the Borrower, the Parent and their Subsidiaries.

7.7. Insurance. Each of the Borrower and the Parent will, and will cause each of its Subsidiaries to, maintain with financially sound and reputable insurers insurance with respect to its properties and business against such casualties and contingencies as shall be in accordance with the general practices of businesses engaged in similar activities in similar geographic areas and in amounts, containing such terms, in such forms and for such periods as may be reasonable and prudent.

7.8. Taxes. Each of the Borrower and the Parent will, and will cause each of its Subsidiaries to, duly pay and discharge, or cause to be paid and discharged, before the same shall become overdue, all material taxes, assessments and other governmental charges (other than taxes, assessments and other governmental charges imposed by foreign jurisdictions that in the aggregate are not material to the business or assets of any of the Borrower, the Parent or any of their Subsidiaries on an individual basis or of the Borrower, the Parent and their Subsidiaries on a consolidated basis) imposed upon it and its real properties, sales and activities, or any part thereof, or upon the income or profits therefrom, as well as all material claims for labor, materials, or supplies that if unpaid might by law become a lien or charge upon any of its property; provided that any such tax, assessment, charge, levy or claim need not be paid if the validity or amount thereof shall currently be contested in good faith by appropriate proceedings and if the Borrower or the Parent or such Subsidiary shall have set aside on its books adequate reserves with respect thereto; and provided further that the Borrower, the Parent and each of their Subsidiaries will pay all such taxes, assessments, charges, levies or claims forthwith upon the commencement of proceedings to foreclose any lien that may have attached as security therefor.

7.9. Inspection of Properties and Books, etc.

7.9.1. General. Each of the Borrower and the Parent shall permit the Banks, through the Administrative Agent or any of the Banks' other designated representatives, to visit and inspect any of the properties of the Borrower or the Parent or any of their Subsidiaries to examine the books of financial account and other financial records (to the extent not confidential, and if any of such materials are confidential, such materials shall be handled in accordance with 17.2) of any of the Borrower, the Parent and their Subsidiaries (and to make copies thereof and extracts therefrom), and to discuss the affairs, finances and accounts of the Borrower, the Parent and their Subsidiaries with, and to be advised as to the same by, its and their officers, all at such reasonable times and intervals during regular business hours as the Administrative Agent or any Bank may reasonably request.

7.9.2. Communication with Accountants. Each of the Borrower and the Parent authorizes the Administrative Agent and the Banks (i) to obtain from the Borrower's, the Parent's and their Subsidiaries' independent certified public accountants copies of any and all accountants' management letters prepared with respect to the Borrower, the Parent or any of their Subsidiaries, (ii) to communicate directly with such accountants with regard to matters disclosed in such management letters, and (iii) with the consent of the Borrower or the Parent, which consent shall not be unreasonably withheld or delayed, to communicate directly with such accountants with regard to all other matters concerning the business, financial condition and other affairs of any of the Borrower, the Parent or any of their Subsidiaries, provided that after the occurrence and during the continuance of a Default or an Event of Default, no such consent shall be required. Each of the Borrower, the Parent and their Subsidiaries hereby authorize and direct such accountants to disclose to the Administrative Agent and the Banks all such management letters and any and all additional financial statements and supporting financial documents and schedules with respect to the business, financial condition and other affairs of any of the Borrower, the Parent or any of their Subsidiaries in connection with such communications. At the request of the Administrative Agent, the Borrower, the Parent or the appropriate Subsidiary shall deliver a letter addressed to such accountants instructing them to comply with the provisions of this 7.9.2.

7.10. Compliance with Laws, Contracts, Licenses, and Permits. Each of the Borrower and the Parent will, and will cause each of its Subsidiaries to, comply with (i) the applicable laws and regulations wherever its business is conducted, including all Environmental Laws, (ii) the provisions of its charter documents and by-laws, (iii) all agreements and instruments by which it or any of its properties may be bound and (iv) all applicable decrees, orders, and judgments, except where non-compliance could not have a materially adverse effect on the business, assets or financial condition of any of the Borrower or the Parent individually, or the Parent and its Subsidiaries taken as a whole. If at any time while any Loan or Note is outstanding or any Bank has any obligation to make Loans hereunder, any authorization, consent, approval, permit or license from any officer, agency or instrumentality of any government shall become necessary or required in order that the Borrower or the Parent may fulfill any of its obligations hereunder, the Borrower or, as the case may be, the Parent will immediately take or cause to be taken all reasonable steps within the power of such Person to obtain such authorization, consent, approval, permit or license and furnish the Banks

with evidence thereof.

7.11. Employee Benefit Plans. Each of the Borrower and the Parent will (i) promptly upon filing the same with the Department of Labor or Internal Revenue Service, furnish to the Administrative Agent a copy of the most recent actuarial statement required to be submitted under 103 (d) of ERISA and Annual Report, Form 5500, with all required attachments, in respect of each Guaranteed Pension Plan and (ii) promptly upon receipt or dispatch, furnish to the Administrative Agent any notice, report or demand sent or received in respect of a Guaranteed Pension Plan under 302, 4041, 4042, 4043, 4063, 4065, 4066 and 4068 of ERISA, or in respect of a Multiemployer Plan, under 4041A, 4202, 4219, 4242, or 4245 of ERISA.

7.12. Use of Proceeds. The Borrower, the Parent and their Subsidiaries will use the proceeds of the Loans solely for working capital and general corporate purposes, including acquisitions permitted by 8.5.1.

7.13. Further Assurances. Each of the Borrower and the Parent will, and will cause each of its Subsidiaries to, cooperate with the Banks and the Administrative Agent and execute such further instruments and documents as the Banks or the Administrative Agent shall reasonably request to carry out to their reasonable satisfaction the transactions contemplated by this Credit Agreement and the other Loan Documents.

8. CERTAIN NEGATIVE COVENANTS OF THE BORROWER AND THE PARENT. Each of the Borrower and the Parent covenants and agrees that, so long as any Obligations or Note is outstanding or any Bank has any obligation to make any Loans:

8.1. Restrictions on Indebtedness. Neither Borrower nor the Parent will, nor will they permit any of their Subsidiaries to, create, incur, assume, guarantee or be or remain liable, contingently or otherwise, with respect to any Indebtedness other than:

(a) Indebtedness to the Banks and the Administrative Agent arising under any of the Loan Documents;

(b) current liabilities of the Borrower, the Parent or their Subsidiaries incurred in the ordinary course of business not incurred through (i) the borrowing of money, or (ii) the obtaining of credit except for credit on an open account basis customarily extended and in fact extended in connection with normal purchases of goods and services, and any letters of credit issued for the account of the Borrower, the Parent or any of their Subsidiaries in support of such permitted current liabilities;

(c) Indebtedness in respect of taxes, assessments, governmental charges or levies and claims for labor, materials and supplies to the extent that payment therefor shall not at the time be required to be made in accordance with the provisions of 7.8;

(d) Indebtedness in respect of judgments or awards that have been in force for less than the applicable period for taking an appeal so long as execution is not levied thereunder or in respect of which the Borrower, the Parent or the applicable Subsidiary shall at the time in good faith be prosecuting an appeal or proceedings for review and in respect of which a stay of execution shall have been obtained pending such appeal or review;

(e) endorsements for collection, deposit or negotiation and warranties of products or services, in each case incurred in the ordinary course of business;

(f) Indebtedness existing on the date of this Credit Agreement and listed and described on Schedule 8.1 hereto ("Existing Indebtedness"), and any refinancings of Existing Indebtedness, provided that at no time shall the sum of (i) the aggregate principal amount of Existing Indebtedness remaining outstanding at such time plus (ii) the aggregate principal amount of Indebtedness in respect of such refinancings at such time exceed the aggregate principal amount of Existing Indebtedness on the Closing Date;

(g) Indebtedness of the Borrower or the Parent to any Subsidiary of the Borrower or the Parent, and Indebtedness of any Subsidiary of the Borrower or the Parent to the Borrower or the Parent or any other Subsidiary of the Borrower or the Parent;

(h) other Indebtedness for borrowed money and credit received (including Capitalized Leases, letters of credit issued for the account of the Borrower, the Parent or any of their Subsidiaries, and Indebtedness incurred pursuant to the sale and leaseback of any property permitted by the provisions of 8.6 hereof), provided that at no time shall the aggregate amount of such Indebtedness exceed 10% of the Consolidated Total Assets of the Parent and its Subsidiaries determined as of the last day of the fiscal year of the Parent most recently ended (such Indebtedness permitted by this subsection (h), "Other Indebtedness");

(i) (a) in addition to, or in combination with, Indebtedness permitted by clause (h) of this 8.1, with respect to any Subsidiary acquired by the Borrower, the Parent or any of their Subsidiaries after the Closing Date, Indebtedness of such newly acquired Subsidiary in existence as of the date of such acquisition, provided that such Indebtedness is not incurred in contemplation of such acquisition, and any guaranties of such Indebtedness issued by the Borrower, the Parent or any of its Subsidiaries, including without limitation, with respect to any indemnities for environmental, employee benefit, tax, litigation and similar liabilities, but excluding the acquisition price of such Subsidiary; provided that at no time shall the outstanding aggregate amount of such Indebtedness (excluding, to the extent duplicative, such guaranties) exceed \$10,000,000, and

(b) with respect to any Subsidiary acquired or to be acquired after the Closing Date, guaranties by the Parent of the acquisition price of such new Subsidiary which price shall not include any of the obligations contemplated by clause (a) above; and

(j) Indebtedness of the type described in clause (ix) of the definition of "Indebtedness."

8.2. Restrictions on Liens. Neither the Borrower nor the Parent, will, nor will they permit any of their Subsidiaries to, (i) create or incur or suffer to be created or incurred or to exist any lien, encumbrance, mortgage, pledge, charge, restriction or other security interest of any kind upon any of its property or assets of any character whether now owned or hereafter acquired, or upon the income or profits therefrom; (ii) transfer any of such property or assets or the income or profits therefrom for the purpose of subjecting the same to the payment of Indebtedness or performance of any other obligation in priority to payment of its general creditors; (iii) acquire, or agree or have an option to acquire, any property or assets upon conditional sale or other title retention or purchase money security agreement, device or arrangement; (iv) suffer to exist for a period of more than thirty (30) days after the same shall have been incurred any Indebtedness or claim or demand against it that if unpaid might by law or upon bankruptcy or insolvency, or otherwise, be given any priority whatsoever over its general creditors; or (v) sell, assign, pledge or otherwise transfer any accounts, contract rights, general intangibles, chattel paper or instruments, with or without recourse; provided that the Borrower, the Parent and any Subsidiary of the Borrower or the Parent may create or incur or suffer to be created or incurred or to exist:

(a) liens in favor of the Borrower or the Parent on all or part of the assets of Subsidiaries of the Borrower or the Parent securing Indebtedness owing by Subsidiaries of the Borrower or the Parent to the Borrower or the Parent, as the case may be;

(b) liens to secure taxes, assessments and other government charges in respect of obligations not overdue or liens on properties to secure claims for labor, material or supplies in respect of obligations not overdue;

(c) deposits or pledges made in connection with, or to secure payment of, workmen's compensation, unemployment insurance, old age pensions or other social security obligations, or deposits to secure the performance of tenders, bids and other contracts (other than for the payment of borrowed money) arising in the ordinary course of business;

- (d) liens in respect of the interest of lessors under leases of real property;
- (e) liens on properties in respect of judgments or awards, the Indebtedness with respect to which is permitted by 8.1(d);
- (f) liens of carriers, warehousemen, mechanics and materialmen, and other like liens on properties, in existence less than 120 days from the date of creation thereof in respect of obligations not overdue;
- (g) encumbrances consisting of easements, rights of way, zoning restrictions, restrictions on the use of real property and defects and irregularities in the title thereto, landlord's or lessor's liens under leases to which the Borrower, the Parent or any of their Subsidiaries is a party, and other minor liens or encumbrances none of which in the opinion of the Borrower or the Parent interferes materially with the use of the property affected in the ordinary conduct of the business of the Borrower, the Parent and their Subsidiaries, which defects do not individually or in the aggregate have a materially adverse effect on the business of the Borrower, the Parent or any of their Subsidiaries individually or of the Borrower, the Parent and their Subsidiaries on a consolidated basis;
- (h) presently outstanding liens listed on Schedule 8.2 hereto, and liens to secure refinancings of Existing Indebtedness secured by presently outstanding liens to the extent and up to the amount that the refinanced Existing Indebtedness was secured; provided that the refinancing of such Existing Indebtedness is permitted by the provisions of 8.1(f) hereof; and
- (i) liens securing Other Indebtedness.

8.3. Restrictions on Investments. Each of the Borrower and the Parent will not, and will not permit any of their Subsidiaries to, make or permit to exist or to remain outstanding any Investment except Investments in:

- (a) marketable direct or guaranteed obligations of the United States of America that mature within one (1) year from the date of purchase by the Borrower, the Parent or the applicable Subsidiary;
- (b) demand deposits, certificates of deposit, bankers acceptances and time deposits of United States banks having total assets in excess of \$1,000,000,000;
- (c) securities commonly known as "commercial paper" issued by a corporation organized and existing under the laws of the United States of America or any state thereof that at the time of purchase have been rated and the ratings for which are not less than "P 1" if rated by Moody's Investors Services, Inc., and not less than "A 1" if rated by Standard & Poor's Rating Group; or other debt securities issued by such a corporation that at the time of purchase have been rated and the ratings for which are not less than "A" if rated by either Moody's Investors Services, Inc. or Standard & Poor's Rating Group;
- (d) obligations issued by (i) any state of the United States of America or (ii) any political subdivision of any such state or any public instrumentality thereof which are rated and the ratings for which are not less than "Aaa" if rated by Moody's Investors Services, Inc. or "AAA" if rated by Standard & Poor's Rating Group;
- (e) Investments in shares of any so-called "money market fund" provided that such fund is registered under the Investment Company Act of 1940, has net assets of at least \$100,000,000, has an investment portfolio with an average maturity of 365 days or less and is not considered to be a "high-yield" fund;
- (f) Investments existing (and in the amount) on the date hereof and listed on Schedule 8.3 hereto;
- (g) Investments with respect to Indebtedness permitted by 8.1(g) so long as the applicable Subsidiaries remain Subsidiaries of the Borrower or the Parent, as the case may be;
- (h) Investments consisting of the guaranty by the Parent of the Obligations hereunder, or Investments by the Borrower or the Parent in their wholly-owned Subsidiaries;
- (i) Investments consisting of (A) loans and advances to employees for entertainment, travel and other similar expenses in the ordinary course of business not to exceed \$200,000 in the aggregate at any time outstanding, (B) loans to employees of the Parent, pursuant to the terms of the Parent's non-qualified stock option plan, secured by pledges of the stock of the Parent owned by such employee, not to exceed \$1,000,000 in the aggregate at any time outstanding and (C) loans and advances to employees for moving or relocation expenses not to exceed \$1,000,000 in the aggregate at any time outstanding;
- (j) Investments (i) in joint ventures, excluding those joint ventures listed on Schedule 8.3, in lines of business that are similar or related to a line of business in which the Borrower, the Parent, or any of their Subsidiaries is then engaged, not to exceed \$20,000,000 in the aggregate at any time, and (ii), if the Borrower or the Parent shall own, at any time, less than a majority (by number of votes) of the outstanding Voting Stock of any joint venture or other Subsidiary (including, without limitation, any investment in a joint venture or other Subsidiary listed on Schedule 8.3), in such joint ventures and other Subsidiaries, not to exceed \$20,000,000 in the aggregate;
- (k) Investments in stock or asset acquisitions permitted by 8.5.1 hereof.
- (l) Investments with respect to Indebtedness permitted by 8.1(j).

8.4. Distributions. The Borrower will not make any Distributions unless both immediately before and immediately after such Distribution, no Default or Event of Default has occurred or is continuing.

8.5. Merger, Consolidation.

8.5.1. Mergers and Acquisitions. Neither the Borrower nor the Parent will, nor will they permit any of their Subsidiaries to,

- (a) become a party to any merger or consolidation with any other party, unless (i) such other party is in a line of business that is similar or related to a line of business in which the Borrower, the Parent, or any of their Subsidiaries is then engaged, (ii) the survivor of such merger or consolidation is the Borrower, the Parent or a Subsidiary of the Parent which is a corporation organized and existing under the laws of the United States or a state thereof, provided that each of the Borrower and the Parent shall survive any merger or consolidation to which it is a party, and (iii) immediately following such merger or consolidation no Default or Event of Default has occurred or is continuing; or
- (b) agree to or effect any asset acquisition or stock acquisition (other than the acquisition of assets in the ordinary course of business consistent with past practices) unless
 - (i) the business being so acquired is in a line of business that is similar or related to a line of business in which the Borrower, the Parent, or any of their Subsidiaries is then engaged,
 - (ii) except to the extent permitted by 8.3(j), the business being so acquired will be run as part of the Parent or a Subsidiary of the Parent, and
 - (iii) immediately following such acquisition no Default or Event of Default has occurred or is continuing.

8.5.2. Disposition of Assets. Neither the Borrower nor the Parent will, nor will they permit any of their Subsidiaries to, become a party to or agree to or effect any disposition of assets (including capital stock), other than (i) the sale of inventory and obsolete equipment in the ordinary course of business, consistent with past practices, or (ii) prior to the occurrence of a Default or Event of Default, the disposition or sale of assets, in one or more arms-length transactions, having a cumulative aggregate sales price not to exceed (A) in any fiscal year of the Parent, \$100,000,000, and (B) in the aggregate from the Closing Date, \$150,000,000; provided that, the value as of the date of disposition of any non-

cash assets received by the Borrower, the Parent or any Subsidiary in payment of any portion of the purchase price shall be equal to the fair market value of such assets.

8.6. Sale and Leaseback. Neither the Borrower nor the Parent will, nor will they permit any of their Subsidiaries to, enter into any arrangement, directly or indirectly, whereby any of the Borrower, the Parent or any of their Subsidiaries shall sell or transfer any property owned by it in order then or thereafter to lease such property or lease other property that such Person intends to use for substantially the same purpose as the property being sold or transferred ("Sale and Leaseback Arrangements"), other than, so long as no Default or Event of Default shall have occurred and be continuing, Sale and Leaseback Arrangements with respect to property, the net book value of which determined on a cumulative basis from the Closing Date, shall not exceed \$5,000,000 in the aggregate.

8.7. Compliance with Environmental Laws. Neither the Borrower nor the Parent will, nor will they permit any of their Subsidiaries to, (i) (a) use any of the Real Estate or any portion thereof for the handling, processing, storage or disposal of Hazardous Substances except in material compliance with all Environmental Laws,

(b) cause or permit to be located on any of the Real Estate any underground tank or other underground storage receptacle for Hazardous Substances except in compliance with all Environmental Laws, or (c) generate any Hazardous Substances on any of the Real Estate except in compliance with all Environmental Laws, unless non-compliance could not have a materially adverse effect on the business, assets or financial condition of any of the Borrower or the Parent individually, or the Parent and its Subsidiaries taken as a whole, or (ii) (a) conduct any activity at any Real Estate or use any Real Estate in any manner so as to cause a release (i.e. releasing, spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, disposing or dumping) or threatened release of Hazardous Substances on, upon or into the Real Estate or properties in the vicinity thereof in violation of any Environmental Laws, or (b) otherwise conduct any activity at any Real Estate or use any Real Estate in any manner that would violate any Environmental Law in any material respect or bring such Real Estate in material violation of any Environmental Law, unless such violation could not have a materially adverse effect on the business, assets or financial condition of any of the Borrower or the Parent individually, or the Parent and its Subsidiaries taken as a whole.

8.8. Employee Benefit Plans. Neither the Borrower, the Parent nor any ERISA Affiliate thereof will:

(a) engage in any "prohibited transaction" within the meaning of 406 of ERISA or 4975 of the Code which could result in a material liability for any of the Borrower, the Parent or any of their Subsidiaries; or

(b) permit any Guaranteed Pension Plan to incur an "accumulated funding deficiency," as such term is defined in 302 of ERISA, whether or not such deficiency is or may be waived; or

(c) fail to contribute to any Guaranteed Pension Plan to an extent which, or terminate any Guaranteed Pension Plan in a manner which, could result in the imposition of a material lien or material encumbrance on the assets of the Borrower, the Parent or any of their Subsidiaries pursuant to 302(f) or 4068 of ERISA; or

(d) amend any Guaranteed Pension Plan in circumstances requiring the posting of security pursuant to 307 of ERISA or 401(a)(29) of the Code; or

(e) permit or take any action which would result in the aggregate benefit liabilities (with the meaning of 4001 of ERISA) of all Guaranteed Pension Plans exceeding by more than \$2,500,000 the value of the aggregate assets of such Plans, disregarding for this purpose the benefit liabilities and assets of any such Plan with assets in excess of benefit liabilities.

8.9. Certain Transactions. Except for arm's length transactions pursuant to which the Borrower, the Parent or any of their Subsidiaries makes payments in the ordinary course of business upon terms no less favorable than such Person could obtain from third parties and except for payment of certain legal fees of a voting trust for the Horne family stock, and payment of expenses for preparation of tax returns of certain officers and directors of the Parent and its Subsidiaries and other transactions between the Borrower and the Parent or any of their Subsidiaries deemed by management of the Borrower and the Parent in good faith to be beneficial to the Borrower and the Parent, neither the Borrower nor the Parent will, nor will they permit any of their Subsidiaries to, enter into any transaction with any officer, director, employee or Affiliate of any of the Borrower, the Parent or any of their Subsidiaries (other than for service as employees, officers and directors), including any contract, agreement or other arrangement providing for the furnishing of services to or by, providing for rental of real or personal property to or from, or otherwise requiring payments to or from any such officer, director, employee or Affiliate or, any corporation, partnership, trust or other entity in which any such officer, director, employee or Affiliate has a substantial interest or is an officer, director, trustee or partner.

9. FINANCIAL COVENANTS OF THE BORROWER AND THE PARENT.

9.1. Fixed Charge Coverage Ratio. Neither the Borrower nor the Parent will permit the Fixed Charge Coverage Ratio for any period of four consecutive fiscal quarters of the Parent to be less than 3.00:1.00.

9.2. Leverage Ratio. Neither the Borrower nor the Parent will permit the ratio of (i) Total Funded Debt to

(ii) the sum of (A) Total Funded Debt plus (B) Consolidated Net Worth on any date (a "Test Date") occurring during any period described in the table set forth below to exceed the ratio set forth opposite the period in the table below in which such Test Date occurs:

Period	Ratio
Closing Date - June 30, 1998	0.42:1.00
July 1, 1998 and thereafter	0.40:1.00

10. CONDITIONS TO EFFECTIVENESS. The obligations of the Banks to make the initial Revolving Credit Loans and Competitive Loans shall be subject to the satisfaction of the following conditions precedent on or prior to the Closing Date:

10.1. Loan Documents. Each of the Loan Documents shall have been duly executed and delivered by the respective parties thereto, shall be in full force and effect and shall be in form and substance satisfactory to each of the Banks. Each Bank shall have received a fully executed copy of each such document.

10.2. Certified Copies of Charter Documents. Each of the Banks shall have received from each of the Borrower and the Parent, (i) a copy, certified by a duly authorized officer of such Person to be true and complete on the Closing Date, of each of (a) its charter or other incorporation documents as in effect on such date of certification, and (b) its by-laws as in effect on such date and (ii) a certificate of good standing certified by the Secretary of State of the jurisdiction in which it is incorporated and each state in which it is qualified to do business as a foreign corporation.

10.3. Corporate Action. All corporate action necessary for the valid execution, delivery and performance by each of the Borrower and the Parent of this Credit Agreement and the other Loan Documents to which it is or is to become a party shall have been duly and effectively taken, and evidence thereof satisfactory to the Banks shall have been provided to each of the Banks.

10.4. Incumbency Certificate. Each of the Banks shall have received from each of the Borrower and the Parent an incumbency certificate, dated as of the Closing Date, signed by a duly authorized officer of such Person, and giving the name and bearing a specimen signature of each individual who shall be authorized: (i) to sign, in the name and on behalf of such Person, each of the Loan Documents to which such Person is or is to become a party;

(ii) in the case of the Borrower, to make Loan Requests and Conversion Requests; and (iii) to give notices and to take other action on its behalf under the Loan Documents.

10.5. Assignment and Acceptance. Each of Credit Lyonnais Cayman Island Branch ("Credit Lyonnais") and The Northern Trust Company ("Northern Trust") shall have (i) delivered to the Administrative Agent a separate Assignment and Acceptance, in the form of Exhibit F hereof, executed by each of the parties thereto pursuant to which each of Credit Lyonnais and Northern Trust shall have sold and assigned to The Chase Manhattan Bank its rights, benefits, indemnities and obligations under the Original Credit Agreement and its Notes and (ii) cancelled and returned any Notes issued to Credit Lyonnais and Northern Trust to the Administrative Agent.

10.6. Opinion of Counsel. Each of the Banks and the Administrative Agent shall have received a favorable opinion addressed to the Banks and the Administrative Agent, dated as of the Closing Date, in form and substance satisfactory to the Banks and the Agent and substantially in the form of Exhibit E hereof, from Goodwin, Procter & Hoar LLP, counsel to the Borrower and the Parent, and each of the Borrower and the Parent instruct Goodwin, Procter & Hoar LLP to deliver such opinion to the Banks and the Administrative Agent.

10.7. Proceedings and Documents. All proceedings in connection with the transactions contemplated by this Credit Agreement, the other Loan Documents and all other documents incident thereto shall be satisfactory in substance and in form to the Banks and to the Administrative Agent and the Administrative Agent's Special Counsel, and the Banks, the Administrative Agent and such counsel shall have received all information and such counterpart originals or certified or other copies of such documents as the Administrative Agent may reasonably request.

10.8. Payment of Fees. The Borrower shall have paid the arrangement fee to the Arranger and the Administrative Agent's fee to the Administrative Agent pursuant to 4.1 and 4.2, and all fees, expenses and disbursements of the Administrative Agent's Special Counsel accrued prior to the Closing Date.

11. CONDITIONS TO ALL BORROWINGS. The obligations of the Banks to make any Loan, whether on or after the Closing Date, shall also be subject to the satisfaction of the following conditions precedent:

11.1. Representations True; No Event of Default. Each of the representations and warranties of any of the Borrower, the Parent and any of their Subsidiaries contained in this Credit Agreement, the other Loan Documents or in any document or instrument delivered pursuant to or in connection with this Credit Agreement shall be true as of the date as of which they were made and shall also be true at and as of the time of the making of such Loan, with the same effect as if made at and as of that time (except to the extent of changes resulting from transactions contemplated or permitted by this Credit Agreement and the other Loan Documents and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse to the business, assets or financial condition of the Borrower or the Parent, individually or the Parent and its Subsidiaries taken as a whole, and to the extent that such representations and warranties relate expressly to an earlier date) and no Default or Event of Default shall have occurred and be continuing. The Administrative Agent shall have received a certificate from each of the Borrower and the Parent signed by an authorized officer of such Person to such effect.

11.2. No Legal Impediment. No change shall have occurred in any law or regulations thereunder or interpretations thereof that in the reasonable opinion of any Bank would make it illegal for such Bank to make such Loan.

11.3. Governmental Regulation. Each Bank shall have received from the Borrower, the Parent or any regulatory authority such statements in substance and form reasonably satisfactory to such Bank as such Bank shall require for the purpose of compliance with any applicable regulations of the Comptroller of the Currency or the Board of Governors of the Federal Reserve System.

12. EVENTS OF DEFAULT; ACCELERATION; ETC.

12.1. Events of Default and Acceleration. If any of the following events ("Events of Default" or, if the giving of notice or the lapse of time or both is required, then, prior to such notice or lapse of time, "Defaults") shall occur:

(a) the Borrower shall fail to pay any principal of the Loans when the same shall become due and payable, whether at the stated date of maturity or any accelerated date of maturity or at any other date fixed for payment;

(b) the Borrower shall fail to pay any interest on the Loans, the Facility Fee, the Administrative Agent's fee, or other sums due hereunder or under any of the other Loan Documents, within five (5) days after the same shall become due and payable, whether at the stated date of maturity or any accelerated date of maturity or at any other date fixed for payment;

(c) the Borrower or the Parent shall fail to comply with any of their covenants contained in 7 (other than 7.2, 7.7, 7.10 and 7.11), 8 or 9;

(d) the Borrower or the Parent or any of its Subsidiaries shall fail to perform any term, covenant or agreement contained herein or in any of the other Loan Documents (other than those specified elsewhere in this 12) for thirty (30) days after written notice of such failure has been given to the Borrower by the Administrative Agent;

(e) any representation or warranty of the Borrower or the Parent or any of their Subsidiaries in this Credit Agreement or any of the other Loan Documents or in any other document or instrument delivered pursuant to or in connection with this Credit Agreement shall prove to have been false in any material respect upon the date when made or deemed to have been made or repeated;

(f) any of the Borrower, the Parent or any of their Subsidiaries shall fail to pay at maturity, or within any applicable period of grace, any obligation (including any guaranties thereof) in respect of borrowed money or credit received (including letters of credit issued for the account of the Borrower, the Parent or any of its Subsidiaries) or in respect of any Capitalized Leases in excess of \$10,000,000 in the aggregate, or fail to observe or perform any material term, covenant or agreement contained in any agreement by which it is bound, evidencing or securing borrowed money or credit received or in respect of any Capitalized Leases in excess of \$10,000,000 in the aggregate, for such period of time as would permit (assuming the giving of appropriate notice if required) the holder or holders thereof or of any obligations issued thereunder to accelerate the maturity thereof;

(g) any of the Borrower, the Parent or any of their Subsidiaries shall make an assignment for the benefit of creditors, or admit in writing its inability to pay or generally fail to pay its debts as they mature or become due, or shall petition or apply for the appointment of a trustee or other custodian, liquidator or receiver of any of the Borrower, the Parent or any of their Subsidiaries or of any substantial part of the assets of any of the Borrower, the Parent or any of their Subsidiaries or shall commence any case or other proceeding relating to any of the Borrower, the Parent or any of their Subsidiaries under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, dissolution or

liquidation or similar law of any jurisdiction, now or hereafter in effect, or shall take any action to authorize or in furtherance of any of the foregoing, or if any such petition or application shall be filed or any such case or other proceeding shall be commenced against any of the Borrower, the Parent or any of their Subsidiaries and any of the Borrower, the Parent or any of their Subsidiaries shall indicate its approval thereof, consent thereto or acquiescence therein or such petition or application shall not have been dismissed within forty-five (45) days following the filing thereof;

(h) a decree or order is entered appointing any such trustee, custodian, liquidator or receiver or adjudicating any of the Borrower, the Parent or any of their Subsidiaries bankrupt or insolvent, or approving a petition in any such case or other proceeding, or a decree or order for relief is entered in respect of any of the Borrower, the Parent or any of their Subsidiaries in an involuntary case under federal bankruptcy laws as now or hereafter constituted;

(i) there shall remain in force, undischarged, unsatisfied and unstayed, for more than thirty days, whether or not consecutive, any final judgment against any of the Borrower, the Parent or any of their Subsidiaries that, with other outstanding final judgments, undischarged, against the Borrower, the Parent and any of their Subsidiaries exceeds in the aggregate \$5,000,000;

(j) (i) if any of the Loan Documents shall be cancelled, terminated, revoked or rescinded otherwise than in accordance with the terms thereof or with the express prior written agreement, consent or approval of the Banks, or (ii) any action at law, suit or in equity or other legal proceeding to cancel, revoke or rescind any of the Loan Documents shall be commenced by or on behalf of any of (A) the Borrower, the Parent or any of their Subsidiaries party thereto, or (B) any of the Horne family stockholders, or (C) any other stockholder if such action, suit or proceeding has not been dismissed or withdrawn within sixty (60) days of the commencement thereof, or (iii) any court or any other governmental or regulatory authority or agency of competent jurisdiction shall make a determination that, or issue a judgment, order, decree or ruling to the effect that, any one or more of the Loan Documents is illegal, invalid or unenforceable in accordance with the terms thereof;

(k) the Borrower or any ERISA Affiliate incurs any liability pursuant to Title IV of ERISA (other than for premiums) to the PBGC or a Guaranteed Pension Plan in an aggregate amount exceeding \$1,000,000, or the Borrower or any ERISA Affiliate is assessed withdrawal liability pursuant to Title IV of ERISA by a Multiemployer Plan requiring aggregate annual payments exceeding \$1,000,000, or any of the following occurs with respect to a Guaranteed Pension Plan: (i) an ERISA Reportable Event, or a failure to make a required installment or other payment (within the meaning of 302(f)(1) of ERISA), provided that the Administrative Agent determines in its reasonable discretion that such event (A) could be expected to result in liability of the Borrower or any of its Subsidiaries to the PBGC or such Guaranteed Pension Plan in an aggregate amount exceeding \$1,000,000 and (B) could constitute grounds for the termination of such Guaranteed Pension Plan by the PBGC, for the appointment by the appropriate United States District Court of a trustee to administer such Guaranteed Pension Plan or for the imposition of a lien in favor of such Guaranteed Pension Plan; or (ii) the appointment by a United States District Court of a trustee to administer such Guaranteed Pension Plan; or (iii) the institution by the PBGC of proceedings to terminate such Guaranteed Pension Plan;

(l) any of the Borrower, the Parent or any of their Subsidiaries shall be enjoined, restrained or in any way prevented by the order of any court or any administrative or regulatory agency from conducting any material part of its business and such order shall continue in effect for more than thirty (30) days; or

(m) the Parent shall cease to own, directly or indirectly, 100% of the capital stock of the Borrower; or Timothy P. Horne and members of the Horne family (or any trusts or similar entities established for the benefit of members of the Horne family) shall at any time cease to own, legally or beneficially, at least fifty-one percent (51%) (by number of votes) of the Voting Stock of the Parent; or, during any period of twelve consecutive calendar months, individuals who were directors or who were elected by the members of the board of directors of the Parent on the first day of such period shall cease to constitute a majority of the board of directors of the Parent. then, and in any such event, so long as the same may be continuing, the Administrative Agent may, and upon the request of the Majority Banks shall, by notice in writing to the Borrower declare all amounts owing with respect to this Credit Agreement, the Notes and the other Loan Documents to be, and they shall thereupon forthwith become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by the Borrower and the Parent; provided that in the event of any Event of Default specified in 12.1(g) or 12.1(h), all such amounts shall become immediately due and payable automatically and without any requirement of notice from the Administrative Agent or any Bank.

12.2. Termination of Commitments. If any one or more of the Events of Default specified in 12.1(g) or 12.1(h) shall occur, the Total Commitment shall forthwith terminate and each of the Banks shall be relieved of all obligations to make Loans to the Borrower. If any other Event of Default shall have occurred and be continuing,

(i) the Administrative Agent may and, upon the request of the Majority Banks, shall, by notice to the Borrower, terminate the Total Commitment, and upon such notice being given the Total Commitment shall terminate immediately and

(ii) in the event that Banks holding fifty-one percent (51%) of the actual outstanding principal amount of the Notes have declared all amounts owing pursuant to the last paragraph of 12.1 above, the Total Commitment shall terminate immediately and, in each case, each of the Banks shall be relieved of all further obligations to make Loans. Thereafter, reinstatement of the Total Commitment shall require the written consent of each Bank. If any such notice is given to the Borrower, the Administrative Agent will forthwith furnish a copy thereof to each of the Banks. No termination of the credit hereunder shall relieve the Borrower or the Parent of any of the Obligations or any of their existing obligations to any of the Banks arising under other agreements or instruments.

12.3. Remedies. In case any one or more of the Events of Default shall have occurred and be continuing, each Bank, if owed any amount with respect to the Loans, may, (i) prior to acceleration of the maturity of the Loans pursuant to 12.1, with the consent of the Majority Banks but not otherwise, proceed to protect and enforce its rights by suit in equity, action at law or other appropriate proceeding, whether for the specific performance of any covenant or agreement contained in this Credit Agreement and the other Loan Documents or any instrument pursuant to which the Obligations to such Bank are evidenced, including as permitted by applicable law the obtaining of the ex parte appointment of a receiver, and, (ii) following acceleration of the maturity of the Loans pursuant to 12.1, proceed to enforce the payment thereof or any other legal or equitable right of such Bank. No remedy herein conferred upon any Bank or the Administrative Agent or the holder of any Note is intended to be exclusive of any other remedy and each and every remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or any other provision of law.

12.4. Distribution of Proceeds. In the event that, following the occurrence or during the continuance of any Default or Event of Default, the Administrative Agent or any Bank, as the case may be, receives any monies in connection with the enforcement of any of the Loan Documents such monies shall be distributed for application as follows:

(a) First, to the payment of, or (as the case may be) the reimbursement of the Administrative Agent for or in respect of all reasonable costs, expenses, disbursements and losses which shall have been incurred or sustained by the Administrative Agent in connection with the collection

of such monies by the Administrative Agent, for the exercise, protection or enforcement by the Administrative Agent of all or any of the rights, remedies, powers and privileges of the Administrative Agent under this Credit Agreement or any of the other Loan Documents and in support of any provision of adequate indemnity to the Administrative Agent against all taxes or liens which by law shall have, or may have, priority over the rights of the Administrative Agent to such monies;

(b) Second, to all other Obligations in such order or preference as the Majority Banks may determine; provided, however, that distributions in respect of such Obligations shall be made (i) *pari passu* among Obligations with respect to the Administrative Agent's fee payable under 4.2 and all other Obligations and (ii) Obligations owing to the Banks with respect to each type of Obligation such as interest, principal, fees and expenses, shall be made among the Banks *pro rata* based upon the amount of the Obligations outstanding with respect to each Bank; and provided, further, that the Administrative Agent may in its reasonable discretion make proper allowance to take into account any Obligations not then due and payable; and

(c) Third, the excess, if any, shall be returned to the Borrower or to such other Persons as are entitled thereto.

13. **SETOFF.** Regardless of the adequacy of any collateral, during the continuance of any Event of Default, any deposits or other sums credited by or due from any of the Banks to either of the Borrower or the Parent and any securities or other property of the Borrower or the Parent in the possession of such Bank may be applied to or set off by such Bank against the payment of Obligations and any and all other liabilities, direct, or indirect, absolute or contingent, due or to become due, now existing or hereafter arising, of the Borrower or the Parent to such Bank. Each of the Banks agrees with each other Bank that

(i) except with respect to the amount of any check or electronic equivalent deposited with such Bank and credited to the Borrower's or the Parent's account maintained with such Bank which is subsequently returned to the Borrower or the Parent unpaid, if an amount to be set off is to be applied to Indebtedness of the Borrower or the Parent to such Bank, other than the Obligations evidenced by the Notes held by such Bank, such amount shall be applied ratably to such other Indebtedness and to the Obligations evidenced by all such Notes held by such Bank, and (ii) if such Bank shall receive from the Borrower or the Parent, whether by voluntary payment, exercise of the right of setoff, counterclaim, cross action, enforcement of the claim evidenced by the Notes held by such Bank by proceedings against the Borrower or the Parent at law or in equity or by proof thereof in bankruptcy, reorganization, liquidation, receivership or similar proceedings, or otherwise, and shall retain and apply to the payment of the Note or Notes held by such Bank any amount in excess of its ratable portion of the payments received by all of the Banks with respect to the Notes held by all of the Banks, such Bank will make such disposition and arrangements with the other Banks with respect to such excess, either by way of distribution, *pro tanto* assignment of claims, subrogation or otherwise as shall result in each Bank receiving in respect of the Notes held by its proportionate payment as contemplated by this Credit Agreement; provided that if all or any part of such excess payment is thereafter recovered from such Bank, such disposition and arrangements shall be rescinded and the amount restored to the extent of such recovery, but without interest.

14. THE ADMINISTRATIVE AGENT AND THE COMPETITIVE BID AGENT.

14.1. **Authorization.** (a) The Agents are authorized to take such action on behalf of each of the Banks and to exercise all such powers as are hereunder and under any of the other Loan Documents and any related documents delegated to the Agents, together with such powers as are reasonably incident thereto, provided that no duties or responsibilities not expressly assumed herein or therein shall be implied to have been assumed by the Agents.

(b) The relationship between the Agents and each of the Banks is that of an independent contractor. The use of the terms "Agents," "Administrative Agent" and "Competitive Bid Agent" is for convenience only and are used to describe, as a form of convention, the independent contractual relationship between the Agents and each of the Banks. Nothing contained in this Credit Agreement nor the other Loan Documents shall be construed to create an agency, trust or other fiduciary relationship between the Agents and any of the Banks.

(c) As an independent contractor empowered by the Banks to exercise certain rights and perform certain duties and responsibilities hereunder and under the other Loan Documents, the Administrative Agent is nevertheless a "representative" of the Banks, as that term is defined in Article 1 of the Uniform Commercial Code, for purposes of actions for the benefit of the Banks and the Agents with respect to all collateral security and guaranties contemplated by the Loan Documents, if any. Such actions include the designation of the Administrative Agent as "secured party," "mortgagee" or the like on all financing statements and other documents and instruments, whether recorded or otherwise, relating to the attachment, perfection, priority or enforcement of any security interests, mortgages or deeds of trust in collateral security intended to secure the payment or performance of any of the Obligations.

14.2. **Employees and Agents.** The Agents may exercise their powers and execute their duties by or through employees or agents and shall be entitled to take, and to rely on, advice of counsel concerning all matters pertaining to their rights and duties under this Credit Agreement and the other Loan Documents. Each of the Agents may utilize the services of such Persons as such Agent in its sole discretion may reasonably determine, and all reasonable fees and expenses of any such Persons shall be paid by the Borrower.

14.3. **No Liability.** Neither the Agents nor any of their shareholders, directors, officers or employees nor any other Person assisting them in their duties nor any agent or employee thereof, shall be liable for any waiver, consent or approval given or any action taken, or omitted to be taken, in good faith by it or them hereunder or under any of the other Loan Documents, or in connection herewith or therewith, or be responsible for the consequences of any oversight or error of judgment whatsoever, except that the Agents or such other Person, as the case may be, may be liable for losses due to its willful misconduct or gross negligence.

14.4. No Representations.

14.4.1. **General.** The Agents shall not be responsible for the execution or validity or enforceability of this Credit Agreement (except for the execution by the Agents, or the validity or enforceability against the Agents, of this Credit Agreement), the Notes, any of the other Loan Documents or any instrument at anytime constituting, or intended to constitute, collateral security for the Notes, or for the value of any such collateral security or for the validity, enforceability or collectability of any such amounts owing with respect to the Notes, or for any recitals or statements, warranties or representations made herein or in any of the other Loan Documents or in any certificate or instrument hereafter furnished to it by or on behalf of the Borrower or the Parent, or be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions, covenants or agreements herein or in any instrument at any time constituting, or intended to constitute, collateral security for the Notes or to inspect any of the properties, books or records of any of the Borrower, the Parent or any of their Subsidiaries. The Agents shall not be bound to ascertain whether any notice, consent, waiver or request delivered to it by the Borrower or the Parent or any holder of any of the Notes shall have been duly authorized or is true, accurate and complete. The Agents have not made nor do they now make any representations or warranties, express or implied, nor does it assume any liability to the Banks, with respect to the credit worthiness or financial conditions of any of the Borrower, the Parent or any of their Subsidiaries. Each Bank acknowledges that it has, independently and without reliance upon the Agents or any other Bank, and based upon such information and documents as it has deemed appropriate, made its own credit

analysis and decision to enter into this Credit Agreement.

14.4.2. Closing Documentation, etc. For purposes of determining compliance with the conditions set forth in 10, each Bank that has executed this Credit Agreement shall be deemed to have consented to, approved or accepted, or to be satisfied with, each document and matter either sent, or made available, by the Administrative Agent or the Arranger for consent, approval, acceptance or satisfaction, or required thereunder to be consented to or approved by or acceptable or satisfactory to such Bank, unless an officer of the Administrative Agent or the Arranger (or their counsel) active upon the Borrower's account shall have received notice from such Bank prior to the Closing Date specifying such Bank's objection thereto and such objection shall not have been withdrawn by notice to the Administrative Agent or the Arranger to such effect on or prior to the Closing Date.

14.5. Payments.

14.5.1. Payments to Administrative Agent. A payment by the Borrower or the Parent to the Administrative Agent hereunder or any of the other Loan Documents for the account of any Bank shall constitute a payment to such Bank. The Administrative Agent agrees promptly to distribute to each Bank such Bank's pro rata share of payments received by the Administrative Agent for the account of the Banks except as provided in 4.6 through 4.8, 4.10 and 16 and as otherwise expressly provided herein or in any of the other Loan Documents.

14.5.2. Distribution by Administrative Agent. If in the opinion of the Administrative Agent the distribution of any amount received by it in such capacity hereunder, under the Notes or under any of the other Loan Documents might involve it in liability, it may refrain from making distribution until its right to make distribution shall have been adjudicated by a court of competent jurisdiction. If a court of competent jurisdiction shall adjudge that any amount received and distributed by the Administrative Agent is to be repaid, each Person to whom any such distribution shall have been made shall either repay to the Administrative Agent its proportionate share of the amount so adjudged to be repaid or shall pay over the same in such manner and to such Persons as shall be determined by such court.

14.5.3. Delinquent Banks. Notwithstanding anything to the contrary contained in this Credit Agreement or any of the other Loan Documents, any Bank that fails absent notification to the Administrative Agent by such Bank pursuant to 2.8.2

(i) to make available to the Administrative Agent its pro rata share of any Loan or (ii) to comply with the provisions of 14 with respect to making dispositions and arrangements with the other Banks, where such Bank's share of any payment received, whether by setoff or otherwise, is in excess of its pro rata share of such payments due and to payable to all of the Banks, in each case as, when and to the full extent required by the provisions of this Credit Agreement, shall be deemed delinquent (a "Delinquent Bank") and shall be deemed a Delinquent Bank until such time as such delinquency is satisfied. A Delinquent Bank shall be deemed to have assigned any and all payments due to it from the Borrower or the Parent, whether on account of outstanding Loans, interest, fees or otherwise, to the remaining nondelinquent Banks for application to, and reduction of, their respective pro rata shares of all outstanding Loans. The Delinquent Bank hereby authorizes the Administrative Agent to distribute such payments to the nondelinquent Banks in proportion to their respective pro rata shares of all outstanding Loans. A Delinquent Bank shall be deemed to have satisfied in full a delinquency when and if, as a result of application of the assigned payments to all outstanding Loans of the nondelinquent Banks, the Banks' respective pro rata shares of all outstanding Loans have returned to those in effect immediately prior to such delinquency and without giving effect to the nonpayment causing such delinquency.

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

14.7. Indemnity. The Banks ratably agree hereby to indemnify and hold harmless the Agents from and against any and all claims, actions and suits (whether groundless or otherwise), losses, damages, costs, expenses (including any expenses for which the Agents have not been reimbursed by the Borrower as required by 15), and liabilities of every nature and character arising out of or related to this Credit Agreement, the Notes, or any of the other Loan Documents or the transactions contemplated or evidenced hereby or thereby, or the Agents' actions taken hereunder or thereunder, except to the extent that any of the same shall be directly caused by the willful misconduct or gross negligence of the Agents, their directors, officers or employees or any other Person assisting them in their duties or any agent or employee thereof.

14.8. Agent as Bank. In its individual capacity, BankBoston shall have the same obligations and the same rights, powers and privileges in respect to its Commitment and the Loans made by it, and as the holder of any of the Notes, as it would have were it not also the Administrative Agent and the Competitive Bid Agent.

14.9. Resignation. Either of the Agents may resign at any time by giving sixty (60) days prior written notice thereof to the Banks and the Borrower. Upon any such resignation, the Majority Banks shall have the right to appoint a successor Agent in such capacity. Unless a Default or Event of Default shall have occurred and be continuing, such successor Agent shall be reasonably acceptable to the Borrower. If no successor Agent shall have been so appointed by the Majority Banks and shall have accepted such appointment within thirty (30) days after the retiring Agent's giving of notice of resignation, then the retiring Agent may, on behalf of the Banks, appoint a successor Agent, which shall be a financial institution having a rating of not less than A or its equivalent by Standard & Poor's Rating Group. Upon the acceptance of any appointment as Agent hereunder by a successor Agent, such successor Agent shall thereupon succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations hereunder. After any retiring Agent's resignation, the provisions of this Credit Agreement and the other Loan Documents shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Agent.

14.10. Notification of Defaults and Events of Default. Each Bank hereby agrees that, upon learning of the existence of a Default or an Event of Default, it shall promptly notify the Administrative Agent thereof. The Administrative Agent hereby agrees that upon receipt of any notice under this 14.10 it shall promptly notify the other Banks of the existence of such Default or Event of Default.

15. EXPENSES. The Borrower agrees to pay (i) the reasonable costs of producing and reproducing this Credit Agreement, the other Loan Documents and the other agreements and instruments mentioned herein, in connection with the preparation, administration or interpretation of such documents, the closing hereunder, and any amendments, restatements, modifications, approvals, consents or waivers hereto or hereunder, (ii) any taxes (including any interest and penalties in respect thereto) payable by the Administrative Agent or any of the Banks (other than taxes based upon the Administrative Agent's or any Bank's net income) on or with respect to the transactions contemplated by this Credit Agreement (the Borrower hereby agreeing to indemnify the Administrative Agent and each Bank with respect thereto), (iii) the reasonable fees, expenses and disbursements of the Agents' Special Counsel incurred in connection with the preparation, administration or interpretation of the Loan Documents and other instruments mentioned herein, the closing hereunder, and amendments, restatements, modifications, approvals, consents or waivers hereto or hereunder, (iv) the reasonable fees, expenses and disbursements of the Administrative Agent incurred by the Administrative Agent in connection with the preparation, syndication, administration or interpretation of the Loan Documents and other instruments mentioned herein, provided that amounts attributable to syndication expenses shall not exceed \$5,000, and (vi) all reasonable out-of-pocket expenses (including without limitation reasonable attorneys' fees, costs and disbursements, which attorneys shall be outside counsel

to the Agents or any of the Banks, and reasonable consulting, accounting, appraisal, investment banking and similar professional fees and charges) incurred by the Agents or any of the Banks in connection with (A) the enforcement of or preservation of rights under any of the Loan Documents against the Borrower or the Parent or any of their Subsidiaries or the administration thereof after the occurrence of a Default or Event of Default and (B) any litigation, proceeding or dispute whether arising hereunder or otherwise, in any way related to either of the Agents' relationship with the Borrower, the Parent or any of their Subsidiaries, provided, however that the Agents shall refund any amounts paid pursuant to the terms of this 15 to the extent that they have been determined by a court of competent jurisdiction, by final order, to have been incurred solely as a result of a breach by the Administrative Agent or the Competitive Bid Agent, as the case may be, of its obligations under this Credit Agreement. The covenants of this 15 shall survive payment or satisfaction of payment of amounts owing with respect to the Obligations.

16. INDEMNIFICATION. The Borrower agrees to indemnify and hold harmless the Agents and the Banks and their respective affiliates, officers, directors, employees, agents or other representatives from and against any and all claims actual or threatened in writing, actions and suits whether groundless or otherwise, and from and against any and all liabilities, losses, damages and expenses of every nature and character arising out of this Credit Agreement or any of the other Loan Documents or the transactions contemplated hereby, except to the extent resulting from the gross negligence or willful misconduct of the indemnified party as determined by a court of competent jurisdiction by a final and non-appealable judgment, including, without limitation, (i) any actual or proposed use by any of the Borrower, the Parent or any of their Subsidiaries of the proceeds of any of the Loans, (ii) any of the Borrower, the Parent or any of their Subsidiaries entering into or performing this Credit Agreement or any of the other Loan Documents or (iii) with respect to any of the Borrower, the Parent and any of their Subsidiaries and their respective properties and assets, the violation of any Environmental Law, the presence, disposal, escape, seepage, leakage, spillage, discharge, emission, release or threatened release of any Hazardous Substances or any action, suit, proceeding or investigation brought or threatened with respect to any Hazardous Substances (including, but not limited to claims with respect to wrongful death, personal injury or damage to property), in each case including, without limitation, the reasonable fees and disbursements of counsel incurred in connection with any such investigation, litigation or other proceeding. In litigation, or the preparation therefor, the Banks and the Agents shall be entitled to select their own counsel and, in addition to the foregoing indemnity, the Borrower agrees to pay promptly the reasonable fees and expenses of such counsel if (x) in the written opinion of counsel to the Administrative Agent, use of counsel of the Borrower's choice could reasonably be expected to give rise to a conflict of interest, or (y) the Borrower shall not have employed counsel reasonably satisfactory to the Administrative Agent and the Banks to represent the Agents and the Banks within reasonable time after notice of the institution of any such litigation or proceeding. If, and to the extent that the obligations of the Borrower under this 16 are unenforceable for any reason, the Borrower hereby agrees to make the maximum contribution to the payment in satisfaction of such obligations which is permissible under applicable law. The covenants contained in this 16 shall survive payment of satisfaction in full of the Obligations.

17. TREATMENT OF CERTAIN CONFIDENTIAL INFORMATION.

17.1. Sharing of Information with Section 20 Subsidiary. The Borrower acknowledges that from time to time financial advisory, investment banking and other services may be offered or provided to the Borrower or one or more of its Subsidiaries, in connection with this Credit Agreement or otherwise, by a Section 20 Subsidiary. The Borrower, for itself and each of its Subsidiaries, hereby authorizes (a) such Section 20 Subsidiary to share with the Administrative Agent and each Bank any information delivered to such Section 20 Subsidiary by the Borrower or any of its Subsidiaries, and (b) the Administrative Agent and each Bank to share with such Section 20 Subsidiary any information delivered to the Administrative Agent or such Bank by the Borrower or any of its Subsidiaries pursuant to this Credit Agreement, or in connection with the decision of such Bank to enter into this Credit Agreement; it being understood, in each case, that any such Section 20 Subsidiary receiving such information shall be bound by the confidentiality provisions of this Credit Agreement. Such authorization shall survive the payment and satisfaction in full of all of Obligations.

17.2. Confidentiality. Each of the Banks and the each of the Agents agrees, on behalf of itself and each of its affiliates, directors, officers, employees and representatives, to keep confidential, in accordance with their customary procedures for handling confidential information of the same nature and in accordance with safe and sound banking practices, any non-public information supplied to it by the Borrower or any of its Subsidiaries pursuant to this Credit Agreement that is identified by such Person as being confidential at the time the same is delivered to the Banks or the Agents, provided that nothing herein shall limit the disclosure of any such information (a) after such information shall have become public other than through a violation of this 17, (b) to the extent required by statute, rule, regulation or judicial process, (c) to counsel for any of the Banks or the Agents, (d) to bank examiners or any other regulatory authority having jurisdiction over any Bank or the Agents, or to auditors or accountants, (e) to the Agents, any Bank or any Section 20 Subsidiary, (f) in connection with any litigation to which any one or more of the Banks, either of the Agents or any Section 20 Subsidiary is a party, or in connection with the enforcement of rights or remedies hereunder or under any other Loan Document, (g) to a Subsidiary or affiliate of such Bank as provided in 17.1 or (h) to any assignee or participant (or prospective assignee or participant) so long as such assignee or participant agrees to be bound by the provisions of 19.6.

17.3. Prior Notification. Unless specifically prohibited by applicable law or court order, each of the Banks and the Agents shall, prior to disclosure thereof, notify the Borrower of any request for disclosure of any such non-public information by any governmental agency or representative thereof (other than any such request in connection with an examination of the financial condition of such Bank by such governmental agency) or pursuant to legal process.

17.4. Other. The obligations of each Bank under this 17 shall supersede and replace the obligations of such Bank under any confidentiality letter in respect of this financing signed and delivered by such Bank to the Borrower prior to the date hereof and shall be binding upon any assignee of, or purchaser of any participation in, any interest in any of the Loans from any Bank.

18. SURVIVAL OF COVENANTS, ETC. All covenants, agreements, representations and warranties made herein, in the Notes, in any of the other Loan Documents or in any documents or other papers delivered by or on behalf of the Borrower, the Parent or any of their Subsidiaries pursuant hereto shall be deemed to have been relied upon by the Banks and the Agents, notwithstanding any investigation heretofore or hereafter made by any of them, and shall survive the making by the Banks of the Loans, as herein contemplated, and shall continue in full force and effect so long as any Obligations under this Credit Agreement or the Notes or any of the other Loan Documents remains outstanding or any Bank has any obligation to make any Loans, and for such further time as may be otherwise expressly specified in this Credit Agreement. All statements contained in any certificate or other paper delivered to any Bank or the Agents at any time by or on behalf of the Borrower, the Parent or any of their Subsidiaries pursuant hereto or in connection with the transactions contemplated hereby shall constitute representations and warranties by the Borrower, the Parent or such Subsidiary hereunder.

19. ASSIGNMENT AND PARTICIPATION.

19.1. Conditions to Assignment by Banks. Except as provided herein, each Bank may assign to one or more Eligible Assignees all or a portion

of its interests, rights and obligations under this Credit Agreement (including all or a portion of its Commitment Percentage and Commitment and the same portion of the Loans at the time owing to it) and the Notes held by it; provided that

(i) the Administrative Agent shall have given its prior written consent to such assignment, which consent shall not be unreasonably withheld or delayed, (ii) prior to the occurrence or continuance of a Default or Event of Default, the Borrower shall have given its prior written consent to all such assignments in amounts of less than \$20,000,000, which consent shall not be unreasonably withheld or delayed (it being understood by the parties that no consent of the Borrower shall be required for assignments in amounts of \$20,000,000 or in excess thereof or following the occurrence of a Default or an Event of Default), (iii) each such assignment shall be of a constant, and not a varying, percentage of all the assigning Bank's rights and obligations under this Credit Agreement, and (iv) the parties to such assignment shall execute and deliver to the Administrative Agent, for recording in the Register (as hereinafter defined), an Assignment and Acceptance, substantially in the form of Exhibit F hereto (an "Assignment and Acceptance"), together with any Notes subject to such assignment. Upon such execution, delivery, acceptance and recording, from and after the effective date specified in each Assignment and Acceptance, which effective date shall be at least five (5) Business Days after the execution thereof, (i) the assignee thereunder shall be a party hereto and, to the extent provided in such Assignment and Acceptance, have the rights and obligations of a Bank hereunder, and (ii) the assigning Bank shall, to the extent provided in such assignment and upon payment to the Administrative Agent of the registration fee referred to in 19.3, be released from its obligations under this Credit Agreement.

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

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

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

(c) such assignee confirms that it has received a copy of this Credit Agreement, together with copies of the most recent financial statements referred to in 6.4 and 7.4 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance;

(d) such assignee will, independently and without reliance upon the assigning Bank, the Administrative Agent or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Credit Agreement;

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

(f) such assignee appoints and authorizes the Administrative Agent to take such action as Administrative Agent on its behalf and to exercise such powers under this Credit Agreement and the other Loan Documents as are delegated to the Administrative Agent by the terms hereof or thereof, together with such powers as are reasonably incidental thereto;

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

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

19.3. Register. The Administrative Agent shall maintain a copy of each Assignment and Acceptance delivered to it and a register or similar list (the "Register") for the recordation of the names and addresses of the Banks and the Commitment Percentage of, and principal amount of the Revolving Credit Loans owing to the Banks from time to time. The entries in the Register shall be conclusive, in the absence of manifest error, and the Borrower, the Administrative Agent and the Banks may treat each Person whose name is recorded in the Register as a Bank hereunder for all purposes of this Credit Agreement. Upon each such recordation, the assigning Bank agrees to pay to the Administrative Agent a registration fee in the sum of \$3,500.

19.4. New Notes. Upon its receipt of an Assignment and Acceptance executed by the parties to such assignment, together with each Note subject to such assignment, the Administrative Agent shall (i) record the information contained therein in the Register, and (ii) give prompt notice thereof to the Borrower and the Banks (other than the assigning Bank). Within five (5) Business Days after receipt of such notice, the Borrower, at its own expense, shall execute and deliver to the Administrative Agent, in exchange for each surrendered Note, a new Note to the order of such Eligible Assignee in an amount equal to the amount assumed by such Eligible Assignee pursuant to such Assignment and Acceptance and, if the assigning Bank has retained some portion of its obligations hereunder, a new Note to the order of the assigning Bank in an amount equal to the amount retained by it hereunder. Such new Notes shall provide that they are replacements for the surrendered Notes, shall be in an aggregate principal amount equal to the aggregate principal amount of the surrendered Notes, shall be dated the effective date of such Assignment and Acceptance and shall otherwise be in substantially the form of the assigned Notes. Within five

(5) days of issuance of any new Notes pursuant to this 19.4, the Borrower shall deliver an opinion of counsel, addressed to the Banks and the Administrative Agent, relating to the due authorization, execution and delivery of such new Notes and the legality, validity and binding effect thereof, in form and substance satisfactory to the Banks. The surrendered Notes shall be cancelled and returned to the Borrower.

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

19.6. Disclosure. The Borrower agrees that in addition to disclosures made in accordance with standard and customary banking practices and 17 hereof, any Bank may disclose information obtained by such Bank pursuant to this Credit Agreement to assignees or participants and potential assignees or participants hereunder; provided that such assignees or participants or potential assignees or participants shall agree (i) to

treat in confidence such information unless such information otherwise becomes public knowledge, (ii) not to disclose such information to a third party, except as required by law or legal process and (iii) not to make use of such information for purposes of transactions unrelated to such contemplated assignment or participation.

19.7. Assignee or Participant Affiliated with the Borrower. If any assignee Bank is an Affiliate of the Borrower or the Parent, then any such assignee Bank shall have no right to vote as a Bank hereunder or under any of the other Loan Documents for purposes of granting consents or waivers or for purposes of agreeing to amendments or other modifications to any of the Loan Documents or for purposes of making requests to the Administrative Agent pursuant to 12.1 or 12.2, and the determination of the Majority Banks shall for all purposes of this Agreement and the other Loan Documents be made without regard to such assignee Bank's interest in any of the Loans. If any Bank sells a participating interest in any of the Loans to a participant, and such participant is the Borrower or the Parent or an Affiliate of the Borrower or the Parent, then such transferor Bank shall promptly notify the Administrative Agent of the sale of such participation. A transferor Bank shall have no right to vote as a Bank hereunder or under any of the other Loan Documents for purposes of granting consents or waivers or for purposes of agreeing to amendments or modifications to any of the Loan Documents or for purposes of making requests to the Administrative Agent pursuant to 12.1 or 12.2 to the extent that such participation is beneficially owned by the Borrower or the Parent or any Affiliate of the Borrower or the Parent, and the determination of the Majority Banks shall for all purposes of this Agreement and the other Loan Documents be made without regard to the interest of such transferor Bank in the Loans to the extent of such participation.

19.8. Miscellaneous Assignment Provisions. Any assigning Bank shall retain its rights to be indemnified pursuant to 16 with respect to any claims or actions arising prior to the date of such assignment. If any assignee Bank is not incorporated under the laws of the United States of America or any state thereof, it shall, prior to the date on which any interest or fees are payable hereunder or under any of the other Loan Documents for its account, deliver to the Borrower and the Administrative Agent certification as to its exemption from deduction or withholding of any United States federal income taxes. If BankBoston transfers all of its interest, rights and obligations under this Credit Agreement, the Administrative Agent shall, in consultation with the Borrower and with the consent of the Borrower and the Majority Banks, appoint another Bank to act as a reference Bank for the purpose of determining the Eurodollar Rate hereunder. Anything contained in this 19 to the contrary notwithstanding, any Bank may (i) at any time pledge all or any portion of its interest and rights under this Credit Agreement (including all or any portion of its Notes) to any of the twelve Federal Reserve Banks organized under 4 of the Federal Reserve Act, 12 U.S.C. 341; provided that no such pledge or the enforcement thereof shall release the pledgor Bank from its obligations hereunder or under any of the other Loan Documents and (ii) assign to another Bank listed on Schedule 1 hereto or an Affiliate of any Bank listed on Schedule 1 hereto all or a portion of its interests, rights and obligations under this Credit Agreement (including all or a portion of its Commitment Percentage and Commitment and the same portion of the Loans at the same time owing to it) without the prior written consent of the Borrower.

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

20. NOTICES, ETC. Except as otherwise expressly provided in this Credit Agreement, all notices and other communications made or required to be given pursuant to this Credit Agreement or the Notes shall be in writing and shall be delivered in hand, mailed by United States registered or certified first class mail, postage prepaid, sent by overnight courier, or sent by telegraph, telecopy, telefax or telex and confirmed by delivery via courier or postal service, addressed as follows:

(a) if to the Borrower, at 801 West Street, Second Floor, Wilmington, Delaware 19801, Attention:

Kenneth Kubacki (with a copy to the Parent at the address set forth below), or at such other address for notice as the Borrower shall last have furnished in writing to the Person giving the notice; (b) if to the Parent, at 815 Chestnut Street, North Andover, Massachusetts 01845, Attention:

William McCartney, or at such other address for notice as the Parent shall last have furnished in writing to the Person giving the notice;

(c) if to the Administrative Agent or the Competitive Bid Agent, at 100 Federal Street, Boston, Massachusetts 02110, Attention: Harvey H. Thayer, Jr., Director, or such other address for notice as the Administrative Agent or the Competitive Bid Agent shall last have furnished in writing to the Person giving the notice; and

(d) if to any Bank, at such Bank's address set forth on Schedule 1 hereto, or such other address for notice as such Bank shall have last furnished in writing to the Person giving the notice. Any such notice or demand shall be deemed to have been duly given or made and to have become effective (i) if delivered by hand, overnight courier or facsimile to a responsible officer of the party to which it is directed, at the time of the receipt thereof by such officer or the sending of such facsimile and (ii) if sent by registered or certified first-class mail, postage prepaid, on the third Business Day following the mailing thereof.

21. GOVERNING LAW.

THIS CREDIT AGREEMENT AND EACH OF THE OTHER LOAN DOCUMENTS, EXCEPT AS OTHERWISE SPECIFICALLY PROVIDED THEREIN, ARE CONTRACTS UNDER THE LAWS OF THE COMMONWEALTH OF MASSACHUSETTS AND SHALL FOR ALL PURPOSES BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF SAID COMMONWEALTH OF MASSACHUSETTS (EXCLUDING THE LAWS APPLICABLE TO CONFLICTS OR CHOICE OF LAW). EACH OF THE BORROWER AND THE PARENT AGREES THAT ANY SUIT FOR THE ENFORCEMENT OF THIS CREDIT AGREEMENT OR ANY OF THE OTHER LOAN DOCUMENTS MAY BE BROUGHT IN THE COURTS OF THE COMMONWEALTH OF MASSACHUSETTS OR ANY FEDERAL COURT SITTING THEREIN AND CONSENTS TO THE NON-EXCLUSIVE JURISDICTION OF SUCH COURT AND THE SERVICE OF PROCESS IN ANY SUCH SUIT BEING MADE UPON THE BORROWER OR THE PARENT BY MAIL AT THE ADDRESS SPECIFIED IN 20. EACH OF THE BORROWER AND THE PARENT HEREBY WAIVES ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE VENUE OF ANY SUCH SUIT OR ANY SUCH COURT OR THAT SUCH SUIT IS BROUGHT IN AN INCONVENIENT COURT.

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

23. COUNTERPARTS. This Credit Agreement and any amendment hereof may be executed in several counterparts and by each party on a separate counterpart, each of which when so executed and delivered shall be an original, and all of which together shall constitute one instrument. In proving this Credit Agreement it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought.

24. ENTIRE AGREEMENT, ETC. The Loan Documents and any other documents executed in connection herewith or therewith express the entire understanding of the parties with respect to the transactions contemplated hereby. Neither this Credit Agreement nor any term hereof may be changed, waived, discharged or terminated, except as provided in 27.

25. WAIVER OF JURY TRIAL.

EACH OF BORROWER, THE PARENT, THE ADMINISTRATIVE AGENT AND EACH BANK HEREBY WAIVES ITS RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS CREDIT AGREEMENT, THE NOTES OR ANY OF THE OTHER LOAN DOCUMENTS, ANY RIGHTS OR OBLIGATIONS HEREUNDER OR THEREUNDER OR THE PERFORMANCE OF SUCH RIGHTS AND OBLIGATIONS. EXCEPT AS PROHIBITED BY LAW, EACH OF THE BORROWER AND THE PARENT HEREBY WAIVES ANY RIGHT IT MAY HAVE TO CLAIM OR RECOVER IN ANY LITIGATION REFERRED TO IN THE PRECEDING SENTENCE ANY SPECIAL, EXEMPLARY, PUNITIVE OR CONSEQUENTIAL DAMAGES OR ANY DAMAGES OTHER THAN, OR IN ADDITION TO, ACTUAL DAMAGES. EACH OF THE BORROWER AND THE PARENT (I) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY BANK OR THE ADMINISTRATIVE AGENT HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH BANK OR THE ADMINISTRATIVE AGENT WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVERS AND (II) ACKNOWLEDGES THAT THE ADMINISTRATIVE AGENT AND THE BANKS HAVE BEEN INDUCED TO ENTER INTO THIS CREDIT AGREEMENT, THE OTHER LOAN DOCUMENTS TO WHICH IT IS A PARTY BY, AMONG OTHER THINGS, THE WAIVERS AND CERTIFICATIONS CONTAINED HEREIN.

26. CONSENTS, AMENDMENTS, WAIVERS, ETC. Except as otherwise expressly provided in this Credit Agreement, any consent or approval required or permitted by this Credit Agreement to be given by one or more or all of the Banks may be given, and any term of this Credit Agreement or of any other instrument related hereto or mentioned herein may be amended, and the performance or observance by the Borrower or the Parent of any terms of this Credit Agreement or such other instrument or the continuance of any Default or Event of Default may be waived (either generally or in a particular instance and either retroactively or prospectively) with, but only with, the written consent of the Borrower and the written consent of the Majority Banks. Notwithstanding the foregoing, the rate of interest on the Notes, the payment date for principal, interest or fees hereunder, the term of the Notes, the amount of the Commitments of the Banks, the amount of the Facility Fee hereunder, the pro rata sharing of payments by the Borrower among the Banks as required herein, and this 26 may not be changed nor may the guaranty of the Parent set forth in 5 be released, without the written consent of the Borrower and the written consent of each Bank affected thereby; the definition of Majority Banks may not be amended without the written consent of all of the Banks; and the amount of the Administrative Agent's fees and 14 may not be amended without the written consent of the Administrative Agent. No waiver shall extend to or affect any obligation not expressly waived or impair any right consequent thereon. No course of dealing or delay or omission on the part of either Bank in exercising any right shall operate as a waiver thereof or otherwise be prejudicial thereto. No notice to or demand upon the Borrower or the Parent shall entitle the Borrower or the Parent to other or further notice or demand in similar or other circumstances.

27. SEVERABILITY. The provisions of this Credit Agreement are severable and if any one clause or provision hereof shall be held invalid or unenforceable in whole or in part in any jurisdiction, then such invalidity or unenforceability shall affect only such clause or provision, or part thereof, in such jurisdiction, and shall not in any manner affect such clause or provision in any other jurisdiction, or any other clause or provision of this Credit Agreement in any jurisdiction.

28. TRANSITIONAL ARRANGEMENTS.

28.1. Original Credit Agreement Superseded. This Credit Agreement shall on the Closing Date supersede the Original Credit Agreement in its entirety, except as provided in this 28. On the Closing Date, the rights and obligations of the parties evidenced by the Original Credit Agreement shall be evidenced by this Credit Agreement and the other Loan Documents.

28.2. Return and Cancellation of Notes. As soon as reasonably practicable after its receipt of its Notes hereunder on the Closing Date, the Banks will promptly return to the Borrower, marked "Substituted" or "Cancelled," as the case may be, any promissory notes of the Borrower held by the Banks pursuant to the Original Credit Agreement. In addition, the Administrative Agent will request that any "Bank" under the Original Credit Agreement which is not a Bank hereunder promptly return to the Borrower, marked "Cancelled," any promissory notes of the Borrower held by such Person pursuant to the Original Credit Agreement.

28.3. Interest and Fees Under Superseded Agreement. All interest and fees and expenses, if any, owing or accruing under or in respect of the Original Credit Agreement through the Closing Date shall be calculated as of the Closing Date (prorated in the case of any fractional periods), and shall be paid on the Closing Date. Commencing on the Closing Date, the Facility Fees shall be payable by the Borrower to the Administrative Agent for the account of the Banks, in accordance with 2.2.

IN WITNESS WHEREOF, the undersigned have duly executed this Credit Agreement as a sealed instrument as of the date first set forth above.

WATTS INVESTMENT COMPANY

By:

Name:

Title:

BANKBOSTON, N.A.,

individually and as

Administrative Agent and

Competitive Bid Agent

By:

Name: Harvey H. Thayer,

Jr.

Title: Director

FIRST UNION NATIONAL BANK

By:

Name:

Title:

MELLON BANK, N.A.
By:
Name:
Title:
BROWN BROTHERS HARRIMAN &
CO.
By:
Name:
Title:
THE CHASE MANHATTAN BANK
By:
Name: A. Neil Sweeny
Title: Vice President
WATTS INDUSTRIES, INC., as
Guarantor
By:
Name:
Title:

SCHEDULE 1

Banks, Commitments, Commitment Percentages, Domestic Lending Offices, Eurodollar Lending Offices

Bank

Bank

Amount
Commitment
Percentage

Domestic Lending Office:
Eurodollar
Lending
Office:

BankBoston, N.A.
Same
\$35,000,00
0
28%
100 Federal Street, 01-
09-04

Boston, MA 02110

Attn: Harvey H. Thayer,
Jr.

The Chase Manhattan Bank
Same
\$27,500,00
0
22%
999 Broad Street

Bridgeport, CT 06604

Attn: A. Neil Sweeny

Mellon Bank, N.A.
Same
\$27,500,00
0

22%
One Boston Place

Boston, MA 02108

Attn: Jane Westrich

First Union National Bank
Same
\$27,500,000
0
22%
One First Union Center

301 South College Street

Charlotte, NC 28288

Attn: Ted Noneman

Brown Brothers Harriman &
Co.
Same
\$7,500,000
6%
40 Water Street

Boston, MA 02109

Attn: John C. Walsh

TOTAL

\$125,000,000
100.0%

SCHEDULE 6.3
WATTS INDUSTRIES, INC. - CAPITAL LEASES

COMPANY	DESCRIPTION	US \$ BALANCE
ANDERSON-BARROWS	Manufacturing & Office Equipment	\$73,965
CIRCLE SEAL CONTROLS	Manufacturing & Office Equipment	111,027
WATTS BENELUX	Office Equipment	30,479*
PIBIVIESSE	Manufacturing & Office Equipment	137,396*
	Total Capital Leases	\$352,867

NOTES:

* - Obligations are denominated in foreign currencies. Valuations are current US dollar equivalents and will vary with changes in foreign exchange rates.

The above Lease obligations are for property for which the assets and lease obligation liability are reflected in the balance sheet of Watts Industries, Inc. Operating leases conveying no ownership, covering: manufacturing and office space, equipment and vehicles have not been included.

SCHEDULE 6.7

LITIGATION

NONE

SCHEDULE 6.13

FINANCING STATEMENTS

NONE

SCHEDULE 6.18

ENVIRONMENTAL MATTERS

NATIONAL PRIORITIES LIST SITES:

1. San Gabriel Valley, California: James Jones Company is a potentially responsible party and its facility in El Monte, California is located within this Site. Watts Industries, Inc. has agreed to indemnify Tyco International, the current owner of James Jones Company, with respect to this matter.
2. Combe Landfill North, New Jersey: Leslie Controls, Inc. has been named as a potentially responsible party.
3. Sharkey Landfill, New Jersey: Leslie Controls, Inc. has been named as a potentially responsible party.
4. Old Southington Landfill, Connecticut: The Contromatics Division of Watts Regulator Company has been named as a potentially responsible party.
5. Solvents Recovery Service of NE, Connecticut: The Contromatics Division of Watts Regulator Company has been named as a potentially responsible party.

STATE REMEDIATION PROJECTS:

1. Seaboard Chemical Corp., North Carolina: The Chesnee and Regtrol Divisions of Watts Regulator Company have been named as potentially responsible parties in this mater.
2. Jameco Industries, Inc., Wyandnach, NY: This property is currently classified as a Class 2 site under New York law. The company has entered into a Consent Order with the NYS DEC and has prepared a remedial investigation plan for NYS DEC review and approval. Previously, the site had been classified as a Class 4 inactive site subject to a Maintenance Plan established by the NYS DEC.
3. Industrial Solvents and Chemical Company, Pennsylvania:
Nicholson Steam Trap, Inc. has been named as a potentially responsible party.
4. Davis Landfill, Spindale, North Carolina: This site is listed on the North Carolina Inactive Sites list. This site contained, among other substances, certain hazardous wastes of the Regtrol Division of Watts Regulator Company. Watts Regulator has removed its hazardous materials from this site and has submitted a site closure plan to the Inactive Site division of the North Carolina environmental agency.
5. General Aides, North Carolina: This site is listed on the North Carolina Inactive Sites list. This site contained, among other substances, certain hazardous wastes of the Regtrol Division of Watts Regulator Company. Watts Regulator has removed its hazardous materials from this site and has submitted a site closure plan to the Inactive Site division of the North Carolina environmental agency.
6. American Foundry, Muskogee, Oklahoma: Green Country Castings, Inc., a subsidiary of Leslie Controls, Inc., formerly owned and operated a foundry on this site and utilized a portion of this premises as a landfill for certain hazardous wastes. The Company has agreed to take the necessary steps to close this landfill in accordance with applicable state and local regulations.
7. Greater Muskogee Development Corp., Muskogee, Oklahoma:
Greater Muskogee Development Corp. owns the property adjacent to the American Foundry site. Green Country Castings deposited certain hazardous wastes on this property after obtaining the owner's consent. The Company is currently conducting a limited investigation of this site.
8. Nicholson Steam Trap, Inc., Wilkes-Barre, Pennsylvania:
Certain hazardous substances were released onto Nicholson's property, the former site of its manufacturing operations. This site has been remediated and a site closure plan has been submitted to the Pennsylvania environmental agency.

9. Jameco Industries, Inc., Wyandanch, N.Y.: The company has closed its operations at this facility and is required to take certain actions in connection with this plant closing in accordance with the laws and regulations of NYS. The majority of these requirements have been fulfilled as of the date hereof.

10. Jameco Industries, Inc.: In the course of the plant closing, the company remediated certain heavy metal soil contamination within the former plating area with the approval of the NYS DEC.

11. Watts Regulator facility in Chesnee, South Carolina: The company discovered indications of possible oil contamination on the property, apparently related to the chip storage area in the loading dock. The South Carolina DHEC was notified and the company has taken steps to remediate this contamination. The SC DHEC has sent a draft administrative order to the company in connection with this matter.

12. Webster Valve, Inc., Franklin, N.H.: The company had deposited from time to time various materials from numerous excavations into a pile behind this facility. Upon testing in August 1997, it was discovered that this pile contained lead which necessitated remediation. The material in this pile has been treated and removed from the facility. The NH DES has issued an administrative order to Webster Valve in connection with this matter and an appeal is pending for April 1998.

13. Webster Valve, Inc., Franklin, N.H.: The company has reported to the NH DES that a swale along one boundary line of the property contains lead and other substances. The company is currently developing an RI/FS for submission to the NH DES.

14. Webster Valve, Inc., Franklin, N.H.: The NH DES has advised the company that it received a report that foundry sand materials containing lead and other substances had been encased in two concrete pits underneath the foundry. Upon investigation, the company confirmed this report and has subsequently removed the sand from one of the two pits. The company has requested permission from the NH DES to allow the sand in the second pit to remain within the concrete encasement.

15. Webster Valve, Inc., Franklin, N.H.: The company discovered that foundry sand materials containing lead had been deposited with Mr. Crowley, a contractor who has performed various services for the company. Mr. Crowley owns a junkyard located in Franklin, NH. The company reported this matter to the NH DES and the NH DES has issued an administrative order to Mr. Crowley. The company is currently negotiating with Mr. Crowley and the NH DES to remove and properly dispose of any materials sent to this site by Webster Valve.

OTHER MATTERS:

1. PBVS, Mazzo di Rho, Italy: During a Phase 1 environmental investigation conducted during due diligence in connection with the acquisition of PBVS, the company discovered the existence of approximately 12 underground storage tanks on this site.

2. PBVS/De Martin, Italy: During a Phase 1 environmental investigation conducted during due diligence in connection with the acquisition of PBVS, the company discovered the existence of one underground storage tank on this site and possible soil contamination.

3. Proposition 65/California: The James Jones facility located in El Monte, California has been threatened with legal action under Proposition 65 by a private environmental group for alleged failure to properly notify the adjacent property owners of possible lead contamination associated with its foundry operations.

4. Proposition 65/Jameco Industries, Inc.: A non-profit environmental group has notified Jameco Industries that it may file legal action for violation of Proposition 65 for failure to issue proper warnings to consumers of the potential for lead exposure related to faucets and related plumbing products sold by Jameco within the State of California.

5. Contromatics Division, Milford, New Hampshire: Contamination was detected in the groundwater at the Contromatics facility in Milford, N.H. during a Phase I study being conducted by the Company. Groundwater monitoring was conducted pursuant to a state agency directive and is no longer required. The Company believes that the source of the contamination is the business adjacent to this facility.

6. Watts ACV, Inc., Houston, Texas: A petroleum release into the ground from certain compressors has previously occurred at the Watts ACV facility in Houston, Texas. The Company has taken steps to address this release and remediate the situation.

7. Webster Valve Division, Franklin, New Hampshire: A fuel oil release previously occurred at the Webster Valve Division of Watts Regulator Company. The Company has taken steps to address this release and remediate the property.

8. Jameco Industries, Inc., Wyandanch, New York: Jameco maintained a wastewater treatment discharge and injection well system on this property. The facility also had certain underground storage tanks. Occasional excursions may have occurred from the waste water discharge system onto and from the property. In addition, a plume of contamination was discovered underneath the building in the groundwater and the soil caused by releases of hazardous substances from within the plant.

The company has been notified of a potential claim for migration of hazardous materials onto property adjacent to the facility. The owner of that property has requested that she be compensated for the damage to her property.

9. There were underground storage tanks at the Jameco Industries facility in Wyandanch, N.Y., which have been removed pursuant to a voluntary RI/FS with the NYSDEC. There are underground storage tanks on the site of the Aerodyne Division of Circle Seal Corporation as well as on the American Foundry site in Muskogee, Oklahoma, which site was formerly owned and operated by Green Country Castings, an indirect subsidiary of the Company. In addition, other facilities may have underground storage tanks.

SCHEDULE 6.19

DIRECT AND INDIRECT SUBSIDIARIES OF WATTS INDUSTRIES, INC.

AS OF 3/26/98

DOMESTIC:

Watts International Sales Corp. [Massachusetts] Watts Investment Company [Delaware]
Watts Regulator Company [Massachusetts]
Watts Securities Corp. [Massachusetts]
Circle Seal Controls, Inc. [Delaware]
Green Country Castings, Inc. [Oklahoma]
KF Industries, Inc. [Oklahoma]
KF Sales Corp. [Delaware]
Rudolph Labranche, Inc. [New Hampshire]
Leslie Controls, Inc. [New Jersey]
Spence Engineering Company, Inc. [Delaware] Watts Drainage Products, Inc.[Delaware][formerly Ancon U.S.A.] Anderson-Barrows Metals Corp. [California] Circle Seal Corporation [Delaware][formerly Jameco Acquisition] Jameco Industries, Inc. [New York]
Webster Valve, Inc. [New Hampshire]
Ames Holdings, Inc. [Delaware]
Ames Company, Inc. [California]
Yolo-Ames Leasing Company, Inc. [California]

INTERNATIONAL:

Watts Industries (Canada) Inc. [Canada]
Watts Investment Company Canada Ltd. [Canada] Telford Valve & Specialties, Inc. [Canada] Woodlawn Holdings Ltd. [Canada]
Watts Industries Europe B.V. [The Netherlands] Watts Industries France S.A. [France]
Watts Industries Germany GmbH [Germany]
Wattsco International [U.S. Virgin Islands] Watts Ocean BV [The Netherlands]
Watts Eurotherm SA [France]
Watts UK Ltd. [United Kingdom]
Watts G.R.C. SA [Spain]
Watts Interme AG [Switzerland]
Watts Interme GmbH [Austria]
Watts Interme SpA [Italy]
* Interme UK Ltd [United Kingdom] KF Industries Europe BV [The Netherlands] Leslie International V.I. [Virgin Islands] Watts M.T.R GmbH [Germany] Ocean B.V. [The Netherlands] Pibiviesse SpA [Italy] B.V. Philabel [The Netherlands] Watts AG [Switzerland] Watts Ocean NV [Belgian] WIG Armaturen Vertriebs, GmbH [Germany] WSA Heizungs und Sanitartechnik GmbH [Germnay] WIC Verwaltungs und Beteiligungs GmbH [Germany] WLI S.r.L. [Italy][formerly ISI SpA] Watts Londa SpA [Italy][formerly Watts ISI SpA]

In addition to the foregoing, the Company holds an 80% interest in De Martin Srl [Italy], a 60% interest in Tianjin Tanggu Watts Valve Company Limited, a Chinese joint venture, and a 60% interest in Suzhou Watts Valve Co., Ltd., a Chinese joint venture. The Company also holds a 49% interest in Jameco International LLC.

* Dissolution pending

SCHEDULE 8.1 - INDEBTEDNESS
WATTS INDUSTRIES, INC.
US \$

COMPANY CREDITOR DESCRIPTION RATE BALANCE

DEBT:

WATTS INDUSTRIES, INC. Bondholders	Debentures due		
	December 2003	8.38%	\$75,000,000

WATTS REGULATOR CO.	First Union	Industrial Revenue Bond	Variable	5,000,000
	Fleet Bank	Industrial Revenue Bond	81% Prime	500,000
SPENCE ENGINEERING	First Union	Industrial Revenue Bond	Variable	7,500,000
LESLIE CONTROLS	First Union	Industrial Revenue Bond	Variable	4,765,000
	Leslie Foundation	Note	Prime+.5%	110,200
ANDERSON-BARROWS	Former Stockholders	Acquisition Note	0.00%	1,041,666
CIRCLE SEAL CONTROLS	Cecil & Wilkinson	Acquisition Notes	0.00%	37,500
WATTS BENELUX	Generale Bank	Mortgage Loan	4.75%	324,141*
WATTS FRANCE	CIDISE	Mortgage Loan	11.50%	14,972*
	ANVAR	Advance Loan	0.00%	162,734*
	ANVAR	Advance Loan	0.00%	32,547*
WATTS GERMANY	Landes Girokasse	Mortgage Loan	6.50%	218,174*
	Landes Girokasse	Long Term Loan	6.00%	51,271*
WATTS ITALY	Mediocredito T.A.A.	Long Term Loan	7.60%	1,039,906*
	Mediocredito T.A.A.	Long Term Loan	7.20%	376,731*
PIBIVIESSE	Ministry of Industry	Long Term Loan		424,377*

TANGGU WATTS VALVE CO. LTD. Bank of China Bank Loan 6.00% 240,674*

Total Classified Debt \$96,839,893

OTHER INDEBTEDNESS:

WATTS CANADA	BankBoston	Letter of Credit -Purchases	0.00%	5,460*
WATTS ITALY	Tecnofin Trentina	Government Loan	5.00%	34,388*
WATTS INDUSTRIES, INC.	City of Palmdale	Government Grant	0.000%	411,336
	First Union	Letter of Credit-Insurance	0.375%	1,504,747
	Credit Lyonnais	Letter of Credit-Insurance	0.30%	13,210,444
	BankBoston	Letter of Credit-Purchases	0.00%	383,104
	BankBoston	Letter of Credit-Performance Bonds	0.00%	57,489
	Brown Brothers	Letter of Credit-Hartford Specialty	0.00%	100,000

on behalf of Leslie Controls

WATTS REGULATOR CO. BankBoston Letter of Credit-Purchases 0.00% 8,108,418

KF INDUSTRIES INC. BankBoston Letter of Credit-Performance Bonds 0.00% 32,444

TANGGU WATTS VALVE CO. LTD. Tangu Valve Co,

	Ltd.	Minority Interest to Shareholder	0.00%	7,506,417*
SUZHOU WATTS VALVE CO. LTD.	Sufa Valve Co, Ltd.	Minority Interest to Shareholder	0.00%	4,271,797*

Total Other Indebtedness \$35,626,044

CAPITAL LEASES:

ANDERSON-BARROWS	Various	Capital Leases	12-15%	\$73,965
------------------	---------	----------------	--------	----------

CIRCLE SEAL CONTROLS	Various	Various Office & Equipment Lease	Various	111,027
WATTS BENELUX	Hewlett Packard	HP Lease	8.50%	30,479*
PIBIVIESSE	Various	Various Office & Equipment Lease	Various	137,396*
Total Capital Leases				\$352,867

Total Indebtedness including Capital Leases \$132,818,804

NOTES:

* - Obligations are denominated in foreign currencies. Valuations are current US dollar equivalents and will vary with changes in foreign exchange rates.

Watts Industries, Inc. has guaranteed certain agreements in connection with the acquisition of certain assets or entities, which agreements contain various indemnification provisions and other covenants which the corporation may be required to fulfill.

SCHEDULE 8.2 - MORTGAGES WATTS INDUSTRIES, INC.

COMPANY	CREDITOR	DESCRIPTION	RATE	US \$ BALANCE
WATTS BENELUX	Generale Bank	Mortgage Loan	4.75%	324,141*
WATTS FRANCE	CIDISE	Mortgage Loan	11.50%	14,972*
WATTS GERMANY	Landes Girokasse	Mortgage Loan	6.50%	218,174*
TOTAL MORTGAGES				557,287

WATTS INDUSTRIES, INC. - LIENS WATTS INDUSTRIES, INC.

US \$

COMPANY CREDITOR DESCRIPTION BALANCE

WATTS REGULATOR CO. First Union-IRB Manufacturing Bldg and Machinery 5,000,000

	Shawmut-IRB	Manufacturing Bldg and Machinery	500,000
SPENCE ENGINEERING	First Union-IRB	Manufacturing Bldg and Machinery	7,500,000
LESLIE CONTROLS	First Union-IRB	Manufacturing Bldg and Machinery	4,765,000
VARIOUS	Various	See Schedule 8.1 Capital Lease Listing	352,867
			\$18,117,867

NOTES:

* - Obligations are denominated in foreign currencies. Valuations are current US dollar equivalents and will vary with changes in foreign exchange rates.

All mortgages and liens listed above are included in the Watts Industries, Inc. 8.1 Schedule of Indebtedness.

SCHEDULE 8.3 - INVESTMENTS WATTS INDUSTRIES, INC.

% US\$

COMPANY DESCRIPTION INTEREST RATE OWNERSHIP BOOK VALUE

MONEY MARKET FUNDS:

WATTS INDUSTRIES, INC.

Fidelity Institutional					
	B Dom Govt	5.38% - varies	100%		\$0
WATTS INVESTMENT COMPANY	Dreyfus/Laurel Institutional Govt.	5.44% - varies	100%	816,000	
WATTS SECURITIES CORP	Evergreen TRS FND #656	4.90% - varies	100%	117,000	
WATTS FRANCE	Credit Lyonnaisa 10-30 day CDs/DDA	3.1-3.6%-varies	100%	1,682,181	*

Total Money Market Fund Investments \$2,615,181

INVESTMENT IN JOINT VENTURES AND PARTIALLY OWNED SUBSIDIARIES:

WATTS INVESTMENT

COMPANY	Tianjin Tanggu Watts Valve Co., Ltd	Cost	60%	\$8,500,000
	Suzhou Watts Valve Company, Ltd.	Cost	60%	6,000,000
WATS REGULATOR COMPANY	Jameco International LLC	Equity	49%	68,000
WATTS ITALY	De Martin S.r.l	Cost	80%	320,382

Total Joint Venture and Partially Owned Subsidiary Investments \$14,888,382

NOTES:

* - Obligations are denominated in foreign currencies. Valuations are current US dollar equivalents and will vary with changes in foreign exchange rates.

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MARCH 31, 1998 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS	
FISCAL YEAR END	JUN 30 1998	
PERIOD END	MAR 31 1998	
CASH	9,954	
SECURITIES	257	
RECEIVABLES	148,984	
ALLOWANCES	8,592	
INVENTORY	192,024	
CURRENT ASSETS	379,458	
PP&E	298,996	
DEPRECIATION	140,609	
TOTAL ASSETS	671,599	
CURRENT LIABILITIES	130,823	
BONDS	134,589	¹
COMMON	2,715	
PREFERRED MANDATORY	0	
PREFERRED	0	
OTHER SE	364,866	
TOTAL LIABILITY AND EQUITY	671,599	
SALES	542,273	
TOTAL REVENUES	542,273	
CGS	350,424	
TOTAL COSTS	471,999	²
OTHER EXPENSES	7,188	³
LOSS PROVISION	1,362	
INTEREST EXPENSE	7,653	
INCOME PRETAX	63,086	
INCOME TAX	21,816	
INCOME CONTINUING	41,270	
DISCONTINUED	0	
EXTRAORDINARY	0	
CHANGES	0	
NET INCOME	41,270	
EPS PRIMARY	\$1.52	
EPS DILUTED	\$1.51	

¹ INCLUDES LONG TERM DEBT AND CURRENT PORTION

² INCLUDES ONLY COST OF GOODS SOLD AND OPERATING EXPENSES.

³ INCLUDES INTEREST EXPENSE AND LOSS PROVISION SHOWN BELOW.

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM MARCH 31, 1997 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS. THIS SCHEDULE HAS BEEN RESTATED TO REFLECT THE ADOPTION OF FINANCIAL ACCOUNTING STANDARDS BOARD STATEMENT NO 128, " EARNINGS PER SHARE".

MULTIPLIER: 1,000

PERIOD TYPE	9 MOS
FISCAL YEAR END	JUN 30 1997
PERIOD END	MAR 31 1997
CASH	3,380
SECURITIES	0
RECEIVABLES	140,972
ALLOWANCES	7,855
INVENTORY	184,200
CURRENT ASSETS	355,439
PP&E	275,379
DEPRECIATION	124,087
TOTAL ASSETS	629,756
CURRENT LIABILITIES	136,511
BONDS	135,052 ¹
COMMON	2,704
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	323,799
TOTAL LIABILITY AND EQUITY	629,756
SALES	534,419
TOTAL REVENUES	534,419
CGS	350,181
TOTAL COSTS	468,268 ²
OTHER EXPENSES	1,140 ³
LOSS PROVISION	482
INTEREST EXPENSE	7,938
INCOME PRETAX	65,011
INCOME TAX	24,818
INCOME CONTINUING	40,193
DISCONTINUED	79
EXTRAORDINARY	0
CHANGES	0
NET INCOME	40,272
EPS PRIMARY	\$1.48
EPS DILUTED	\$1.47

¹ INCLUDES LONG TERM DEBT AND CURRENT PORTION

² INCLUDES ONLY COST OF GOODS SOLD AND OPERATING EXPENSES.

³ INCLUDES INTEREST EXPENSE AND LOSS PROVISION SHOWN BELOW.

ARTICLE 5

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM SEPTEMBER 30, 1996 FINANCIAL STATEMENTS AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS. THIS SCHEDULE HAS BEEN RESTATED TO REFLECT THE ADOPTION OF FINANCIAL ACCOUNTING STANDARDS BOARD STATEMENT NO 128, " EARNINGS PER SHARE".

MULTIPLIER: 1,000

PERIOD TYPE	3 MOS
FISCAL YEAR END	JUN 30 1997
PERIOD END	SEP 30 1996
CASH	0
SECURITIES	0
RECEIVABLES	126,254
ALLOWANCES	8,129
INVENTORY	183,699
CURRENT ASSETS	343,319
PP&E	150,295
DEPRECIATION	116,944
TOTAL ASSETS	586,028
CURRENT LIABILITIES	142,409
BONDS	101,708 ¹
COMMON	2,753
PREFERRED MANDATORY	0
PREFERRED	0
OTHER SE	310,205
TOTAL LIABILITY AND EQUITY	586,028
SALES	176,008
TOTAL REVENUES	176,008
CGS	115,652
TOTAL COSTS	153,742 ²
OTHER EXPENSES	(3,728) ³
LOSS PROVISION	174
INTEREST EXPENSE	2,754
INCOME PRETAX	25,994
INCOME TAX	10,440
INCOME CONTINUING	15,554
DISCONTINUED	79
EXTRAORDINARY	0
CHANGES	0
NET INCOME	15,633
EPS PRIMARY	\$.56
EPS DILUTED	\$.56

¹ INCLUDES LONG TERM DEBT AND CURRENT PORTION

² INCLUDES ONLY COST OF GOODS SOLD AND OPERATING EXPENSES.

³ INCLUDES INTEREST EXPENSE AND LOSS PROVISION SHOWN BELOW.

End of Filing

Powered By **EDGAR**
Online

© 2005 | EDGAR Online, Inc.