

SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, DC 20549

-----  
FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d) of the  
Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): October 18, 1999  
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CIRCOR INTERNATIONAL, INC.

-----  
(Exact name of registrant as specified in charter)

Delaware

1-14962

04-3477276

-----  
(State or other jurisdiction  
of incorporation)

(Commission  
File Number)

(IRS Employer  
Identification No.)

35 Corporate Drive, Burlington, Massachusetts

01803

-----  
(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: (781) 273-6268

N/A

-----  
(Former name or former address, if changed since last report.)

Item 5. Other Events.

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CIRCOR International, Inc. (the "Company") issued a press release on October 19, 1999 announcing the beginning of its trading on The New York Stock Exchange. A copy of the Company's press release is attached hereto and incorporated herein in its entirety.

On October 18, 1999, the Company borrowed \$71.5 million under its new revolving credit facility led by ING (U.S.) Capital LLC, BankBoston, N.A. and First Union National Bank. In addition, the Company borrowed \$35.0 million on a bridge basis from ING (U.S.) Capital LLC. The Company used a portion of the proceeds of these borrowings to pay off \$96.0 million of debt assumed by the Company from Watts Industries, Inc. On October 19, 1999, the Company sold \$75.0 million of senior unsecured notes to institutional investors in a private placement and used the proceeds to pay off the bridge loan and pay down \$37.0 million of the credit facility. The Company will use the balance of the funds available under the credit facility for capital expenditure needs, working capital and general corporate purposes.

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

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(c) Exhibits

Exhibit 10.17 - Amended and Restated Letter of Credit, Reimbursement and Guaranty Agreement dated as of October 18, 1999 among Leslie Controls, Inc., as Borrower, CIRCOR International, Inc., as Guarantor, and First Union National Bank as Letter of Credit Provider

Exhibit 10.18 - Amended and Restated Letter of Credit, Reimbursement and Guaranty Agreement dated as of October 18, 1999 among Spence Engineering Company, Inc. as Borrower, CIRCOR International, Inc., as Guarantor, and First Union National Bank as Letter of Credit Provider.

Exhibit 10.19 - Credit Agreement, dated as of October 18, 1999, by and among CIRCOR International, Inc., a Delaware corporation, as Borrower, each of the Subsidiary Guarantors named therein, the Lenders from time to time a party thereto, ING (U.S.) Capital LLC, as Agent for such Lenders, BankBoston, N.A., as Syndication Agent, First Union National Bank, as Documentation Agent and ING Barings LLC, as Arranger for the Lenders.

Exhibit 10.20 - Note Purchase Agreement, dated as of October 19, 1999, among CIRCOR International, Inc., a Delaware corporation, the Subsidiary Guarantors and each of the Purchasers listed on Schedule A attached thereto.

Exhibit 99.1 - Press Release of CIRCOR International, Inc., dated October 19, 1999.

Signatures

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

CIRCOR INTERNATIONAL, INC.

By: /s/ David A. Bloss, Sr.

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David A. Bloss, Sr., President  
and Chief Executive Officer

Date: October 19, 1999

AMENDED AND RESTATED  
LETTER OF CREDIT, REIMBURSEMENT  
AND GUARANTY AGREEMENT  
(Leslie)

Dated as of October 18, 1999

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AMENDED AND RESTATED  
LETTER OF CREDIT, REIMBURSEMENT and  
GUARANTY AGREEMENT

THIS AMENDED AND RESTATED LETTER OF CREDIT, REIMBURSEMENT AND GUARANTY AGREEMENT, dated as October 18, 1999 by and among Leslie Controls, Inc., a New Jersey corporation ("the Borrower"), CIRCOR INTERNATIONAL, INC., a Delaware corporation ("the Guarantor"), and FIRST UNION NATIONAL BANK, a national banking association organized and existing under the laws of the United States with its principal offices located in Charlotte, North Carolina (the "Bank");

W I T N E S S E T H:  
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WHEREAS, pursuant to a Trust Indenture dated July 1, 1994 (the "Indenture") between the Hillsborough County Industrial Development Authority (the "Issuer") and The First National Bank of Boston, Boston, Massachusetts (the "Trustee"), the Issuer issued and sold its Industrial Development Revenue Refunding Bonds (Leslie Controls, Inc. Project), Series 1994 in the original aggregate principal amount of \$4,765,000 (the "Bonds"); and

WHEREAS, in order to enhance the marketability of the Bonds, the Bank issued an irrevocable direct pay letter of credit, a copy of which is attached hereto as Exhibit A (such letter of credit or any successor or substitute letter of credit issued by the Bank herein individually and collectively called the "Letter of Credit"); and

WHEREAS, as a condition precedent to the issuance of the Letter of Credit, Watts Industries, Inc. the parent of the Borrower ("Watts") agreed to unconditionally guarantee the obligations of the Borrower as provided in the Letter of Credit, Reimbursement and Guaranty Agreement dated as of July 1, 1994 among the Borrower, the Bank and Watts (the "1994 Agreement"); and

WHEREAS, Watts will spin off its subsidiaries comprising the industrial oil and gas segment of its business, including the Borrower, to Guarantor, effective October 18, 1999 (the "Spin-Off"), resulting in the Borrower being owned, directly or indirectly, by Guarantor; and

WHEREAS, Watts has requested that it be released from its obligations pursuant to the 1994 Agreement in exchange for the Guarantor's undertaking the obligations of this Agreement; and

WHEREAS, the Bank has agreed to release Watts in exchange for the Guarantor's undertaking the obligations of this Agreement; and

WHEREAS, certain other amendments to the 1994 Agreement are required on account of the Spin-Off and the resulting capital structure of Guarantor;

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, including the covenants, terms and conditions hereinafter appearing, and to induce the Bank to release Watts from the 1994 Agreement, the Borrower and the Guarantor do hereby covenant and agree with the Bank as follows:

ARTICLE I

Definitions

All words and terms defined in Article I of the Loan Agreement shall have the same meanings in this Agreement, unless otherwise specifically defined herein. The terms defined in this Article I have, for all purposes of this Agreement, the meanings specified hereinabove or in this Article, unless defined elsewhere herein or the context clearly requires otherwise.

1.1. "Affiliate" means any person, corporation, association or other business entity which directly or indirectly controls, or is controlled by, or is under common control with the Borrower or the Guarantor.

1.2. "Agreement" shall mean this Amended and Restated Letter of Credit, Reimbursement and Guaranty Agreement, as the same may from time to time be amended, modified or supplemented in accordance with the terms hereof.

1.3. "Alternate Credit Facility" means any irrevocable direct pay letter of credit, insurance policy or similar credit enhancement or support facility for the benefit of the Trustee, the terms of which Alternate Credit Facility shall in all respects material to the registered owners of the Bonds be the same (except for the term set forth in such Alternate Credit Facility) as those of the Letter of Credit.

1.4. "Bankruptcy Code" means 11 U.S.C. (S) 101 et. seq., as amended.

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1.5. "Bondholder" or "Bondholders" means the initial and any future registered owners of the Bond or Bonds as registered on the books and records of the Bond Registrar pursuant to Section 204 of the Indenture.

1.6. "Bond Documents" means, collectively, the Sale Agreement, the Note, the Remarketing Agreement, the Tender Agency Agreement, the Indenture, the Security Instruments and the Bonds, as the same may be amended, modified or supplemented from time to time in accordance with their respective terms.

1.7. "Borrower" means Leslie Controls, Inc., a New Jersey corporation.

1.8. "Capital Expenditures" means, for any period, expenditures (including, without limitation, the aggregate amount of Capital Lease Obligations incurred during such period) made by the Guarantor, the Borrower or any of their Subsidiaries to acquire or construct fixed assets,

plant and equipment (including renewals, improvements and replacements, but excluding repairs) during such period computed in accordance with GAAP.

1.9. "Capital Lease Obligations" means, for any Person, all obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) Property to the extent such obligations are required to be classified and accounted for as a capital lease on a balance sheet of such Person under GAAP, and, for purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

1.10. "Cash and Cash Equivalents" means as to any Person at a particular date, the aggregate amount of all items categorized as "cash" and "cash equivalents" on the balance sheet of such Person, as determined in accordance with GAAP.

1.11. "Consistent Basis" means, in reference to the application of GAAP, that the accounting principles observed in the period referred to are comparable in all material respects to those applied in the preceding period, except as to any changes consented to by the Bank.

1.12. "Consolidated Net Income" means the consolidated gross revenues of the Guarantor and the Borrower and the Subsidiaries of each for such period less all expenses and other proper charges for such period (including taxes on or measured by income) determined in accordance with GAAP.

1.13. "Consolidated Net Worth" of the Guarantor and the Borrower and the Subsidiaries of each shall mean at any time as of which the amount thereof is to be determined, the sum of the Net Worth of such Persons.

1.14. "Consolidated Subsidiaries" means the Subsidiaries of the Guarantor included in the audited consolidated financial statements of the Guarantor from time to time. For purposes of the representation contained in Subsection 2.3 hereof, Consolidated Subsidiaries shall include the term "Combined Subsidiaries" as used in the referenced financial statements.

1.15. "Consultant" means any third-party architect or engineer satisfactory to the Bank.

1.16. "Credit Agreement" means the Credit Agreement dated as of October 18, 1999 among CIRCOR International, Inc., ING (U.S.) LLC as Agent, BankBoston, N.A. as Syndication Agent and the Bank as Documentation Agent.

1.17. "Current Assets" means Cash and Cash Equivalents and all other assets or resources of a Person which are expected to be realized in cash, sold in the ordinary course of business, or consumed within one year, all determined in accordance with GAAP.

1.18. "Current Liabilities" means the amount of all liabilities of a Person which by their terms are payable within one year (including all indebtedness payable on demand or maturing not

more than one year from the date of computation and the current portion of long-term debt), all determined in accordance with GAAP.

1.19. "Debt Service" means, for any period, the sum, for the Guarantor, the Borrower and their Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following: (a) all payments of principal of Indebtedness (including, without limitation, the principal component of any payments in respect of Capital Lease Obligations) scheduled to be made during such period plus (b) all Interest Expense for such period.

1.20. "Default" means an event or condition the occurrence of which would, with the lapse of time or the giving of notice, or both, become an Event of Default.

1.21. "Distribution" in respect of any corporation, means and includes: (i) the payment of any dividends or other distributions on capital stock of the corporation (except distributions in such stock) and (ii) the redemption or acquisition of its Securities unless made contemporaneously from the net proceeds of the sale of its Securities.

1.22. "EBITDA" means, for any period, the sum, for the Guarantor, the Borrower and their Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following: (a) Net Income (calculated before taxes, Interest Expense, extraordinary or unusual items and income or loss attributable to equity in Affiliates) for such period plus (b) -----  
depreciation and amortization (to the extent deducted in determining Net Income) for such period; provided that if, during any such period, the Borrower or any -----  
of its Subsidiaries shall have made one or more acquisitions pursuant to Section 9.05(b) (iv) of the Credit Agreement, EBITDA for such period shall be calculated on a pro forma basis as if each such acquisition had been made on the first day --- -----  
of such period, giving pro forma effect to such acquisition to the extent permitted under such Section 9.05(b) (iv) of the Credit Agreement.

1.23. "Environmental Laws" means all federal, state and local laws, rules, regulations, ordinances, programs, permits, guidances, orders and consent decrees relating to health, safety and environmental matters, including, but not limited to, the Resource Conservation and Recovery Act; the Comprehensive Environmental Response, Compensation and Liability Act of 1980; the Toxic Substances Control Act, as amended; the Clean Water Act; the River and Harbor Act; the Water Pollution Control Act; the Marine Protection Research and Sanctuaries Act; the Deep Water Port Act; the Safe Drinking Water Act; the Superfund Amendments and Reauthorization Act of 1986; the Federal Insecticide, Fungicide and Rodenticide Act; the Mineral Lands and Leasing Act; the Surface Mining Control and Reclamation Act; state and federal superlien and environmental cleanup programs and laws; and U.S. Department of Transportation regulations.

1.24. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended, including any rules and regulations promulgated thereunder.

1.25. "ERISA Affiliate" means a Person under common control with the Guarantor within the meaning of Section 414(c) of the Internal Revenue Code of 1986, as amended, or Section 4001(b) of ERISA.

1.26. "Event of Default" means an Event of Default as defined in Section 9.1 hereof.

1.27. "Expiration Date" means August 4, 1997, the stated expiration date of the Letter of Credit, as such date has been and may be extended in accordance with the terms of Section 4.10 hereof.

1.28. "Fixed Charges Coverage Ratio" means, as at any date, the ratio of (a) (x) EBITDA for the period of four consecutive fiscal quarters ending on or most recently ended prior to such date minus (y) Capital Expenditures made ----- during such period to (b) Debt Service for such period.

1.29. "GAAP" means those principles of accounting set forth in pronouncements of the Financial Accounting Standards Board and its predecessors or pronouncements of the American Institute of Certified Public Accountants or those principles of accounting which have other substantial authoritative support and are applicable in the circumstances as of the date of application, as such principles are from time to time supplemented or amended. As to the provisions of this Agreement, the applicable GAAP shall be determined as set forth in the Credit Agreement.

1.30. "Guarantee" means a guarantee, an endorsement, a contingent agreement to purchase or to furnish funds for the payment or maintenance of, or otherwise to be or become contingently liable under or with respect to, the Indebtedness, other obligations, net worth, working capital or earnings of any Person, or a guarantee of the payment of dividends or other distributions upon the stock or equity interests of any Person, or an agreement to purchase, sell or lease (as lessee or lessor) Property, products, materials, supplies or services primarily for the purpose of enabling a debtor to make payment of such debtor's obligations or an agreement to assure a creditor against loss, and including, without limitation, causing a lender or other financial institution to issue a letter of credit or other similar instrument for the benefit of another Person, but excluding endorsements for collection or deposit in the ordinary course of business. The terms "Guarantee" and "Guaranteed" used as a verb shall have a correlative meaning.

1.31. "Guarantor" means CIRCOR International, Inc., a Delaware corporation.

1.32. "Immaterial Subsidiary" means, as at any date, any Subsidiary of the Guarantor that the Guarantor shall theretofore have designated as an "Immaterial Subsidiary" in a notice to the Bank, provided that: -----

(a) the following shall be true:

(x) the aggregate assets of all such Subsidiaries (calculated both on a book value basis and a fair market value basis) does not exceed 10% of the

aggregate assets (calculated on such respective bases) of the Guarantor and its Subsidiaries as of the most recent fiscal quarter-end of the Guarantor; and

(y) the aggregate EBITDA of all such Subsidiaries for the period of four consecutive fiscal quarters most recently ended prior to such date does not exceed 10% of the consolidated EBITDA of the Guarantor and its Subsidiaries for such period; and

(b) the Guarantor may from time to time, by notice to the Borrower, cause any Subsidiary that it had theretofore designated as an "Immaterial Subsidiary" to be no longer treated as an "Immaterial Subsidiary"

1.33. "Indebtedness" means, for any Person: (a) obligations created, issued or incurred by such Person for borrowed money (whether by loan, the issuance and sale of debt securities or the sale of Property to another Person subject to an understanding or agreement, contingent or otherwise, to repurchase such Property from such Person); (b) obligations of such Person to pay the deferred purchase or acquisition price of Property or services, other than trade accounts payable (other than for borrowed money) arising, and accrued expenses incurred, in the ordinary course of business so long as such trade accounts payable are payable within 90 days of the date the respective goods are delivered or the respective services are rendered; (c) Indebtedness of others secured by a Lien on the Property of such Person, whether or not the respective indebtedness so secured has been assumed by such Person; (d) obligations of such Person in respect of letters of credit or similar instruments issued or accepted by lenders and other financial institutions for account of such Person; (e) Capital Lease Obligations of such Person; and (f) Indebtedness of others Guaranteed by such Person.

1.34. "Interest Coverage Ratio" means, as at any date, the ratio of (a) EBITDA for the period of four consecutive fiscal quarters ending on or most recently ended prior to such date to (b) Interest Expense for such period.

1.35. "Interest Expense" means, for any period, the sum, for the Guarantor, the Borrower and their Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following: (a) all interest in respect of Indebtedness (including, without limitation, the interest component of any payments in respect of Capital Lease Obligations) accrued or capitalized during such period (whether or not actually paid during such period) plus (b) the net amount payable (or minus the net amount receivable) under Interest Rate Protection Agreements during such period (whether or not actually paid or received during such period).

1.36. "Interest Rate Protection Agreement" means, for any Person, an interest rate swap, cap or collar agreement or similar arrangement between such Person and one or more financial institutions providing for the transfer of mitigation of interest risks either generally or under specific contingencies.

1.37. "Leverage Ratio" means, as at any date, the ratio of (a) the aggregate amount of Indebtedness of the Guarantor, the Borrower and their Subsidiaries outstanding on such date to (b) EBITDA for the four consecutive fiscal quarters ended on or most recently prior to such date.

1.38. "Lien" means any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, whether such interest is based on the common law, statute or contract, and including, but not limited to, the security interest, security title or lien arising from a security agreement, mortgage, deed of trust, deed to secure debt, encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes. For the purpose of this Agreement, the Borrower or the Guarantor, respectively, shall be deemed to be the owner of any Property which it has acquired or holds subject to a conditional sale agreement or other arrangement pursuant to which title to the Property has been retained by or vested in some other Person for security purposes.

1.39. "Loan Agreement" means the Loan Agreement dated as of July 1, 1994 from the Borrower to the Issuer.

1.40. "Material Adverse Effect" means a material adverse effect on the business, operations or financial condition of the Guarantor and its Subsidiaries or if applicable, such other Person, taken as a whole.

1.41. "Money Borrowed" as applied to Indebtedness, means (i) Indebtedness for borrowed money; (ii) Indebtedness, whether or not in any such case the same was for borrowed money, (A) which is represented by notes payable or drafts accepted that evidence extensions of credit, (B) which constitutes obligations evidenced by bonds, debentures, notes or similar instruments, or (C) upon which interest charges are customarily paid (other than accounts payable) or that was issued or assumed as full or partial payment for Property; (iii) Indebtedness that constitutes a Capitalized Lease obligation; and (iv) Indebtedness under any guaranty of obligations that would constitute Indebtedness for Money Borrowed under clauses (i) through (iii) hereof.

1.42. "Net Income" means for any period, the net operating income of the Borrower, the Guarantor and their Subsidiaries for such period (determined on a consolidated basis in accordance with GAAP).

1.43. "Net Worth" means, as at any date, the sum for the Borrower, the Guarantor and their Subsidiaries (determined on a consolidated basis in accordance with GAAP) of the following:

(a) the amount of capital stock, plus  
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(b) the amount of surplus and retained earnings (or, in the case of a retained earnings deficit, minus the amount of such deficit).

1.44. "Obligations" means all loans and all other advances, debts, liabilities, obligations, covenants and duties owing, arising, due or payable from the Borrower to the Bank of any kind or nature, present or future, whether or not evidenced by any note, guaranty or other instrument, whether arising under this Agreement or any of the other Bond Documents or Security Instruments or otherwise, whether direct or indirect (including those acquired by assignment), absolute or contingent, primary or secondary, due or to become due, now existing or hereafter arising and however acquired. The term includes, without limitation, all interest, charges, expenses, fees, attorney's fees and any other sums chargeable to the Borrower under any of the Bond Documents or Security Instruments.

1.45. "Officer's Certificate" means the Certificate of the Chief Financial Officer or the Controller of the Borrower or the Guarantor, as the case shall be, as approved by the Bank.

1.46. "Other Agreements" means any and all agreements, instruments and documents (other than this Agreement and the Security Instruments), heretofore, now or hereafter executed by the Borrower or the Guarantor or the Subsidiaries of either or any of them and delivered to the Bank in respect to the transactions contemplated by this Agreement.

1.47. "Permitted Encumbrances" means and includes:

(a) liens for taxes and assessments not delinquent or which are being contested in good faith by appropriate proceedings and against which adequate reserves have been provided for on the books of the Guarantor or the Borrower, as applicable;

(b) worker's, mechanic's and materialmen's liens and similar liens incurred in the ordinary course of business remaining undischarged or unstayed for not longer than 60 days following Borrower's notice of the attachment thereof;

(c) attachments remaining undischarged or unstayed for not longer than 60 days from the making thereof;

(d) liens in respect of final judgments or awards remaining undischarged or unstayed for not longer than 60 days from the making thereof;

(e) liens in respect of pledges or deposits under worker's compensation laws, liens to secure customs bonds, unemployment insurance or similar legislation and in respect of pledges or deposits to secure bids, tenders, contracts (other than contracts for the payment of money), leases or statutory obligations, or in connection with surety, appeal and similar bonds incidental to the conduct of litigation;

(f) any other liens, easements, encumbrances, rights of way and clouds on title included within the term "Permitted Encumbrances" as defined in the Credit Agreement.

1.48. "Person" means an individual, partnership, corporation, trust, joint venture, unincorporated organization, association, or a government, or agency or political subdivision or instrumentality thereof.

1.49. "Plan" means a pension plan (other than a multiemployer pension plan as defined in Section 3(37) of ERISA) that is subject to Title IV of ERISA.

1.50. "Pledge Agreement" means the Pledge Agreement of even date herewith from the Borrower to the Bank.

1.51. "Prime Rate" means the interest rate publicly announced from time to time by the Bank to be its prime rate, which may not necessarily be its best lending rate. In the event the Bank shall abolish or abandon the practice of announcing its Prime Rate or should the same be unascertainable, the Bank shall designate a comparable reference rate which shall be deemed to be the Prime Rate under this Agreement.

1.52. "Private Placement Memorandum" means the Private Placement Memorandum dated August 4, 1994 relating to the Bonds.

1.53. "Prohibited Transaction" means any transaction set forth in Section 406 of ERISA or Section 4975 of the Internal Revenue Code of 1986, as amended from time to time.

1.54. "Project" means the manufacturing facility acquired, constructed and installed with the proceeds of the Prior Bonds, owned and operated by the Borrower in Hillsborough County, Florida.

1.55. "Property" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

1.56. "Reportable Event" means any of the events set forth in Section 4043(b) of ERISA other than those events for which the obligation to notify the Pension Benefit Guaranty Corporation ("PBGC") has been waived under 29 C.F.R. Part 2615.

1.57. "Security" means shall have the same meaning as in Section 2(1) of the Securities Act of 1933, as amended.

1.58. "Security Instruments" means, collectively, the Pledge Agreement and any and all Other Agreements.

1.59. "Solvent" means as to any Person, such Person (i) owns Property whose fair saleable value is greater than the amount required to pay all of such Person's Indebtedness (including contingent debts), (ii) is able to pay all of its Indebtedness as such Indebtedness matures and (iii) has capital sufficient to carry on its business and transactions and all business and transactions in which it is about to engage.

1.60. "Spin-Off" has the meaning assigned to that term in the fourth "whereas" paragraph of this Agreement

1.61. "Subsidiary" or "Subsidiaries" means, as to any Person, any corporation whether organized and existing under the laws of any state of the United States, including the District of Columbia and Puerto Rico, or under the laws of any foreign country, of which more than 50% of voting stock at any time is owned or controlled directly or indirectly by the Borrower or the Guarantor, as applicable.

1.62. "Tender Advance" has the meaning assigned to that term in Section 4.3 of this Agreement.

1.63. "Tender Draft" has the meaning assigned to that term in the Letter of Credit.

1.64. "Termination Date" means the last day a drawing is available under the Letter of Credit.

1.65. "Trustee" means any Person or group of Persons at the time serving as corporate fiduciary under the Indenture.

1.66. "Uniform Customs and Practice" shall mean the Uniform Customs and Practice for Documentary Credits, 1994 Revision, ICC Publication No. 500.

## ARTICLE II

### Representations and Warranties of the Guarantor

The Guarantor represents and warrants to the Bank (which representations and warranties shall survive the delivery of the documents mentioned herein and the issuance of the Letter of Credit) that:

2.1. Incorporation. Each of the Guarantor and its Consolidated Subsidiaries -----  
is a corporation, partnership or joint venture, respectively, duly organized, existing and in good standing under the laws of its respective jurisdiction, except where the failure to be in good standing would not have a Material Adverse Effect and has the corporate or other power to own its respective properties and to carry on its respective business as now or at such future time being conducted, and is duly qualified as a foreign corporation or otherwise to do business in every jurisdiction in which the failure to be so qualified would have a Material Adverse Effect. On the date of the execution and delivery of this Agreement, the Guarantor has the respective Consolidated Subsidiaries shown on Exhibit B hereto, and no other Subsidiaries.

2.2. Power and Authority; No Conflicts; Enforceability. It is duly  
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authorized under all applicable provisions of law to execute, deliver and perform this Agreement and the Other Agreements to which it is a party, and all corporate action on its part required for the lawful execution, delivery and performance hereof and thereof has been duly taken; and this Agreement and the Other Agreements to which it is a party, upon the due execution and delivery thereof, will be the valid, binding and legal obligation of the Guarantor enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors, rights generally and to general principles of equity. Neither the execution of this Agreement, nor the fulfillment of or compliance with the respective provisions and terms hereof, will (A) conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a violation of or default under any applicable law, regulation, judgment, writ, order or decree to which the Guarantor or any Consolidated Subsidiary or any of their respective properties are subject, or the charter or bylaws of the Guarantor or any Consolidated Subsidiary, or any agreement or instrument to which the Guarantor or any Consolidated Subsidiary is now a party and (b) create any lien, charge or encumbrance upon any of the property or assets of the Guarantor or any Consolidated Subsidiary pursuant to the terms of any agreement or instrument to which the Guarantor or any Subsidiary is a party or by which they, or any of them, or any of their respective properties, are bound except pursuant to the Security Instruments.

2.3. Financial Condition. The consolidated (combined) and pro forma balance  
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sheets of the Guarantor and its Consolidated Subsidiaries for the fiscal years ended as of June 30, 1998 and June 30, 1999, and the related consolidated (combined) and pro forma statements of operations, consolidated (combined) statements of cash flows and consolidated (combined) statements of changes in shareholder's equity for the period, copies of which have been furnished to the Bank, are correct, complete and fairly present the financial condition of the Guarantor and its Consolidated Subsidiaries in all material respects as at the respective date of said balance sheets, and the results of its respective operations for each such period. The Guarantor and its Consolidated Subsidiaries do not have any material direct or contingent liabilities as of the date of this Agreement which are not provided for or reflected in the balance sheet dated June 30, 1999, or referred to in notes thereto or set forth in Exhibit B hereto. There has been no material adverse change in the business, properties or condition, financial or otherwise, of the Guarantor and its Consolidated Subsidiaries since June 30, 1999.

2.4. Title to Property and Assets. It has good and marketable title to its  
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Property, including the properties and assets reflected in the financial statements and notes thereto described in Section 2.3 hereof, except for such assets as have been disposed of since the date of said financial statements in the ordinary course of business or as are no longer useful in the conduct of its business, and all such properties and assets are free and clear of all material Liens, mortgages, pledges, encumbrances or charges of any kind except Liens reflected in the financial statements or Exhibit B hereto or permitted under Section 7.2 hereof.

2.5. Litigation. There are no pending or, to the best of its knowledge,  
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threatened material actions, suits or proceedings before any court, arbitrator or governmental or

administrative body or agency that may materially adversely affect the properties, business or condition, financial or otherwise, of the Guarantor and its Consolidated Subsidiaries on a consolidated basis, except as disclosed in the financial statements and notes thereto described in Section 2.3 hereof or Exhibit B hereto.

2.6. Taxes. It has filed all material tax returns required to be filed by  
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it and all material taxes due with respect thereto have been paid, and except as described in Exhibit B hereto, no controversy in respect of a material amount of additional taxes, state, federal or foreign, of the Guarantor is pending, or, to the knowledge of the Guarantor, threatened. No federal taxes have been due or are currently due to be paid by the Guarantor as of the date hereof. Adequate reserves have been established for the payment of all taxes (other than federal taxes) for periods ended subsequent to June 30, 1994.

2.7. Trademarks, Franchises and Licenses. It owns, possesses or has the  
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right to use all necessary material patents, licenses, franchises, trademarks, trademark rights, trade names, trade name rights and copyrights to conduct business as now conducted, without known conflict with any patent, license, franchise, trademark, trade name, or copyright of any other Persons.

2.8. No Default. It is not in default in the performance, observance or  
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fulfillment of any of its material obligations, covenants or conditions contained in any agreement or instrument to which it is a party or by which it may be bound, the effect of which default would allow any Person to cause such obligation under the agreement or instrument to become due prior to its stated maturity.

2.9. Governmental Authority. It has received the written approval of all  
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federal, state, local and foreign governmental authorities, if any, necessary to carry out the terms of this Agreement, and no further governmental consents or approvals are required in the making or performance of this Agreement by it.

2.10. ERISA Requirements. It has not incurred any material liability to the  
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PBGC established under ERISA (or any successor thereto under ERISA) in connection with any Plan established or maintained by it or by any Person under common control with it (within the meaning of Section 414(c) of the Internal Revenue Code of 1986, as amended (the "Code"), or of Section 4001(b) of ERISA), or in which its employees are entitled to participate. No such Plan has incurred any material accumulated funding deficiency within the meaning of ERISA. No Reportable Event in connection with any such Plan has occurred or is continuing.

2.11. Pollution and Environmental Control; Hazardous Substances. It has  
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obtained all permits, licenses and other authorizations that are required under any Environmental Laws, except to the extent that failure to have obtained any such permit, license or authorization will not have a Material Adverse Effect, and is in material compliance with, all federal, state, and local Environmental Laws and regulations relating, without limitation, to pollution, reclamation or protection of the environment, including laws relating to emissions, discharges, releases or threatened releases of pollutants, contaminants or hazardous or toxic materials or wastes into air, water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment,

storage, disposal, transport, or handling of pollutants, contaminants or hazardous or toxic substances, materials or wastes the failure to comply with which would have a Material Adverse Effect. Neither any Guarantor, nor to Guarantor's knowledge, any previous owner of the Project Site, has disposed of any hazardous substances on any portion of the Project Site. As used in this subparagraph, "hazardous substances" shall have the meaning set forth in the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. S 6901, et. seq., and the regulations adopted pursuant to such Act.

2.12. Capital Structure. Exhibit B attached hereto and made a part hereof  
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states the correct name of each of the Consolidated Subsidiaries of the Guarantor, the jurisdiction of organization or incorporation and the percentage of its voting stock owned by the Guarantor. The Guarantor has good title to all of the shares it purports to own of the stock of each Consolidated Subsidiary, free and clear in each case of any Lien other than Permitted Liens. All such shares have been duly issued and are fully paid and non-assessable.

2.13. Solvent Financial Condition. It is now, and after giving effect to  
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the transactions contemplated hereby, will be Solvent.

2.14. Restrictions. It is not a party or subject to any contract,  
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agreement, or charter or other corporate restriction, which Guarantor believes materially and adversely affects its business or the use or ownership of any of its Properties. The Guarantor is not a party or subject to any contract or agreement which restricts its right or ability to incur Indebtedness, other than as set forth on Exhibit B attached hereto, none of which prohibit the execution  
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of or compliance with this Agreement by the Guarantor.

2.15. Full Disclosure. The Financial Statements referred to in Section 2.3  
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above do not, nor does this Agreement or the Bond Documents or any Other Agreement or written statement of the Guarantor to the Bank (including, without limitation, the Guarantor's filings, if any, with the Securities and Exchange Commission), taken as a whole, contain any untrue statement of a material fact or omit a material fact necessary to make the statements contained therein or herein not misleading. There is no fact which the Guarantor has failed to disclose to the Bank in writing which materially affects adversely or, so far as the Guarantor can now foresee, will materially affect adversely the Properties, business, prospects, profits, or condition (financial or otherwise) of the Guarantor or any of its Consolidated Subsidiaries or the ability of the Guarantor or the Borrower to perform this Agreement or the Bond Documents.

2.16. Labor Relations. Except as described on Exhibit B attached hereto and  
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made a part hereof, there are no material grievances, disputes or controversies with any union or any other organization of the Guarantor's employees, or threats of strikes, work stoppages or any asserted pending demands for collective bargaining by any union or organization which could have a Material Adverse Effect.

2.17. Compliance With Laws. It has duly complied in all material respects  
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with, and its Properties, business operations and leaseholds are in compliance in all material respects with, the provisions of all federal, state and local laws, rules and regulations applicable to the Guarantor,

its Properties or the conduct of its business, including, without limitation, OSHA and all Environmental Laws, the failure to comply with which would have a Material Adverse Effect.

2.18. Brokers. There are no claims for brokerage commissions, finder's fees  
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or investment banking fees in connection with the transactions contemplated by this Agreement, except for fees owed to the Bank and its affiliates.

2.19. Trade Relations. There exists no actual or threatened termination,  
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cancellation or limitation of, or any modification or change in, the business relationship between the Guarantor and any customer or any group of customers whose purchases individually or in the aggregate are material to the business of the Guarantor, or with any material supplier, and there exists no present condition or state of facts or circumstances which would materially affect adversely the Guarantor or prevent the Guarantor from conducting such business after the consummation of the transaction contemplated by this Agreement in substantially the same manner in which it has heretofore been conducted.

2.20. Investment Company Act. The Guarantor is not an "investment company"  
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or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

### ARTICLE III

#### Representations and Warranties of the Borrower

The Borrower represents and warrants to the Bank (which representations and warranties shall survive the delivery of the documents mentioned herein and the issuance of the Letter of Credit) as of the date of the 1994 Agreement, which representations and warranties continue to be true as of the date of this Agreement, except to the extent of changes resulting from transactions contemplated or permitted by this Agreement (including the Spin-Off) and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse and to the extent that such representations and warranties relate expressly to an earlier date, that:

3.1. Incorporation. It is a corporation duly incorporated, existing and in  
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good standing under the laws of the State of its incorporation, and has the corporate or other power to own its Property and to carry on its business as now being conducted.

3.2. Power and Authority. It is duly authorized under all applicable  
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provisions of law to execute, deliver and perform this Agreement and the Bond Documents, and all action, corporate or otherwise, as applicable, on its part required for the lawful execution, delivery and performance hereof has been duly taken; and this Agreement and the Bond Documents, upon the due execution and delivery hereof, will be its valid and binding obligation enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization,

moratorium, or similar laws affecting creditors' rights generally and to general principles of equity. Neither the execution of this Agreement nor the Bond Documents, nor the fulfillment of or compliance with their respective provisions and terms, will (a) conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a violation of or default under any applicable law, regulation, judgment, writ, order or decree to which it or any of its properties is subject, or its charter or by-laws, or any agreement or instrument to which it or any of its Subsidiaries is now a party or by which it or any of its Subsidiaries or any of their respective properties is bound or affected, or (b) create any lien, charge or encumbrance upon any of its or any of its Subsidiaries' property or assets pursuant to the terms of any agreement or instrument to which it or any of its Subsidiaries is a party or by which it or any of its Subsidiaries or any of their respective properties is bound except pursuant to the Security Instruments.

3.3. Governmental Authority. It has received the written approval of all  
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federal, state, local and foreign governmental authorities, if any, necessary to carry out the terms of this Agreement, and no further governmental consents or approvals are required in the making or performance of this Agreement and the Bond Documents.

3.4. Project Site. The operation of the Project complies in all material  
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respects with presently existing zoning and other land use restrictions affecting the Project Site, including without limitation, any restrictive covenants.

3.5. No Default. As of the date of this Agreement, there exists no default  
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pursuant to the terms of the 1994 Agreement.

3.6. Survival of Representations and Warranties. It covenants, warrants and  
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represents to the Bank that all representations and warranties contained in this Agreement are true at the time of its execution of this Agreement and the representations contained in the Bond Documents or Other Agreements were true at the time made and are true at the time of execution of this Agreement except to the extent of changes resulting from transactions contemplated or permitted by this Agreement (including the Spin-Off) and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse and to the extent that such representations and warranties relate expressly to an earlier date, and all of such representations and warranties shall survive the execution, delivery and acceptance thereof by the Bank and the parties thereto and the closing of the transactions described therein or related thereto.

ARTICLE IV

Terms of Letter of Credit, Reimbursement,  
Other Payments and Guaranty

4.1. Letter of Credit. The Parties agree that the terms and conditions  
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hereinafter set forth govern the Letter of Credit. The Bank agrees that any and all payments under the Letter of Credit will be made with the Bank's own funds.

4.2. Reimbursement and Other Payments. The Borrower shall pay to the Bank:  
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(a) on or before 3:00 P.M., EST, but after the honoring of a draw by the Bank, on the date that any amount is drawn under the Letter of Credit, a sum equal to such amount so drawn under the Letter of Credit;

(b) on demand, interest on any and all amounts remaining unpaid by the Borrower when due hereunder from the date such amounts become due until payment thereof in full, at a fluctuating interest rate per annum equal at all times to the lesser of (i) the Prime Rate plus two percent (2%) or (ii) the highest lawful rate permitted by applicable law;

(c) on demand, any and all reasonable expenses incurred by the Bank in enforcing any rights under this Agreement and the Bond Documents; and

(d) on demand all charges, commissions, costs and expenses set forth in Sections 4.4, 4.5 and 4.9 hereof.

4.3. Tender Advances. (a) If the Bank shall make any payment of that  
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portion of the purchase price corresponding to principal and interest of the Bonds drawn under the Letter of Credit pursuant to a Tender Draft and the conditions set forth in Section 8.2 all have been fulfilled, such payment shall constitute a tender advance made by the Bank to the Borrower on the date and in the amount of such (a "Tender Advance"); provided that if the conditions of said Section 8.2 have not been fulfilled, the amount so drawn pursuant to the Tender Draft shall be payable in accordance with the terms of Section 4.2(a) above. Notwithstanding any other provision hereof, the Borrower shall repay the unpaid amount of each Tender Advance, together with all unpaid interest thereon on the earlier to occur of (i) such date as Bonds purchased pursuant to a Tender Draft are resold as provided in paragraph 4.3(d) hereof, (ii) on the date 366 days following the date of such Tender Advance, or (iii) the Termination Date.

The Borrower may prepay the outstanding amount of any Tender Advance in whole or in part, together with accrued interest to the date of such prepayment on the date such amount is prepaid. The Borrower shall notify the Bank prior to 11:00 A.M., EST on the date of such prepayment of the amount to be prepaid.

(b) The Borrower shall pay interest on the unpaid amount of each Tender Advance from the date of such Tender Advance until such amount is paid in full, payable monthly, in arrears, on the first day of each month during the term of each Tender Advance and on the date such amount is paid in full, at a fluctuating interest rate per annum in effect from time to time equal to the Prime Rate, provided that the unpaid amount of any Tender Advance which is not paid when due shall bear interest at the lesser of the Prime Rate plus two percent (2%) or the highest rate permitted by applicable law, payable on demand and on the date such amount is paid in full.

(c) Pursuant to the Pledge Agreement the Borrower has agreed that, in accordance with the terms of the Indenture, Bonds purchased with proceeds of any Tender Draft shall be delivered by the Tender Agent to the Bank or its designee to be held by the Bank or its designee in pledge as collateral securing the Borrower's payment obligations to the Bank hereunder. Bonds so delivered to the Bank or its designee shall be registered in the name of the Bank, or its designee, as pledgee of the Borrower, as provided for in Section 3 of the Pledge Agreement.

(d) Prior to or simultaneously with the resale of Pledged Bonds, the Borrower shall prepay or cause the Tender Agent to prepay as provided below the then outstanding Tender Advances (in the order in which they were made) by paying to the Bank an amount equal to the sum of (a) the amounts advanced by the Bank pursuant to the corresponding Tender Drafts relating to such Bonds, plus (b) the aggregate amount of accrued and unpaid interest on such Tender Advances. Such payment shall be applied by the Bank in reimbursement of such drawings (and as prepayment of Tender Advances resulting from such drawings in the manner described below), and, upon receipt by the Bank of a certificate completed and signed by the Trustee in substantially the form of Annex F to the Letter of Credit, the Borrower irrevocably authorizes the Bank to rely on such certificate and to reinstate the Letter of Credit in accordance therewith. Funds held by the Tender Agent as a result of sales of the Pledged Bonds by the Remarketing Agent shall be paid to the Bank by the Tender Agent to be applied to the amounts owing by the Borrower to the Bank pursuant to this paragraph (d). Upon payment to the Bank of the amount of such Tender Advance to be prepaid, together with accrued interest on such Tender Advance to the date of such prepayment on the amount to be prepaid, the principal amount outstanding of Tender Advances shall be reduced by the amount of such prepayment and interest shall cease to accrue on the amount prepaid.

4.4. Commission and Fee. (a) The Borrower shall pay to the Bank a

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commission at the rate of .185 percent per annum (185 basis points) on the undrawn amount available to be drawn under the Letter of Credit (computed on the date that such commission is payable) from and including the date of issuance of the Letter of Credit until the Termination Date, payable annually in advance in full on the first day of each anniversary of the issuance of the Letter of Credit. If the Letter of Credit is terminated or if there is a drawing under the Letter of Credit to pay the principal of the Bonds during the year preceding such anniversary date, the Bank will

refund to the Borrower the applicable unused portion of the commission calculated on a pro rata basis.

(b) The Borrower shall pay to the Bank, upon each drawing under the Letter of Credit in accordance with its terms, a fee of \$150 per drawing.

(c) The Borrower shall pay to the Bank, upon transfer of the Letter of Credit in accordance with its terms, a transfer fee of \$1,000.

4.5. Increased Costs. In the event of any change in any existing or future

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law, regulation, ruling or interpretation thereof affecting the Bank which shall either (a) impose, modify or make applicable any reserve, special deposit, capital requirement, assessment or similar requirement against the Letter of Credit or (b) impose on the Bank any other condition regarding the Letter of Credit, and the result of any event referred to in clause (a) or (b) above shall be to increase the cost (including a reasonable allocation of resources) or decrease the yield to the Bank of issuing or maintaining the Letter of Credit (which increase in cost shall be the result of the Bank's reasonable allocation of the aggregate of such cost increases or yield decreases resulting from such events), then, upon demand by the Bank, the Borrower shall immediately pay to the Bank, from time to time as specified by the Bank, additional amounts which shall be sufficient to compensate the Bank for such increased cost or decreased yield. A statement of charges submitted by the Bank, shall be conclusive, absent manifest error, as to the amount owed.

4.6. Computation. All payments of interest, commission and other charges

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under this Agreement shall be computed on the per annum basis, based upon a year of 365 (or 366, as the case may be) days, and calculated for the actual number of days elapsed.

4.7. Payment Procedure. All payments made by the Borrower under this

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Agreement shall be made to the Bank in lawful currency of the United States of America and in immediately available funds at the Bank's offices described at the beginning of this Agreement before 12:00 Noon, EST on the date when due, except for payments made in accordance with the terms of Section 4.2(a).

4.8. Business Days. If the date for any payment hereunder falls on a day

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which is not a Business Day, then for all purposes of this Agreement the same shall be deemed to have fallen on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payments of interest or commission, as the case may be.

4.9. Reimbursement of Expenses. The Borrower will pay all reasonable legal

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fees (computed without regard to any statutory presumption) incurred by the Bank in connection with the preparation, execution and delivery of this Agreement, the Letter of Credit, the Bond Documents, and all transactions contemplated hereby and thereby (including any amendments hereto or thereto or consents or waivers hereunder or thereunder) and will also pay all fees, charges or taxes for the recording or filing of Security Instruments. The Borrower will also pay for all reasonable legal expenses of the Bank in connection with the administration of the Letter

of Credit, this Agreement and the Bond Documents. The Borrower will, upon request, promptly reimburse the Bank for all amounts expended, advanced or incurred by the Bank to collect or satisfy any obligation of the Borrower under this Agreement or any of the Bond Documents, or to enforce the rights of the Bank under this Agreement or any of the Bond Documents, which amounts will include, without limitation, all court costs, reasonable attorneys, fees, fees of auditors and accountants and investigation expenses incurred by the Bank in connection with any such matters.

4.10. Expiration Date. The Letter of Credit will expire on its currently -----  
stated Expiration Date, unless the Bank notifies the Borrower in writing at least 120 days prior to the Expiration Date that the Bank will extend such applicable Expiration Date for an additional one-year period from the then applicable Expiration Date.

4.11. Guaranty. (a) The Guarantor hereby absolutely and unconditionally -----  
guarantees, the full and timely payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of the Borrower now or hereafter existing under this Agreement or any of the Security Instruments, whether for principal, interest, fees, expenses or otherwise. The Guarantor further agrees to pay any and all expenses (including without limitation reasonable attorneys' fees and expenses) incurred by the Bank in enforcing or protecting its rights against the Guarantor under this Agreement or any of the Security Instruments.

(b) This is a guaranty of payment and not of collection, and the Guarantor expressly waives any right to require that any action be brought against the Borrower or any other guarantor or to require that resort be had to any security, whether held by or available to the Bank or to any other guaranty. If the Borrower shall default in payment of the principal, interest, or fees on or any other amount payable hereunder when and as the same shall become due, whether by acceleration, call for prepayment, or otherwise, or upon the occurrence of any other Event of Default hereunder, the Guarantor, upon demand by the Bank or its successors or assigns, will promptly and fully make such payments. All payments by the Guarantor shall be made in immediately available coin or currency of the United States of America which on the respective dates of payment thereof is legal tender for the payment of public and private debts. Each default in payment of the principal, interest, fees or any other amount payable hereunder, or the occurrence of any other Event of Default hereunder, shall give rise to a separate cause of action hereunder, and separate suits may be brought hereunder as each cause of action arises. The Bank, or its successors or assigns, in its sole discretion, shall have the right to proceed first and directly against the Guarantor and its successors and assigns.

(c) The Guarantor hereby waives promptness, diligence, notice of acceptance and any other notice with respect to any of the obligations of the Borrower under this Agreement or any requirement that the Bank protect, secure, perfect or insure any security interest or lien or any property subject hereto or to the Security Instruments or exhaust any right or take any action against the Borrower or any other Person.

(d) The Guarantor will not exercise any rights that it may acquire by way of subrogation under this Agreement, by any payment made hereunder or otherwise, until all the obligations of the Borrower shall have been paid or performed in full. If any amount shall be paid to the Guarantor on account of such subrogation rights at any time when all the obligations of the Borrower hereunder shall not have been paid or performed in full, such amount shall be held in trust for the benefit of the Bank and shall forthwith be paid to the Bank to be credited and applied upon the obligations of the Borrower hereunder, whether matured or unmatured, in accordance with the terms hereof.

(e) This guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the obligations of the Borrower hereunder is rescinded or is otherwise returned by the Bank upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, all as though such payment had not been made.

4.12. Obligations Absolute. The obligations of each of the Borrower and the -----

Guarantor under this Agreement shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

(a) any lack of validity or enforceability of the Letter of Credit, the Bonds, any of the other Bond Documents, any of the Security Instruments or any other agreement or instrument related thereto;

(b) any amendment or waiver of or any consent to departure from the terms of the Letter of Credit, the Bonds, any of the other Bond Documents, any of the Security Instruments or any other agreement or instrument related thereto;

(c) the existence of any claim, set-off, defense or other right which any of the Borrower, the Guarantor or the Issuer may have at any time against the Trustee, any beneficiary or any transferee of the Letter of Credit (or any Person for whom the Trustee, any such beneficiary or any such transferee may be acting), the Bank or any other Person, whether in connection with this Agreement, the other Security Instruments, the Letter of Credit, the Bond Documents, the Project or any unrelated transaction;

(d) any statement, draft or other document presented under the Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect, or any statement therein being untrue or inaccurate in any respect whatsoever;

(e) the surrender, exchange or impairment of any security or the performance or observance of any of the terms of this Agreement; or

(f) any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower or a Guarantor, except subject to the qualification that

obligations may be reinstated upon bankruptcy, notwithstanding payment in full of the Borrower's obligations to the Bank.

Notwithstanding the absolute obligations of the Borrower and the Guarantor as provided above, the Bank shall be liable to the Borrower and the Guarantor as provided in Section 10.4 hereof.

4.13. Waiver of Guarantor's Rights. The Guarantor hereby waives to the

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fullest extent possible as and against the Borrower and its assets any and all rights, whether at law, in equity, by agreement or otherwise, to subrogation, indemnity, reimbursement, contribution, or any other similar claim, cause of action or remedy that otherwise would arise out of the Guarantor's performance of its obligations to the Bank under this Agreement. The preceding waiver is intended by both the Guarantor and the Bank to be for the benefit of the Borrower, and the waiver shall be enforceable by the Borrower or any of its successors or assigns as an absolute defense to any action by the Guarantor against the Borrower or its assets which arises out of the Guarantor's having made any payment to the Bank with respect to any of the Borrower's liabilities guaranteed hereunder.

#### ARTICLE V

##### Security; Insurance

5.1. Security. As security for the full and timely payment and performance

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by the Borrower and the Guarantor of their respective obligations hereunder, the Borrower has delivered the Pledge Agreement to the Bank.

5.2. Casualty and Liability Insurance Required. The Borrower will keep the

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Project and its Properties continuously insured against such risks as are customarily insured against by businesses of like size and type engaged in the same or similar operations (other than business interruption insurance) including, without limiting the generality of any other covenant contained herein or in the Bond Documents, casualty insurance and general comprehensive liability insurance against claims for bodily injury, death or property damage; provided, however, that the insurance so required may be provided by blanket policies now or hereafter maintained by the Borrower or the Guarantor.

5.3. Notice of Casualty or Taking. In case of any material damage to or

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destruction of all or any part of the Project, the Borrower shall give prompt notice thereof to the Bank. In case of a taking or proposed taking of all or any material part of the Project or any right therein by Eminent Domain, the Borrower shall give prompt notice thereof to the Bank. Each such notice shall describe generally the nature and extent of such damage, destruction, taking, loss, proceeding or negotiations.

ARTICLE VI

Affirmative Covenants

Until all the Obligations to be performed and paid shall have been performed and paid in full, and for so long as the Letter of Credit shall be outstanding, unless the Bank shall otherwise consent in writing, the Borrower and the Guarantor will perform and observe all covenants and agreements contained on its respective part in this Article VI.

6.1. Financial Reports and Other Data and Information.  
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(a) Quarterly Statements. Within forty-five (45) days after the end of  
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each fiscal quarter, a balance sheet of the Guarantor and its Consolidated Subsidiaries at the end of that period and an income statement for that period and for the portion of the fiscal year ending with such period on a consolidated and consolidating basis, setting forth in comparative form the figures for the same period of the preceding fiscal year, and certified by the Chief Financial Officer or Controller of the Guarantor as complete and correct in all material respects and prepared in accordance with GAAP, except without footnotes and subject to normal year-end audit adjustments.

(b) Annual Statements. Within ninety (90) days after the end of each  
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fiscal year, a detailed audited financial report of the Guarantor and its Consolidated Subsidiaries on a consolidated and consolidating basis, containing a balance sheet at the end of that period and an income statement and statement of cash flows for that period, setting forth in comparative form the figures for the preceding fiscal year, and containing an unqualified opinion of independent certified public accountants acceptable to the Bank that the financial statements were prepared in accordance with GAAP, and that the examination in connection with the financial statements was made in accordance with generally accepted auditing standards and accordingly included tests of the accounting records and other auditing procedures that were considered necessary in the circumstances.

(c) SEC and Other Reports: Orders, Judgments, Etc. Promptly upon its  
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becoming available, one copy of each regular or periodic report, registration statement or prospectus filed by the Guarantor with any securities exchange or the Securities and Exchange Commission or any successor agency, and of any material order, judgment, decree, decision or ruling issued by any governmental authority in any proceeding to which the Guarantor is a party;

(d) Accountants' Statements. Within the period provided in paragraph  
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(b) above, a letter of the accountants who render the opinion on the financial statements, stating that they reviewed this Agreement and that in performing the examination necessary to render an opinion on the annual financial statements they obtained no knowledge of any such Default or Event of Default resulting from the Guarantor's failure to observe the financial ratios under Sections 7.5 through 7.9, or, if the accountants have

knowledge of a Default or Event of Default, a statement specifying to the best of their knowledge the nature and period of existence of the Default or Event of Default;

(e) Certificates. At the time of the delivery of the financial

statements provided for in Section 6.1(a) and (b), an Officers' Certificate of the Guarantor to the effect that to the best of his knowledge, no Default or Event of Default has occurred and is continuing;

(f) Notice of Default or Litigation. Promptly, and in any event within

three Business Days after the Chief Financial Officer or Controller of the Guarantor obtains knowledge thereof, notice of (1) the occurrence of any event which constitutes a Default or Event of Default, (2) any litigation or governmental proceeding pending against the Guarantor which is likely to materially and adversely affect the business, operations, property, assets, condition (financial or otherwise) or prospects of the Guarantor and its Subsidiaries on a consolidated basis;

(g) Environmental Matters. Promptly upon obtaining knowledge thereof,

notice of any facts or circumstances known to the Borrower that the Guarantor reasonably believes is likely to form the basis for the assertion of any material claim against the Guarantor relating to environmental matters including, but not limited to, any claim arising from past or present environmental practices asserted under CERCLA, RCRA, or any other federal, state or local environmental statute;

(h) Other Information. From time to time, such other information or

documents (financial or otherwise) as the Bank may reasonably request.

6.2. Books, Records and Inspections. The Borrower and the Guarantor will

keep proper books of record and account in which full, true and correct entries in conformity with GAAP and all requirements of law shall be made of all dealings and transactions in relation to their businesses and activities. The Borrower and the Guarantor will permit officers and designated representatives of the Bank to visit and inspect, under guidance of officers of the Borrower and the Guarantor as applicable, any of the properties of the Borrower and the Guarantor and to examine the books of account of the Borrower and the Guarantor and discuss the affairs, finances and accounts of the Borrower and the Guarantor with, and be advised as to the same by, its and their officers, as applicable, all at such reasonable times and intervals and to such reasonable extent as the Bank may request.

6.3. Maintenance of Property, Insurance. Exhibit D sets forth a true and

complete listing of all material insurance maintained by the Guarantor and the Borrower as of the date hereof, with the amounts insured on the date hereof set forth therein. Each of the Borrower and the Guarantor shall (i) keep all property useful and necessary in their business in good working order and condition, except for property which has become obsolete or is no longer useful, (ii) maintain with financially sound and reputable insurance companies insurance which provides substantially the same (or greater) coverage and, as to the Borrower, against at least such risks as

are described in Exhibit D, and (iii) furnish to the Bank, upon written request,  
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full information as to the insurance carried.

6.4. Corporate Franchises. The Borrower and the Guarantor will do or cause  
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to be done, all things necessary to preserve and keep in full force and effect  
their existence and their material rights, franchises, licenses and patents;  
provided, however, that nothing in this Section 6.4 shall prevent the withdrawal  
by the Borrower or the Guarantor of any qualification as a foreign corporation  
in any jurisdiction where such withdrawal could not have a material adverse  
effect on the business, operations, property, assets, condition (financial or  
otherwise) or prospects of the Borrower or the Guarantor and nothing in this  
Section 6.4 shall prevent the merger of the Borrower into the Guarantor or into  
a Consolidated Subsidiary of the Guarantor.

6.5. Compliance with Statutes, etc. The Borrower and the Guarantor will  
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comply with all applicable statutes, regulations and orders of, and all  
applicable restrictions imposed by, all governmental bodies, domestic or  
foreign, in respect of the conduct of their businesses and their ownership of  
property (including applicable statutes, regulations, orders and restrictions  
relating to environmental standards and controls), except such noncompliances as  
could not, in the aggregate, have a material adverse effect on the business,  
operations, property, assets, condition (financial or otherwise) or prospects of  
the Borrower and the Guarantor or of the Borrower and the Guarantor taken as a  
whole.

6.6. ERISA. As soon as possible and in any event within 10 days after the  
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Borrower or the Guarantor knows that a Reportable Event has occurred with  
respect to a Plan established or maintained by the Borrower, the Guarantor or  
any ERISA Affiliate, that a material accumulated funding deficiency has been  
incurred or an application is to be or has been made to the Secretary of the  
Treasury for a waiver or modification of the minimum funding standard (including  
any required installment payments) or an extension of any amortization period  
under Section 412 of the Code with respect to such a Plan, that a Plan has been  
or will be terminated, reorganized, petitioned or declared insolvent under Title  
IV of ERISA in a manner that has a Material Adverse Effect, that such a Plan has  
an Unfunded Current Liability within the meaning of Title IV of ERISA giving  
rise to a lien under ERISA, that proceedings will be or have been instituted to  
terminate such a Plan under circumstances that will have a Material Adverse  
Effect, or that the Borrower or the Guarantor or an ERISA Affiliate will incur  
any material liability to or on account of such a Plan under Section 4062, 4063  
or 4064, or which is a multiemployer plan under Section 515, 4201 or 4203 of  
ERISA, the Borrower and the Guarantor will deliver to the Bank a certificate of  
a financial officer thereof, setting forth details as to such occurrence and  
action, if any, which the Borrower, the Guarantor or ERISA Affiliate is required  
or proposes to take, together with any notices required or proposed to be given  
to or filed with or by the Borrower, the Guarantor, the ERISA Affiliate, the  
PBGC, a Plan participant or the Plan administrator with respect thereto. The  
Borrower and the Guarantor will deliver to the Bank a complete copy of the  
annual report (Form 5500) of each Plan required to be filed with the Internal  
Revenue Service or the PBGC, given to Plan participants or received by either  
the Borrower or the Guarantor.

6.7. Performance of Obligations. The Borrower and the Guarantor will  
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perform all of their obligations under the terms of each mortgage, indenture, security agreement and other agreement by which they are bound, except such non-performances as could not in the aggregate, have a material adverse effect on the business, operations, property, assets, condition (financial or otherwise) or prospects of the Borrower and the Guarantor or of the Borrower and the Guarantor taken as a whole.

6.8. Taxes and Liens. The Borrower and the Guarantor will promptly pay, or  
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cause to be paid, all material taxes, assessments or other governmental charges that may lawfully be levied or assessed upon the income or profits of Borrower or the Guarantor or upon any Property, real, personal or mixed, belonging to Borrower or the Guarantor, or upon any part thereof, and also any lawful claims for labor, material and supplies which, if unpaid, might become a lien or charge against any such property; provided, however, neither Borrower nor the Guarantor shall be required to pay any such tax, assessment, charge, levy or claim so long as the validity thereof shall be actively contested in good faith by proper proceedings and, against which the Borrower or the Guarantor, as the case may be, shall have established reserves which are in amounts satisfactory to the Borrower's or the Guarantor's, as the case may be, independent certified public accountants.

6.9. Payment of Obligations. The Borrower and the Guarantor will pay, when  
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due, all its material obligations and liabilities, except where the same (other than Indebtedness) are being contested in good faith by appropriate proceedings diligently prosecuted and appropriate reserves for the accrual of same are maintained and, in the case of judgments, enforcement thereof has been stayed pending such contest.

6.10. Environmental Matters. The Borrower and the Guarantor will obtain and  
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maintain all licenses, permits, and approvals required in connection with the Project with respect to Hazardous Materials (which shall mean all materials defined as "hazardous substances," "hazardous waste" or "solid waste" in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, the Resource Conservation and Recovery Act or any similar environmental statute) and the Borrower or the Guarantor, as applicable, will remain in full compliance with such licenses, permits and approvals, except to the extent that failure to so comply would not have a Material Adverse Effect. The Borrower and the Guarantor will give the Bank copies of any citations, orders, notices or other communications received with respect to violations or alleged violations of any environmental laws in connection with the Project if such violation or alleged violation is likely to have a Material Adverse Effect. The Borrower and the Guarantor shall indemnify and hold the Bank and its directors, officers, shareholders and employees harmless from and against any and all damages, penalties, fines, claims, liens, suits, liabilities, costs (including clean-up costs) judgments and expenses (including attorneys', consultants' or experts, fees and expenses) of every kind and nature suffered by or asserted against the Bank as a direct or indirect result of any warranty or representation made by the Borrower and the Guarantor in this Section 6.10 being false or untrue in any material respect or any requirement under any environmental law, which requires the elimination or removal of any Hazardous Materials at the Project Site by the Bank, the Borrower, the Guarantor or any

transferee of the Borrower, the Guarantor or the Bank, except to the extent that any such damages, penalties, fines, claims, liens, suits, liabilities, costs, judgments, or expenses result directly or indirectly from the actions of the Bank or any of its directors, officers, shareholders or employees.

## ARTICLE VII

### Negative Covenants

Until all the Obligations to be performed and paid shall have been performed and paid in full, and for so long as the Letter of Credit shall be outstanding, unless the Bank shall otherwise consent in writing, the Borrower and the Guarantor covenant and agree as follows:

#### 7.1. Negative Pledge; Liens. The Borrower and the Guarantor and their

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Subsidiaries will not create, incur, assume or suffer to exist any Lien upon or with respect to any property or assets (real or personal, tangible or intangible) constituting the Project or sell any such property or assets subject to an understanding or agreement, contingent or otherwise, to repurchase such property or assets (including sales of accounts receivable with recourse to the Borrower or the Guarantor), or assign any right to receive income or permit the filing of any financing statement under the Uniform Commercial Code of any state or any other similar notice of Lien under any similar recording or notice statute or enter into any agreement containing a negative pledge other than this Agreement and the Credit Agreement, that certain Amended and Restated Letter of Credit, Reimbursement and Guaranty Agreement dated as of October 18, 1999 among Spence Engineering Company, Inc.; CIRCOR International, Inc. and First Union National Bank and those certain Note Purchase Agreements aggregating approximately \$75 million of 8.23% Senior Notes due October 18, 2006; provided that the provisions of this Section 7.1 shall not prevent the creation, incurrence, assumption or existence of:

(i) Liens in favor of the Bank;

(ii) Liens for taxes not yet due, or Liens for taxes being contested in good faith and by appropriate proceedings for which adequate reserves have been established;

(iii) Except as hereinafter set forth, Liens in respect of property or assets of the Borrower or the Guarantor imposed by law, which were incurred in the ordinary course of business, such as carriers', warehousemen's and mechanics' liens and other similar Liens arising in the ordinary course of business, not to exceed \$10,000,000 as to the Borrower, the Guarantor and their Subsidiaries in the aggregate, and (x) which do not in the aggregate materially detract from the value of such property or assets or materially impair the use thereof in the operation of the business of the Borrower or the Guarantor or (y) which are being contested in good faith by appropriate proceedings, which

proceedings have the effect of preventing the forfeiture or sale of the property or assets subject to any such Lien;

(iv) Liens in existence on the date hereof which are listed, and the property subject thereto described in Exhibit C, with an indication therein that such Liens are "Permitted Liens" hereunder, provided that if in Exhibit C any Lien is listed as being a Permitted Lien only for a designated time period, such Lien shall cease to be a Permitted Lien after the expiration of such time period;

(v) Permitted Encumbrances;

(vi) Liens created pursuant to the Security Instruments; and

(vii) Utility deposits and pledges or deposits in connection with worker's compensation, unemployment insurance and other social security legislation;

7.2. Consolidation or Merger. The Guarantor will not enter into any

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transaction of merger or consolidation, except for mergers in which the Guarantor is the surviving entity.

7.3. Sale of Assets, Dissolution, Etc. The Guarantor will not, nor will it

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permit any of its Subsidiaries to, enter into any transaction in violation of Section 9.05(c) of the Credit Agreement, as amended from time to time.

7.4. Loans and Investments. The Guarantor shall not, nor will it permit any

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of its Subsidiaries to, enter into any transaction in violation of Sections 9.07 and 9.08 of the Credit Agreement, as amended from time to time.

7.5. Leverage Ratio. The Guarantor will not permit the Leverage Ratio as at

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the last day for any fiscal quarter of the Guarantor to exceed 3.50 to 1.

7.6. Net Worth. The Guarantor will not permit Net Worth as at the last day

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of any fiscal quarter of the Guarantor to be less than the sum of (a) \$160,000,000 plus (b) 50% of Net Income for each fiscal quarter of the Guarantor ending after the date hereof for which Net Income is a positive number.

7.7. Interest Coverage Ratio. The Guarantor will not permit the Interest

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Coverage Ratio as at the last day of any fiscal quarter of the Guarantor to be less than 2.50 to 1.

7.8. Fixed Charges Coverage Ratio. The Guarantor will not permit the Fixed

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Charges Coverage Ratio as at the last day of any fiscal quarter of the Guarantor to be less than 1.50 to 1.

7.9. Capital Expenditures. The Guarantor will not permit the aggregate

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amount of Capital Expenditures by the Guarantor and its Subsidiaries in any fiscal year of the Guarantor to

exceed an amount equal to 3% of the consolidated net revenues of the Guarantor and its Subsidiaries for such fiscal year.

In those instances in the foregoing Article VII in which covenants are referenced from the Credit Agreement, such covenants shall continue to be a part of this Agreement as if fully set forth herein notwithstanding the termination or expiration of the Credit Agreement.

#### ARTICLE VIII

Conditions to Release of Watts; Conditions Precedent to Each Tender Advance

8.1. Conditions to Release of Watts. On or prior to the date of the release

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of Watts from the 1994 Agreement, the Borrower and the Guarantor shall have furnished to the Bank, in form satisfactory to the Bank, the following:

(a) two executed counterparts of this Agreement;

(b) evidence of compliance with the insurance requirements contained in Article VI hereof;

(c) opinion(s) of counsel for the Borrower and the Guarantor dated the date hereof addressed to, and substantially in the form attached hereto as Exhibit E and otherwise in form and substance acceptable to, the Bank;

(d) certificates of the Borrower and the Guarantor, as applicable, including references to (i) Articles of Incorporation, By-laws and other charter documents as applicable, (ii) resolutions of the Board of Directors, authorizing the execution, delivery and performance of this Agreement, (iii) incumbency and specimen signatures of officers, and (iv) such other matters as the Bank may require;

(e) (i) copies of the Articles of Incorporation, By-laws or other charter documents, as applicable, of the Guarantor, certified as true and correct by an authorized officer as of the date hereof; and (ii) as to any corporations, certificates dated no earlier than 20 days prior to the date of this Agreement of the Secretary of State of the applicable states as to the good standing of the Borrower and the Guarantor;

(f) an opinion of Bond Counsel, in form and substance satisfactory to the Bank and its Counsel;

(g) such other documents, instruments and certifications as the Bank may reasonably require.

8.2. Conditions Precedent to Each Tender Advance. Each payment made by the

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Bank under the Letter of Credit pursuant to a Tender Draft shall constitute a Tender Advance hereunder only if on the date of such payment no event has occurred or would result from such

Tender Advance, which constitutes an Event of Default or would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

Unless the Borrower or the Guarantor shall have previously advised the Bank in writing or the Bank has actual knowledge that the above statement is no longer true, the Borrower and the Guarantor shall be deemed to have represented and warranted, on the date of payment by the Bank under the Letter of Credit pursuant to a Tender Draft, that on the date of such payment the above statement is true and correct.

#### ARTICLE IX

##### Default

9.1. Events of Default. Each of the following shall constitute an Event

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of Default under this Agreement, whereupon all obligations, whether then owing or contingently owing, will, at the option of the Bank or its successors or assigns, immediately become due and payable by the Borrower without presentation, demand, protest or notice of any kind, all of which are hereby expressly waived, and the Borrower will pay the reasonable attorneys' fees incurred by the Bank, or its successors or assigns, in connection with such Event of Default:

(a) Failure of the Borrower or the Guarantor to pay within five (5) days of the date when due any payment of principal, interest, commission, charge or expense referred to in Article IV hereof; or

(b) The occurrence of an "Event of Default" under any of the Security Instruments or any of the Bond Documents or any revolving credit or term loan facility between the Guarantor or the Borrower and the Bank including, without limitation, the Credit Agreement; or

(c) The Guarantor or any of its Subsidiaries (other than any Immaterial Subsidiary) shall default in the payment when due of any principal of or interest on any of its other Indebtedness of the Guarantor or any of its Subsidiaries (other than any Immaterial Subsidiary) having a principal amount, individually or in the aggregate, in excess of \$10,000,000 or in the payment when due of any amount under any Interest Rate Protection Agreement; or any event specified in any note, agreement, indenture or other document evidencing or relating to any such Indebtedness or any event specified in any Interest Rate Protection Agreement shall occur if the effect of such event is to cause, or (with the giving of any notice or the lapse of time or both) to permit the holder or holders of such Indebtedness (or a trustee or agent on behalf of such holder or holders) to cause, such Indebtedness to become due, or to be prepaid in full (whether by redemption, purchase, offer to purchase or otherwise), prior to its stated maturity or, in the case of an Interest Rate Protection Agreement, to permit the payments owing under such Interest Rate Protection Agreement to be liquidated; or

(d) If any representation, warranty, certification or statement made by the Borrower or the Guarantor herein, or in any writing furnished by or on behalf of the Borrower or the Guarantor in connection with the loan by the Issuer under the Sale Agreement or pursuant to this Agreement, or any of the Security Instruments shall have been false, misleading or incomplete in any material respect on the date as of which made; or

(e) If the Borrower or the Guarantor default in the performance or observance of any agreement or covenant contained in Article VII hereof; or

(f) If the Borrower or the Guarantor default in the performance or observance of any other agreement, covenant, term or condition contained herein, and such default shall not have been remedied thirty (30) days after written notice thereof shall have been received by it from the Bank; or

(g) The Borrower or the Guarantor shall make an assignment for the benefit of creditors, file a petition in bankruptcy, have entered against or in favor of it an order for relief under the Federal Bankruptcy Code or similar law of any foreign jurisdiction, generally fail to pay its debts as they come due (either as to number or amount), admit in writing its inability to pay its debts generally as they mature, make a voluntary assignment for the benefit of creditors, commence any proceeding relating to it under any reorganization, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, whether now or hereafter in effect, or by any act, indicate its consent to, approval of or acquiescence in any such proceeding for the appointment of any receiver of, or trustee or custodian (as defined in the Federal Bankruptcy Code) for itself, or any substantial part of its property, or a trustee or a receiver shall be appointed for the Borrower or for a substantial part of the property of the Borrower or the Guarantor and such appointment remains in effect for more than sixty (60) days, or a petition in bankruptcy or for reorganization shall be filed against the Borrower or the Guarantor and such petition shall not be dismissed within sixty (60) days after such filing; or

(h) A final judgment or judgments for the payment of money in excess of \$10,000,000 in the aggregate shall be rendered by one or more court, administrative tribunals or other bodies having jurisdiction against the Guarantor or any of its Subsidiaries (other than any Immaterial Subsidiary) and the same shall not be discharged (or provision shall not be made for such discharge), or a stay of execution thereof shall not be procured, within 30 days from the date of entry thereof and such Person shall not, within said period of 30 days, or such longer period during which execution of the same shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal;

then at any time thereafter, the Bank may (a) pursuant to Section 902 of the Indenture, advise the Trustee that an Event of Default has occurred and instruct the Trustee to declare the principal of all Bonds then outstanding and interest thereon to be immediately due and payable, and (b)

proceed hereunder, and under the Security Instruments and, to the extent therein provided, under the Bond Documents, in such order as it may elect and the Bank shall have no obligation to proceed against any Person or exhaust any other remedy or remedies which it may have and without resorting to any other security, whether held by or available to the Bank.

9.2. No Remedy Exclusive. No remedy herein conferred upon or reserved to  
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the Bank is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder and the Security Instruments or now or hereafter existing at law or in equity or by statute.

ARTICLE X

Miscellaneous

10.1. Indemnification. (a) Each of the Borrower and the Guarantor, jointly  
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and severally, hereby indemnifies and holds the Bank harmless from and against any and all claims, damages, losses, liabilities, costs or expenses whatsoever which the Bank may incur (or which may be claimed against the Bank by any Person) (i) by reason of or in connection with the execution and delivery or transfer of, or payment or failure to pay under, the Letter of Credit, provided that the Borrower and the Guarantor shall not be required to indemnify the Bank for any claims, damages, losses, liabilities, costs or expenses to the extent, but only to the extent, caused by (a) the gross negligence or willful misconduct of the Bank in connection with paying drafts presented under the Letter of Credit or (b) the Bank's willful failure to pay under the Letter of Credit (other than in connection with a court order) after the presentation to it by the Trustee or a successor corporate fiduciary under the Indenture of a sight draft and certificate strictly complying with the terms and conditions of the Letter of Credit or (c) any other failure of the Bank to conform to the Uniform Customs and Practice; or (ii) by reason of or in connection with the execution, delivery or performance of any of this Agreement, the Security Instruments or any transaction contemplated by any thereof.

(b) Each of the Borrower and the Guarantor, jointly and severally, hereby indemnifies and holds the Bank harmless from and against any and all damages, penalties, fines, claims, liens, suits, liabilities, costs (including clean-up costs), judgments and expenses (including attorneys', consultants' or experts' fees and expenses) of every kind and nature suffered by or asserted against the Bank as a direct or indirect result of any warranty or representation made by the Borrower and the Guarantor in Sections 2.11 hereof, respectively, being false or untrue in any material respect or any requirement under any law, regulation or ordinance, local, state, or federal, which requires the elimination or removal of any hazardous materials, substances, wastes or other environmentally regulated substances at the Project Site, except to the extent that any such damages, penalties, fines, claims, liens, suits, liabilities, costs, judgments or expenses result directly or indirectly from the actions of the Bank or any of its directors, officers, shareholders or employees. The Borrower's and the Guarantor's obligations hereunder to the Bank shall not be limited to any extent by the term of this Agreement, and, as to any act or occurrence prior to the termination of this Agreement which gives

rise to liability hereunder, shall continue, survive and remain in full force and effect notwithstanding the termination of the Bank's obligations hereunder.

Anything herein to the contrary notwithstanding, nothing in this Section 10.1 is intended or shall be construed to limit the Borrower's reimbursement obligation or the Guarantor's guaranty obligation contained in Article IV hereof. Without prejudice to the survival of any other obligation of the Borrower or the Guarantor, the indemnities and obligations of the Borrower and the Guarantor contained in this Section 10.1 shall survive the payment in full of amounts payable pursuant to Article IV and the Termination Date.

10.2. Transfer of Letter of Credit. The Letter of Credit may be transferred  
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and assigned in accordance with the terms of the Letter of Credit.

10.3. Reduction of Letter of Credit. (a) The Letter of Credit is subject to  
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reduction pursuant to its terms.

(b) If the amount available to be drawn under the Letter of Credit shall be permanently reduced in accordance with the terms thereof, then the Bank shall have the right to require the Trustee to surrender the Letter of Credit to the Bank and to issue on such date, in substitution for such outstanding Letter of Credit, a substitute irrevocable letter of credit, substantially in the form of the Letter of Credit but with such changes therein as shall be appropriate to give effect to such reduction, dated such date, for the amount to which the amount available to be drawn under the Letter of Credit shall have been reduced.

10.4. Liability of the Bank. Neither the Bank nor any of its officers,  
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directors, employees, agents or consultants shall be liable or responsible for:

(a) the use which may be made of the Letter of Credit or for any acts or omissions of the Trustee or any beneficiary or transferee in connection therewith;

(b) the validity, sufficiency or genuineness of documents, or of any endorsements thereon, even if such documents should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged;

(c) payment by the Bank against presentation of documents which do not comply with the terms of the Letter of Credit, including failure of any documents to bear any reference or adequate reference to the Letter of Credit; or

(d) any other circumstances whatsoever in any way related to the making or failure to make payment under the Letter of Credit;

except only that the Borrower and the Guarantor shall have a claim against the Bank, and the Bank shall be liable to the Borrower and the Guarantor, to the extent but only to the extent, of any direct, as opposed to consequential, damages suffered by the Borrower or the Guarantor which were caused by (i) the gross negligence or willful misconduct of the Bank in determining



except in cases where it is expressly herein provided that such notice, request or demand is not effective until received by the party to whom it is addressed, in which event said notice, request or demand shall be effective only upon receipt by the addressee.

10.7. Amendment. This Agreement may be amended, modified or discharged only  
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upon an agreement in writing of the Borrower, the Guarantor and the Bank.

10.8. Effect of Delay and Waivers. No delay or omission to exercise any  
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right or power accruing upon any default, omission or failure of performance hereunder shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Bank to exercise any remedy now or hereafter existing at law or in equity or by statute, it shall not be necessary to give any notice, other than such notice as may be herein expressly required. In the event any provision contained in this Agreement should be breached by any party and thereafter waived by the other party so empowered to act, such waiver shall be limited to the particular breach hereunder. No waiver, amendment, release or modification of this Agreement shall be established by conduct, custom or course of dealing, but solely by an instrument in writing duly executed by the parties thereunto duly authorized by this Agreement.

10.9. Counterparts. This Agreement may be executed simultaneously in  
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several counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

10.10. Severability. The invalidity or unenforceability of any one or more  
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phrases, sentences, clauses or Sections contained in this Agreement shall not affect the validity or enforceability of the remaining portions of this Agreement, or any part thereof.

10.11. Cost of Collection. Each of the Borrower and the Guarantor shall be  
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liable for the payment of all reasonable fees and expenses, including reasonable attorneys' fees (computed without regard to any statutory presumption), incurred in connection with the enforcement of this Agreement.

10.12. Set-Off. Upon the occurrence of an Event of Default hereunder, the  
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Bank is hereby authorized, without notice to the Borrower or the Guarantor, to set-off, appropriate and apply any and all monies, securities and other properties of the Borrower or the Guarantor hereafter held or received by or in transit to the Bank from or for the Borrower or the Guarantor, against the obligations of the Borrower or the Guarantor irrespective of whether the Bank shall have made any demand hereunder or any other Credit Security Instrument under and although such obligations may be contingent or unmatured.

10.13. Governing Law. This Agreement shall be governed by and construed in  
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accordance with the laws of the State of New York. The Guarantor hereby acknowledge that the Letter of Credit shall be governed by and construed in accordance with Uniform Customs and Practice.

10.14. References. The words "herein", "hereof", "hereunder" and other

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words of similar import when used in this Agreement refer to this Agreement as a whole, and not to any particular article, section or subsection.

10.15. Consent to Jurisdiction, Venue. In the event that any action,

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suit or other proceeding is brought against the Borrower or the Guarantor by or on behalf of the Bank to enforce the observance or performance of any of the provisions of this Agreement or of any of the Security Instruments, including without limitation the collection of any amounts owing thereunder, each of the Borrower and the Guarantor hereby (i) irrevocably consents to the exercise of jurisdiction over the Borrower and the Guarantor and to the extent permitted by applicable laws, their property, by the United States District Court, Southern District of North Carolina, and by Supreme Court of North Carolina or the State Court and (ii) irrevocably waives any objection it might now or hereafter have or assert to the venue of any such proceeding in any court described in clause (i) above.

IN WITNESS WHEREOF, the Borrower, the Guarantor and the Bank have caused this Agreement to be executed in their respective names, as a sealed Instrument all as of the date first above written.

THE BORROWER:

LESLIE CONTROLS, INC.

By: /s/ David A. Bloss, Sr.

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Title: President and Chief  
Executive Officer

ATTEST: /s/ Cosmo S. Trapani

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Title: Secretary

(Corporate Seal)

THE GUARANTOR:

CIRCOR INTERNATIONAL, INC.

By: /s/ David A. Bloss, Sr.

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Title: President and Chief  
Executive Officer

ATTEST: /s/ Cosmo S. Trapani

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Title: Secretary

(Corporate Seal)

THE BANK:

FIRST UNION NATIONAL BANK

By: /s/ Mark B. Felker

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Title: Senior Vice President

ATTEST:

/s/ Robert L. Andersen

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Title: Assistant Secretary

(Corporate Seal)

WATTS INDUSTRIES, INC. consents to the Agreement

insofar as it relates to its release from the 1994 Agreement.

WATTS INDUSTRIES, INC.

By: /s/ Kenneth J. McAvoy

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Name: Kenneth J. McAvoy

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Title: Chief Financial Officer and Treasurer

AMENDED AND RESTATED  
LETTER OF CREDIT, REIMBURSEMENT  
AND GUARANTY AGREEMENT  
(Spence)

Dated as of October 18, 1999

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AMENDED AND RESTATED  
LETTER OF CREDIT, REIMBURSEMENT and  
GUARANTY AGREEMENT

THIS AMENDED AND RESTATED LETTER OF CREDIT, REIMBURSEMENT AND GUARANTY AGREEMENT, dated as of October 18, 1999 by and among SPENCE ENGINEERING COMPANY, INC., a Delaware corporation ("the Borrower"), CIRCOR INTERNATIONAL, INC., a Delaware corporation ("the Guarantor"), and FIRST UNION NATIONAL BANK, a national banking association organized and existing under the laws of the United States with its principal offices located in Charlotte, North Carolina (the "Bank");

W I T N E S S E T H:  
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WHEREAS, pursuant to a Trust Indenture dated June 1, 1994 (the "Indenture") between the Village of Walden Industrial Development Agency (the "Issuer") and The First National Bank of Boston, Boston, Massachusetts (the "Trustee"), the Issuer issued and sold its Industrial Development Revenue Refunding Bonds (Spence Engineering Company, Inc. Project), Series 1994 in the original aggregate principal amount of \$7,500,000 (the "Bonds"); and

WHEREAS, in order to enhance the marketability of the Bonds, the Bank issued an irrevocable direct pay letter of credit, a copy of which is attached hereto as Exhibit A (such letter of credit or any successor or substitute letter  
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of credit issued by the Bank herein individually and collectively called the "Letter of Credit"); and

WHEREAS, as a condition precedent to the issuance of the Letter of Credit, Watts Industries, Inc. the parent of the Borrower ("Watts") agreed to unconditionally guarantee the obligations of the Borrower as provided in the Letter of Credit, Reimbursement and Guaranty Agreement dated as of June 1, 1994 among the Borrower, the Bank and Watts (the "1994 Agreement"); and

WHEREAS, Watts will spin off its subsidiaries comprising the industrial oil and gas segment of its business, including the Borrower, to Guarantor, effective October 18, 1999 (the "Spin-Off"), resulting in the Borrower being owned, directly or indirectly, by Guarantor; and

WHEREAS, Watts has requested that it be released from its obligations pursuant to the 1994 Agreement in exchange for the Guarantor's undertaking the obligations of this Agreement; and

WHEREAS, the Bank has agreed to release Watts in exchange for the Guarantor's undertaking the obligations of this Agreement; and

WHEREAS, certain other amendments to the 1994 Agreement are required on account of the Spin-Off and the resulting capital structure of Guarantor;

NOW, THEREFORE, in consideration of the premises and other good and valuable consideration, including the covenants, terms and conditions hereinafter appearing, and to induce

the Bank to release Watts from the 1994 Agreement, the Borrower and the Guarantor do hereby covenant and agree with the Bank as follows:

ARTICLE I

Definitions

All words and terms defined in Article I of the Loan Agreement shall have the same meanings in this Agreement, unless otherwise specifically defined herein. The terms defined in this Article I have, for all purposes of this Agreement, the meanings specified hereinabove or in this Article, unless defined elsewhere herein or the context clearly requires otherwise.

1.1. "Affiliate" means any person, corporation, association or other business entity which directly or indirectly controls, or is controlled by, or is under common control with the Borrower or the Guarantor.

1.2. "Agreement" shall mean this Amended and Restated Letter of Credit, Reimbursement and Guaranty Agreement, as the same may from time to time be amended, modified or supplemented in accordance with the terms hereof.

1.3. "Alternate Credit Facility" means any irrevocable direct pay letter of credit, insurance policy or similar credit enhancement or support facility for the benefit of the Trustee, the terms of which Alternate Credit Facility shall in all respects material to the registered owners of the Bonds be the same (except for the term set forth in such Alternate Credit Facility) as those of the Letter of Credit.

1.4. "Bankruptcy Code" means 11 U.S.C. (S) 101 et. seq., as amended.  
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1.5. "Bondholder" or "Bondholders" means the initial and any future registered owners of the Bond or Bonds as registered on the books and records of the Bond Registrar pursuant to Section 204 of the Indenture.

1.6. "Bond Documents" means, collectively, the Sale Agreement, the Note, the Remarketing Agreement, the Tender Agency Agreement, the Indenture, the Security Instruments and the Bonds, as the same may be amended, modified or supplemented from time to time in accordance with their respective terms.

1.7. "Borrower" means Spence Engineering Company, Inc., a Delaware corporation.

1.8. "Capital Expenditures" means, for any period, expenditures (including, without limitation, the aggregate amount of Capital Lease Obligations incurred during such period) made by the Guarantor, the Borrower or any of their Subsidiaries to acquire or construct fixed assets, plant and equipment (including renewals, improvements and replacements, but excluding repairs) during such period computed in accordance with GAAP.

1.9. "Capital Lease Obligations" means, for any Person, all obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) Property to the extent such obligations are required to be classified and accounted for as a capital lease on a balance sheet of such Person under GAAP, and, for purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

1.10. "Cash and Cash Equivalents" means as to any Person at a particular date, the aggregate amount of all items categorized as "cash" and "cash equivalents" on the balance sheet of such Person, as determined in accordance with GAAP.

1.11. "Consistent Basis" means, in reference to the application of GAAP, that the accounting principles observed in the period referred to are comparable in all material respects to those applied in the preceding period, except as to any changes consented to by the Bank.

1.12. "Consolidated Net Income" means the consolidated gross revenues of the Guarantor and the Borrower and the Subsidiaries of each for such period less all expenses and other proper charges for such period (including taxes on or measured by income) determined in accordance with GAAP.

1.13. "Consolidated Net Worth" of the Guarantor and the Borrower and the Subsidiaries of each shall mean at any time as of which the amount thereof is to be determined, the sum of the Net Worth of such Persons.

1.14. "Consolidated Subsidiaries" means the Subsidiaries of the Guarantor included in the audited consolidated financial statements of the Guarantor from time to time. For purposes of the representation contained in Subsection 2.3 hereof, Consolidated Subsidiaries shall include the term "Combined Subsidiaries" as used in the referenced financial statements.

1.15. "Consultant" means any third-party architect or engineer satisfactory to the Bank.

1.16. "Credit Agreement" means the Credit Agreement dated as of October 18, 1999 among CIRCOR International, Inc., ING (U.S.) LLC as Agent, BankBoston, N.A. as Syndication Agent and the Bank as Documentation Agent.

1.17. "Current Assets" means Cash and Cash Equivalents and all other assets or resources of a Person which are expected to be realized in cash, sold in the ordinary course of business, or consumed within one year, all determined in accordance with GAAP.

1.18. "Current Liabilities" means the amount of all liabilities of a Person which by their terms are payable within one year (including all indebtedness payable on demand or maturing not more than one year from the date of computation and the current portion of long-term debt), all determined in accordance with GAAP.

1.19. "Debt Service" means, for any period, the sum, for the Guarantor, the Borrower and their Subsidiaries (determined on a consolidated basis without duplication in accordance

with GAAP), of the following: (a) all payments of principal of Indebtedness (including, without limitation, the principal component of any payments in respect of Capital Lease Obligations) scheduled to be made during such period plus (b) all Interest Expense for such period.

1.20. "Default" means an event or condition the occurrence of which would, with the lapse of time or the giving of notice, or both, become an Event of Default.

1.21. "Distribution" in respect of any corporation, means and includes: (i) the payment of any dividends or other distributions on capital stock of the corporation (except distributions in such stock) and (ii) the redemption or acquisition of its Securities unless made contemporaneously from the net proceeds of the sale of its Securities.

1.22. "EBITDA" means, for any period, the sum, for the Guarantor, the Borrower and their Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following: (a) Net Income (calculated before taxes, Interest Expense, extraordinary or unusual items and income or loss attributable to equity in Affiliates) for such period plus (b) depreciation and amortization (to the extent deducted in determining Net Income) for such period; provided that if, during any such period, the Borrower or any of its Subsidiaries shall have made one or more acquisitions pursuant to Section 9.05(b)(iv) of the Credit Agreement, EBITDA for such period shall be calculated on a pro forma basis as if each such acquisition had been made on the first day of such period, giving pro forma effect to such acquisition to the extent permitted under such Section 9.05(b)(iv) of the Credit Agreement.

1.23. "Environmental Laws" means all federal, state and local laws, rules, regulations, ordinances, programs, permits, guidances, orders and consent decrees relating to health, safety and environmental matters, including, but not limited to, the Resource Conservation and Recovery Act; the Comprehensive Environmental Response, Compensation and Liability Act of 1980; the Toxic Substances Control Act, as amended; the Clean Water Act; the River and Harbor Act; the Water Pollution Control Act; the Marine Protection Research and Sanctuaries Act; the Deep Water Port Act; the Safe Drinking Water Act; the Superfund Amendments and Reauthorization Act of 1986; the Federal Insecticide, Fungicide and Rodenticide Act; the Mineral Lands and Leasing Act; the Surface Mining Control and Reclamation Act; state and federal superlien and environmental cleanup programs and laws; and U.S. Department of Transportation regulations.

1.24. "ERISA" means the Employee Retirement Income Security Act of 1974, as amended, including any rules and regulations promulgated thereunder.

1.25. "ERISA Affiliate" means a Person under common control with the Guarantor within the meaning of Section 414(c) of the Internal Revenue Code of 1986, as amended, or Section 4001(b) of ERISA.

1.26. "Event of Default" means an Event of Default as defined in Section 9.1 hereof.

1.27. "Expiration Date" means August 4, 1997, the stated expiration date of the Letter of Credit, as such date has been and may be extended in accordance with the terms of Section 4.10 hereof.

1.28. "Fixed Charges Coverage Ratio" means, as at any date, the ratio of (a) (x) EBITDA for the period of four consecutive fiscal quarters ending on or most recently ended prior to such date minus (y) Capital Expenditures made during such period to (b) Debt Service for such period.

1.29. "GAAP" means those principles of accounting set forth in pronouncements of the Financial Accounting Standards Board and its predecessors or pronouncements of the American Institute of Certified Public Accountants or those principles of accounting which have other substantial authoritative support and are applicable in the circumstances as of the date of application, as such principles are from time to time supplemented or amended. As to the provisions of this Agreement, the applicable GAAP shall be determined as set forth in the Credit Agreement.

1.30. "Guarantee" means a guarantee, an endorsement, a contingent agreement to purchase or to furnish funds for the payment or maintenance of, or otherwise to be or become contingently liable under or with respect to, the Indebtedness, other obligations, net worth, working capital or earnings of any Person, or a guarantee of the payment of dividends or other distributions upon the stock or equity interests of any Person, or an agreement to purchase, sell or lease (as lessee or lessor) Property, products, materials, supplies or services primarily for the purpose of enabling a debtor to make payment of such debtor's obligations or an agreement to assure a creditor against loss, and including, without limitation, causing a lender or other financial institution to issue a letter of credit or other similar instrument for the benefit of another Person, but excluding endorsements for collection or deposit in the ordinary course of business. The terms "Guarantee" and "Guaranteed" used as a verb shall have a correlative meaning.

1.31. "Guarantor" means CIRCOR International, Inc., a Delaware corporation.

1.32. "Immaterial Subsidiary" means, as at any date, any Subsidiary of the Guarantor that the Guarantor shall theretofore have designated as an "Immaterial Subsidiary" in a notice to the Bank, provided that:

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(a) the following shall be true:

(x) the aggregate assets of all such Subsidiaries (calculated both on a book value basis and a fair market value basis) does not exceed 10% of the aggregate assets (calculated on such respective bases) of the Guarantor and its Subsidiaries as of the most recent fiscal quarter-end of the Guarantor; and

(y) the aggregate EBITDA of all such Subsidiaries for the period of four consecutive fiscal quarters most recently ended prior to such date does not exceed 10% of the consolidated EBITDA of the Guarantor and its Subsidiaries for such period; and

(b) the Guarantor may from time to time, by notice to the Borrower, cause any Subsidiary that it had theretofore designated as an "Immaterial Subsidiary" to be no longer treated as an "Immaterial Subsidiary"

1.33. "Indebtedness" means, for any Person: (a) obligations created, issued or incurred by such Person for borrowed money (whether by loan, the issuance and sale of debt securities or the sale of Property to another Person subject to an understanding or agreement, contingent or otherwise, to repurchase such Property from such Person); (b) obligations of such Person to pay the deferred purchase or acquisition price of Property or services, other than trade accounts payable (other than for borrowed money) arising, and accrued expenses incurred, in the ordinary course of business so long as such trade accounts payable are payable within 90 days of the date the respective goods are delivered or the respective services are rendered; (c) Indebtedness of others secured by a Lien on the Property of such Person, whether or not the respective indebtedness so secured has been assumed by such Person; (d) obligations of such Person in respect of letters of credit or similar instruments issued or accepted by lenders and other financial institutions for account of such Person; (e) Capital Lease Obligations of such Person; and (f) Indebtedness of others Guaranteed by such Person.

1.34. "Interest Coverage Ratio" means, as at any date, the ratio of (a) EBITDA for the period of four consecutive fiscal quarters ending on or most recently ended prior to such date to (b) Interest Expense for such period.

1.35. "Interest Expense" means, for any period, the sum, for the Guarantor, the Borrower and their Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following: (a) all interest in respect of Indebtedness (including, without limitation, the interest component of any payments in respect of Capital Lease Obligations) accrued or capitalized during such period (whether or not actually paid during such period) plus (b) the net amount payable (or minus the net amount receivable) under Interest Rate Protection Agreements during such period (whether or not actually paid or received during such period).

1.36. "Interest Rate Protection Agreement" means, for any Person, an interest rate swap, cap or collar agreement or similar arrangement between such Person and one or more financial institutions providing for the transfer of mitigation of interest risks either generally or under specific contingencies.

1.37. "Leverage Ratio" means, as at any date, the ratio of (a) the aggregate amount of Indebtedness of the Guarantor, the Borrower and their Subsidiaries outstanding on such date to (b) EBITDA for the four consecutive fiscal quarters ended on or most recently prior to such date.

1.38. "Lien" means any interest in Property securing an obligation owed to, or a claim by, a Person other than the owner of the Property, whether such interest is based on the common law, statute or contract, and including, but not limited to, the security interest, security title or lien arising from a security agreement, mortgage, deed of trust, deed to secure debt, encumbrance, pledge, conditional sale or trust receipt or a lease, consignment or bailment for security purposes. For the purpose of this Agreement, the Borrower or the Guarantor,

respectively, shall be deemed to be the owner of any Property which it has acquired or holds subject to a conditional sale agreement or other arrangement pursuant to which title to the Property has been retained by or vested in some other Person for security purposes.

1.39. "Loan Agreement" means the Loan Agreement dated as of July 1, 1994 from the Borrower to the Issuer.

1.40. "Material Adverse Effect" means a material adverse effect on the business, operations or financial condition of the Guarantor and its Subsidiaries or if applicable, such other Person, taken as a whole.

1.41. "Money Borrowed" as applied to Indebtedness, means (i) Indebtedness for borrowed money; (ii) Indebtedness, whether or not in any such case the same was for borrowed money, (A) which is represented by notes payable or drafts accepted that evidence extensions of credit, (B) which constitutes obligations evidenced by bonds, debentures, notes or similar instruments, or (C) upon which interest charges are customarily paid (other than accounts payable) or that was issued or assumed as full or partial payment for Property; (iii) Indebtedness that constitutes a Capitalized Lease obligation; and (iv) Indebtedness under any guaranty of obligations that would constitute Indebtedness for Money Borrowed under clauses (i) through (iii) hereof.

1.42. "Net Income" means for any period, the net operating income of the Borrower, the Guarantor and their Subsidiaries for such period (determined on a consolidated basis in accordance with GAAP).

1.43. "Net Worth" means, as at any date, the sum for the Borrower, the Guarantor and their Subsidiaries (determined on a consolidated basis in accordance with GAAP) of the following:

(a) the amount of capital stock, plus

(b) the amount of surplus and retained earnings (or, in the case of a retained earnings deficit, minus the amount of such deficit).

1.44. "Obligations" means all loans and all other advances, debts, liabilities, obligations, covenants and duties owing, arising, due or payable from the Borrower to the Bank of any kind or nature, present or future, whether or not evidenced by any note, guaranty or other instrument, whether arising under this Agreement or any of the other Bond Documents or Security Instruments or otherwise, whether direct or indirect (including those acquired by assignment), absolute or contingent, primary or secondary, due or to become due, now existing or hereafter arising and however acquired. The term includes, without limitation, all interest, charges, expenses, fees, attorney's fees and any other sums chargeable to the Borrower under any of the Bond Documents or Security Instruments.

1.45. "Officer's Certificate" means the Certificate of the Chief Financial Officer or the Controller of the Borrower or the Guarantor, as the case shall be, as approved by the Bank.

1.46. "Other Agreements" means any and all agreements, instruments and documents (other than this Agreement and the Security Instruments), heretofore, now or hereafter executed by the Borrower or the Guarantor or the Subsidiaries of either or any of them and delivered to the Bank in respect to the transactions contemplated by this Agreement.

1.47. "Permitted Encumbrances" means and includes:

(a) liens for taxes and assessments not delinquent or which are being contested in good faith by appropriate proceedings and against which adequate reserves have been provided for on the books of the Guarantor or the Borrower, as applicable;

(b) worker's, mechanic's and materialmen's liens and similar liens incurred in the ordinary course of business remaining undischarged or unstayed for not longer than 60 days following Borrower's notice of the attachment thereof;

(c) attachments remaining undischarged or unstayed for not longer than 60 days from the making thereof;

(d) liens in respect of final judgments or awards remaining undischarged or unstayed for not longer than 60 days from the making thereof;

(e) liens in respect of pledges or deposits under worker's compensation laws, liens to secure customs bonds, unemployment insurance or similar legislation and in respect of pledges or deposits to secure bids, tenders, contracts (other than contracts for the payment of money), leases or statutory obligations, or in connection with surety, appeal and similar bonds incidental to the conduct of litigation;

(f) any other liens, easements, encumbrances, rights of way and clouds on title included within the term "Permitted Encumbrances" as defined in the Credit Agreement.

1.48. "Person" means an individual, partnership, corporation, trust, joint venture, unincorporated organization, association, or a government, or agency or political subdivision or instrumentality thereof.

1.49. "Plan" means a pension plan (other than a multiemployer pension plan as defined in Section 3(37) of ERISA) that is subject to Title IV of ERISA.

1.50. "Pledge Agreement" means the Pledge Agreement of even date herewith from the Borrower to the Bank.

1.51. "Prime Rate" means the interest rate publicly announced from time to time by the Bank to be its prime rate, which may not necessarily be its best lending rate. In the event the Bank shall abolish or abandon the practice of announcing its Prime Rate or should the same be unascertainable, the Bank shall designate a comparable reference rate which shall be deemed to be the Prime Rate under this Agreement.

1.52. "Private Placement Memorandum" means the Private Placement Memorandum dated June 17, 1994 relating to the Bonds.

1.53. "Prohibited Transaction" means any transaction set forth in Section 406 of ERISA or Section 4975 of the Internal Revenue Code of 1986, as amended from time to time.

1.54. "Project" means the manufacturing facility acquired, constructed and installed with the proceeds of the Prior Bonds, owned and operated by the Borrower in Village of Walden, New York.

1.55. "Property" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

1.56. "Reportable Event" means any of the events set forth in Section 4043(b) of ERISA other than those events for which the obligation to notify the Pension Benefit Guaranty Corporation ("PBGC") has been waived under 29 C.F.R. Part 2615.

1.57. "Security" means shall have the same meaning as in Section 2(1) of the Securities Act of 1933, as amended.

1.58. "Security Instruments" means, collectively, the Pledge Agreement and any and all Other Agreements.

1.59. "Solvent" means as to any Person, such Person (i) owns Property whose fair saleable value is greater than the amount required to pay all of such Person's Indebtedness (including contingent debts), (ii) is able to pay all of its Indebtedness as such Indebtedness matures and (iii) has capital sufficient to carry on its business and transactions and all business and transactions in which it is about to engage.

1.60. "Spin-Off" has the meaning assigned to that term in the fourth "whereas" paragraph of this Agreement

1.61. "Subsidiary" or "Subsidiaries" means, as to any Person, any corporation whether organized and existing under the laws of any state of the United States, including the District of Columbia and Puerto Rico, or under the laws of any foreign country, of which more than 50% of voting stock at any time is owned or controlled directly or indirectly by the Borrower or the Guarantor, as applicable.

1.62. "Tender Advance" has the meaning assigned to that term in Section 4.3 of this Agreement.

1.63. "Tender Draft" has the meaning assigned to that term in the Letter of Credit.

1.64. "Termination Date" means the last day a drawing is available under the Letter of Credit.

1.65. "Trustee" means any Person or group of Persons at the time serving as corporate fiduciary under the Indenture.

1.66. "Uniform Customs and Practice" shall mean the Uniform Customs and Practice for Documentary Credits, 1994 Revision, ICC Publication No. 500.

## ARTICLE II

### Representations and Warranties of the Guarantor

The Guarantor represents and warrants to the Bank (which representations and warranties shall survive the delivery of the documents mentioned herein and the issuance of the Letter of Credit) that:

#### 2.1. Incorporation. Each of the Guarantor and its Consolidated Subsidiaries

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is a corporation, partnership or joint venture, respectively, duly organized, existing and in good standing under the laws of its respective jurisdiction, except where the failure to be in good standing would not have a Material Adverse Effect and has the corporate or other power to own its respective properties and to carry on its respective business as now or at such future time being conducted, and is duly qualified as a foreign corporation or otherwise to do business in every jurisdiction in which the failure to be so qualified would have a Material Adverse Effect. On the date of the execution and delivery of this Agreement, the Guarantor has the respective Consolidated Subsidiaries shown on Exhibit B hereto, and no other Subsidiaries.

#### 2.2. Power and Authority; No Conflicts; Enforceability. It is duly

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authorized under all applicable provisions of law to execute, deliver and perform this Agreement and the Other Agreements to which it is a party, and all corporate action on its part required for the lawful execution, delivery and performance hereof and thereof has been duly taken; and this Agreement and the Other Agreements to which it is a party, upon the due execution and delivery thereof, will be the valid, binding and legal obligation of the Guarantor enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors, rights generally and to general principles of equity. Neither the execution of this Agreement, nor the fulfillment of or compliance with the respective provisions and terms hereof, will (A) conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a violation of or default under any applicable law, regulation, judgment, writ, order or decree to which the Guarantor or any Consolidated Subsidiary or any of their respective properties are subject, or the charter or bylaws of the Guarantor or any Consolidated Subsidiary, or any agreement or instrument to which the Guarantor or any Consolidated Subsidiary is now a party and (b) create any lien, charge or encumbrance upon any of the property or assets of the Guarantor or any Consolidated Subsidiary pursuant to the terms of any agreement or instrument to which the Guarantor or any Subsidiary is a party or by which they, or any of them, or any of their respective properties, are bound except pursuant to the Security Instruments.

#### 2.3. Financial Condition. The consolidated (combined) and pro forma balance

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sheets of the Guarantor and its Consolidated Subsidiaries for the fiscal years ended as of June 30, 1998

and June 30, 1999, and the related consolidated (combined) and pro forma statements of operations, consolidated (combined) statements of cash flows and consolidated (combined) statements of changes in shareholder's equity for the period, copies of which have been furnished to the Bank, are correct, complete and fairly present the financial condition of the Guarantor and its Consolidated Subsidiaries in all material respects as at the respective date of said balance sheets, and the results of its respective operations for each such period. The Guarantor and its Consolidated Subsidiaries do not have any material direct or contingent liabilities as of the date of this Agreement which are not provided for or reflected in the balance sheet dated June 30, 1999, or referred to in notes thereto or set forth in Exhibit B hereto. There has been no material

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adverse change in the business, properties or condition, financial or otherwise, of the Guarantor and its Consolidated Subsidiaries since June 30, 1999.

2.4. Title to Property and Assets. It has good and marketable title to its

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Property, including the properties and assets reflected in the financial statements and notes thereto described in Section 2.3 hereof, except for such assets as have been disposed of since the date of said financial statements in the ordinary course of business or as are no longer useful in the conduct of its business, and all such properties and assets are free and clear of all material Liens, mortgages, pledges, encumbrances or charges of any kind except Liens reflected in the financial statements or Exhibit B hereto or permitted under Section 7.2 hereof.

2.5. Litigation. There are no pending or, to the best of its knowledge,

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threatened material actions, suits or proceedings before any court, arbitrator or governmental or administrative body or agency that may materially adversely affect the properties, business or condition, financial or otherwise, of the Guarantor and its Consolidated Subsidiaries on a consolidated basis, except as disclosed in the financial statements and notes thereto described in Section 2.3 hereof or Exhibit B hereto.

2.6. Taxes. It has filed all material tax returns required to be filed by

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it and all material taxes due with respect thereto have been paid, and except as described in Exhibit B hereto, no controversy in respect of a material amount of additional taxes, state, federal or foreign, of the Guarantor is pending, or, to the knowledge of the Guarantor, threatened. No federal taxes have been due or are currently due to be paid by the Guarantor as of the date hereof. Adequate reserves have been established for the payment of all taxes (other than federal taxes) for periods ended subsequent to June 30, 1994.

2.7. Trademarks, Franchises and Licenses. It owns, possesses or has the

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right to use all necessary material patents, licenses, franchises, trademarks, trademark rights, trade names, trade name rights and copyrights to conduct business as now conducted, without known conflict with any patent, license, franchise, trademark, trade name, or copyright of any other Persons.

2.8. No Default. It is not in default in the performance, observance or

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fulfillment of any of its material obligations, covenants or conditions contained in any agreement or instrument to which it is a party or by which it may be bound, the effect of which default would allow any Person to cause such obligation under the agreement or instrument to become due prior to its stated maturity.

2.9. Governmental Authority. It has received the written approval of all  
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federal, state, local and foreign governmental authorities, if any, necessary to carry out the terms of this Agreement, and no further governmental consents or approvals are required in the making or performance of this Agreement by it.

2.10. ERISA Requirements. It has not incurred any material liability to the  
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PBGC established under ERISA (or any successor thereto under ERISA) in connection with any Plan established or maintained by it or by any Person under common control with it (within the meaning of Section 414(c) of the Internal Revenue Code of 1986, as amended (the "Code"), or of Section 4001(b) of ERISA), or in which its employees are entitled to participate. No such Plan has incurred any material accumulated funding deficiency within the meaning of ERISA. No Reportable Event in connection with any such Plan has occurred or is continuing.

2.11. Pollution and Environmental Control; Hazardous Substances. It has  
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obtained all permits, licenses and other authorizations that are required under any Environmental Laws, except to the extent that failure to have obtained any such permit, license or authorization will not have a Material Adverse Effect, and is in material compliance with, all federal, state, and local Environmental Laws and regulations relating, without limitation, to pollution, reclamation or protection of the environment, including laws relating to emissions, discharges, releases or threatened releases of pollutants, contaminants or hazardous or toxic materials or wastes into air, water, or land, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport, or handling of pollutants, contaminants or hazardous or toxic substances, materials or wastes the failure to comply with which would have a Material Adverse Effect. Neither any Guarantor, nor to Guarantor's knowledge, any previous owner of the Project Site, has disposed of any hazardous substances on any portion of the Project Site. As used in this subparagraph, "hazardous substances" shall have the meaning set forth in the Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. S 6901, et. seq., and the regulations adopted pursuant to such Act.

2.12. Capital Structure. Exhibit B attached hereto and made a part hereof  
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states the correct name of each of the Consolidated Subsidiaries of the Guarantor, the jurisdiction of organization or incorporation and the percentage of its voting stock owned by the Guarantor. The Guarantor has good title to all of the shares it purports to own of the stock of each Consolidated Subsidiary, free and clear in each case of any Lien other than Permitted Liens. All such shares have been duly issued and are fully paid and non-assessable.

2.13. Solvent Financial Condition. It is now, and after giving effect to  
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the transactions contemplated hereby, will be Solvent.

2.14. Restrictions. It is not a party or subject to any contract,  
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agreement, or charter or other corporate restriction, which Guarantor believes materially and adversely affects its business or the use or ownership of any of its Properties. The Guarantor is not a party or subject to any contract or agreement which restricts its right or ability to incur Indebtedness, other than as set forth on Exhibit B attached hereto, none of which prohibit the execution  
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of or compliance with this Agreement by the Guarantor.

2.15. Full Disclosure. The Financial Statements referred to in Section 2.3

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above do not, nor does this Agreement or the Bond Documents or any Other Agreement or written statement of the Guarantor to the Bank (including, without limitation, the Guarantor's filings, if any, with the Securities and Exchange Commission), taken as a whole, contain any untrue statement of a material fact or omit a material fact necessary to make the statements contained therein or herein not misleading. There is no fact which the Guarantor has failed to disclose to the Bank in writing which materially affects adversely or, so far as the Guarantor can now foresee, will materially affect adversely the Properties, business, prospects, profits, or condition (financial or otherwise) of the Guarantor or any of its Consolidated Subsidiaries or the ability of the Guarantor or the Borrower to perform this Agreement or the Bond Documents.

2.16. Labor Relations. Except as described on Exhibit B attached hereto and

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made a part hereof, there are no material grievances, disputes or controversies with any union or any other organization of the Guarantor's employees, or threats of strikes, work stoppages or any asserted pending demands for collective bargaining by any union or organization which could have a Material Adverse Effect.

2.17. Compliance With Laws. It has duly complied in all material respects

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with, and its Properties, business operations and leaseholds are in compliance in all material respects with, the provisions of all federal, state and local laws, rules and regulations applicable to the Guarantor, its Properties or the conduct of its business, including, without limitation, OSHA and all Environmental Laws, the failure to comply with which would have a Material Adverse Effect.

2.18. Brokers. There are no claims for brokerage commissions, finder's fees

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or investment banking fees in connection with the transactions contemplated by this Agreement, except for fees owed to the Bank and its affiliates.

2.19. Trade Relations. There exists no actual or threatened termination,

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cancellation or limitation of, or any modification or change in, the business relationship between the Guarantor and any customer or any group of customers whose purchases individually or in the aggregate are material to the business of the Guarantor, or with any material supplier, and there exists no present condition or state of facts or circumstances which would materially affect adversely the Guarantor or prevent the Guarantor from conducting such business after the consummation of the transaction contemplated by this Agreement in substantially the same manner in which it has heretofore been conducted.

2.20. Investment Company Act. The Guarantor is not an "investment company"

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or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

ARTICLE III

Representations and Warranties of the Borrower

The Borrower represents and warrants to the Bank (which representations and warranties shall survive the delivery of the documents mentioned herein and the issuance of the Letter of Credit) as of the date of the 1994 Agreement, which representations and warranties continue to be true as of the date of this Agreement, except to the extent of changes resulting from transactions contemplated or permitted by this Agreement (including the Spin-Off) and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse and to the extent that such representations and warranties relate expressly to an earlier date, that:

3.1. Incorporation. It is a corporation duly incorporated, existing and in -----  
good standing under the laws of the State of its incorporation, and has the corporate or other power to own its Property and to carry on its business as now being conducted.

3.2. Power and Authority. It is duly authorized under all applicable -----  
provisions of law to execute, deliver and perform this Agreement and the Bond Documents, and all action, corporate or otherwise, as applicable, on its part required for the lawful execution, delivery and performance hereof has been duly taken; and this Agreement and the Bond Documents, upon the due execution and delivery hereof, will be its valid and binding obligation enforceable in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium, or similar laws affecting creditors' rights generally and to general principles of equity. Neither the execution of this Agreement nor the Bond Documents, nor the fulfillment of or compliance with their respective provisions and terms, will (a) conflict with, or result in a breach of the terms, conditions or provisions of, or constitute a violation of or default under any applicable law, regulation, judgment, writ, order or decree to which it or any of its properties is subject, or its charter or by-laws, or any agreement or instrument to which it or any of its Subsidiaries is now a party or by which it or any of its Subsidiaries or any of their respective properties is bound or affected, or (b) create any lien, charge or encumbrance upon any of its or any of its Subsidiaries' property or assets pursuant to the terms of any agreement or instrument to which it or any of its Subsidiaries is a party or by which it or any of its Subsidiaries or any of their respective properties is bound except pursuant to the Security Instruments.

3.3. Governmental Authority. It has received the written approval of all -----  
federal, state, local and foreign governmental authorities, if any, necessary to carry out the terms of this Agreement, and no further governmental consents or approvals are required in the making or performance of this Agreement and the Bond Documents.

3.4. Project Site. The operation of the Project complies in all material -----  
respects with presently existing zoning and other land use restrictions affecting the Project Site, including without limitation, any restrictive covenants.

3.5. No Default. As of the date of this Agreement, there exists no default -----  
pursuant to the terms of the 1994 Agreement.

3.6. Survival of Representations and Warranties. It covenants, warrants and  
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represents to the Bank that all representations and warranties contained in this Agreement are true at the time of its execution of this Agreement and the representations contained in the Bond Documents or Other Agreements were true at the time made and are true at the time of execution of this Agreement except to the extent of changes resulting from transactions contemplated or permitted by this Agreement (including the Spin-Off) and changes occurring in the ordinary course of business that singly or in the aggregate are not materially adverse and to the extent that such representations and warranties relate expressly to an earlier date, and all of such representations and warranties shall survive the execution, delivery and acceptance thereof by the Bank and the parties thereto and the closing of the transactions described therein or related thereto.

ARTICLE IV

Terms of Letter of Credit, Reimbursement,  
Other Payments and Guaranty

4.1. Letter of Credit. The Parties agree that the terms and conditions  
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hereinafter set forth govern the Letter of Credit. The Bank agrees that any and all payments under the Letter of Credit will be made with the Bank's own funds.

4.2. Reimbursement and Other Payments. The Borrower shall pay to the Bank:  
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(a) on or before 3:00 P.M., EST, but after the honoring of a draw by the Bank, on the date that any amount is drawn under the Letter of Credit, a sum equal to such amount so drawn under the Letter of Credit;

(b) on demand, interest on any and all amounts remaining unpaid by the Borrower when due hereunder from the date such amounts become due until payment thereof in full, at a fluctuating interest rate per annum equal at all times to the lesser of (i) the Prime Rate plus two percent (2%) or (ii) the highest lawful rate permitted by applicable law;

(c) on demand, any and all reasonable expenses incurred by the Bank in enforcing any rights under this Agreement and the Bond Documents; and

(d) on demand all charges, commissions, costs and expenses set forth in Sections 4.4, 4.5 and 4.9 hereof.

4.3. Tender Advances. (a) If the Bank shall make any payment of that  
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portion of the purchase price corresponding to principal and interest of the Bonds drawn under the Letter of Credit pursuant to a Tender Draft and the conditions set forth in Section 8.2 all have been fulfilled, such payment shall constitute a tender advance made by the Bank to the Borrower on the date and in the amount of such (a "Tender Advance"); provided that if the conditions of said Section 8.2 have not been fulfilled, the amount so drawn pursuant to the Tender Draft shall be payable in accordance with the terms of Section 4.2(a) above. Notwithstanding any other provision hereof, the Borrower shall repay the unpaid amount of each Tender Advance, together with all unpaid interest thereon on the earlier to occur of (i) such date as Bonds purchased pursuant to a Tender Draft are resold as provided in paragraph 4.3(d) hereof, (ii) on the date 366 days following the date of such Tender Advance, or (iii) the Termination Date.

The Borrower may prepay the outstanding amount of any Tender Advance in whole or in part, together with accrued interest to the date of such prepayment on the date such amount is prepaid. The Borrower shall notify the Bank prior to 11:00 A.M., EST on the date of such prepayment of the amount to be prepaid.

(b) The Borrower shall pay interest on the unpaid amount of each Tender Advance from the date of such Tender Advance until such amount is paid in full, payable

monthly, in arrears, on the first day of each month during the term of each Tender Advance and on the date such amount is paid in full, at a fluctuating interest rate per annum in effect from time to time equal to the Prime Rate, provided that the unpaid amount of any Tender Advance which is not paid when due shall bear interest at the lesser of the Prime Rate plus two percent (2%) or the highest rate permitted by applicable law, payable on demand and on the date such amount is paid in full.

(c) Pursuant to the Pledge Agreement the Borrower has agreed that, in accordance with the terms of the Indenture, Bonds purchased with proceeds of any Tender Draft shall be delivered by the Tender Agent to the Bank or its designee to be held by the Bank or its designee in pledge as collateral securing the Borrower's payment obligations to the Bank hereunder. Bonds so delivered to the Bank or its designee shall be registered in the name of the Bank, or its designee, as pledgee of the Borrower, as provided for in Section 3 of the Pledge Agreement.

(d) Prior to or simultaneously with the resale of Pledged Bonds, the Borrower shall prepay or cause the Tender Agent to prepay as provided below the then outstanding Tender Advances (in the order in which they were made) by paying to the Bank an amount equal to the sum of (a) the amounts advanced by the Bank pursuant to the corresponding Tender Drafts relating to such Bonds, plus (b) the aggregate amount of accrued and unpaid interest on such Tender Advances. Such payment shall be applied by the Bank in reimbursement of such drawings (and as prepayment of Tender Advances resulting from such drawings in the manner described below), and, upon receipt by the Bank of a certificate completed and signed by the Trustee in substantially the form of Annex F to the Letter of Credit, the Borrower irrevocably authorizes the Bank to rely on such certificate and to reinstate the Letter of Credit in accordance therewith. Funds held by the Tender Agent as a result of sales of the Pledged Bonds by the Remarketing Agent shall be paid to the Bank by the Tender Agent to be applied to the amounts owing by the Borrower to the Bank pursuant to this paragraph (d). Upon payment to the Bank of the amount of such Tender Advance to be prepaid, together with accrued interest on such Tender Advance to the date of such prepayment on the amount to be prepaid, the principal amount outstanding of Tender Advances shall be reduced by the amount of such prepayment and interest shall cease to accrue on the amount prepaid.

4.4. Commission and Fee. (a) The Borrower shall pay to the Bank a

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commission at the rate of .185 percent per annum (185 basis points) on the undrawn amount available to be drawn under the Letter of Credit (computed on the date that such commission is payable) from and including the date of issuance of the Letter of Credit until the Termination Date, payable annually in advance in full on the first day of each anniversary of the issuance of the Letter of Credit. If the Letter of Credit is terminated or if there is a drawing under the Letter of Credit to pay the principal of the Bonds during the year preceding such anniversary date, the Bank will refund to the Borrower the applicable unused portion of the commission calculated on a pro rata basis.

(b) The Borrower shall pay to the Bank, upon each drawing under the Letter of Credit in accordance with its terms, a fee of \$150 per drawing.

(c) The Borrower shall pay to the Bank, upon transfer of the Letter of Credit in accordance with its terms, a transfer fee of \$1,000.

4.5. Increased Costs. In the event of any change in any existing or future  
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law, regulation, ruling or interpretation thereof affecting the Bank which shall either (a) impose, modify or make applicable any reserve, special deposit, capital requirement, assessment or similar requirement against the Letter of Credit or (b) impose on the Bank any other condition regarding the Letter of Credit, and the result of any event referred to in clause (a) or (b) above shall be to increase the cost (including a reasonable allocation of resources) or decrease the yield to the Bank of issuing or maintaining the Letter of Credit (which increase in cost shall be the result of the Bank's reasonable allocation of the aggregate of such cost increases or yield decreases resulting from such events), then, upon demand by the Bank, the Borrower shall immediately pay to the Bank, from time to time as specified by the Bank, additional amounts which shall be sufficient to compensate the Bank for such increased cost or decreased yield. A statement of charges submitted by the Bank, shall be conclusive, absent manifest error, as to the amount owed.

4.6. Computation. All payments of interest, commission and other charges  
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under this Agreement shall be computed on the per annum basis, based upon a year of 365 (or 366, as the case may be) days, and calculated for the actual number of days elapsed.

4.7. Payment Procedure. All payments made by the Borrower under this  
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Agreement shall be made to the Bank in lawful currency of the United States of America and in immediately available funds at the Bank's offices described at the beginning of this Agreement before 12:00 Noon, EST on the date when due, except for payments made in accordance with the terms of Section 4.2(a).

4.8. Business Days. If the date for any payment hereunder falls on a day  
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which is not a Business Day, then for all purposes of this Agreement the same shall be deemed to have fallen on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payments of interest or commission, as the case may be.

4.9. Reimbursement of Expenses. The Borrower will pay all reasonable  
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legal fees (computed without regard to any statutory presumption) incurred by the Bank in connection with the preparation, execution and delivery of this Agreement, the Letter of Credit, the Bond Documents, and all transactions contemplated hereby and thereby (including any amendments hereto or thereto or consents or waivers hereunder or thereunder) and will also pay all fees, charges or taxes for the recording or filing of Security Instruments. The Borrower will also pay for all reasonable legal expenses of the Bank in connection with the administration of the Letter of Credit, this Agreement and the Bond Documents. The Borrower will, upon request, promptly reimburse the Bank for all amounts expended, advanced or incurred by the Bank to collect or satisfy any obligation of the Borrower under this Agreement or any of the Bond Documents, or to enforce the rights of the Bank under this Agreement or any of the Bond Documents, which

amounts will include, without limitation, all court costs, reasonable attorneys, fees, fees of auditors and accountants and investigation expenses incurred by the Bank in connection with any such matters.

4.10. Expiration Date. The Letter of Credit will expire on its currently

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stated Expiration Date, unless the Bank notifies the Borrower in writing at least 120 days prior to the Expiration Date that the Bank will extend such applicable Expiration Date for an additional one-year period from the then applicable Expiration Date.

4.11. Guaranty. (a) The Guarantor hereby absolutely and unconditionally

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guarantees, the full and timely payment when due, whether at stated maturity, by acceleration or otherwise, of all obligations of the Borrower now or hereafter existing under this Agreement or any of the Security Instruments, whether for principal, interest, fees, expenses or otherwise. The Guarantor further agrees to pay any and all expenses (including without limitation reasonable attorneys' fees and expenses) incurred by the Bank in enforcing or protecting its rights against the Guarantor under this Agreement or any of the Security Instruments.

(b) This is a guaranty of payment and not of collection, and the Guarantor expressly waives any right to require that any action be brought against the Borrower or any other guarantor or to require that resort be had to any security, whether held by or available to the Bank or to any other guaranty. If the Borrower shall default in payment of the principal, interest, or fees on or any other amount payable hereunder when and as the same shall become due, whether by acceleration, call for prepayment, or otherwise, or upon the occurrence of any other Event of Default hereunder, the Guarantor, upon demand by the Bank or its successors or assigns, will promptly and fully make such payments. All payments by the Guarantor shall be made in immediately available coin or currency of the United States of America which on the respective dates of payment thereof is legal tender for the payment of public and private debts. Each default in payment of the principal, interest, fees or any other amount payable hereunder, or the occurrence of any other Event of Default hereunder, shall give rise to a separate cause of action hereunder, and separate suits may be brought hereunder as each cause of action arises. The Bank, or its successors or assigns, in its sole discretion, shall have the right to proceed first and directly against the Guarantor and its successors and assigns.

(c) The Guarantor hereby waives promptness, diligence, notice of acceptance and any other notice with respect to any of the obligations of the Borrower under this Agreement or any requirement that the Bank protect, secure, perfect or insure any security interest or lien or any property subject hereto or to the Security Instruments or exhaust any right or take any action against the Borrower or any other Person.

(d) The Guarantor will not exercise any rights that it may acquire by way of subrogation under this Agreement, by any payment made hereunder or otherwise, until all the obligations of the Borrower shall have been paid or performed in full. If any amount shall be paid to the Guarantor on account of such subrogation rights at any time when all the obligations of the Borrower hereunder shall not have been paid or performed in full,

such amount shall be held in trust for the benefit of the Bank and shall forthwith be paid to the Bank to be credited and applied upon the obligations of the Borrower hereunder, whether matured or unmatured, in accordance with the terms hereof.

(e) This guaranty shall continue to be effective or be reinstated, as the case may be, if at any time any payment of any of the obligations of the Borrower hereunder is rescinded or is otherwise returned by the Bank upon the insolvency, bankruptcy or reorganization of the Borrower or otherwise, all as though such payment had not been made.

4.12. Obligations Absolute. The obligations of each of the Borrower and the

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Guarantor under this Agreement shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement, under all circumstances whatsoever, including, without limitation, the following circumstances:

(a) any lack of validity or enforceability of the Letter of Credit, the Bonds, any of the other Bond Documents, any of the Security Instruments or any other agreement or instrument related thereto;

(b) any amendment or waiver of or any consent to departure from the terms of the Letter of Credit, the Bonds, any of the other Bond Documents, any of the Security Instruments or any other agreement or instrument related thereto;

(c) the existence of any claim, set-off, defense or other right which any of the Borrower, the Guarantor or the Issuer may have at any time against the Trustee, any beneficiary or any transferee of the Letter of Credit (or any Person for whom the Trustee, any such beneficiary or any such transferee may be acting), the Bank or any other Person, whether in connection with this Agreement, the other Security Instruments, the Letter of Credit, the Bond Documents, the Project or any unrelated transaction;

(d) any statement, draft or other document presented under the Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect, or any statement therein being untrue or inaccurate in any respect whatsoever;

(e) the surrender, exchange or impairment of any security or the performance or observance of any of the terms of this Agreement; or

(f) any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower or a Guarantor, except subject to the qualification that obligations may be reinstated upon bankruptcy, notwithstanding payment in full of the Borrower's obligations to the Bank.

Notwithstanding the absolute obligations of the Borrower and the Guarantor as provided above, the Bank shall be liable to the Borrower and the Guarantor as provided in Section 10.4 hereof.

4.13. Waiver of Guarantor's Rights. The Guarantor hereby waives to the

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fullest extent possible as and against the Borrower and its assets any and all rights, whether at law, in equity, by agreement or otherwise, to subrogation, indemnity, reimbursement, contribution, or any other similar claim, cause of action or remedy that otherwise would arise out of the Guarantor's performance of its obligations to the Bank under this Agreement. The preceding waiver is intended by both the Guarantor and the Bank to be for the benefit of the Borrower, and the waiver shall be enforceable by the Borrower or any of its successors or assigns as an absolute defense to any action by the Guarantor against the Borrower or its assets which arises out of the Guarantor's having made any payment to the Bank with respect to any of the Borrower's liabilities guaranteed hereunder.

#### ARTICLE V

##### Security; Insurance

5.1. Security. As security for the full and timely payment and performance

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by the Borrower and the Guarantor of their respective obligations hereunder, the Borrower has delivered the Pledge Agreement to the Bank.

5.2. Casualty and Liability Insurance Required. The Borrower will keep the

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Project and its Properties continuously insured against such risks as are customarily insured against by businesses of like size and type engaged in the same or similar operations (other than business interruption insurance) including, without limiting the generality of any other covenant contained herein or in the Bond Documents, casualty insurance and general comprehensive liability insurance against claims for bodily injury, death or property damage; provided, however, that the insurance so required may be provided by blanket policies now or hereafter maintained by the Borrower or the Guarantor.

5.3. Notice of Casualty or Taking. In case of any material damage to or

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destruction of all or any part of the Project, the Borrower shall give prompt notice thereof to the Bank. In case of a taking or proposed taking of all or any material part of the Project or any right therein by Eminent Domain, the Borrower shall give prompt notice thereof to the Bank. Each such notice shall describe generally the nature and extent of such damage, destruction, taking, loss, proceeding or negotiations.

#### ARTICLE VI

##### Affirmative Covenants

Until all the Obligations to be performed and paid shall have been performed and paid in full, and for so long as the Letter of Credit shall be outstanding, unless the Bank shall otherwise consent in writing, the Borrower and the Guarantor will perform and observe all covenants and agreements contained on its respective part in this Article VI.

6.1. Financial Reports and Other Data and Information.

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(a) Quarterly Statements. Within forty-five (45) days after the end of

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each fiscal quarter, a balance sheet of the Guarantor and its Consolidated Subsidiaries at the end of that period and an income statement for that period and for the portion of the fiscal year ending with such period on a consolidated and consolidating basis, setting forth in comparative form the figures for the same period of the preceding fiscal year, and certified by the Chief Financial Officer or Controller of the Guarantor as complete and correct in all material respects and prepared in accordance with GAAP, except without footnotes and subject to normal year-end audit adjustments.

(b) Annual Statements. Within ninety (90) days after the end of each

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fiscal year, a detailed audited financial report of the Guarantor and its Consolidated Subsidiaries on a consolidated and consolidating basis, containing a balance sheet at the end of that period and an income statement and statement of cash flows for that period, setting forth in comparative form the figures for the preceding fiscal year, and containing an unqualified opinion of independent certified public accountants acceptable to the Bank that the financial statements were prepared in accordance with GAAP, and that the examination in connection with the financial statements was made in accordance with generally accepted auditing standards and accordingly included tests of the accounting records and other auditing procedures that were considered necessary in the circumstances.

(c) SEC and Other Reports: Orders, Judgments, Etc. Promptly upon its

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becoming available, one copy of each regular or periodic report, registration statement or prospectus filed by the Guarantor with any securities exchange or the Securities and Exchange Commission or any successor agency, and of any material order, judgment, decree, decision or ruling issued by any governmental authority in any proceeding to which the Guarantor is a party;

(d) Accountants' Statements. Within the period provided in paragraph

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(b) above, a letter of the accountants who render the opinion on the financial statements, stating that they reviewed this Agreement and that in performing the examination necessary to render an opinion on the annual financial statements they obtained no knowledge of any such Default or Event of Default resulting from the Guarantor's failure to observe the financial ratios under Sections 7.5 through 7.9, or, if the accountants have knowledge of a Default or Event of Default, a statement specifying to the best of their knowledge the nature and period of existence of the Default or Event of Default;

(e) Certificates. At the time of the delivery of the financial

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statements provided for in Section 6.1(a) and (b), an Officers' Certificate of the Guarantor to the effect that to the best of his knowledge, no Default or Event of Default has occurred and is continuing;

(f) Notice of Default or Litigation. Promptly, and in any event within

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three Business Days after the Chief Financial Officer or Controller of the Guarantor obtains knowledge thereof, notice of (1) the occurrence of any event which constitutes a Default

or Event of Default, (2) any litigation or governmental proceeding pending against the Guarantor which is likely to materially and adversely affect the business, operations, property, assets, condition (financial or otherwise) or prospects of the Guarantor and its Subsidiaries on a consolidated basis;

(g) Environmental Matters. Promptly upon obtaining knowledge thereof,  
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notice of any facts or circumstances known to the Borrower that the Guarantor reasonably believes is likely to form the basis for the assertion of any material claim against the Guarantor relating to environmental matters including, but not limited to, any claim arising from past or present environmental practices asserted under CERCLA, RCRA, or any other federal, state or local environmental statute;

(h) Other Information. From time to time, such other information or  
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documents (financial or otherwise) as the Bank may reasonably request.

6.2. Books, Records and Inspections. The Borrower and the Guarantor will  
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keep proper books of record and account in which full, true and correct entries in conformity with GAAP and all requirements of law shall be made of all dealings and transactions in relation to their businesses and activities. The Borrower and the Guarantor will permit officers and designated representatives of the Bank to visit and inspect, under guidance of officers of the Borrower and the Guarantor as applicable, any of the properties of the Borrower and the Guarantor and to examine the books of account of the Borrower and the Guarantor and discuss the affairs, finances and accounts of the Borrower and the Guarantor with, and be advised as to the same by, its and their officers, as applicable, all at such reasonable times and intervals and to such reasonable extent as the Bank may request.

6.3. Maintenance of Property, Insurance. Exhibit D sets forth a true and  
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complete listing of all material insurance maintained by the Guarantor and the Borrower as of the date hereof, with the amounts insured on the date hereof set forth therein. Each of the Borrower and the Guarantor shall (i) keep all property useful and necessary in their business in good working order and condition, except for property which has become obsolete or is no longer useful, (ii) maintain with financially sound and reputable insurance companies insurance which provides substantially the same (or greater) coverage and, as to the Borrower, against at least such risks as are described in Exhibit D, and (iii)

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furnish to the Bank, upon written request, full information as to the insurance carried.

6.4. Corporate Franchises. The Borrower and the Guarantor will do or cause  
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to be done, all things necessary to preserve and keep in full force and effect their existence and their material rights, franchises, licenses and patents; provided, however, that nothing in this Section 6.4 shall prevent the withdrawal by the Borrower or the Guarantor of any qualification as a foreign corporation in any jurisdiction where such withdrawal could not have a material adverse effect on the business, operations, property, assets, condition (financial or otherwise) or prospects of the Borrower or the Guarantor and nothing in this Section 6.4 shall prevent the merger of the Borrower into the Guarantor or into a Consolidated Subsidiary of the Guarantor.

6.5. Compliance with Statutes, etc. The Borrower and the Guarantor will

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comply with all applicable statutes, regulations and orders of, and all applicable restrictions imposed by, all governmental bodies, domestic or foreign, in respect of the conduct of their businesses and their ownership of property (including applicable statutes, regulations, orders and restrictions relating to environmental standards and controls), except such noncompliances as could not, in the aggregate, have a material adverse effect on the business, operations, property, assets, condition (financial or otherwise) or prospects of the Borrower and the Guarantor or of the Borrower and the Guarantor taken as a whole.

6.6. ERISA. As soon as possible and in any event within 10 days after the

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Borrower or the Guarantor knows that a Reportable Event has occurred with respect to a Plan established or maintained by the Borrower, the Guarantor or any ERISA Affiliate, that a material accumulated funding deficiency has been incurred or an application is to be or has been made to the Secretary of the Treasury for a waiver or modification of the minimum funding standard (including any required installment payments) or an extension of any amortization period under Section 412 of the Code with respect to such a Plan, that a Plan has been or will be terminated, reorganized, petitioned or declared insolvent under Title IV of ERISA in a manner that has a Material Adverse Effect, that such a Plan has an Unfunded Current Liability within the meaning of Title IV of ERISA giving rise to a lien under ERISA, that proceedings will be or have been instituted to terminate such a Plan under circumstances that will have a Material Adverse Effect, or that the Borrower or the Guarantor or an ERISA Affiliate will incur any material liability to or on account of such a Plan under Section 4062, 4063 or 4064, or which is a multiemployer plan under Section 515, 4201 or 4203 of ERISA, the Borrower and the Guarantor will deliver to the Bank a certificate of a financial officer thereof, setting forth details as to such occurrence and action, if any, which the Borrower, the Guarantor or ERISA Affiliate is required or proposes to take, together with any notices required or proposed to be given to or filed with or by the Borrower, the Guarantor, the ERISA Affiliate, the PBGC, a Plan participant or the Plan administrator with respect thereto. The Borrower and the Guarantor will deliver to the Bank a complete copy of the annual report (Form 5500) of each Plan required to be filed with the Internal Revenue Service or the PBGC, given to Plan participants or received by either the Borrower or the Guarantor.

6.7. Performance of Obligations. The Borrower and the Guarantor will

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perform all of their obligations under the terms of each mortgage, indenture, security agreement and other agreement by which they are bound, except such non-performances as could not in the aggregate, have a material adverse effect on the business, operations, property, assets, condition (financial or otherwise) or prospects of the Borrower and the Guarantor or of the Borrower and the Guarantor taken as a whole.

6.8. Taxes and Liens. The Borrower and the Guarantor will promptly pay, or

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cause to be paid, all material taxes, assessments or other governmental charges that may lawfully be levied or assessed upon the income or profits of Borrower or the Guarantor or upon any Property, real, personal or mixed, belonging to Borrower or the Guarantor, or upon any part thereof, and also any lawful claims for labor, material and supplies which, if unpaid, might become a lien or charge against any such property; provided, however, neither Borrower nor the Guarantor shall

be required to pay any such tax, assessment, charge, levy or claim so long as the validity thereof shall be actively contested in good faith by proper proceedings and, against which the Borrower or the Guarantor, as the case may be, shall have established reserves which are in amounts satisfactory to the Borrower's or the Guarantor's, as the case may be, independent certified public accountants.

6.9. Payment of Obligations. The Borrower and the Guarantor will pay, when

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due, all its material obligations and liabilities, except where the same (other than Indebtedness) are being contested in good faith by appropriate proceedings diligently prosecuted and appropriate reserves for the accrual of same are maintained and, in the case of judgments, enforcement thereof has been stayed pending such contest.

6.10. Environmental Matters. The Borrower and the Guarantor will obtain and

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maintain all licenses, permits, and approvals required in connection with the Project with respect to Hazardous Materials (which shall mean all materials defined as "hazardous substances," "hazardous waste" or "solid waste" in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, the Resource Conservation and Recovery Act or any similar environmental statute) and the Borrower or the Guarantor, as applicable, will remain in full compliance with such licenses, permits and approvals, except to the extent that failure to so comply would not have a Material Adverse Effect. The Borrower and the Guarantor will give the Bank copies of any citations, orders, notices or other communications received with respect to violations or alleged violations of any environmental laws in connection with the Project if such violation or alleged violation is likely to have a Material Adverse Effect. The Borrower and the Guarantor shall indemnify and hold the Bank and its directors, officers, shareholders and employees harmless from and against any and all damages, penalties, fines, claims, liens, suits, liabilities, costs (including clean-up costs) judgments and expenses (including attorneys', consultants' or experts, fees and expenses) of every kind and nature suffered by or asserted against the Bank as a direct or indirect result of any warranty or representation made by the Borrower and the Guarantor in this Section 6.10 being false or untrue in any material respect or any requirement under any environmental law, which requires the elimination or removal of any Hazardous Materials at the Project Site by the Bank, the Borrower, the Guarantor or any transferee of the Borrower, the Guarantor or the Bank, except to the extent that any such damages, penalties, fines, claims, liens, suits, liabilities, costs, judgments, or expenses result directly or indirectly from the actions of the Bank or any of its directors, officers, shareholders or employees.

## ARTICLE VII

### Negative Covenants

Until all the Obligations to be performed and paid shall have been performed and paid in full, and for so long as the Letter of Credit shall be outstanding, unless the Bank shall otherwise consent in writing, the Borrower and the Guarantor covenant and agree as follows:

7.1. Negative Pledge; Liens. The Borrower and the Guarantor and their  
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Subsidiaries will not create, incur, assume or suffer to exist any Lien upon or with respect to any property or assets (real or personal, tangible or intangible) constituting the Project or sell any such property or assets subject to an understanding or agreement, contingent or otherwise, to repurchase such property or assets (including sales of accounts receivable with recourse to the Borrower or the Guarantor), or assign any right to receive income or permit the filing of any financing statement under the Uniform Commercial Code of any state or any other similar notice of Lien under any similar recording or notice statute or enter into any agreement containing a negative pledge other than this Agreement and the Credit Agreement, that certain Amended and Restated Letter of Credit, Reimbursement and Guaranty Agreement dated as of October 18, 1999 among Leslie Controls, Inc.; CIRCOR International, Inc. and First Union National Bank and those certain Note Purchase Agreements aggregating approximately \$75 million of 8.23% Senior Notes due October 18, 2006; provided that the provisions of this Section 7.1 shall not prevent the creation, incurrence, assumption or existence of:

(i) Liens in favor of the Bank;

(ii) Liens for taxes not yet due, or Liens for taxes being contested in good faith and by appropriate proceedings for which adequate reserves have been established;

(iii) Except as hereinafter set forth, Liens in respect of property or assets of the Borrower or the Guarantor imposed by law, which were incurred in the ordinary course of business, such as carriers', warehousemen's and mechanics' liens and other similar Liens arising in the ordinary course of business, not to exceed \$10,000,000 as to the Borrower, the Guarantor and their Subsidiaries in the aggregate, and (x) which do not in the aggregate materially detract from the value of such property or assets or materially impair the use thereof in the operation of the business of the Borrower or the Guarantor or (y) which are being contested in good faith by appropriate proceedings, which proceedings have the effect of preventing the forfeiture or sale of the property or assets subject to any such Lien;

(iv) Liens in existence on the date hereof which are listed, and the property subject thereto described in Exhibit C, with an indication  
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therein that such Liens are "Permitted Liens" hereunder, provided that if in Exhibit C any Lien is listed as being a Permitted Lien only for a  
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designated time period, such Lien shall cease to be a Permitted Lien after the expiration of such time period;

(v) Permitted Encumbrances;

(vi) Liens created pursuant to the Security Instruments; and

(vii) Utility deposits and pledges or deposits in connection with worker's compensation, unemployment insurance and other social security legislation;

7.2. Consolidation or Merger. The Guarantor will not enter into any  
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transaction of merger or consolidation, except for mergers in which the  
Guarantor is the surviving entity.

7.3. Sale of Assets, Dissolution, Etc. The Guarantor will not, nor will it  
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permit any of its Subsidiaries to, enter into any transaction in violation of  
Section 9.05(c) of the Credit Agreement, as amended from time to time.

7.4. Loans and Investments. The Guarantor shall not, nor will it permit any  
-----  
of its Subsidiaries to, enter into any transaction in violation of Sections 9.07  
and 9.08 of the Credit Agreement, as amended from time to time.

7.5. Leverage Ratio. The Guarantor will not permit the Leverage Ratio as at  
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the last day for any fiscal quarter of the Guarantor to exceed 3.50 to 1.

7.6. Net Worth. The Guarantor will not permit Net Worth as at the last day  
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of any fiscal quarter of the Guarantor to be less than the sum of (a)  
\$160,000,000 plus (b) 50% of Net Income for each fiscal quarter of the Guarantor  
ending after the date hereof for which Net Income is a positive number.

7.7. Interest Coverage Ratio. The Guarantor will not permit the Interest  
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Coverage Ratio as at the last day of any fiscal quarter of the Guarantor to be  
less than 2.50 to 1.

7.8. Fixed Charges Coverage Ratio. The Guarantor will not permit the Fixed  
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Charges Coverage Ratio as at the last day of any fiscal quarter of the Guarantor  
to be less than 1.50 to 1.

7.9. Capital Expenditures. The Guarantor will not permit the aggregate  
-----  
amount of Capital Expenditures by the Guarantor and its Subsidiaries in any  
fiscal year of the Guarantor to exceed an amount equal to 3% of the consolidated  
net revenues of the Guarantor and its Subsidiaries for such fiscal year.

In those instances in the foregoing Article VII in which covenants are  
referenced from the Credit Agreement, such covenants shall continue to be a part  
of this Agreement as if fully set forth herein notwithstanding the termination  
or expiration of the Credit Agreement.

#### ARTICLE VIII

Conditions to Release of Watts; Conditions Precedent to Each Tender Advance

8.1. Conditions to Release of Watts. On or prior to the date of the release  
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of Watts from the 1994 Agreement, the Borrower and the Guarantor shall have  
furnished to the Bank, in form satisfactory to the Bank, the following:

(a) two executed counterparts of this Agreement;

(b) evidence of compliance with the insurance requirements contained  
in Article VI hereof;

(c) opinion(s) of counsel for the Borrower and the Guarantor dated the date hereof addressed to, and substantially in the form attached hereto as Exhibit E and otherwise in form and substance acceptable to, the Bank;

(d) certificates of the Borrower and the Guarantor, as applicable, including references to (i) Articles of Incorporation, By-laws and other charter documents as applicable, (ii) resolutions of the Board of Directors, authorizing the execution, delivery and performance of this Agreement, (iii) incumbency and specimen signatures of officers, and (iv) such other matters as the Bank may require;

(e) (i) copies of the Articles of Incorporation, By-laws or other charter documents, as applicable, of the Guarantor, certified as true and correct by an authorized officer as of the date hereof; and (ii) as to any corporations, certificates dated no earlier than 20 days prior to the date of this Agreement of the Secretary of State of the applicable states as to the good standing of the Borrower and the Guarantor;

(f) an opinion of Bond Counsel, in form and substance satisfactory to the Bank and its Counsel;

(g) such other documents, instruments and certifications as the Bank may reasonably require.

8.2. Conditions Precedent to Each Tender Advance. Each payment made by the

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Bank under the Letter of Credit pursuant to a Tender Draft shall constitute a Tender Advance hereunder only if on the date of such payment no event has occurred or would result from such Tender Advance, which constitutes an Event of Default or would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

Unless the Borrower or the Guarantor shall have previously advised the Bank in writing or the Bank has actual knowledge that the above statement is no longer true, the Borrower and the Guarantor shall be deemed to have represented and warranted, on the date of payment by the Bank under the Letter of Credit pursuant to a Tender Draft, that on the date of such payment the above statement is true and correct.

ARTICLE IX

Default

9.1. Events of Default. Each of the following shall constitute an Event of

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Default under this Agreement, whereupon all obligations, whether then owing or contingently owing, will, at the option of the Bank or its successors or assigns, immediately become due and payable by the Borrower without presentation, demand, protest or notice of any kind, all of which are hereby expressly waived, and the Borrower will pay the reasonable attorneys' fees incurred by the Bank, or its successors or assigns, in connection with such Event of Default:

(a) Failure of the Borrower or the Guarantor to pay within five (5) days of the date when due any payment of principal, interest, commission, charge or expense referred to in Article IV hereof; or

(b) The occurrence of an "Event of Default" under any of the Security Instruments or any of the Bond Documents or any revolving credit or term loan facility between the Guarantor or the Borrower and the Bank including, without limitation, the Credit Agreement; or

(c) The Guarantor or any of its Subsidiaries (other than any Immaterial Subsidiary) shall default in the payment when due of any principal of or interest on any of its other Indebtedness of the Guarantor or any of its Subsidiaries (other than any Immaterial Subsidiary) having a principal amount, individually or in the aggregate, in excess of \$10,000,000 or in the payment when due of any amount under any Interest Rate Protection Agreement; or any event specified in any note, agreement, indenture or other document evidencing or relating to any such Indebtedness or any event specified in any Interest Rate Protection Agreement shall occur if the effect of such event is to cause, or (with the giving of any notice or the lapse of time or both) to permit the holder or holders of such Indebtedness (or a trustee or agent on behalf of such holder or holders) to cause, such Indebtedness to become due, or to be prepaid in full (whether by redemption, purchase, offer to purchase or otherwise), prior to its stated maturity or, in the case of an Interest Rate Protection Agreement, to permit the payments owing under such Interest Rate Protection Agreement to be liquidated; or

(d) If any representation, warranty, certification or statement made by the Borrower or the Guarantor herein, or in any writing furnished by or on behalf of the Borrower or the Guarantor in connection with the loan by the Issuer under the Sale Agreement or pursuant to this Agreement, or any of the Security Instruments shall have been false, misleading or incomplete in any material respect on the date as of which made; or

(e) If the Borrower or the Guarantor default in the performance or observance of any agreement or covenant contained in Article VII hereof; or

(f) If the Borrower or the Guarantor default in the performance or observance of any other agreement, covenant, term or condition contained herein, and such default shall not have been remedied thirty (30) days after written notice thereof shall have been received by it from the Bank; or

(g) The Borrower or the Guarantor shall make an assignment for the benefit of creditors, file a petition in bankruptcy, have entered against or in favor of it an order for relief under the Federal Bankruptcy Code or similar law of any foreign jurisdiction, generally fail to pay its debts as they come due (either as to number or amount), admit in writing its inability to pay its debts generally as they mature, make a voluntary assignment for the benefit of creditors, commence any voluntary assignment for the benefit of creditors, commence any proceeding relating to it under any reorganization, arrangement, readjustment of debt, dissolution or liquidation law or statute of any jurisdiction, whether now or hereafter in effect, or by any act, indicate its consent to, approval of or acquiescence in any such proceeding for the appointment of any receiver of, or trustee or custodian (as defined in the Federal Bankruptcy Code) for itself, or any substantial part of its property, or a trustee or a receiver shall be appointed for the Borrower or for a substantial part of the property of the Borrower or the Guarantor and such appointment remains in effect for more than sixty (60) days, or a petition in bankruptcy or for reorganization shall be filed against the Borrower or the Guarantor and such petition shall not be dismissed within sixty (60) days after such filing; or

(h) A final judgment or judgments for the payment of money in excess of \$10,000,000 in the aggregate shall be rendered by one or more court, administrative tribunals or other bodies having jurisdiction against the Guarantor or any of its Subsidiaries (other than any Immaterial Subsidiary) and the same shall not be discharged (or provision shall not be made for such discharge), or a stay of execution thereof shall not be procured, within 30 days from the date of entry thereof and such Person shall not, within said period of 30 days, or such longer period during which execution of the same shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal;

then at any time thereafter, the Bank may (a) pursuant to Section 902 of the Indenture, advise the Trustee that an Event of Default has occurred and instruct the Trustee to declare the principal of all Bonds then outstanding and interest thereon to be immediately due and payable, and (b) proceed hereunder, and under the Security Instruments and, to the extent therein provided, under the Bond Documents, in such order as it may elect and the Bank shall have no obligation to proceed against any Person or exhaust any other remedy or remedies which it may have and without resorting to any other security, whether held by or available to the Bank.

9.2. No Remedy Exclusive. No remedy herein conferred upon or reserved to

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the Bank is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder and the Security Instruments or now or hereafter existing at law or in equity or by statute.

ARTICLE X

Miscellaneous

10.1. Indemnification. (a) Each of the Borrower and the Guarantor, jointly

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and severally, hereby indemnifies and holds the Bank harmless from and against any and all claims, damages, losses, liabilities, costs or expenses whatsoever which the Bank may incur (or which may be claimed against the Bank by any Person) (i) by reason of or in connection with the execution and delivery or transfer of, or payment or failure to pay under, the Letter of Credit, provided that the Borrower and the Guarantor shall not be required to indemnify the Bank for any claims, damages, losses, liabilities, costs or expenses to the extent, but only to the extent, caused by (a) the gross negligence or willful misconduct of the Bank in connection with paying drafts presented under the Letter of Credit or (b) the Bank's willful failure to pay under the Letter of Credit (other than in connection with a court order) after the presentation to it by the Trustee or a successor corporate fiduciary under the Indenture of a sight draft and certificate strictly complying with the terms and conditions of the Letter of Credit or (c) any other failure of the Bank to conform to the Uniform Customs and Practice; or (ii) by reason of or in connection with the execution, delivery or performance of any of this Agreement, the Security Instruments or any transaction contemplated by any thereof.

(b) Each of the Borrower and the Guarantor, jointly and severally, hereby indemnifies and holds the Bank harmless from and against any and all damages, penalties, fines, claims, liens, suits, liabilities, costs (including clean-up costs), judgments and expenses (including attorneys', consultants' or experts' fees and expenses) of every kind and nature suffered by or asserted against the Bank as a direct or indirect result of any warranty or representation made by the Borrower and the Guarantor in Sections 2.11 hereof, respectively, being false or untrue in any material respect or any requirement under any law, regulation or ordinance, local, state, or federal, which requires the elimination or removal of any hazardous materials, substances, wastes or other environmentally regulated substances at the Project Site, except to the extent that any such damages, penalties, fines, claims, liens, suits, liabilities, costs, judgments or expenses result directly or indirectly from the actions of the Bank or any of its directors, officers, shareholders or employees. The Borrower's and the Guarantor's obligations hereunder to the Bank shall not be limited to any extent by the term of this Agreement, and, as to any act or occurrence prior to the termination of this Agreement which gives rise to liability hereunder, shall continue, survive and remain in full force and effect notwithstanding the termination of the Bank's obligations hereunder.

Anything herein to the contrary notwithstanding, nothing in this Section 10.1 is intended or shall be construed to limit the Borrower's reimbursement obligation or the Guarantor's guaranty obligation contained in Article IV hereof. Without prejudice to the survival of any other obligation of the Borrower or the Guarantor, the indemnities and obligations of the Borrower and the Guarantor contained in this Section 10.1 shall survive the payment in full of amounts payable pursuant to Article IV and the Termination Date.

10.2. Transfer of Letter of Credit. The Letter of Credit may be transferred  
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and assigned in accordance with the terms of the Letter of Credit.

10.3. Reduction of Letter of Credit. (a) The Letter of Credit is subject to  
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reduction pursuant to its terms.

(b) If the amount available to be drawn under the Letter of Credit shall be permanently reduced in accordance with the terms thereof, then the Bank shall have the right to require the Trustee to surrender the Letter of Credit to the Bank and to issue on such date, in substitution for such outstanding Letter of Credit, a substitute irrevocable letter of credit, substantially in the form of the Letter of Credit but with such changes therein as shall be appropriate to give effect to such reduction, dated such date, for the amount to which the amount available to be drawn under the Letter of Credit shall have been reduced.

10.4. Liability of the Bank. Neither the Bank nor any of its officers,  
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directors, employees, agents or consultants shall be liable or responsible for:

(a) the use which may be made of the Letter of Credit or for any acts or omissions of the Trustee or any beneficiary or transferee in connection therewith;

(b) the validity, sufficiency or genuineness of documents, or of any endorsements thereon, even if such documents should in fact prove to be in any or all respects invalid, insufficient, inaccurate, fraudulent or forged;

(c) payment by the Bank against presentation of documents which do not comply with the terms of the Letter of Credit, including failure of any documents to bear any reference or adequate reference to the Letter of Credit; or

(d) any other circumstances whatsoever in any way related to the making or failure to make payment under the Letter of Credit;

except only that the Borrower and the Guarantor shall have a claim against the Bank, and the Bank shall be liable to the Borrower and the Guarantor, to the extent but only to the extent, of any direct, as opposed to consequential, damages suffered by the Borrower or the Guarantor which were caused by (i) the gross negligence or willful misconduct of the Bank in determining whether documents presented under the Letter of Credit complied with the terms of the Letter of Credit or (ii) wrongful failure of the Bank to pay under the Letter of Credit after the presentation to it by the Trustee or a successor trustee under the Indenture of a sight draft and certificate strictly complying with the terms and conditions of the Letter of Credit or (iii) any other failure of the Bank to conform to the requirements of the Uniform Customs and Practice. In furtherance and not in limitation of the foregoing, the Bank may accept documents that appear on their face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary.

10.5. Successors and Assigns. This Agreement shall be binding upon the

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Borrower, the Guarantor and the Bank, their respective successors and assigns and all rights against the Borrower or the Guarantor arising under this Agreement shall be for the sole benefit of the Bank, its successors and assigns, all of whom shall be entitled to enforce performance and observance of this Agreement to the same extent as if they were parties hereto.

10.6. Notices. All notices, requests and demands to or upon the respective

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parties hereto shall be deemed to have been given or made when hand delivered or mailed first class, certified or registered mail, postage prepaid, or by overnight courier service, addressed as follows or to such other address as the parties hereto shall have been notified pursuant to this Section 10.6:

The Bank: First Union National Bank  
One First Union Center, 5th Floor  
301 S. College Street  
Charlotte, NC 28288-0742

with a copy to: First Union National Bank  
International Trade Operations  
8739 Research Drive - URP4  
Charlotte, NC 28262 NCO 742

The Borrower: Spence Engineering Company, Inc.  
150 Coldenham Road  
P.O. Box 230  
Walden, NY 12586

The Guarantor: CIRCOR International, Inc.  
35 Corporate Drive  
Burlington, MA 01803  
Attention: Chief Financial Officer

except in cases where it is expressly herein provided that such notice, request or demand is not effective until received by the party to whom it is addressed, in which event said notice, request or demand shall be effective only upon receipt by the addressee.

10.7. Amendment. This Agreement may be amended, modified or discharged only

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upon an agreement in writing of the Borrower, the Guarantor and the Bank.

10.8. Effect of Delay and Waivers. No delay or omission to exercise any

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right or power accruing upon any default, omission or failure of performance hereunder shall impair any such right or power or shall be construed to be a waiver thereof, but any such right and power may be

exercised from time to time and as often as may be deemed expedient. In order to entitle the Bank to exercise any remedy now or hereafter existing at law or in equity or by statute, it shall not be necessary to give any notice, other than such notice as may be herein expressly required. In the event any provision contained in this Agreement should be breached by any party and thereafter waived by the other party so empowered to act, such waiver shall be limited to the particular breach hereunder. No waiver, amendment, release or modification of this Agreement shall be established by conduct, custom or course of dealing, but solely by an instrument in writing duly executed by the parties thereunto duly authorized by this Agreement.

10.9. Counterparts. This Agreement may be executed simultaneously in  
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several counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

10.10. Severability. The invalidity or unenforceability of any one or more  
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phrases, sentences, clauses or Sections contained in this Agreement shall not affect the validity or enforceability of the remaining portions of this Agreement, or any part thereof.

10.11. Cost of Collection. Each of the Borrower and the Guarantor shall be  
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liable for the payment of all reasonable fees and expenses, including reasonable attorneys' fees (computed without regard to any statutory presumption), incurred in connection with the enforcement of this Agreement.

10.12. Set-Off. Upon the occurrence of an Event of Default hereunder, the  
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Bank is hereby authorized, without notice to the Borrower or the Guarantor, to set-off, appropriate and apply any and all monies, securities and other properties of the Borrower or the Guarantor hereafter held or received by or in transit to the Bank from or for the Borrower or the Guarantor, against the obligations of the Borrower or the Guarantor irrespective of whether the Bank shall have made any demand hereunder or any other Credit Security Instrument under and although such obligations may be contingent or unmatured.

10.13. Governing Law. This Agreement shall be governed by and construed in  
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accordance with the laws of the State of New York. The Guarantor hereby acknowledge that the Letter of Credit shall be governed by and construed in accordance with Uniform Customs and Practice.

10.14. References. The words "herein", "hereof", "hereunder" and other  
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words of similar import when used in this Agreement refer to this Agreement as a whole, and not to any particular article, section or subsection.

10.15. Consent to Jurisdiction, Venue. In the event that any action, suit  
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or other proceeding is brought against the Borrower or the Guarantor by or on behalf of the Bank to enforce the observance or performance of any of the provisions of this Agreement or of any of the Security Instruments, including without limitation the collection of any amounts owing thereunder, each of the Borrower and the Guarantor hereby (i) irrevocably consents to the exercise of jurisdiction over the Borrower and the Guarantor and to the extent permitted by applicable laws, their property, by the United States District Court, Southern District of North

Carolina, and by Supreme Court of North Carolina or the State Court and (ii) irrevocably waives any objection it might now or hereafter have or assert to the venue of any such proceeding in any court described in clause (i) above.

IN WITNESS WHEREOF, the Borrower, the Guarantor and the Bank have caused this Agreement to be executed in their respective names, as a sealed Instrument all as of the date first above written.

THE BORROWER:

SPENCE ENGINEERING COMPANY, INC.

By: /s/ David A. Bloss, Sr.

-----  
Title: President and Chief  
Executive Officer

ATTEST: /s/ Cosmo S. Trapani

-----  
Title: Secretary

(Corporate Seal)

THE GUARANTOR:

CIRCOR INTERNATIONAL, INC.

By: /s/ David A. Bloss, Sr.

-----  
Title: President and Chief  
Executive Officer

ATTEST: /s/ Cosmo S. Trapani

-----  
Title: Secretary

(Corporate Seal)

THE BANK:

FIRST UNION NATIONAL BANK

By: /s/ Mark B. Felker

-----  
Title: Senior Vice President

ATTEST: /s/ Robert L. Andersen

-----  
Title: Assistant Secretary

(Corporate Seal)

WATTS INDUSTRIES, INC. consents to the Agreement

insofar as it relates to its release from the 1994 Agreement.

WATTS INDUSTRIES, INC.

By: /s/ Kenneth J. McAvoy

-----  
Name: Kenneth J. McAvoy

-----  
Title: Chief Financial Officer and Treasurer  
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EXHIBIT A

Form of Letter of Credit

A-1

[EXECUTION COPY]

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CIRCOR INTERNATIONAL, INC.

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CREDIT AGREEMENT

Dated as of October 18, 1999

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ING (U.S.) CAPITAL LLC  
as Agent

BANKBOSTON, N.A.  
as Syndication Agent

FIRST UNION NATIONAL BANK  
as Documentation Agent

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CREDIT AGREEMENT dated as of October 18, 1999 (this "Agreement") among

CIRCOR INTERNATIONAL, INC., a corporation duly organized and validly existing under the laws of the State of Delaware (the "Company"); each of the

Subsidiaries of the Company identified under the caption "SUBSIDIARY GUARANTORS"

on the signature pages hereto (individually, a "Subsidiary Guarantor" and, collectively, the "Subsidiary Guarantors" and, together with the Company, the

"Obligors"); each of the lenders that is a signatory hereto identified under the

caption "LENDERS" on the signature pages hereto or that, pursuant to Section 12.06(b) hereof, shall become a "Lender" hereunder (individually, a "Lender"

and, collectively, the "Lenders"); ING BARINGS LLC, as Arranger for the Lenders

(in such capacity, the "Arranger"); and ING (U.S.) CAPITAL LLC, as agent for the

Lenders (in such capacity, together with its successors in such capacity, the "Agent").

The Obligors are engaged as an integrated group in the business of designing, manufacturing and distributing valves and related products and services for use in fluid-control systems. In that connection, the Obligors have requested that the Lenders extend credit to the Company in an aggregate principal or face amount not exceeding \$110,000,000 to recapitalize the Company in connection with the spinoff of the Company from Watts Industries, Inc. and to finance capital expenditures by the Company and for working capital purposes.

To induce the Lenders to extend such credit, the Obligors, the Lenders and the Agent propose to enter into this Agreement pursuant to which the Lenders will make loans to the Company, and each Subsidiary Guarantor (it being agreed and acknowledged that no Foreign Subsidiary shall be a Subsidiary Guarantor) will guarantee the credit so extended to the Company. Each of the Obligors expects to derive benefit, directly or indirectly, from the credit so extended to the Company, both in its separate capacity and as a member of the integrated group, since the successful operation of each of the Obligors is dependent on the continued successful performance of the functions of the integrated group as a whole.

Accordingly, the parties hereto agree as follows:

I. Section Definitions and Accounting Matters.

A. Certain Defined Terms. As used herein, the following terms shall have

the following meanings (all terms defined in this Section 1.01 or in other provisions of this Agreement in the singular to have the same meanings when used in the plural and vice versa):

"Additional Costs" shall have the meaning ascribed thereto in Section 5.01(a) hereof.

"Advance Date" shall have the meaning ascribed thereto in Section 4.06 hereof.

"Affected Loans" shall have the meaning ascribed thereto in Section 5.04 hereof.

"Affected Type" shall have the meaning ascribed thereto in Section 5.04 hereof.

"Affiliate" shall mean any Person that directly or indirectly controls, or is under common control with, or is controlled by, the Company and, if such Person is an individual, any member of the immediate family (including parents, spouse, children and siblings) of such

individual and any trust whose principal beneficiary is such individual or one or more members of such immediate family and any Person who is controlled by any such member or trust. As used in this definition, "control" (including, with its

correlative meanings, "controlled by" and "under common control with") shall

mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise), provided

that, in any event, any Person that owns directly or indirectly securities having 10% or more of the voting power for the election of directors or other governing body of a corporation or 10% or more of the partnership or other ownership interests of any other Person (other than as a limited partner of such other Person) will be deemed to control such corporation or other Person. Notwithstanding the foregoing, (a) no individual shall be an Affiliate solely by reason of his or her being a director, officer or employee of the Company or any of its Subsidiaries, (b) none of the Wholly Owned Subsidiaries of the Company shall be Affiliates and (c) neither the Agent nor any Lender shall be an Affiliate.

"Agent" shall have the meaning assigned to such term in the preamble hereof.

"Applicable Commitment Fee Percentage" shall mean, with respect to

Revolving Credit Loans, 0.500% per annum; provided, that if at any time on or

subsequent to the Closing Date the Leverage Ratio as at the last day of any fiscal quarter of the Company shall fall within any of the ranges set forth in Schedule Z below then, subject to the delivery to the Agent no later than 45 days after the end of such fiscal quarter of a certificate of a senior financial officer of the Company demonstrating such fact (including the certificate delivered pursuant to 7.01(b) hereof), the "Applicable Commitment Fee

Percentage" for Revolving Credit Loans shall be reduced from 0.500% by the

percentage per annum set forth opposite such range in such Schedule Z during the period commencing on the date of receipt of such certificate to but not including the earlier of (x) the date such a certificate is delivered by the Company with respect to the Leverage Ratio as at the end of the immediately following fiscal quarter and (y) 45 days after the end of such immediately following fiscal quarter (except that notwithstanding the foregoing, the Applicable Commitment Fee Percentage shall equal 0.500% per annum for any fiscal quarter during which an Event of Default shall have occurred and be continuing):

Schedule Z

Leverage Ratio	Reduction in Applicable Commitment Fee Percentage (% p.a.)
Less than or equal to 3.00, but greater than 2.00	0.150%
Less than or equal to 2.00	0.225%

"Applicable Lending Office" shall mean, for each Lender and for each Type of Loan, the "Lending Office" of such Lender (or of an affiliate of such Lender) designated for such Type of Loan on the signature pages hereof or such other office of such Lender (or of an affiliate of such Lender) as such Lender may from time to time specify to the Agent and the Company as the office by which its Loans of such Type are to be made and maintained.

"Applicable Margin" shall mean, with respect to each Type of Loan, the

percentage per annum set forth opposite such Type of Loan in Schedule X below; provided that if at any time on or subsequent to the Closing Date the Leverage

Ratio as at the last day of any fiscal quarter of the Company shall fall within any of the ranges set forth in Schedule Y below then, subject to the delivery to the Agent no later than 45 days after the end of such fiscal quarter of a certificate of a senior financial officer of the Company demonstrating such fact (including the certificate delivered pursuant to Section 7.01(b) hereof), the "Applicable Margin" for Term Loans and Revolving Credit Loans shall be reduced from the respective percentage per annum so determined from such Schedule X by the percentage per annum for the respective Type of Loan set forth opposite such range in such Schedule Y during the period commencing on the date of receipt of such certificate to but not including the earlier of (x) the date such a certificate is delivered by the Company with respect to the Leverage Ratio as at the end of the immediately following fiscal quarter and (y) 45 days after the end of such immediately following fiscal quarter (except that notwithstanding the foregoing, the Applicable Margin for any such Loan shall not as a consequence of this proviso be so reduced for any period during which an Event of Default shall have occurred and be continuing):

Schedule X

Class	Applicable Margin (% p.a.)	
	Base	Eurodollar
	Rate Loans	Loans
Term Loans	0.875%	2.250%
Revolving Credit Loans	0.375%	1.750%

Schedule Y

Leverage Ratio	Reduction in Applicable Margin (%p.a.)	
	Base	Eurodollar
	Rate Loans	Loans
Less than or equal to 3.00 but greater than 2.50	0.250%	0.250%
Less than or equal to 2.50, but greater than 2.00	0.375%	0.500%
Less than or equal to 2.00, but greater than 1.50	0.375%	0.750%
Less than or equal 1.50	0.375%	1.000%

"Bankruptcy Code" shall mean the Federal Bankruptcy Code of 1978, as amended from time to time.

"Basle Accord" shall have the meaning ascribed thereto in Section 5.01(c) hereof.

"Base Rate" shall mean, for any day, a rate per annum equal to the higher  
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of (a) the Federal Funds Rate for such day plus 1/2 of 1% and (b) the Prime Rate for such day. Each change in any interest rate provided for herein based upon the Base Rate resulting from a change in the Base Rate shall take effect at the time of such change in the Base Rate.

"Base Rate Loans" shall mean Loans that bear interest at rates based upon  
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the Base Rate.

"Basic Documents" shall mean, collectively, this Agreement and the Notes.  
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"Business Day" shall mean (a) any day on which commercial lenders are not  
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authorized or required to close in New York City and (b) if such day relates to a borrowing of, a payment or prepayment of principal of or interest on, a Conversion of or into, or an Interest Period for, a Eurodollar Loan or a notice by the Company with respect to any such borrowing, payment, prepayment, Conversion or Interest Period, any day on which dealings in Dollar deposits are carried out in the London interbank market.

"Capital Expenditures" shall mean, for any period, expenditures (including,  
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without limitation, the aggregate amount of Capital Lease Obligations incurred during such period) made by the Company or any of its Subsidiaries to acquire or construct fixed assets, plant and equipment (including renewals, improvements and replacements, but excluding repairs) during such period computed in accordance with GAAP.

"Capital Lease Obligations" shall mean, for any Person, all obligations of  
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such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) Property to the extent such obligations are required to be classified and accounted for as a capital lease on a balance sheet of such Person under GAAP, and, for purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

"Casualty Event" shall mean, with respect to any Property of any Person,  
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any loss of or damage to, or any condemnation or other taking of, such Property for which such Person or any of its Subsidiaries receives insurance proceeds, or proceeds of a condemnation award or other compensation.

"Change of Control" shall be deemed to have occurred if any person or group  
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(within the meaning of Rule 13d-5 of the Securities Exchange Act of 1934 as in effect on the date hereof), other than one or more of Timothy P. Horne, Frederic B. Horne, George B. Horne, Daniel W. Horne, Peter Horne and Deborah Horne and their respective spouses and descendants (including any trust for the benefit of one or more of the foregoing persons) in connection with estate planning matters, shall own directly or indirectly, beneficially or of record, shares representing more than 35% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of the Company.

"Class" shall have the meaning assigned to such term in Section 1.03  
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hereof.

"Closing Date" shall mean the date upon which the initial extension of  
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credit hereunder is made.

"Code" shall mean the Internal Revenue Code of 1986, as amended from time  
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to time.

"Commitments" shall mean the Revolving Credit Commitment and the Term Loan  
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Commitments.

"Company" shall have the meaning assigned to such term in the preamble  
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hereof.

"Continue", "Continuation" and "Continued" shall refer to the continuation  
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pursuant to Section 2.08 hereof of a Eurodollar Loan of one Type as a Eurodollar  
Loan of the same Type from one Interest Period to the next Interest Period.

"Convert", "Conversion" and "Converted" shall refer to a conversion  
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pursuant to Section 2.08 hereof of one Type of Loans into another Type of Loans,  
which may be accompanied by the transfer by a Lender (at its sole discretion) of  
a Loan from one Applicable Lending Office to another.

"Debt Issuance" shall mean an issuance by the Company or any of its  
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Subsidiaries after the Closing Date of any Indebtedness for money borrowed,  
other than the Senior Notes and Loans.

"Debt Service" shall mean, for any period, the sum, for the Company and its  
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Subsidiaries (determined on a consolidated basis without duplication in  
accordance with GAAP), of the following: (a) all payments of principal of  
Indebtedness (including, without limitation, the principal component of any  
payments in respect of Capital Lease Obligations) scheduled to be made during  
such period plus (b) all Interest Expense for such period.

"Default" shall mean an Event of Default or an event that with notice or  
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lapse of time or both would become an Event of Default.

"Disposition" shall mean any sale, assignment, transfer or other  
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disposition of any Property (whether now owned or hereafter acquired) by the  
Company or any of its Subsidiaries to any other Person excluding any sale,  
assignment, transfer or other disposition of any Property sold or disposed of in  
the ordinary course of business and on ordinary business terms.

"Dividend Payment" shall mean dividends (in cash, Property or obligations)  
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on, or other payments or distributions on account of, or the setting apart of  
money for a sinking or other analogous fund for, or the purchase, redemption,  
retirement or other acquisition of, any shares of any class of stock of the  
Company or of any warrants, options or other rights to acquire the same (or to  
make any payments to any Person, such as "phantom stock" payments, where the  
amount thereof is calculated with reference to the fair market or equity value  
of the Company or any of its Subsidiaries), but excluding dividends payable  
solely in shares of capital stock of the Company and excluding the distribution  
of stock options or other rights to acquire capital stock of the Company.

"Dollars" and "\$" shall mean lawful money of the United States of America.  
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"EBITDA" shall mean, for any period, the sum, for the Company and its

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Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following: (a) Net Income (calculated before taxes, Interest Expense, extraordinary or unusual items and income or loss attributable to equity in Affiliates) for such period plus (b) depreciation and amortization (to the extent deducted in determining Net Income) for such period.

"Environmental Claim" shall mean any written notice, claim, demand or other

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written communication (collectively, a "claim") by any Person alleging or

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asserting that the Company or any of its Subsidiaries is liable for investigatory costs, cleanup costs, governmental response costs, damages to natural resources or other Property, personal injuries, fines or penalties arising out of, based on or resulting from (i) the presence, or Release into the environment, of any Hazardous Material at any location, whether or not owned by the Person making the allegation, or (ii) circumstances forming the basis of any violation, or alleged violation, of any Environmental Law. The term "Environmental Claim" shall include, without limitation, any claim by any governmental authority for enforcement, cleanup, removal, response, remedial or other actions or damages pursuant to any applicable Environmental Law, and any claim by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from the presence or Release of Hazardous Materials or arising from alleged injury or threat of injury to health, safety or the environment.

"Environmental Laws" shall mean any and all Federal, state, local and

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foreign laws, rules or regulations, and any orders or decrees, in each case as now or hereafter in effect, relating to the regulation or protection of human health, safety or the environment or to emissions, discharges, releases or threatened releases of pollutants, contaminants, chemicals or toxic or hazardous substances or wastes into the environment, including, without limitation, ambient air, soil, surface water, ground water, wetlands, land or subsurface strata, or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of pollutants, contaminants, chemicals or toxic or hazardous substances or wastes.

"Equity Issuance" shall mean (a) any issuance or sale by the Company or any

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of its Subsidiaries after the Closing Date of (i) any capital stock, (ii) any warrants, options or other stock-based awards exercisable in respect of capital stock (other than any warrants, options or other stock-based awards issued to directors, officers or employees of the Company or any of its Subsidiaries pursuant to employee benefit plans established in the ordinary course of business and any capital stock of the Company issued upon the exercise of such warrants, options or other stock-based awards) or (iii) any other security or instrument representing an equity interest (or the right to obtain any equity interest) in the Company or any of its Subsidiaries or (b) the receipt by the Company or any of its Subsidiaries after the Closing Date of any capital contribution (whether or not evidenced by any equity security issued by the recipient of such contribution); provided that Equity Issuance shall not include

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(x) any such issuance or sale by any Subsidiary of the Company to the Company or any Wholly Owned Subsidiary of the Company or (y) any capital contribution by the Company or any Wholly Owned Subsidiary of the Company to any Subsidiary of the Company.

"Equity Rights" shall mean, with respect to any Person, any subscriptions,

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options, warrants, commitments, preemptive rights or agreements of any kind (including, without limitation, any stockholders' or voting trust agreements) for the issuance, sale, registration or

voting of, or securities convertible into, any additional shares of capital stock of any class, or partnership or other ownership interests of any type in, such Person.

"ERISA" shall mean the Employee Retirement Income Security Act of 1974, as  
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amended from time to time.

"ERISA Affiliate" shall mean any corporation or trade or business that is a  
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member of any group of organizations (i) described in Section 414(b) or (c) of the Code of which the Company is a member and (ii) solely for purposes of potential liability under Section 302(c)(11) of ERISA and Section 412(c)(11) of the Code and the lien created under Section 302(f) of ERISA and Section 412(n) of the Code, described in Section 414(m) or (o) of the Code of which the Company is a member.

"Eurodollar Base Rate" shall mean, with respect to any Eurodollar Loan for  
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any Interest Period therefor, a rate per annum determined by the Administrative Agent to be equal to the rate per annum (rounded upwards, if necessary, to the nearest 1/16 of 1%) quoted at approximately 11:00 a.m. London time (or as soon thereafter as practicable) on the date two Business Days prior to the first day of such Interest Period on Dow Jones Telerate Service Page 3750 as the London interbank offered rate for Dollar deposits having a term comparable to such Interest Period and in an amount equal to or greater than \$1,000,000.

"Eurodollar Loans" shall mean Loans that bear interest at the Eurodollar  
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Base Rate.

"Eurodollar Rate" shall mean, for any Eurodollar Loan for any Interest  
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Period therefor, a rate per annum determined by the Agent to be equal to (a) the Eurodollar Base Rate for such Loan for such Interest Period divided by (b) 1 minus the Reserve Requirement (if any) for such Loan for such Interest Period.

"Event of Default" shall have the meaning assigned to such term in Section  
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10 hereof.

"Excess Cash Flow" shall mean, for any fiscal year of the Company, the sum  
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of the following:

1. EBITDA for such period, minus  
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1. taxes and Interest Expense for such period, minus  
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1. unfinanced Capital Expenditures made during such period, minus  
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1. the aggregate amount of payments of principal of Indebtedness made during such period (and, to the extent any such Indebtedness under a revolving credit or similar credit facility, only to the extent that any related commitment to extend credit is concurrently permanently reduced), plus  
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1. the aggregate amount of non-cash charges for such period (to the extent deducted in determining EBITDA for such period), minus  
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1. the aggregate amount of non-cash income for such period (to the extent included in determining EBITDA for such period), plus

1. decreases in Working Capital for such period (or minus increases in Working Capital for such period).

"Federal Funds Rate" shall mean, for any day, the rate per annum (rounded

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upwards, if necessary, to the nearest 1/100 of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Lender of New York on the Business Day next succeeding such day, provided that (a) if the day for which such rate is to be determined is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day and (b) if such rate is not so published for any Business Day, the Federal Funds Rate for such Business Day shall be the average rate charged to the Reference Lenders on such Business Day on such transactions as determined by the Agent.

"Fee Letter" shall mean the Fee Letter dated August 9, 1999 between the

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Company and ING Barings LLC.

"First Union Indebtedness" shall mean the Indebtedness incurred by the

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Company and certain of its Subsidiaries under (i) that certain Amended and Restated Letter of Credit, Reimbursement and Guaranty Agreement dated as of October 18, 1999 among Leslie Controls, Inc., the Company and First Union National Bank and (ii) that certain Amended and Restated Letter of Credit, Reimbursement and Guaranty Agreement dated as of October 18, 1999 among Spence Engineering Company Inc., the Company and First Union National Bank.

"Fixed Charges Coverage Ratio" shall mean, as at any date, the ratio of

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(a) (x) EBITDA for the period of four consecutive fiscal quarters ending on or most recently ended prior to such date minus (y) Capital Expenditures made during such period to (b) Debt Service for such period.

"Foreign Subsidiary" shall mean any Subsidiary of the Company the principal

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place of business of which is outside the United States of America.

"GAAP" shall mean generally accepted accounting principles applied on a

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basis consistent with those that, in accordance with the last sentence of Section 1.02(a) hereof, are to be used in making the calculations for purposes of determining compliance with this Agreement.

"Guarantee" shall mean a guarantee, an endorsement, a contingent agreement

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to purchase or to furnish funds for the payment or maintenance of, or otherwise to be or become contingently liable under or with respect to, the Indebtedness, other obligations, net worth, working capital or earnings of any Person, or a guarantee of the payment of dividends or other distributions upon the stock or equity interests of any Person, or an agreement to purchase, sell or lease (as lessee or lessor) Property, products, materials, supplies or services primarily for the purpose of enabling a debtor to make payment of such debtor's obligations or an agreement to assure a creditor against loss, and including, without limitation, causing a lender or other financial institution to issue a letter of credit or other similar instrument for the benefit of another

Person, but excluding endorsements for collection or deposit in the ordinary course of business. The terms "Guarantee" and "Guaranteed" used as a verb shall

have a correlative meaning.

"Guaranteed Obligations" shall have the meaning assigned to such term in

Section 6.01 hereof.

"Hazardous Material" shall mean, collectively, (a) any petroleum or

petroleum products, flammable materials, explosives, radioactive materials, asbestos, urea formaldehyde foam insulation, and transformers or other equipment that contain in excess of 50 parts per million polychlorinated biphenyls ("PCBs"), (b) any chemicals or other materials or substances that are now or

hereafter become defined as or included in the definition of "hazardous substances", "hazardous wastes", "hazardous materials", "extremely hazardous wastes", "restricted hazardous wastes", "toxic substances", "toxic pollutants", "contaminants", "pollutants" or words of similar import under any Environmental Law and (c) any other chemical or other material or substance, exposure to which is prohibited, limited or regulated under any Environmental Law.

"Immaterial Subsidiary" shall mean, as at any date, any Subsidiary of the

Company that the Company shall theretofore have designated as an "Immaterial Subsidiary" in a notice to the Agent, provided that:

(a) the following shall be true:

(x) the aggregate assets of all such Subsidiaries (calculated both on a book value basis and a fair market value basis) does not exceed 10% of the aggregate assets (calculated on such respective bases) of the Company and its Subsidiaries as of the most recent fiscal quarter-end of the Company; and

(y) the aggregate EBITDA of all such Subsidiaries for the period of four consecutive fiscal quarters most recently ended prior to such date does not exceed 10% of the consolidated EBITDA of the Company and its Subsidiaries for such period; and

(b) the Company may from time to time, by notice to the Agent, cause any Subsidiary that it had theretofore designated as an "Immaterial Subsidiary" to be no longer treated as an "Immaterial Subsidiary."

"Indebtedness" shall mean, for any Person: (a) obligations created, issued

or incurred by such Person for borrowed money (whether by loan, the issuance and sale of debt securities or the sale of Property to another Person subject to an understanding or agreement, contingent or otherwise, to repurchase such Property from such Person); (b) obligations of such Person to pay the deferred purchase or acquisition price of Property or services, other than trade accounts payable (other than for borrowed money) arising, and accrued expenses incurred, in the ordinary course of business so long as such trade accounts payable are payable within 90 days of the date the respective goods are delivered or the respective services are rendered; (c) Indebtedness of others secured by a Lien on the Property of such Person, whether or not the respective indebtedness so secured has been assumed by such Person; (d) obligations of such Person in respect of letters of credit or similar instruments issued or accepted by lenders and

other financial institutions for account of such Person; (e) Capital Lease Obligations of such Person; and (f) Indebtedness of others Guaranteed by such Person.

"Interest Coverage Ratio" shall mean, as at any date, the ratio of (a)

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EBITDA for the period of four consecutive fiscal quarters ending on or most recently ended prior to such date to (b) Interest Expense for such period.

"Interest Expense" shall mean, for any period, the sum, for the Company and

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its Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following: (a) all interest in respect of Indebtedness (including, without limitation, the interest component of any payments in respect of Capital Lease Obligations) accrued or capitalized during such period (whether or not actually paid during such period) plus (b) the net amount payable (or minus the net amount receivable) under Interest Rate Protection Agreements during such period (whether or not actually paid or received during such period).

"Interest Period" shall mean: with respect to any Eurodollar Loan, each

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period commencing on the date such Eurodollar Loan is made or Converted from a Base Rate Loan or the last day of the next preceding Interest Period for such Loan and ending on the numerically corresponding day in the first, second, third or sixth calendar month thereafter, as the Company may select as provided in Section 4.05 hereof except that each Interest Period that commences on the last Business Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last Business Day of the appropriate subsequent calendar month.

Notwithstanding the foregoing: (i) any Interest Period for any Revolving Credit Loan would otherwise end after the Revolving Credit Commitment Termination Date, such Interest Period shall end on the Revolving Credit Commitment Termination Date; (ii) no Interest Period for any Term Loan may commence before and end after any Principal Payment Date unless, after giving effect thereto, the aggregate principal amount of the Term Loans having Interest Periods that end after such Principal Payment Date shall be equal to or less than the aggregate principal amount of the Term Loans scheduled to be outstanding after giving effect to the payments of principal required to be made on such Principal Payment Date; (iii) each Interest Period that would otherwise end on a day that is not a Business Day shall end on the next succeeding Business Day (or, if such next succeeding Business Day falls in the next succeeding calendar month, on the next preceding Business Day); and (iv) notwithstanding clauses (i) and (ii) above, no Interest Period for any Eurodollar Loan shall have a duration of less than one month and, if the Interest Period for any Eurodollar Loan would otherwise be a shorter period, such Loan shall not be available hereunder for such period.

"Interest Rate Protection Agreement" shall mean, for any Person, an

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interest rate swap, cap or collar agreement or similar arrangement between such Person and one or more financial institutions providing for the transfer or mitigation of interest risks either generally or under specific contingencies.

"Investment" shall mean, for any Person: (a) the acquisition (whether for

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cash, Property, services or securities or otherwise) of capital stock, bonds, notes, debentures, partnership or other ownership interests or other securities of any other Person or any agreement to make any such acquisition (including, without limitation, any "short sale" or any sale of any securities at a time when such securities are not owned by the Person entering into such sale); (b)

the making of any deposit with, or advance, loan or other extension of credit to, any other Person (including the purchase of Property from another Person subject to an understanding or agreement, contingent or otherwise, to resell such Property to such Person), but excluding any such advance, loan or extension of credit having a term not exceeding 90 days representing the purchase price of inventory or supplies sold by such Person in the ordinary course of business); (c) the entering into of any Guarantee of, or other contingent obligation with respect to, Indebtedness or other liability of any other Person and (without duplication) any amount committed to be advanced, lent or extended to such Person; or (d) the entering into of any Interest Rate Protection Agreement.

"Lender" and "Lenders" shall have the meanings assigned to such terms in  
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the preamble hereof.

"Leverage Ratio" shall mean, as at any date, the ratio of (a) the aggregate  
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amount of Indebtedness of the Company and its Subsidiaries outstanding on such date to (b) EBITDA for the four consecutive fiscal quarters ended on or most recently prior to such date.

"Lien" shall mean, with respect to any Property, any mortgage, lien,  
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pledge, charge, security interest or encumbrance of any kind in respect of such Property. For purposes of this Agreement and the other Basic Documents, a Person shall be deemed to own subject to a Lien any Property that it has acquired or holds subject to the interest of a vendor or lessor under any conditional sale agreement, capital lease or other title retention agreement (other than an operating lease) relating to such Property.

"Loans" shall mean the Revolving Credit Loans and the Term Loans.  
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"Majority Lenders" shall mean Lenders having more than 66 % of the sum of  
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(a) the aggregate amount of the Revolving Credit Commitments (or, if the Revolving Credit Commitments have terminated, the aggregate unpaid principal amount of Revolving Credit Loans) and (b) the aggregate unpaid principal amount of the Term Loans.

"Margin Stock" shall mean "margin stock" within the meaning of Regulations  
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U and X.

"Material Adverse Effect" shall mean a material adverse effect on (a) the  
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Property, business, operations, financial condition, liabilities or capitalization of the Company and its Subsidiaries taken as a whole, (b) the ability of any Obligor to perform its obligations under any of the Basic Documents to which it is a party, (c) the validity or enforceability of any of the Basic Documents, (d) the rights and remedies of the Lenders and the Agent under any of the Basic Documents or (e) the timely payment of the principal of or interest on the Loans or other amounts payable in connection therewith.

"Material Agreements" shall mean those agreements listed on Schedule I  
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hereto.

"Multiemployer Plan" shall mean a multiemployer plan defined as such in  
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Section 3(37) of ERISA to which contributions have been made by the Company or any ERISA Affiliate and that is covered by Title IV of ERISA.

"Net Available Proceeds" shall mean:  
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(i) in the case of any Disposition, the amount of Net Cash Payments received in connection with such Disposition;

(ii) in the case of any Casualty Event, the aggregate amount of proceeds of insurance, condemnation awards and other compensation received by the Company and its Subsidiaries in respect of such Casualty Event net of (A) expenses incurred by the Company and its Subsidiaries in connection therewith and (B) contractually required repayments of Indebtedness to the extent secured by a Lien on such Property and any income and transfer taxes payable by the Company or any of its Subsidiaries in respect of such Casualty Event; and

(ii) in the case of any Equity Issuance or Debt Issuance, the aggregate amount of all cash received by the Company and its Subsidiaries in respect of such Equity Issuance or Debt Issuance, as the case may be, net of expenses incurred by the Company and its Subsidiaries in connection therewith.

"Net Cash Payments" shall mean, with respect to any Disposition, the

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aggregate amount of all cash payments, and the fair market value of any non-cash consideration, received by the Company and its Subsidiaries directly or indirectly in connection with such Disposition; provided that (a) Net Cash

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Payments shall be net of (i) the amount of any legal, title and recording tax expenses, commissions and other fees and expenses paid by the Company and its Subsidiaries in connection with such Disposition and (ii) any Federal, state and local income or other taxes estimated to be payable by the Company and its Subsidiaries as a result of such Disposition (but only to the extent that such estimated taxes are in fact paid to the relevant Federal, state or local governmental authority within three months of the date of such Disposition) and (b) Net Cash Payments shall be net of any repayments by the Company or any of its Subsidiaries of Indebtedness to the extent that (i) such Indebtedness is secured by a Lien on the Property that is the subject of such Disposition and (ii) such Indebtedness is to be repaid in connection with the purchase of such Property.

"Net Income" shall mean for any period, the net operating income of the

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Company and its Subsidiaries for such period (determined on a consolidated basis in accordance with GAAP).

"Net Worth" shall mean, as at any date, the sum for the Company and its

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Subsidiaries (determined on a consolidated basis in accordance with GAAP) of the following:

(h) the amount of capital stock, plus

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(b) the amount of surplus and retained earnings (or, in the case of a retained earnings deficit, minus the amount of such deficit).

"Notes" shall mean the Revolving Credit Notes and the Term Loan Notes.

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"Obligors" shall have the meaning assigned to such term in the preamble  
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hereof.

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

"Permitted Investments" shall mean: (a) direct obligations of the United

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States of America, or of any agency thereof, or obligations guaranteed as to principal and interest by the United States of America, or of any agency thereof, in either case maturing not more than 90 days from the date of acquisition thereof; (b) certificates of deposit issued by any lender or trust company organized under the laws of the United States of America or any state thereof and having capital, surplus and undivided profits of at least \$500,000,000, maturing not more than 90 days from the date of acquisition thereof; and (c) commercial paper rated A-1 or better or P-1 by Standard & Poor's Corporation or Moody's Investors Services, Inc., respectively, maturing not more than 90 days from the date of acquisition thereof.

"Person" shall mean any individual, corporation, company, voluntary  
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association, partnership, joint venture, trust, unincorporated organization or government (or any agency, instrumentality or political subdivision thereof).

"Plan" shall mean an employee benefit or other plan established or  
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maintained by the Company or any ERISA Affiliate and that is covered by Title IV of ERISA, other than a Multiemployer Plan.

"Post-Default Rate" shall mean, in respect of any principal of any Loan or  
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any other amount under this Agreement, any Note or any other Basic Document, a rate per annum during any period in which an Event of Default shall be continuing equal to 2% in excess of the rate otherwise applicable to the related Loan (or, if not related to a Loan, 2% above the Interest Rate for Base Rate Loans that are Revolving Credit Loans).

"Prime Rate" shall mean the average of the rates of interest from time to  
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time announced by The Chase Manhattan Bank, Citibank, N.A. and Morgan Guaranty Trust Company of New York at their respective principal offices as their prime commercial lending rates.

"Principal Payment Dates" shall mean each January 1, April 1, July 1 and  
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October 1 (or, if such date is not a Business Day, then the next succeeding Business Day) commencing on January 1, 2000.

"Property" shall mean any right or interest in or to property of any kind  
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whatsoever, whether real, personal or mixed and whether tangible or intangible.

"Quarterly Dates" shall mean the last Business Day of March, June,  
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September and December in each year, the first of which shall be the first such day after the date of this Agreement.

"Regulations A, D, U and X" shall mean, respectively, Regulations A, D, U  
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and X of the Board of Governors of the Federal Reserve System (or any successor), as the same may be modified and supplemented and in effect from time to time.

"Registration Statement" shall mean the Circor International Inc.  
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Registration Statement on Form 10 (File No. 000-26961) as filed with the Securities and Exchange Commission of the United States of America on October 6, 1999.

"Regulatory Change" shall mean, with respect to any Lender, any change

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after the date of this Agreement in Federal, state or foreign law or regulations (including, without limitation, Regulation D) or the adoption or making after such date of any interpretation, directive or request applying to a class of lenders including such Lender of or under any Federal, state or foreign law or regulations (whether or not having the force of law and whether or not failure to comply therewith would be unlawful) by any court or governmental or monetary authority charged with the interpretation or administration thereof.

"Release" shall mean any release, spill, emission, leaking, pumping,  
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injection, deposit, disposal, discharge or leaching into the environment.

"Relevant Parties" shall have the meaning assigned to such term in Section  
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10(b) hereof.

"Required Payment" shall have the meaning ascribed thereto in Section 4.06  
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hereof.

"Reserve Requirement" shall mean, for any Interest Period for any  
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Eurodollar Loan, the average maximum rate at which reserves (including, without limitation, any marginal, supplemental or emergency reserves) are required to be maintained during such Interest Period under Regulation D by member lenders of the Federal Reserve System in New York City with deposits exceeding one billion Dollars against "Eurocurrency liabilities" (as such term is used in Regulation D). Without limiting the effect of the foregoing, the Reserve Requirement shall include any other reserves required to be maintained by such member lenders by reason of any Regulatory Change with respect to (i) any category of liabilities that includes deposits by reference to which the Eurodollar Base Rate for Eurodollar Loans is to be determined as provided in the definition of "Eurodollar Base Rate" in this Section 1.01 or (ii) any category of extensions of credit or other assets that includes Eurodollar Loans.

"Revolving Credit Commitment" shall mean, for each Revolving Credit Lender,  
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the obligation of such Lender to make Revolving Credit Loans in an aggregate principal amount at any one time outstanding up to but not exceeding the amount set opposite the name of such Lender on the signature pages hereof under the caption "Revolving Credit Commitment". The original aggregate principal amount of the Revolving Credit Commitments is \$75,000,000.

"Revolving Credit Commitment Termination Date" shall mean, the fourth  
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anniversary of the date hereof.

"Revolving Credit Lenders" shall mean (a) on the date hereof, the Lenders  
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having Revolving Credit Commitments on the signature pages hereof and (b) thereafter, the Lenders from time to time holding Revolving Credit Loans and Revolving Credit Commitments after giving effect to any assignments thereof permitted by Section 12.06 hereof.

"Revolving Credit Loans" shall mean the loans provided for by Section  
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2.01(a) hereof, which may be Base Rate Loans and/or Eurodollar Loans.

"Revolving Credit Notes" shall mean the promissory notes provided for by  
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Section 2.07(a) hereof and all promissory notes delivered in substitution or exchange therefor, in each case as the same shall be modified and supplemented and in effect from time to time.

"Senior Notes" shall mean promissory notes issued by the Company

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representing Indebtedness of the Company in an aggregate principal amount not to exceed \$75,000,000, which Indebtedness shall be pari passu to all Indebtedness  
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hereunder.

"Spartenburg Disposition" shall mean the disposition by the Company of the  
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facilities that it currently owns in fee located in Spartenburg, South Carolina, for an aggregate consideration not to exceed \$2,000,000.

"Subsidiary" shall mean, with respect to any Person, any corporation,  
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partnership or other entity of which at least a majority of the securities or other ownership interests having by the terms thereof ordinary voting power to elect a majority of the board of directors or other persons performing similar functions of such corporation, partnership or other entity (irrespective of whether or not at the time securities or other ownership interests of any other class or classes of such corporation, partnership or other entity shall have or might have voting power by reason of the happening of any contingency) is at the time directly or indirectly owned or controlled by such Person or one or more Subsidiaries of such Person or by such Person and one or more Subsidiaries of such Person.

"Subsidiary Guarantor" and "Subsidiary Guarantors" shall have the meanings  
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assigned to such terms in the preamble hereof.

"Term Loan Commitment" shall mean, for each Lender, the obligation of such  
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Lender to make a single Term Loan in an amount up to but not exceeding the amount set opposite the name of such Lender on the signature pages hereof under the caption "Term Loan Commitment". The original aggregate principal amount of the Term Loan Commitments is \$35,000,000.

"Term Loan Notes" shall mean the promissory notes provided for by Section  
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2.07(b) hereof and all promissory notes delivered in substitution or exchange therefor, in each case as the same shall be modified and supplemented and in effect from time to time.

"Term Loan Lenders" shall mean (a) on the date hereof, the Lenders having  
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Term Loan Commitments on the signature pages hereof and (b) thereafter the Lenders from time to time holding Term Loans and Term Loan Commitments after giving effect to any assignments thereof permitted by Section 12.06 hereof.

"Term Loans" shall mean the Loans provided for by Section 2.01(b) hereof.  
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"Total Liabilities" shall mean, as at any date, the sum, for the Company  
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and its Subsidiaries (determined on a consolidated basis without duplication in accordance with GAAP), of the following: (a) all Indebtedness and (b) all other liabilities that should be classified as liabilities on a balance sheet, including, without limitation, all reserves (other than general contingency reserves) and all deferred taxes and other deferred items.

"Transaction" shall mean, collectively, the transactions contemplated by  
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the Distribution Agreement, dated as of October 18, 1999 between the Company and Watts Industries, Inc.

"Type" shall have the meaning assigned to such term in Section 1.03 hereof.

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"Wholly Owned Subsidiary" shall mean, with respect to any Person, any

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corporation, partnership or other entity of which all of the equity securities or other ownership interests (other than, in the case of a corporation, directors' qualifying shares) are directly or indirectly owned or controlled by one Person, one corporation, one partnership or other single entity or one or more Wholly Owned Subsidiaries of such Person, corporation, partnership or other entity or by such Person, corporation, partnership or other entity and one or more Wholly Owned Subsidiaries of such Person, corporation, partnership or other entity.

"Working Capital" shall have the meaning given to such term by GAAP, but

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shall not include any Loans or the current maturities of any long-term debt.

A. Accounting Terms and Determinations.

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1. Except as otherwise expressly provided herein, all accounting terms used herein shall be interpreted, and all financial statements and certificates and reports as to financial matters required to be delivered to the Lenders hereunder shall (unless otherwise disclosed to the Lenders in writing at the time of delivery thereof in the manner described in subsection (b) below) be prepared, in accordance with generally accepted accounting principles applied on a basis consistent with those used in the preparation of the latest financial statements furnished to the Lenders hereunder (which, prior to the delivery of the first financial statements under Section 9.01 hereof, shall mean the pro forma financial statements referred to in Section 8.02 hereof). All calculations made for the purposes of determining compliance with this Agreement shall (except as otherwise expressly provided herein) be made by application of generally accepted accounting principles applied on a basis consistent with those used in the preparation of the latest annual or quarterly financial statements furnished to the Lenders pursuant to Section 9.01 hereof (or, prior to the delivery of the first financial statements under Section 9.01 hereof, used in the preparation of the pro forma financial statements referred to in Section 8.02 hereof) unless (i) the Company shall have objected to determining such compliance on such basis at the time of delivery of such financial statements or (ii) the Majority Lenders shall so object in writing within 30 days after delivery of such financial statements, in either of which events such calculations shall be made on a basis consistent with those used in the preparation of the latest financial statements as to which such objection shall not have been made (which, if objection is made in respect of the first financial statements delivered under Section 9.01 hereof, shall mean the audited financial statements referred to in Section 8.02 hereof).

1. The Company shall deliver to the Lenders at the same time as the delivery of any annual or quarterly financial statement under Section 9.01 hereof (i) a description in reasonable detail of any material variation between the application of accounting principles employed in the preparation of such statement and the application of accounting principles employed in the preparation of the next preceding annual or quarterly financial statements as to which no objection has been made in accordance with the last sentence of subsection (a) above and (ii) reasonable estimates of the difference between such statements arising as a consequence thereof.

1. To enable the ready and consistent determination of compliance with the covenants set forth in Section 9 hereof, the Company will not change the last day of its fiscal

year from December 31 of each year, or the last days of the fiscal quarters in each of its fiscal years from March 31, June 30, September 30 and December 31 of each year, respectively.

A. Classes and Types of Loans. Loans hereunder are distinguished by "Class" and by "Type". The "Class" of a Loan (or of a Commitment to make a Loan) refers to whether such Loan is a Revolving Credit Loan or a Term Loan, each of which constitutes a Class. The "Type" of a Loan refers to whether such Loan is a Base Rate Loan or a Eurodollar Loan, each of which constitutes a Type. Loans may be identified by both Class and Type.

I. Section Commitments, Loans, Notes and Prepayments.

A. Loans.

1. Revolving Credit Loans. Each Revolving Credit Lender severally agrees, on the terms and conditions of this Agreement, to make loans to the Company in Dollars during the period from and including the Closing Date to but not including the Revolving Credit Commitment Termination Date in an aggregate principal amount at any one time outstanding up to but not exceeding the amount of the Revolving Credit Commitment of such Lender as in effect from time to time (such Loans being herein called "Revolving Credit Loans"), provided that in no event shall the aggregate principal amount of all Revolving Credit Loans exceed the aggregate amount of the Revolving Credit Commitments as in effect from time to time. Subject to the terms and conditions of this Agreement, during such period the Company may borrow, repay and reborrow the amount of the Revolving Credit Commitments by means of Base Rate Loans and Eurodollar Loans and may Convert Revolving Credit Loans of one Type into Revolving Credit Loans of another Type (as provided in Section 2.08 hereof) or Continue Revolving Credit Loans of one Type as Revolving Credit Loans of the same Type (as provided in Section 2.08 hereof).

1. Term Loans. Each Term Loan Lender severally agrees, on the terms and conditions of this Agreement, to make a single term loan to the Company in Dollars on the Closing Date, in an aggregate principal amount up to but not exceeding the amount of the Term Loan Commitment of such Term Loan Lender. Thereafter the Company may convert Term Loans of one Type into Term Loans of the other Type (as provided in Section 2.08 hereof) or Continue Term Loans of one Type as Term Loans of the same type (as provided in Section 2.08 hereof).

1. Limit on Eurodollar Loans. No more than seven separate Interest Periods in respect of Eurodollar Loans from each Lender may be outstanding at any one time.

A. Borrowings of Loans. The Company shall give the Agent notice of each borrowing hereunder as provided in Section 4.05 hereof. Not later than 1:00 p.m. New York time on the date specified for each borrowing of Loans hereunder, each Lender shall make available the amount of the Loan or Loans to be made by it on such date to the Agent, at account number 066 297 311 (reference Circor International, Inc.) maintained by the Agent with The Chase Manhattan Bank (ABA No. 0210 002 1) at 270 Park Avenue, New York, New York, in immediately available funds, for account of the Company. The amount so received by the Agent shall, subject to the terms and conditions of this Agreement, be made available to the Company

by depositing the same, in immediately available funds, in an account of the Company maintained with a lender in New York City designated by the Company.

A. Changes of Commitments.

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1. The aggregate amount of the Revolving Credit Commitments shall be automatically reduced to zero on the Revolving Credit Commitment Termination Date.

1. The Company shall have the right at any time or from time to time (i) so long as no Revolving Credit Loans are outstanding, to terminate the Revolving Credit Commitments and (ii) to reduce the aggregate unused amount of the Revolving Credit Commitments; provided that (x) the Company shall give notice of each such termination or reduction as provided in Section 4.05 hereof and (y) each partial reduction shall be in an aggregate amount at least equal to \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof).

1. The aggregate amount of the Term Loan Commitments after funding shall be automatically reduced to zero on the Closing Date.

1. The Commitments once terminated or reduced may not be reinstated.

A. Commitment Fee. The Company shall pay to the Agent for account of

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each Revolving Credit Lender a commitment fee on the daily average unused amount of such Lender's Revolving Credit Commitment for the period from and including the date of this Agreement to but not including the earlier of the date such Revolving Credit Commitment is terminated and the Revolving Credit Commitment Termination Date at a rate per annum equal to the Applicable Commitment Fee Percentage in effect from time to time. Accrued Commitment Fees shall be payable in arrears on each Quarterly Date and on the earlier of the date the Revolving Credit Commitment is terminated and the Revolving Credit Commitment Termination Date.

A. Lending Offices. The Loans of each Type made by each Lender shall

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be made and maintained at such Lender's Applicable Lending Office for Loans of such Type.

A. Several Obligations; Remedies Independent. The failure of any

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Lender to make any Loan to be made by it on the date specified therefor shall not relieve any other Lender of its obligation to make its Loan on such date, but neither any Lender nor the Agent shall be responsible for the failure of any other Lender to make a Loan to be made by such other Lender, and no Lender shall have any obligation to the Agent or any other Lender for the failure by such Lender to make any Loan required to be made by such Lender. The amounts payable by the Company at any time hereunder and under the Notes to each Lender shall be a separate and independent debt and each Lender shall be entitled to protect and enforce its rights arising out of this Agreement and the Notes, and it shall not be necessary for any other Lender or the Agent to consent to, or be joined as an additional party in, any proceedings for such purposes.

A. Notes.

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1. The Revolving Credit Loans made by each Lender shall be evidenced by a single promissory note of the Company substantially in the form of Exhibit A-1 hereto,

dated the date hereof, payable to such Lender in a principal amount equal to the amount of its Revolving Credit Commitment as originally in effect and otherwise duly completed.

2. The Term Loans made by each Lender shall be evidenced by a single promissory note of the Company substantially in the form of Exhibit A-2 hereto, dated the date hereof, payable to such Lender in a principal amount equal to the amount of its Term Loan Commitment as originally in effect and otherwise duly completed.

1. The date, amount, Type, interest rate and duration of Interest Period (if applicable) of each Loan of each Class made by each Lender to the Company, and each payment made on account of the principal thereof, shall be recorded by such Lender on its books and, prior to any transfer of the Note evidencing the Loans of such Class held by it, endorsed by such Lender on the schedule attached to such Note or any continuation thereof; provided that the

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failure of such Lender to make any such recordation or endorsement shall not affect the obligations of the Company to make a payment when due of any amount owing hereunder or under such Note in respect of the Loans to be evidenced by such Note.

1. No Lender shall be entitled to have its Notes subdivided, by exchange for promissory notes of lesser denominations or otherwise, except in connection with a permitted assignment of all or any portion of such Lender's relevant Commitment, Loans and Notes pursuant to Section 12.06(b) hereof.

A. Optional Prepayments and Conversions or Continuations of Loans.

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Subject to Section 4.04 hereof, the Company shall have the right to prepay Loans, or to Convert Loans of one Type into Loans of another Type or Continue Loans of one Type as Loans of the same Type, at any time or from time to time, provided that: (a) the Company shall give the Agent notice of each such

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prepayment, Conversion or Continuation as provided in Section 4.05 hereof (and, upon the date specified in any such notice of prepayment, the amount to be prepaid shall become due and payable hereunder). Notwithstanding the foregoing, and without limiting the rights and remedies of the Lenders under Section 10 hereof, in the event that any Event of Default shall have occurred and be continuing, the Agent may (and at the request of the Majority Lenders shall) suspend the right of the Company to Convert any Loan into a Eurodollar Loan, or to Continue any Loan as a Eurodollar Loan, in which event all Loans shall be Converted (on the last day(s) of the respective Interest Periods therefor) or Continued, as the case may be, as Base Rate Loans.

A. Mandatory Prepayments.

1. Casualty Events. Upon the date 360 days following the receipt by

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the Company of the proceeds of insurance, condemnation award or other compensation in respect of any Casualty Event affecting any Property of the Company or any of its Subsidiaries (or upon such earlier date as the Company or such Subsidiary, as the case may be, shall have determined not to repair or replace the Property affected by such Casualty Event), the Company shall prepay the Loans, and the Revolving Credit Commitments shall be subject to automatic reduction, in an aggregate amount, if any, equal to 100% of the Net Available Proceeds of such Casualty Event not theretofore applied to the repair or replacement of such Property and only to the extent such Net Available Proceeds of all Casualty Event occurring during any fiscal year of the Company exceed \$5,000,000, such prepayment and reduction to be effected in each case in the manner and to the extent specified in clause (f) of this Section 2.09.

1. Equity Issuance. Upon any Equity Issuance:

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(i) occurring during the period commencing on the Closing Date and ending on the second anniversary of the Closing Date, the Company shall prepay the Loans, and the Revolving Credit Commitments shall be subject to automatic reduction, in an amount equal to 50% of the Net Available Proceeds thereof, but only to the extent that the aggregate amount of all Net Available Proceeds of all Equity Issuances occurring during such period exceeds \$35,000,000; and

(ii) occurring at any time thereafter, the Company shall prepay the Loans, and the Revolving Credit Commitments shall be subject to automatic reduction, in an amount equal to 50% of the Net Available Proceeds thereof;

such prepayment and reduction to be effected in each case in the manner and to the extent specified in clause (f) of this Section 2.09.

1. Debt Issuance. Upon any Debt Issuance, the Company shall prepay the

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Loans, and the Revolving Credit Commitments shall be subject to automatic reduction, in an aggregate amount equal to 100% of the Net Available Proceeds thereof, such prepayment and reduction to be effected in the manner and to the extent specified in clause (f) of this Section 2.09.

1. Excess Cash Flow. If the Leverage Ratio as of the last day of any

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fiscal year of the Company ending after the date of this Agreement is greater than 3.00 to 1, the Company shall, not later than 90 days after the end of such fiscal year, prepay the Loans, and the Revolving Credit Commitments shall be subject to automatic reduction, in an aggregate amount equal to the 50% of Excess Cash Flow for such fiscal year, such prepayment and reduction to be effected in each case in the manner and to the extent specified in clause (f) of this Section 2.09.

1. Sale of Assets. Without limiting the obligation of the Company to

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obtain the consent of the Majority Lenders pursuant to Section 9.05 hereof to any Disposition not otherwise permitted hereunder, in the event that the Net Available Proceeds of any Disposition (other than the Spartenburg Disposition) (herein, the "Current Disposition"), and of all prior Dispositions (other than

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the Spartenburg Disposition) as to which a prepayment has not yet been made under this Section 2.09(f), shall exceed \$5,000,000 then, no later than five Business Days prior to the occurrence of the Current Disposition, the Company will deliver to the Lenders a statement, certified by the chief financial officer of the Company, in form and detail satisfactory to the Agent, of the amount of the Net Available Proceeds of the Current Disposition and of all such prior Dispositions and will prepay the Loans in an aggregate amount equal to 100% of the Net Available Proceeds of the Current Disposition and such prior Dispositions, such prepayment and reduction to be effected in each case in the manner and to the extent specified in clause (f) of this Section 2.09.

1. Application. Prepayments and reductions of Commitments described in

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the above clauses of this Section 2.09 shall be effected without penalty of premium (except for breakage costs in respect of Eurodollar Loans, if any) as follows:

a) first, the amount of the prepayment specified in such clauses shall be applied to the Term Loans among the then outstanding installments thereof, pro rata; and

a) second, the Revolving Credit Commitments shall be automatically and permanently reduced in an amount equal to any excess over the amount referred to in the foregoing clause (i) (and to the extent that, after giving effect to such reduction, the aggregate principal amount of Revolving Credit Loans would exceed the Revolving Credit Commitments, the Company shall, prepay Revolving Credit Loans in an aggregate amount equal to such excess).

(g) Cash Collateral Account. To the extent that any prepayment of

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Eurodollar Loans required to be made pursuant to this Section 2.09 (it being understood that such prepayments shall first be applied to Base Rate Loans and then to Eurodollar Loans) is required to be made on a day other than the last day of an Interest Period, the Company may, instead of making such prepayment, deposit the amount of such prepayment into a collateral account in the name of the Company but under the sole dominion and control of the Agent. Amounts shall be released from such account to repay outstanding Eurodollar Loans on the last days of the respective Interest Periods therefor (or, if earlier, to be applied to any amounts payable by the Company hereunder that are due and unpaid). Amounts in such account may be invested in such Permitted Investments as the Agent and the Company may from time to time agree. At the time any amounts are deposited into such account, the Company and the Agent shall enter into appropriate documentation to create and perfect a first-priority Lien in such account and any Permitted Investments therein.

I. Section Payments of Principal and Interest.  
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A. Repayment of Loans.  
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1. The Company hereby promises to pay to the Agent for account of each Revolving Credit Lender the entire outstanding principal amount of such Lender's Revolving Credit Loans, and each Revolving Credit Loan shall mature, on the Revolving Credit Commitment Termination Date.

1. The Company hereby promises to pay to the Agent for account of each Term Loan Lender the principal of such Lender's Term Loans in 16 installments payable as follows:

Principal Payment Date	Amount of Installment
January 1, 2000	\$2,187,500
April 1, 2000	\$2,187,500
July 1, 2000	\$2,187,500
October 1, 2000	\$2,187,500
January 1, 2001	\$2,187,500
April 1, 2001	\$2,187,500

July 1, 2001	\$2,187,500
October 1, 2001	\$2,187,500
January 1, 2002	\$2,187,500
April 1, 2002	\$2,187,500
July 1, 2002	\$2,187,500
October 1, 2002	\$2,187,500
January 1, 2003	\$2,187,500
April 1, 2003	\$2,187,500
July 1, 2003	\$2,187,500
October 1, 2003	\$2,187,500

If the Company does not borrow the full amount of the aggregate Term Loan Commitments on the Closing Date, the shortfall shall be applied to reduce the foregoing installments ratably.

A. Interest. The Company hereby promises to pay to the Agent for  
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account of each Lender interest on the unpaid principal amount of each Loan made by such Lender for the period from and including the date of such Loan to but excluding the date such Loan shall be paid in full, at the following rates per annum:

1. during such periods as such Loan is a Base Rate Loan, the Base Rate (as in effect from time to time) plus the Applicable Margin; and  
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1. during such periods as such Loan is a Eurodollar Loan, for each Interest Period relating thereto, the Eurodollar Rate for such Loan for such Interest Period plus the Applicable Margin.

Notwithstanding the foregoing, the Company hereby promises to pay to the Agent for account of each Lender interest at the applicable Post-Default Rate on any principal of any Loan made by such Lender and on any other amount payable by the Company hereunder or under the Notes held by such Lender to or for account of such Lender, that shall not be paid in full when due (whether at stated maturity, by acceleration, by mandatory prepayment or otherwise), for the period from and including the due date thereof to but excluding the date the same is paid in full. Accrued interest on each Loan shall be payable (i) in the case of a Base Rate Loan, quarterly in arrears on the last Business Day of such quarter, (ii) in the case of a Eurodollar Loan on the last day of each Interest Period therefor and, if such Interest Period is longer than three months a Euro at three-month intervals following the first day of such Interest Period, and (iii) in the case of any Loan, upon the payment or prepayment thereof or the Conversion of such Loan to a Loan of another Type (but only on the principal amount so paid, prepaid or Converted), except that interest payable at the Post-Default Rate shall be payable from time to time on demand. Promptly after the determination of any interest rate provided for herein or any change therein, the Agent shall give notice thereof to the Lenders to which such interest is payable and to the Company.

I. Section Payments; Pro Rata Treatment; Computations; Etc.  
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A. Payments.  
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1. Except to the extent otherwise provided herein, all payments of principal, interest and other amounts to be made by the Company under this Agreement and the Notes and the Fee Letter, and, except to the extent otherwise provided therein, all payments to be made by the Obligors under any other Basic Document, shall be made in Dollars, in immediately available funds, without deduction, set-off or counterclaim, to the Agent at account number 066 297 311 (reference CIRCOR International, Inc.) maintained by the Agent with The Chase Manhattan Bank (ABA No. 0210 002 1) at its office located at 270 Park Avenue, New York, New York, not later than 1:00 p.m. New York time on the date on which such payment shall become due (each such payment made after such time on such due date to be deemed to have been made on the next succeeding Business Day).

1. Any Lender for whose account any such payment is to be made may (but shall not be obligated to) debit the amount of any such payment that is not made by such time to any ordinary deposit account of the Company with such Lender (with notice to the Company and the Agent).

1. The Company shall, at the time of making each payment under this Agreement or any Note for account of any Lender, specify to the Agent (which shall so notify the intended recipient(s) thereof) the Loans or other amounts payable by the Company hereunder to which such payment is to be applied (and in the event that the Company fails to so specify, or if an Event of Default has occurred and is continuing, the Agent may distribute such payment to the Lenders for application in such manner as it or the Majority Lenders, subject to Section 4.02 hereof, may determine to be appropriate).

1. Each payment received by the Agent under this Agreement or any Note for account of any Lender shall be paid by the Agent promptly to such Lender, in immediately available funds, for account of such Lender's Applicable Lending Office for the Loan or other obligation in respect of which such payment is made.

1. If the due date of any payment under this Agreement or any Note would otherwise fall on a day that is not a Business Day, such date shall be extended to the next succeeding Business Day, and interest shall be payable for any principal so extended for the period of such extension.

A. Pro Rata Treatment. Except to the extent otherwise provided herein:  
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(a) each borrowing of Loans of a particular Class from the Lenders under Section 2.01 hereof shall be made from the relevant Lenders, each payment of commitment fee under Section 2.04 hereof in respect of Commitments of a particular Class shall be made for account of the relevant Lenders, pro rata according to the

amounts of their respective Commitments of such Class; (b) the making, Conversion and Continuation of Revolving Credit Loans and Term Loans of a particular Type (other than Conversions provided for by Section 5.04 hereof) shall be made pro rata among the relevant Lenders according to the amounts of

their respective Revolving Credit Commitments and Term Loan Commitments (in the case of making of Loans) or their respective Revolving Credit Loans and Term Loans (in the case of Conversions and Continuations of

Loans) and the then current Interest Period for each Loan of such Type shall be coterminous; (c) each payment or prepayment of principal of Revolving Credit Loans or Term Loans by the Company shall be made for account of the relevant Lenders pro rata in accordance with the respective unpaid principal amounts of

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the Loans of such Class held by them, provided that if immediately prior to

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giving effect to any such payment in respect of any Loans of any Class the outstanding principal amount of the Loans of such Class shall not be held by the Lenders pro rata in accordance with their respective Commitments of such Class

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in effect at the time such Loans were made, then such payment shall be applied to the Loans of such Class in such manner as shall result, as nearly as is practicable, in the outstanding principal amount of the Loans of such Class being held by the Lenders pro rata in accordance with their respective

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Commitments of such Class; and (d) each payment of interest on Revolving Credit Loans and Term Loans by the Company shall be made for account of the relevant Lenders pro rata in accordance with the amounts of interest on such Loans then

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due and payable to the respective Lenders.

A. Computations. Interest on Eurodollar Loans and letter of credit fees

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shall be computed on the basis of a year of 360 days and actual days elapsed (including the first day but excluding the last day) occurring in the period for which payable and interest on Base Rate Loans shall be computed on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed (including the first day but excluding the last day) occurring in the period for which payable. Notwithstanding the foregoing, for each day that the Base Rate is calculated by reference to the Federal Funds Rate, interest on Base Rate Loans shall be computed on the basis of a year of 360 days and actual days elapsed.

A. Minimum Amounts. Except for mandatory prepayments made pursuant to

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Section 2.09 hereof and Conversions or prepayments made pursuant to Section 5.04 hereof, (i) each borrowing, Conversion and partial prepayment of principal of Base Rate Loans shall be in an aggregate amount at least equal to \$500,000 or an integral multiple of \$100,000 in excess thereof and (ii) each borrowing, Conversion and partial prepayment of principal of Eurodollar Loans shall be in an aggregate amount at least equal to \$2,500,000 or an integral multiple of \$500,000 in excess thereof.

A. Certain Notices. Notices by the Company to the Agent of terminations

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or reductions of the Revolving Credit Commitments, of borrowings, Conversions, Continuations and optional prepayments of Loans and of Classes of Loans, of Types of Loans and of the duration of Interest Periods shall be irrevocable and shall be effective only if received by the Agent not later than 12:00 p.m. New York time on the number of Business Days prior to the date of the relevant termination, reduction, borrowing, Conversion, Continuation or prepayment or the first day of such Interest Period specified below:

Notice	Number of Business Days Prior
Termination or reduction of Commitments	3
Borrowing or Conversions into, Base Rate Loans	1
Prepayment of Base Rate Loans	same day
Borrowing or prepayment of, Conversions into,	3

Continuations as, or duration of Interest Period for,  
Eurodollar Loans

Each such notice of termination or reduction shall specify the amount of the Revolving Credit Commitments to be terminated or reduced. Each such notice of borrowing, Conversion, Continuation or optional prepayment shall specify the Class of Loans to be borrowed, Converted, Continued or prepaid and the amount (subject to Section 4.04 hereof) and Type of each Loan to be borrowed, Converted, Continued or prepaid (and, in the case of a Conversion, the Type of Loan to result from such Conversion) and the date of borrowing, Conversion, Continuation or optional prepayment (which shall be a Business Day). Each such notice of the duration of an Interest Period shall specify the Loans to which such Interest Period is to relate. The Agent shall promptly notify the Lenders of the contents of each such notice. In the event that the Company fails to select the Type of Loan, or the duration of any Interest Period for any Eurodollar Loan, within the time period and otherwise as provided in this Section 4.05, such Loan (if outstanding as a Eurodollar Loan) will be automatically Converted into a Base Rate Loan on the last day of the then current Interest Period for such Loan or (if outstanding as a Base Rate Loan) will remain as, or (if not then outstanding) will be made as, a Base Rate Loan.

A. Non-Receipt of Funds by the Agent. Unless the Agent shall have

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been notified by a Lender or the Company (the "Payor") prior to the date on

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which the Payor is to make payment to the Agent of (in the case of a Lender) the proceeds of a Loan to be made by such Lender hereunder or (in the case of the Company) a payment to the Agent for account of one or more of the Lenders hereunder (such payment being herein called the "Required Payment"), which

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notice shall be effective upon receipt, that the Payor does not intend to make the Required Payment to the Agent, the Agent may assume that the Required Payment has been made and may, in reliance upon such assumption (but shall not be required to), make the amount thereof available to the intended recipient(s) on such date; and, if the Payor has not in fact made the Required Payment to the Agent, the recipient(s) of such payment shall, on demand, repay to the Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date (the "Advance Date") such amount was so

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made available by the Agent until the date the Agent recovers such amount at a rate per annum equal to the Federal Funds Rate for such day and, if such recipient(s) shall fail promptly to make such payment, the Agent shall be entitled to recover such amount, on demand, from the Payor, together with interest as aforesaid, provided that if neither the recipient(s) nor the Payor

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shall return the Required Payment to the Agent within three Business Days of the Advance Date, then, retroactively to the Advance Date, the Payor and the recipient(s) shall each be obligated to pay interest on the Required Payment as follows:

a) if the Required Payment shall represent a payment to be made by the Company to the Lenders, the Company and the recipient(s) shall each be obligated retroactively to the Advance Date to pay interest in respect of the Required Payment at the Post-Default Rate (and, in case the recipient(s) shall return the Required Payment to the Agent, without limiting the obligation of the Company under Section 3.02 hereof to pay interest to such recipient(s) at the Post-Default Rate in respect of the Required Payment) and

a) if the Required Payment shall represent proceeds of a Loan to be made by the Lenders to the Company, the Payor and the Company shall each be obligated retroactively to the Advance Date to pay interest in respect of the Required Payment at the rate of interest provided for such Required Payment pursuant to Section 3.02 hereof (and, in case the Company shall

return the Required Payment to the Agent, without limiting any claim the Company may have against the Payor in respect of the Required Payment).

A. Sharing of Payments, Etc.

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1. The Company agrees that, in addition to (and without limitation of) any right of set-off, banker's lien or counterclaim a Lender may otherwise have, each Lender shall be entitled, at its option, to offset balances held by it for account of the Company at any of its offices, in Dollars or in any other currency, against any principal of or interest on any of such Lender's Loans or any other amount payable to such Lender hereunder, that is not paid when due (regardless of whether such balances are then due to the Company), in which case it shall promptly notify the Company and the Agent thereof, provided that such  
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Lender's failure to give such notice shall not affect the validity thereof.

1. If any Lender shall obtain from any Obligor payment of any principal of or interest on any Loan of any Class owing to it or payment of any other amount under this Agreement or any other Basic Document through the exercise of any right of set-off, banker's lien or counterclaim or similar right or otherwise (other than from the Agent as provided herein), and, as a result of such payment, such Lender shall have received a greater percentage of the principal of or interest on the Loans of such Class or such other amounts then due hereunder or thereunder by such Obligor to such Lender than the percentage received by any other Lender, it shall promptly purchase from such other Lenders participations in (or, if and to the extent specified by such Lender, direct interests in) the Loans of such Class or such other amounts, respectively, owing to such other Lenders (or in interest due thereon, as the case may be) in such amounts, and make such other adjustments from time to time as shall be equitable, to the end that all the Lenders shall share the benefit of such excess payment (net of any expenses that may be incurred by such Lender in obtaining or preserving such excess payment) pro rata in accordance with the  
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unpaid principal of and/or interest on the Loans of such Class or such other amounts, respectively, owing to each of the Lenders, provided that if at the  
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time of such payment the outstanding principal amount of the Loans of any Class shall not be held by the Lenders pro rata in accordance with their respective  
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Commitments of such Class in effect at the time such Loans were made, then such purchases of participations and/or direct interests shall be made in such manner as will result, as nearly as is practicable, in the outstanding principal amount of the Loans being held by the Lenders pro rata according to the amounts of such  
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Commitments. To such end all the Lenders shall make appropriate adjustments among themselves (by the resale of participations sold or otherwise) if such payment is rescinded or must otherwise be restored.

1. The Company agrees that any Lender so purchasing such a participation (or direct interest) may exercise all rights of set-off, banker's lien, counterclaim or similar rights with respect to such participation as fully as if such Lender were a direct holder of Loans or other amounts (as the case may be) owing to such Lender in the amount of such participation.

1. Nothing contained herein shall require any Lender to exercise any such right or shall affect the right of any Lender to exercise, and retain the benefits of exercising, any such right with respect to any other indebtedness or obligation of any Obligor. If, under any applicable bankruptcy, insolvency or other similar law, any Lender receives a secured claim in lieu of a set-off to which this Section 4.07 applies, such Lender shall, to the extent practicable, exercise its rights in respect of such secured claim in a manner consistent with the rights of the

Lenders entitled under this Section 4.07 to share in the benefits of any recovery on such secured claim.

I. Section Yield Protection, Etc.  
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A. Additional Costs.

1. The Company shall pay directly to each Lender from time to time such amounts as such Lender may determine in good faith to be necessary to compensate such Lender for any costs that such Lender determines are attributable to its making or maintaining of any Eurodollar Loans or its obligation to make any Eurodollar Loans hereunder, or any reduction in any amount receivable by such Lender hereunder in respect of any of such Loans or such obligation (such increases in costs and reductions in amounts receivable being herein called "Additional Costs"), resulting from any Regulatory Change  
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that:

a) shall subject any Lender (or its Applicable Lending Office for any of such Loans) to any tax, duty or other charge in respect of such Loans or its Notes or changes the basis of taxation of any amounts payable to such Lender under this Agreement or its Notes in respect of any of such Loans (excluding changes in the rate of tax on the overall net income of such Lender or of such Applicable Lending Office by the jurisdiction in which such Lender has its principal office or such Applicable Lending Office); or

a) imposes or modifies any reserve, special deposit or similar requirements (other than the Reserve Requirement utilized in the determination of the Eurodollar Rate, as the case may be, for such Loan) relating to any extensions of credit or other assets of, or any deposits with or other liabilities of, such Lender (including, without limitation, any of such Loans or any deposits referred to in the definition of "Eurodollar Base Rate" in Section  
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1.01 hereof), or any commitment of such Lender (including, without limitation, the Commitments of such Lender hereunder); or

a) imposes any other condition affecting this Agreement or its Notes (or any of such extensions of credit or liabilities) or its Commitments.

If any Lender, upon providing in reasonable detail a description of such costs, requests compensation from the Company under this Section 5.01(a), the Company may, by notice to such Lender (with a copy to the Agent), suspend the obligation of such Lender thereafter to make or Continue Loans of the Type with respect to which such compensation is requested, or to Convert Loans of any other Type into Loans of such Type, until the Regulatory Change giving rise to such request ceases to be in effect (in which case the provisions of Section 5.04 hereof shall be applicable), provided that such suspension shall not affect the right  
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of such Lender to receive the compensation so requested.

1. Without limiting the effect of the provisions of paragraph (a) of this Section 5.01, in the event that, by reason of any Regulatory Change, any Lender determines in good faith that either (i) incurs Additional Costs based on or measured by the excess above a specified level of the amount of a category of deposits or other liabilities of such Lender that includes deposits by reference to which the interest rate on Eurodollar Loans is determined as provided in this Agreement or a category of extensions of credit or other assets of such Lender

that includes Eurodollar Loans or (ii) becomes subject to restrictions on the amount of such a category of liabilities or assets that it may hold, then, if such Lender so elects by notice to the Company (with a copy to the Agent), the obligation of such Lender to make or Continue, or to Convert Loans of any other Type into, Loans of such Type hereunder shall be suspended until such Regulatory Change ceases to be in effect (in which case the provisions of Section 5.04 hereof shall be applicable).

1. Without limiting the effect of the foregoing provisions of this Section 5.01 (but without duplication), the Company shall pay directly to each Lender from time to time on request such amounts as such Lender, upon providing in reasonable detail a description of such costs, may determine in good faith to be necessary to compensate such Lender (or, without duplication, the lender holding company of which such Lender is a subsidiary) for any costs that it determines are attributable to the maintenance by such Lender (or any Applicable Lending Office or such lender holding company), pursuant to any law or regulation or any interpretation, directive or request (whether or not having the force of law and whether or not failure to comply therewith would be unlawful) of any court or governmental or monetary authority (i) following any Regulatory Change or (ii) implementing any risk-based capital guideline or other requirement (whether or not having the force of law and whether or not the failure to comply therewith would be unlawful) heretofore or hereafter issued by any government or governmental or supervisory authority implementing at the national level the Basle Accord (including, without limitation, the Final Risk-Based Capital Guidelines of the Board of Governors of the Federal Reserve System (12 C.F.R. Part 208, Appendix A; 12 C.F.R. Part 225, Appendix A) and the Final Risk-Based Capital Guidelines of the Office of the Comptroller of the Currency (12 C.F.R. Part 3, Appendix A)), of capital in respect of its Commitments or Loans (such compensation to include, without limitation, an amount equal to any reduction of the rate of return on assets or equity of such Lender (or any Applicable Lending Office or such lender holding company) to a level below that which such Lender (or any Applicable Lending Office or such lender holding company) could have achieved but for such law, regulation, interpretation, directive or request). For purposes hereof, "Basle Accord" shall mean the

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proposals for risk-based capital framework described by the Basle Committee on Banking Regulations and Supervisory Practices in its paper entitled "International Convergence of Capital Measurement and Capital Standards" dated July 1988, as amended, modified and supplemented and in effect from time to time or any replacement thereof.

1. Each Lender shall notify the Company of any event occurring after the date of this Agreement entitling such Lender to compensation under paragraph (a) or (c) of this Section 5.01 as promptly as practicable, but in any event within 45 days, after such Lender obtains actual knowledge thereof; provided that (i) if any Lender fails to give such notice within 45 days after

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it obtains actual knowledge of such an event, such Lender shall, with respect to compensation payable pursuant to this Section 5.01 in respect of any costs resulting from such event, only be entitled to payment under this Section 5.01 for costs incurred from and after the date 45 days prior to the date that such Lender does give such notice and (ii) each Lender will designate a different Applicable Lending Office for the Loans of such Lender affected by such event if such designation will avoid the need for, or reduce the amount of, such compensation and will not, in the sole opinion of such Lender, be disadvantageous to such Lender, except that such Lender shall have no obligation to designate an Applicable Lending Office located in the United States of America. Each Lender will furnish to the Company a certificate setting forth in reasonable detail the basis and amount of each request by such Lender for compensation under paragraph (a) or (c) of this Section 5.01. Determinations and allocations by any Lender for

purposes of this Section 5.01 of the effect of any Regulatory Change pursuant to paragraph (a) or (b) of this Section 5.01, or of the effect of capital maintained pursuant to paragraph (c) of this Section 5.01, on its costs or rate of return of maintaining Loans or its obligation to make Loans, or on amounts receivable by it in respect of Loans, and of the amounts required to compensate such Lender under this Section 5.01, shall be conclusive, provided that such

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determinations and allocations are made on a reasonable basis.

A. Limitation on Types of Loans. Anything herein to the contrary

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notwithstanding, if, on or prior to the determination of any Eurodollar Base Rate for any Interest Period:

1. the Agent determines in good faith, which determination shall be conclusive, that quotations of interest rates for the relevant deposits referred to in the definition of "Eurodollar Base Rate" in Section 1.01 hereof are not being provided in the relevant amounts or for the relevant maturities for purposes of determining rates of interest for any Type of Eurodollar Loans as provided herein; or

1. the Majority Lenders determine in good faith, which determination shall be conclusive, and notify (or notifies, as the case may be) the Agent that the relevant rates of interest referred to in the definition of "Eurodollar Base

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Rate" in Section 1.01 hereof upon the basis of which the rate of interest for

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Eurodollar Loans for such Interest Period is to be determined are not likely adequately to cover the cost to such Lenders (or to such quoting Lender) of making or maintaining such Type of Loans for such Interest Period;

then the Agent shall give the Company and each Lender prompt notice thereof and, so long as such condition remains in effect, the Lenders (or such quoting Lender) shall be under no obligation to make additional Loans of such Type, to Continue Loans of such Type or to Convert Loans of any other Type into Loans of such Type, and the Company shall, on the last day(s) of the then current Interest Period(s) for the outstanding Loans of such Type, either prepay such Loans or Convert such Loans into another Type of Loan in accordance with Section 2.08 hereof.

A. Illegality. Notwithstanding any other provision of this

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Agreement, in the event that it becomes unlawful for any Lender or its Applicable Lending Office to honor its obligation to make or maintain Eurodollar Loans hereunder, then such Lender shall promptly notify the Company thereof, such notification to describe such illegality in reasonable detail (with a copy to the Agent) and such Lender's obligation to make or Continue, or to Convert Loans of any other Type into, Eurodollar Loans shall be suspended until such time as such Lender may again make and maintain Eurodollar Loans (in which case the provisions of Section 5.04 hereof shall be applicable).

A. Treatment of Affected Loans. If the obligation of any Lender

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to make a particular Type of Eurodollar Loans or to Continue, or to Convert Loans of any other Type into, Loans of a particular Type shall be suspended pursuant to Section 5.01 or 5.03 hereof (Loans of such Type being herein called "Affected Loans" and such Type being herein called the "Affected Type"), such

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Lender's Affected Loans shall be automatically Converted into Base Rate Loans on the last day(s) of the then current Interest Period(s) for Affected Loans (or, in the case of a Conversion required by Section 5.01(b) or 5.03 hereof, on such earlier date as such Lender may specify to the Company with a copy to the Agent) and, unless and until such Lender

gives notice as provided below that the circumstances specified in Section 5.01 or 5.03 hereof that gave rise to such Conversion no longer exist:

1. to the extent that such Lender's Affected Loans have been so Converted, all payments and prepayments of principal that would otherwise be applied to such Lender's Affected Loans shall be applied instead to its Base Rate Loans;

1. all Loans that would otherwise be made or Continued by such Lender as Loans of the Affected Type shall be made or Continued instead as Base Rate Loans, and all Loans of such Lender that would otherwise be Converted into Loans of the Affected Type shall be Converted instead into (or shall remain as) Base Rate Loans; and

1. if Loans of other Lenders of the Affected Type are subsequently Converted into Loans of another Type (other than Base Rate Loans), such Lender's Base Rate Loans shall be automatically Converted on the Conversion date for such Loans of the other Lenders into Loans of such other Type to the extent necessary so that, after giving effect thereto, all Loans held by such Lender and the Lenders whose Loans are so Converted are held pro rata (as to principal amounts, Types and Interest Periods) in accordance with their respective Commitments.

If such Lender gives notice to the Company with a copy to the Agent that the circumstances specified in Section 5.01 or 5.03 hereof that gave rise to the Conversion of such Lender's Affected Loans pursuant to this Section 5.04 no longer exist (which such Lender agrees to do promptly upon such circumstances ceasing to exist) at a time when Loans of the Affected Type made by other Lenders are outstanding, such Lender's Base Rate Loans shall be automatically Converted, on the first day(s) of the next succeeding Interest Period(s) for such outstanding Loans of the Affected Type, to the extent necessary so that, after giving effect thereto, all Loans held by the Lenders holding Loans of the Affected Type and by such Lender are held pro rata (as to principal amounts, Types and Interest Periods) in accordance with their respective Commitments.

A. Compensation. The Company shall pay to the Agent for the

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account of each Lender, upon the request (in reasonable detail) of such Lender through the Agent, such amount or amounts as shall be sufficient (in the reasonable opinion of such Lender) to compensate it for any loss, cost or expense that such Lender determines in good faith is attributable to:

1. any payment, mandatory or optional prepayment or Conversion of a Eurodollar Loan made by such Lender for any reason (including, without limitation, the acceleration of the Loans pursuant to Section 10 hereof) on a date other than the last day of the Interest Period for such Loan; or

1. any failure by the Company for any reason (including, without limitation, the failure of any of the conditions precedent specified in Section 7 hereof to be satisfied) to borrow a Eurodollar Loan from such Lender on the date for such borrowing specified in the relevant notice of borrowing given pursuant to Section 2.02 hereof.

Without limiting the effect of the preceding sentence, such compensation shall include an amount equal to the excess, if any, of (i) the amount of interest that otherwise would have accrued on the principal amount so paid, prepaid, Converted or not borrowed for the period from the date of such payment, prepayment, Conversion or failure to borrow to the last day of the then

current Interest Period for such Loan (or, in the case of a failure to borrow, the Interest Period for such Loan that would have commenced on the date specified for such borrowing) at the applicable rate of interest for such Loan provided for herein over (ii) the amount of interest that otherwise would have accrued on such principal amount at a rate per annum equal to the interest component of the amount such Lender would have bid in the London interbank market for Dollar deposits of leading banks in amounts comparable to such principal amount and with maturities comparable to such period (as reasonably determined by such Lender).

A. Reasonable Efforts, etc. Except as otherwise provided in this

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Section 5, any Lender claiming any additional amounts payable pursuant to this Section 5 or otherwise exercising its rights under Section 5 shall use reasonable efforts (consistent with legal and regulatory restrictions) to file any certificate or document reasonable requested by the Company or to change the jurisdiction of its Applicable Lending Office if the making of such filing or change would avoid the need for or reduce the amount of any such additional amounts that may thereafter accrue or avoid the circumstances giving rise to such exercise and would not, in the reasonable determination of such Lender, result in any additional costs, expenses or risks or be otherwise disadvantageous to it (except that no Lender shall be obligated to designate an Applicable Lending Office located in the United States of America). Each Lender agrees to use reasonable efforts to notify the Company as promptly as practicable upon its becoming aware that circumstances exist that would cause the Company to become obligated to pay additional amounts to such Lender pursuant to this Section 5 that would entitle such Lender to exercise its rights under this Section 5.

In the event the Agent or any Lender notifies the Borrower pursuant to Section 5.01 or 5.03 that it may no longer make or maintain Eurodollar Loans, or demands payments of additional amounts pursuant to any provision of this Section 5, the Company, at its expense, at any time within the 180 days after such demand, so long as no Event of Default shall have occurred and be continuing, may require such Lender to sell and assign in accordance with the provisions of Section 12.06, at par plus accrued interest, without recourse or warranty and pursuant to an Assignment and Acceptance, its right and obligations hereunder (including its Commitment and the Loans at the time owing to it and the Notes held by it) to a Person specified by the Company that is willing to purchase such rights and obligations on the terms hereof and is reasonably acceptable to the Agent; provided that (i) such assignment shall not conflict

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with or violate any requirement of law applicable to or binding on such Lender, (ii) the Company shall have paid to the assigning Lender all amounts (other than interest) accrued and owing hereunder to it (including, without limitation, amounts owing pursuant to any provision of this Section 5). Notwithstanding anything set forth above in this subsection to the contrary, the Company shall not be entitled to require an assignment under this Section with respect to any Lender demanding payment under Section 5 if (x) prior to any such requirement by the Company, such Lender shall have changed its lending office to as to eliminate the continued incurrence of the cost in respect of which such payment was demanded or (y) the circumstances giving rise to such Lender's demand for payment of such additional amounts are applicable to all the Lenders or the prospective assignee.

I. Section Guarantee.

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A. The Guarantee. The Subsidiary Guarantors hereby jointly and

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severally guarantee to each Lender and the Agent and their respective successors and assigns the prompt payment in full when due (whether at stated maturity, by acceleration or otherwise) of the principal of and interest on the Loans made by the Lenders to, and the Notes held by each Lender of, the Company and all other amounts from time to time owing to the Lenders or the Agent by the Company under this Agreement and under the Notes and by any Obligor under any of the other Basic Documents, in each case strictly in accordance with the terms thereof (such obligations being herein collectively called the "Guaranteed

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Obligations"). The Subsidiary Guarantors hereby further jointly and severally

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agree that if the Company shall fail to pay in full when due (whether at stated maturity, by acceleration or otherwise) any of the Guaranteed Obligations, the Subsidiary Guarantors will promptly pay the same, upon demand, and that in the case of any extension of time of payment or renewal of any of the Guaranteed Obligations, the same will be promptly paid in full when due (whether at extended maturity, by acceleration or otherwise) in accordance with the terms of such extension or renewal.

A. Obligations Unconditional. The obligations of the Subsidiary

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Guarantors under Section 6.01 hereof are absolute and unconditional, joint and several, irrespective of the value, genuineness, validity, regularity or enforceability of the obligations of the Company under this Agreement, the Notes or any other agreement or instrument referred to herein or therein, or any substitution, release or exchange of any other guarantee of or security for any of the Guaranteed Obligations, and, to the fullest extent permitted by applicable law, irrespective of any other circumstance whatsoever that might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor, it being the intent of this Section 6.02 that the obligations of the Subsidiary Guarantors hereunder shall be absolute and unconditional, joint and several, under any and all circumstances. Without limiting the generality of the foregoing, it is agreed that the occurrence of any one or more of the following shall not alter or impair the liability of the Subsidiary Guarantors hereunder which shall remain absolute and unconditional as described above:

a) at any time or from time to time, without notice to the Subsidiary Guarantors, the time for any performance of or compliance with any of the Guaranteed Obligations shall be extended, or such performance or compliance shall be waived;

a) any of the acts mentioned in any of the provisions of this Agreement or the Notes or any other agreement or instrument referred to herein or therein shall be done or omitted;

a) the maturity of any of the Guaranteed Obligations shall be accelerated, or any of the Guaranteed Obligations shall be modified, supplemented or amended in any respect, or any right under this Agreement or the Notes or any other agreement or instrument referred to herein or therein shall be waived or any other guarantee of any of the Guaranteed Obligations or any security therefor shall be released or exchanged in whole or in part or otherwise dealt with; or

b) any lien or security interest granted to, or in favor of, the Agent or any Lender or Lenders as security for any of the Guaranteed Obligations shall fail to be perfected.

The Subsidiary Guarantors hereby expressly waive diligence, presentment, demand of payment, protest and all notices whatsoever (except as otherwise provided herein), and any requirement that the Agent or any Lender exhaust any right, power or remedy or proceed against the Company under this Agreement or the Notes or any other agreement or instrument referred to herein or therein, or against any other Person under any other guarantee of, or security for, any of the Guaranteed Obligations.

A. Reinstatement. The obligations of the Subsidiary Guarantors

under this Section 6 shall be automatically reinstated if and to the extent that for any reason any payment by or on behalf of the Company in respect of the Guaranteed Obligations is rescinded or must be otherwise restored by any holder of any of the Guaranteed Obligations or is repaid in good faith settlement of a pending or threatened avoidance claim, whether as a result of any proceedings in bankruptcy or reorganization or otherwise and the Subsidiary Guarantors jointly and severally agree that they will indemnify the Agent and each Lender on demand for all reasonable costs and expenses (including, without limitation, fees of counsel) incurred by the Agent or such Lender in connection with such settlement or rescission or restoration, including any such costs and expenses incurred in defending against any claim alleging that such payment constituted a preference, fraudulent transfer or similar payment under any bankruptcy, insolvency or similar law.

A. Subrogation. The Subsidiary Guarantors hereby jointly and

severally agree that until the payment and satisfaction in full of all Guaranteed Obligations and the expiration and termination of the Commitments of the Lenders under this Agreement they shall not exercise any right or remedy arising by reason of any performance by them of their guarantee in Section 6.01 hereof, whether by subrogation or otherwise, against the Company or any other guarantor of any of the Guaranteed Obligations or any security for any of the Guaranteed Obligations.

A. Remedies. The Subsidiary Guarantors jointly and severally agree

that, as between the Subsidiary Guarantors and the Lenders, the obligations of the Company under this Agreement and the Notes may be declared to be forthwith due and payable as provided in Section 10 hereof (and shall be deemed to have become automatically due and payable in the circumstances provided in said Section 10) for purposes of Section 6.01 hereof notwithstanding any stay, injunction or other prohibition preventing such declaration (or such obligations from becoming automatically due and payable) as against the Company and that, in the event of such declaration (or such obligations being deemed to have become automatically due and payable), such obligations (whether or not due and payable by the Company) shall forthwith become due and payable by the Subsidiary Guarantors for purposes of said Section 6.01.

A. Instrument for the Payment of Money. Each Subsidiary Guarantor

hereby acknowledges that the guarantee in this Section 6 constitutes an instrument for the payment of money, and consents and agrees that any Lender or the Agent, at its sole option, in the event of a dispute by such Subsidiary Guarantor in the payment of any moneys due hereunder, shall have the right to bring motion-action under New York CPLR Section 3213.

A. Continuing Guarantee. The guarantee in this Section 6 is a

continuing guarantee, and shall apply to all Guaranteed Obligations whenever arising.

A. Rights of Contribution. The Subsidiary Guarantors hereby  
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agree, as between themselves, that if any Subsidiary Guarantor shall become an Excess Funding Guarantor (as defined below) by reason of the payment by such Subsidiary Guarantor of any Guaranteed Obligations, each other Subsidiary Guarantor shall, on demand of such Excess Funding Guarantor (but subject to the next sentence), pay to such Excess Funding Guarantor an amount equal to such Subsidiary Guarantor's Pro Rata Share (as defined below and determined, for this

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purpose, without reference to the Properties, debts and liabilities of such Excess Funding Guarantor) of the Excess Payment (as defined below) in respect of such Guaranteed Obligations. The payment obligation of a Subsidiary Guarantor to any Excess Funding Guarantor under this Section 6.08 shall be subordinate and subject in right of payment to the prior payment in full of the obligations of such Subsidiary Guarantor under the other provisions of this Section 6 and such Excess Funding Guarantor shall not exercise any right or remedy with respect to such excess until payment and satisfaction in full of all of such obligations.

For purposes of this Section 6.08, (i) "Excess Funding Guarantor" shall  
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mean, in respect of any Guaranteed Obligations, a Subsidiary Guarantor that has paid an amount in excess of its Pro Rata Share of such Guaranteed Obligations, (ii) "Excess Payment" shall mean, in respect of any Guaranteed Obligations, the  
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amount paid by an Excess Funding Guarantor in excess of its Pro Rata Share of such Guaranteed Obligations and (iii) "Pro Rata Share" shall mean, for any  
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Subsidiary Guarantor, the ratio (expressed as a percentage) of (x) the amount by which the aggregate present fair saleable value of all Properties of such Subsidiary Guarantor (excluding any shares of stock of any other Subsidiary Guarantor) exceeds the amount of all the debts and liabilities of such Subsidiary Guarantor (including contingent, subordinated, unmatured and unliquidated liabilities, but excluding the obligations of such Subsidiary Guarantor hereunder and any obligations of any other Subsidiary Guarantor that have been Guaranteed by such Subsidiary Guarantor) to (y) the amount by which the aggregate fair saleable value of all Properties of all of the Subsidiary Guarantors exceeds the amount of all the debts and liabilities (including contingent, subordinated, unmatured and unliquidated liabilities, but excluding the obligations of the Subsidiary Guarantors hereunder) of all of the Subsidiary Guarantors, all as of the Closing Date. If any Subsidiary becomes a Subsidiary Guarantor hereunder subsequent to the Closing Date, then for purposes of this Section 6.08 such subsequent Subsidiary Guarantor shall be deemed to have been a Subsidiary Guarantor as of the Closing Date and the aggregate present fair saleable value of the Properties, and the amount of the debts and liabilities, of such Subsidiary Guarantor as of the Closing Date shall be deemed to be equal to such value and amount on the date such Subsidiary Guarantor becomes a Subsidiary Guarantor hereunder.

A. General Limitation on Guarantee Obligations. In any action or  
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proceeding involving any state corporate law, or any state or Federal bankruptcy, insolvency, reorganization or other law affecting the rights of creditors generally, if the obligations of any Subsidiary Guarantor under Section 6.01 hereof would otherwise, taking into account the provisions of Section 6.08 hereof, be held or determined to be void, invalid or unenforceable, or subordinated to the claims of any other creditors, on account of the amount of its liability under said Section 6.01, then, notwithstanding any other provision hereof to the contrary, the amount of such liability shall, without any further action by such Subsidiary Guarantor, any Lender, the Agent or any other Person, be automatically limited and reduced to the highest amount that is valid and enforceable and not subordinated to the claims of other creditors as determined in such action or proceeding.

I. Section Conditions Precedent.  
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A. Initial Extension of Credit. The obligation of any Lender to  
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make its initial extension of credit hereunder is subject to the conditions precedent that (i) such extension of credit shall be made on or before October 18, 1999 and (ii) the Agent shall have received the following documents, each of which shall be satisfactory to the Agent in form and substance:

1. Corporate Documents. Certified copies of the charter and by-laws  
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(or equivalent documents) of each Obligor and of all corporate authority for each Obligor (including, without limitation, board of director resolutions and evidence of the incumbency of officers) with respect to the execution, delivery and performance of such of the Basic Documents to which such Obligor is intended to be a party and each other document to be delivered by such Obligor from time to time in connection herewith and the extensions of credit hereunder (and the Agent and each Lender may conclusively rely on such certificate until it receives notice in writing from such Obligor to the contrary).

1. Officer's Certificate. A certificate of a senior officer of the  
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Company, dated the Closing Date, (i) to the effect set forth in the first sentence of Section 7.02 hereof, (ii) certifying that the representations and warranties set forth in Section 8 hereof are true and correct as of the Closing Date, (iii) with a list of Immaterial Subsidiaries as of the Closing Date (and including calculations demonstrating that such Subsidiaries comply with the definition of "Immaterial Subsidiary" in Section 1.01 hereof), and (iv) setting forth a pro forma calculation of the Leverage Ratio as of the Closing Date after giving effect to the Transaction and the initial borrowings hereunder.

1. Opinion of Counsel to the Obligors. An opinion, dated the Closing  
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Date, of Goodwin, Procter & Hoar LLP, counsel to the Obligors, substantially in the form of Exhibit B hereto and covering such other matters as the Agent or any Lender may reasonably request (and each Obligor hereby instructs such counsel to deliver such opinion to the Lenders and the Agent).

1. Opinion of Special New York Counsel to the Agent. An opinion, dated  
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the Closing Date, of Mayer, Brown & Platt, special New York counsel to the Agent, substantially in the form of Exhibit C hereto (and the Agent hereby instructs such counsel to deliver such opinion to the Lenders).

1. Financial Statements. The financial statements described in Section  
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8.02 hereof.

1. Notes. The Notes, duly completed and executed.  
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1. Insurance. Certificates of insurance evidencing the existence of  
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all insurance required to be maintained by the Company pursuant to Section 9.04 hereof. In addition, the Company shall have delivered a certificate of the chief financial officer of the Company setting forth the insurance obtained by it in accordance with the requirements of Section 9.04 and stating that such insurance is in full force and effect and that all premiums then due and payable thereon have been paid.

1. Environmental Information. Copies of all of the written  
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information referred to in Section 8.13 hereof, together with a report by Pilko  
& Associates with respect to such information.

1. Solvency Analysis. A certificate from the chief financial  
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officer of the Company, which presents an analysis to the effect that, as of the  
Closing Date and after giving effect to the Transaction, the initial extension  
of credit hereunder and to the other transactions contemplated hereby, (i) the  
aggregate value of all Properties of the Company and its Subsidiaries at their  
present fair saleable value (i.e., the amount that may be realized within a  
reasonable time, considered to be six months to one year, either through  
collection or sale at the regular market value, conceiving the latter as the  
amount that could be obtained for the Property in question within such period by  
a capable and diligent businessman from an interested buyer who is willing to  
purchase under ordinary selling conditions), exceed the amount of all the debts  
and liabilities (including contingent, subordinated, unmatured and unliquidated  
liabilities and their probable amounts) of the Company and its Subsidiaries,  
(ii) the Company and its Subsidiaries will not, on a consolidated basis, have an  
unreasonably small capital with which to conduct their business operations as  
heretofore conducted and (iii) the Company and its Subsidiaries will have, on a  
consolidated basis, sufficient cash flow to enable them to pay their debts as  
they mature. The Agent shall have also received (x) a certificate from the chief  
financial officer of the Company certifying the conclusions specified in clauses  
(i), (ii) and (iii) above and that the assumptions contained in such analyses  
were at the time made, and on the Closing Date are, fair and reasonable and  
accurately computed.

1. Material Agreements, etc. Copies shall be provided to the Agent  
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(and the Agent shall be satisfied with) any and all Material Agreements.

1. Repayment of Existing Indebtedness. Evidence that the principal  
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of and interest on, and all other amounts owing in respect of, the Indebtedness  
(including, without limitation, any contingent or other amounts payable in  
respect of letters of credit) indicated on Part A of Schedule I hereto that is  
to be repaid on the Closing Date shall have been (or shall be simultaneously)  
paid in full, that any commitments to extend credit under the agreements or  
instruments relating to such Indebtedness shall have been canceled or terminated  
and that all Guarantees in respect of, and all Liens securing, any such  
Indebtedness shall have been released (or arrangements for such release  
satisfactory to the Agent shall have been made), in addition, the Agent shall  
have received from any Person holding any Lien securing any such Indebtedness,  
such Uniform Commercial Code termination statements, mortgage releases and other  
instruments, in each case in proper form for recording, as the Agent shall have  
requested to release and terminate of record the Liens securing such  
Indebtedness (or arrangements for such release and termination satisfactory to  
the Agent shall have been made).

1. Consummation of the Transaction. Evidence and documentation  
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shall be provided, to the reasonable satisfaction of the Agent, in connection  
with terms and conditions of the Transaction (any such conditions requiring the  
satisfaction of any Person other than the Agent or the Lenders to be deemed to  
require the satisfaction of the Agent).

1. Credit Rating. Evidence and documentation, to the satisfaction  
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of the Agent, that confirms (either on a preliminary or final basis) the  
Company's credit rating on the Closing Date as being at least "BBB-" by Standard  
& Poor's Ratings Group, a division of The

McGraw-Hill Companies or "Baa3" by Moody's Investors Service, Inc. or "BBB-" by Duff & Phelps Credit Rating Co.

1. Indemnity. A copy of the indemnity agreement, in form and  
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substance reasonably satisfactory to the Agent, from Watts Industries, Inc. to the Company in respect of the legal proceeding styled Los Angeles Department of  
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Water and Power ex rel. Armenta v. James Jones Co., et al., further described in  
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Schedule VI hereto.

1. Agency Fee Letter. An executed copy of the letter agreement  
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dated as of October 18, 1999 between the Company and the Agent in respect of the agency fee.

1. Other Documents. Such other documents as the Agent or special  
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New York counsel to the Agent may reasonably request.

The obligation of any Lender to make its initial extension of credit hereunder is also subject to the payment or delivery by the Company of such fees and other consideration as the Company shall have agreed to pay to any Lender or an affiliate thereof or the Agent in connection herewith, including, without limitation, the reasonable fees and expenses of Mayer, Brown & Platt, special New York counsel to the Agent in connection with the negotiation, preparation, execution and delivery of this Agreement and the Notes and the other Basic Documents and the extensions of credit hereunder (to the extent that statements for such fees and expenses have been delivered to the Company).

A. Initial and Subsequent Extensions of Credit. The  
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obligation of any Lender to make any Loan (including such Lender's initial Loan) or otherwise extend any credit to the Company upon the occasion of each borrowing or other extension of credit hereunder is subject to the further conditions precedent that, both immediately prior to the making of such Loan or other extension of credit and also after giving effect thereto and to the intended use thereof: (a) no Default shall have occurred and be continuing; and (b) the representations and warranties made by the Company in Section 8 hereof, and by each Obligor in each of the other Basic Documents to which it is a party, shall be true and complete on and as of the date of the making of such Loan or other extension of credit with the same force and effect as if made on and as of such date (or, if any such representation or warranty is expressly stated to have been made as of a specific date, as of such specific date). Each notice of borrowing by the Company hereunder shall constitute a certification by the Company to the effect set forth in the preceding sentence (both as of the date of such notice or request and, unless the Company otherwise notifies the Agent prior to the date of such borrowing or issuance, as of the date of such borrowing or issuance).

I. Section Representations and Warranties. The Company  
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represents and warrants to the Agent and the Lenders that:

A. Corporate Existence. Each of the Company and its  
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Subsidiaries (other than any Immaterial Subsidiaries): (a) is a corporation, partnership or other entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization; (b) has all requisite corporate or other power, and has all material governmental licenses, authorizations, consents and approvals necessary to own its assets and carry on its business as now being or as proposed to be conducted; and (c) is qualified to do business and is

in good standing in all jurisdictions in which the nature of the business conducted by it makes such qualification necessary and where failure so to qualify could reasonably be expected to (either individually or in the aggregate) have a Material Adverse Effect.

A. Financial Condition. The Company has heretofore furnished to the  
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Agent the audited consolidated balance sheet of the Company and its Subsidiaries as at June 30, 1999 and the related audited consolidated statements of income, retained earnings and cash flow of the Company and its Subsidiaries for the fiscal year ended on each said date. All such financial statements are complete and correct and fairly present the consolidated financial condition of the Company and its Subsidiaries as at said dates and the consolidated results of their operations for the fiscal year on each said date, all in accordance with generally accepted accounting principles and practices applied on a consistent basis. Except as set forth on Schedule V, neither the Company nor any of its respective Subsidiaries has on the date hereof any material contingent liabilities, liabilities for taxes, unusual forward or long-term commitments or unrealized or anticipated losses from any unfavorable commitments, except as referred to or reflected or provided for in said balance sheets as at said dates. Since June 30, 1999, there has been no material adverse change in the consolidated financial condition, operations, business or prospects taken as a whole of the Company and its Subsidiaries from that set forth in said financial statements as at said date.

B. Litigation. Except as set forth on Schedule VI, there are no  
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legal or arbitral proceedings, or any proceedings by or before any governmental or regulatory authority or agency, now pending or (to the knowledge of the Company) threatened against the Company or any of its Subsidiaries that, if adversely determined could (either individually or in the aggregate) have a Material Adverse Effect.

A. No Breach.  
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(a) None of the execution and delivery of this Agreement, the Notes, the other Basic Documents, the consummation of the transactions herein and therein contemplated or compliance with the terms and provisions hereof and thereof will conflict with or result in a breach of, or require any consent under, the charter or by-laws of any Obligor, or any applicable law or regulation, or any order, writ, injunction or decree of any court or governmental authority or agency, or any material agreement or instrument to which the Company or any of its Subsidiaries is a party or by which any of them or any of their Property is bound or to which any of them is subject, or constitute a material default under any such agreement or instrument, or result in the creation or imposition of any Lien upon any Property of the Company or any of its Subsidiaries pursuant to the terms of any such agreement or instrument.

(b) None of the execution and delivery of any of the agreements in respect of the Transaction, the consummation of the transactions therein contemplated or compliance with the terms and provisions thereof will (x) conflict with or result in a breach of, or require any consent under, the charter or by-laws of any Obligor, or (y) except where the failure to obtain the same could not reasonably be expected to have a Material Adverse Effect, conflict with or result in a breach of, or require any consent under, any applicable law or regulation, or any order, writ, injunction or decree of any court or governmental authority or agency, or any material agreement or instrument to which the Company or any of its Subsidiaries is a party or by which any of them or any of their Property is bound or to which any of them is subject, or (z) except where the same could not reasonably be expected to have a Material Adverse Effect, constitute a material default under any such agreement or instrument, or result in the creation or imposition

of any Lien upon any Property of the Company or any of its Subsidiaries pursuant to the terms of any such agreement or instrument.

A. Action. Each Obligor has all necessary corporate power,

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authority and legal right to execute, deliver and perform its obligations under each of the Basic Documents and each agreement in respect of the Transaction to which it is a party; the execution, delivery and performance by each Obligor of each of the Basic Documents and each agreement in respect of the Transaction to which it is a party have been duly authorized by all necessary corporate action on its part (including, without limitation, any required shareholder approvals); and this Agreement has been duly and validly executed and delivered by each Obligor and constitutes, and each of the Notes and the other Basic Documents and each agreement in respect of the Transaction to which it is a party when executed and delivered by such Obligor (in the case of the Notes, for value) will constitute, its legal, valid and binding obligation, enforceable against each Obligor in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws of general applicability affecting the enforcement of creditors' rights.

A. Approvals. No authorizations, approvals or consents of, and no

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filings or registrations with, any governmental or regulatory authority or agency, or any securities exchange, which have not been obtained are necessary for the execution, delivery or performance by any Obligor of the Basic Documents and each agreement in respect of the Transaction to which it is a party or for the legality, validity or enforceability hereof or thereof.

A. Use of Credit. Neither of the Company nor any of its

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Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose, whether immediate, incidental or ultimate, of buying or carrying Margin Stock, and no part of the proceeds of any extension of credit hereunder will be used to buy or carry any Margin Stock.

A. ERISA. Each Plan, and, to the knowledge of the Company, each

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Multiemployer Plan, is in compliance in all material respects with, and has been administered in all material respects in compliance with, the applicable provisions of ERISA, the Code and any other Federal or State law, and no event or condition has occurred and is continuing as to which the Company would be, and the consummation of the Transaction will not cause the Company to be, under an obligation to furnish a report to the Lenders under Section 9.01(e) hereof.

A. Taxes. Immediately following completion of the Transaction, the

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Company and its Subsidiaries (excluding Foreign Subsidiaries) will be members of an affiliated group of corporations filing consolidated returns for Federal income tax purposes, of which the Company will be the "common parent" (within the meaning of Section 1504 of the Code) of such group. There is no tax sharing, tax allocation or similar agreement currently in effect providing for the manner in which tax payments owing by the members of such affiliated group (whether in respect of Federal or state income or other taxes) are allocated among the members of the group. The Company and its Subsidiaries have filed (either directly, or indirectly through the Company or Watts Industries, Inc., which has filed returns and paid all taxes due on the Company's behalf prior to the completion of the Transaction) all Federal income tax returns and all other material tax returns that are required to be filed by them and have paid (either directly, or indirectly through the Company or Watts Industries, Inc., which has filed returns and paid all taxes due on the Company's behalf prior to the completion of the Transaction) all taxes due

pursuant to such returns or pursuant to any assessment received by the Company or by the Company or any of its Subsidiaries. The charges, accruals and reserves on the books of the Company and its Subsidiaries in respect of taxes and other governmental charges are, in the opinion of the Company adequate. The Company has not given or been requested to give a waiver of the statute of limitations relating to the payment of Federal, state, local and foreign taxes or other impositions.

A. Investment Company Act. Neither the Company nor any of its  
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Subsidiaries is an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

A. Public Utility Holding Company Act. Neither the Company nor any  
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of its Subsidiaries is a "holding company", or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

A. Material Agreements and Liens.  
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1. Part A of Schedule I hereto includes a complete and correct list, as of the date of this Agreement, of each credit agreement, loan agreement, indenture, purchase agreement, guarantee, letter of credit or other arrangement providing for or otherwise relating to any Indebtedness or any extension of credit (or commitment for any extension of credit) to, or guarantee by, the Company or any of its Subsidiaries (other than any Immaterial Subsidiary), in each case in respect of Indebtedness not less than \$1,000,000 and the aggregate principal or face amount outstanding or that may become outstanding under each such arrangement is correctly described in Part A of said Schedule I. Part A of Schedule I hereto also includes a list of all principal agreements evidencing or documenting the Transaction.

1. Part B of Schedule I hereto is a complete and correct list, as of the date of this Agreement, of each Lien securing Indebtedness of any Person and covering any Property of the Company or any of its Subsidiaries (other than any Immaterial Subsidiary), and the aggregate Indebtedness secured (or that may be secured) by each such Lien and the Property covered by each such Lien is correctly described in Part B of said Schedule I.

A. Environmental Matters. Each of the Company and its Subsidiaries  
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has obtained all environmental, health and safety permits, licenses and other authorizations required under all Environmental Laws to carry on its business as conducted, giving effect to the consummation of the Transaction, except to the extent failure to have any such permit, license or authorization would not (either individually or in the aggregate) have a Material Adverse Effect. Each of such permits, licenses and authorizations is in full force and effect and each of the Company and its Subsidiaries is in compliance with the terms and conditions thereof, and is also in compliance with applicable Environmental Laws and any plan, order, decree, judgment, injunction, notice or demand letter issued, entered, promulgated or approved thereunder, except to the extent that such failure to have a permit, license or authorization in full force and effect or such failure to comply with applicable Environmental Laws would not (either individually or in the aggregate) have a Material Adverse Effect.

In addition, except as set forth in Schedule II hereto (and except, in the case of clauses (a) through (f) below, with respect to any Immaterial Subsidiary):

1. No notice, notification, demand, request for information, citation, summons or order has been issued, no complaint has been filed, no penalty has been assessed and, to the knowledge of the Company or any of its Subsidiaries, no investigation or review is pending or threatened by any governmental or other entity with respect to any alleged failure by the Company or any of its Subsidiaries to have any environmental, health or safety permit, license or other authorization required under any Environmental Law in connection with the conduct of the business of the Company or any of its Subsidiaries or with respect to any generation, treatment, storage, recycling, transportation, discharge or disposal, or any Release of any Hazardous Materials generated by the Company or any of its Subsidiaries, in each case, to the extent that the same could reasonably be expected to have a Material Adverse Effect.

1. Neither the Company nor any of its Subsidiaries owns, operates or leases a treatment, storage or disposal facility requiring a permit under the Resource Conservation and Recovery Act of 1976, as amended, or under any comparable state or local statute; and (except to the extent in material compliance with applicable Environmental Laws)

a) no polychlorinated biphenyls (PCB's) are present at any site or facility now or previously owned, operated or leased by the Company or any of its Subsidiaries;

a) no asbestos or asbestos-containing materials are present at any site or facility now or previously owned, operated or leased by the Company or any of its Subsidiaries;

a) there are no underground storage tanks or surface impoundments for Hazardous Materials, active or abandoned, at any site or facility now or previously owned, operated or leased by the Company or any of its Subsidiaries; and

a) no Hazardous Materials have been Released at, on or under any site or facility now or previously owned, operated or leased by the Company or any of its Subsidiaries in a reportable quantity established by statute, ordinance, rule, regulation or order.

1. Neither the Company nor any of its Subsidiaries has transported or arranged for the transportation of any Hazardous Material to any location that is listed on the National Priorities List ("NPL") under the Comprehensive

Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), listed for possible inclusion on the NPL by the Environmental

Protection Agency in the Comprehensive Environmental Response and Liability Information System, as provided for by 40 C.F.R. (S) 300.5 ("CERCLIS"), or on

any similar state or local list or that is the subject of Federal, state or local enforcement actions.

1. No written notification of a Release of a Hazardous Material has been filed by or on behalf of the Company or any of its Subsidiaries and no site or facility owned, operated or leased by the Company or any of its Subsidiaries is listed or proposed for listing on the NPL, CERCLIS or any similar state list of sites requiring investigation or clean-up.

1. No Liens have arisen under or pursuant to any Environmental Laws on any site or facility owned, operated or leased by the Company or any of its Subsidiaries, and, to the

knowledge of the Company or any of its Subsidiaries, no government action has been taken or is in process that could subject any such site or facility to such Liens and neither the Company nor any of its Subsidiaries has been required to place any notice or restriction relating to the presence of Hazardous Materials at any site or facility owned by it in any deed to the real property on which such site or facility is located.

1. All environmental site assessments and investigations conducted by or that are in the possession of the Company or any of its Subsidiaries concerning matters relevant to any site or facility owned, operated or leased by the Company or any of its Subsidiaries have been made available to the Lenders.

A. Capitalization. The authorized capital stock of the Company

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immediately following completion of the Transaction will consist of an aggregate of 30,000,000 shares consisting of (i) 29,000,000 shares of common stock, par value \$0.10 per share, of which 13,228,877 shares are duly and validly issued and outstanding, each of which shares is fully paid and nonassessable and (ii) 1,000,000 shares of preferred stock, of which no shares are duly and validly issued and outstanding. As of the date hereof, (x) except as set forth on Schedule VII, there are no outstanding Equity Rights with respect to the Company and (y) except as set forth in Schedule VII, there are no outstanding obligations of the Company or any of its Subsidiaries to repurchase, redeem, or otherwise acquire any shares of capital stock of the Company nor are there any outstanding obligations of the Company or any of its Subsidiaries to make payments to any Person, such as "phantom stock" payments, where the amount thereof is calculated with reference to the fair market value or equity value of the Company or any of its Subsidiaries.

A. Subsidiaries, Etc.

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1. Set forth in Part A of Schedule III hereto is a complete and correct list, as of the date hereof, of all of the Subsidiary Guarantors, together with, for each such Subsidiary Guarantor, (i) the jurisdiction of organization of such Subsidiary Guarantor, (ii) each Person holding ownership interests in such Subsidiary Guarantor and (iii) the nature of the ownership interests held by each such Person and the percentage of ownership of such Subsidiary Guarantor represented by such ownership interests. Except as disclosed in Part A of Schedule III hereto, (x) each of the Obligors owns, free and clear of Liens, and has the unencumbered right to vote, all outstanding ownership interests in each Person shown to be held by it in Part A of Schedule III hereto, (y) all of the issued and outstanding capital stock of each such Person organized as a corporation is validly issued, fully paid and nonassessable and (z) there are no outstanding Equity Rights with respect to such Person.

1. Set forth in Part B of Schedule III hereto is a complete and correct list, as of the date of this Agreement, of all Investments (other than Investments disclosed in Part A of said Schedule III hereto) held by any of the Obligors in any Person and, for each such Investment, (x) the identity of the Person or Persons holding such Investment and (y) the nature of such Investment. Except as disclosed in Part B of Schedule III hereto, each of the Obligors owns, free and clear of all Liens, all such Investments.

1. None of the Subsidiary Guarantors is, on the date of this Agreement, subject to any indenture, agreement, instrument or other arrangement of the type described in the last sentence of 9.19 hereof.

A. Title to Assets. Immediately following completion of the

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Transaction, the Company will own and have on the Closing Date good and marketable title (subject only to Liens permitted by Section 9.06 hereof) to the Properties shown to be owned in the most recent financial statements referred to in Section 8.02 hereof (other than Properties disposed of in the ordinary course of business or otherwise permitted to be disposed of pursuant to Section 9.05 hereof). Immediately following completion of the Transaction, the Company will own and have on the Closing Date good and marketable title to, and enjoys on the date hereof, and will enjoy on the Closing Date, peaceful and undisturbed possession of, all Properties (subject only to Liens permitted by Section 9.06 hereof) that are materially necessary for the operation and conduct of its businesses.

A. True and Complete Disclosure. This Agreement (with exhibits and

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schedules) and the Registration Statement, together with the information, reports, financial statements, exhibits and schedules furnished in writing by or on behalf of the Obligors to the Agent or any Lender in connection with the negotiation, preparation or delivery of this Agreement and the other Basic Documents or included herein or therein or delivered pursuant hereto or thereto, when taken as a whole do not contain any untrue statement of material fact or omit to state any material fact necessary to make the statements herein or therein, in light of the circumstances under which they were made, not misleading. All written information furnished after the date hereof by the Obligors to the Agent and the Lenders in connection with this Agreement and the other Basic Documents and the transactions contemplated hereby and thereby will be true, complete and accurate in every material respect, on the date as of which such information is stated or certified; provided, however, that the

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Company makes no representation as to any financial projections other than that such projections have been made in good faith and on reasonable assumptions, have been accurately calculated and have not been delivered with the intent to misinform or mislead and are estimates and not a guaranty of actual results. There is no fact known to the Company that could reasonably be expected to have a Material Adverse Effect that has not been disclosed herein, in the other Basic Documents or in a report, financial statement, exhibit, schedule, disclosure letter or other writing furnished to the Lenders for use in connection with the transactions contemplated hereby or thereby.

A. Real Property. Set forth on Schedule IV attached hereto is a

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list, as of the Closing Date, of all of the real property interests held by the Company and its Subsidiaries (other than any Immaterial Subsidiary), indicating in each case whether the respective Property is owned or leased, the identity of the owner or lessee and the location of the respective Property.

A. Year 2000. Each Obligor has reviewed the areas within its

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business and operations which could be adversely affected by, and has developed or is developing a program to address on a timely basis, the "Year 2000 Problem" (that is, the risk that computer applications used by such Obligor may be unable to recognize and properly perform date-sensitive functions involving certain dates prior to and any date after December 31, 1999). Based on such review and program and to the knowledge of each Obligor's respective management, the Year 2000 Problem could not reasonably be expected to have a Material Adverse Effect on the Company.

I. Section Covenants of the Company. The Company covenants and

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agrees with the Lenders and the Agent that, so long as any Commitment or Loan is outstanding and until payment in full of all amounts payable by the Company hereunder:

A. Financial Statements Etc. The Company shall deliver to the

Agent:

1. as soon as available and in any event within 45 days after the end of each quarterly fiscal period of each fiscal year of the Company, consolidated statements of income, retained earnings and cash flow of the Company and its Subsidiaries for such period and for the period from the beginning of the respective fiscal year to the end of such period, and the related consolidated balance sheets of the Company and its Subsidiaries as at the end of such period, setting forth in each case in comparative form the corresponding consolidated figures for the corresponding period in the preceding fiscal year, accompanied by (i) a certificate of a senior financial officer of the Company, which certificate shall state that said consolidated financial statements fairly present the consolidated financial condition and results of operations of the Company and its Subsidiaries, and said financial statements fairly present the respective individual unconsolidated financial condition and results of operations of the Company and of each of its Subsidiaries, in each case in accordance with generally accepted accounting principles, consistently applied, as at the end of, and for, such period (subject to normal year-end audit adjustments) and (ii) a certificate in the form of Exhibit D hereto;

1. as soon as available and in any event within 120 days after the end of each fiscal year of the Company, audited consolidated and consolidating statements of income, retained earnings and cash flow of the Company and its Subsidiaries for such fiscal year and the related audited consolidated and consolidating balance sheets of the Company and its Subsidiaries as at the end of such fiscal year, setting forth in each case in comparative form the corresponding consolidated and consolidating figures for the preceding fiscal year, and accompanied by (x) an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that said financial statements fairly present the consolidated and consolidating financial condition and results of operations of the Company and its Subsidiaries as at the end of, and for, such fiscal year in accordance with generally accepted accounting principles, and (y) a certificate of a senior financial officer of the Company with a list of the Immaterial Subsidiaries as at the end of such fiscal year and setting forth the calculations demonstrating that such Immaterial Subsidiaries comply with the definition of "Immaterial Subsidiaries" in Section 1.01 hereof;

1. promptly upon their becoming available, copies of all registration statements and regular periodic reports, if any, that the Company shall have filed with the Securities and Exchange Commission (or any governmental agency substituted therefor) or any national securities exchange;

2. as soon as possible, and in any event at least ten Business Days prior to the first day of each fiscal year of the Company, a report of the Company's budgeted expenditures and revenues for such fiscal year;

1. as soon as possible, and in any event within 30 days after the Company knows or has reason to believe that any of the events or conditions specified below with respect to any Plan or Multiemployer Plan has occurred or exists, a statement signed by a senior financial officer of the Company setting forth details respecting such event or condition and the action, if any, that the Company or its ERISA Affiliate proposes to take with respect thereto (and a copy of any report or notice required to be filed with or given to PBGC by the Company or an ERISA Affiliate with respect to such event or condition):

a) any reportable event, as defined in Section 4043(c) of ERISA and the regulations issued thereunder, with respect to a Plan, as to which PBGC has not by regulation waived the requirement of Section 4043(a) of ERISA that it be notified within 30 days of the occurrence of such event (provided that a failure

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to meet the minimum funding standard of Section 412 of the Code or Section 302 of ERISA, including, without limitation, the failure to make on or before its due date a required installment under Section 412(m) of the Code or Section 302(e) of ERISA, shall be a reportable event regardless of the issuance of any waivers in accordance with Section 412(d) of the Code); and any request for a waiver under Section 412(d) of the Code for any Plan;

a) the distribution under Section 4041 of ERISA of a notice of intent to terminate any Plan or any action taken by the Company or an ERISA Affiliate to terminate any Plan;

a) the institution by PBGC of proceedings under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by PBGC with respect to such Multiemployer Plan;

a) the complete or partial withdrawal from a Multiemployer Plan by the Company or any ERISA Affiliate that results in liability under Section 4201 or 4204 of ERISA (including the obligation to satisfy secondary liability as a result of a purchaser default) or the receipt by the Company or any ERISA Affiliate of notice from a Multiemployer Plan that it is in reorganization or insolvency pursuant to Section 4241 or 4245 of ERISA or that it intends to terminate or has terminated under Section 4041A of ERISA;

a) the institution of a proceeding by a fiduciary of any Multiemployer Plan against the Company or any ERISA Affiliate to enforce Section 515 of ERISA, which proceeding is not dismissed within 30 days; and

a) the adoption of an amendment to any Plan that, pursuant to Section 401(a)(29) of the Code or Section 307 of ERISA, would result in the loss of tax-exempt status of the trust of which such Plan is a part if the Company or an ERISA Affiliate fails to timely provide security to the Plan in accordance with the provisions of said Sections;

1. promptly after the Company knows that any Default has occurred, a notice of such Default describing the same in reasonable detail and, together with such notice or as soon thereafter as possible, a description of the action that the Company has taken or proposes to take with respect thereto; and

1. from time to time such other information regarding the financial condition, operations, business or prospects of the Company or any of its Subsidiaries (including, without limitation, any Plan or Multiemployer Plan and any reports or other information required to be filed under ERISA) as the Agent (for itself or at the request of any Lender) may reasonably request.

The Company will furnish to the Agent, at the time it furnishes each set of financial statements pursuant to paragraph (a) or (b) above, a certificate of a senior financial officer of the Company (i) to the effect that no Default has occurred and is continuing (or, if any Default has occurred and is continuing, describing the same in reasonable detail and describing the action that the

Company has taken or proposes to take with respect thereto) and (ii) setting forth in reasonable detail the computations necessary to determine whether the Company is in compliance with Sections 9.09, 9.10, 9.11, 9.12, 9.13 and 9.14 hereof as of the end of the respective quarterly fiscal period or fiscal year.

A. Litigation. The Company will give to the Agent prompt notice of all

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legal or arbitral proceedings, and of all proceedings by or before any governmental or regulatory authority or agency, and any material development in respect of such legal or other proceedings, affecting the Company or any of its Subsidiaries, except proceedings that, if adversely determined, would not (either individually or in the aggregate) have a Material Adverse Effect. Without limiting the generality of the foregoing, the Company will give to the Agent prompt notice of the assertion of any Environmental Claim by any Person against, or with respect to the activities of, the Company or any of its Subsidiaries, other than any Environmental Claim that, if adversely determined, would not (either individually or in the aggregate) have a Material Adverse Effect.

A. Existence, Etc. The Company will, and will cause each of its

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Subsidiaries (other than, in the case of clauses (a) through (e) below, any Immaterial Subsidiaries) to:

1. preserve and maintain its legal existence and all of its material rights, privileges, licenses and franchises (provided that nothing in this Section 9.03 shall prohibit any transaction expressly permitted under Section 9.05 hereof);

1. comply with the requirements of all applicable laws, rules, regulations and orders of governmental or regulatory authorities if failure to comply with such requirements could (either individually or in the aggregate) reasonably be expected to have a Material Adverse Effect;

1. pay and discharge all taxes, assessments and governmental charges or levies imposed on it or on its income or profits or on any of its Property prior to the date on which penalties attach thereto, except for any such tax, assessment, charge or levy the payment of which is being contested in good faith and by proper proceedings and against which adequate reserves are being maintained;

1. maintain all of its Properties used or useful in its business in good working order and condition, ordinary wear and tear excepted, except as could not reasonably be expected to have a Material Adverse Effect;

1. keep adequate records and books of account, in which complete entries will be made in accordance with generally accepted accounting principles consistently applied; and

2. permit representatives of the Agent (for itself or at the request of any Lender), during normal business hours, to examine, copy and make extracts from its books and records, to inspect any of its Properties, and to discuss its business and affairs with its officers, all to the extent reasonably requested by the Agent and in any event no more than three times per year (provided that no such restriction shall apply when an Event of Default exists and is continuing).

A. Insurance. The Company will, and will cause each of its Subsidiaries

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(other than any Immaterial Subsidiary) to, maintain insurance with financially sound and

reputable insurance companies, and with respect to Property and risks of a character usually maintained by corporations engaged in the same or similar business similarly situated, against loss, damage and liability of the kinds and in the amounts customarily maintained by such corporations. On or before the Closing Date, the Company will deliver to the Agent certificates of insurance reasonably satisfactory to the Agent evidencing the existence of all insurance required to be maintained by the Company hereunder setting forth the respective coverages, limits of liability, carrier, policy number and period of coverage and showing that such insurance will remain in effect through the December 31 falling at least six months after the date hereof, subject only to the payment of premiums as they become due. Thereafter, on each November 15 in each year (commencing with the November 15, 2000), the Company will deliver to the Agent certificates of insurance evidencing that all insurance required to be maintained by the Company hereunder will be in effect through the December 31 of the calendar year following the calendar year of the current November 15, subject only to the payment of premiums as they become due.

A. Prohibition of Fundamental Changes.  
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1. The Company will not, nor will it permit any of its Subsidiaries to, enter into any transaction of merger or consolidation or amalgamation, or liquidate, wind up or dissolve itself (or suffer any liquidation or dissolution); provided, however, that

a) any Subsidiary of the Company may be merged or consolidated with or into: (i) the Company if the Company shall be the continuing or surviving corporation or (ii) any other such Subsidiary that is not a Foreign Subsidiary, provided that if any such transaction shall be between a Subsidiary and a Wholly Owned Subsidiary, the Wholly Owned Subsidiary shall be the continuing or surviving corporation; and

a) any Subsidiary of the Company may sell, lease, transfer or otherwise dispose of any or all of its Property (upon voluntary liquidation or otherwise) to the Company or a Wholly Owned Subsidiary of the Company that is not a Foreign Subsidiary;

a) the Company or any Subsidiary of the Company may merge or consolidate with any other Person if (i) in the case of a merger or consolidation of the Company, the Company is the surviving corporation and, in any other case, the surviving corporation is a Wholly Owned Subsidiary of the Company that is not a Foreign Subsidiary and (ii) after giving effect thereto no Default would exist hereunder; and

(iv) any Immaterial Subsidiary may be dissolved or wound up.

1. The Company will not, nor will it permit any of its Subsidiaries to, acquire any business or Property from, or capital stock of, or be a party to any acquisition of, any Person except for the following:

a) purchases of inventory and other Property to be sold or used in the ordinary course of business,

a) Investments permitted under Section 9.08 hereof,

a) Capital Expenditures permitted under Section 9.14 hereof, and

a) acquisitions of all of the capital stock or other equity interests of a Person, or all or substantially all of the assets of a Person or a division of a Person, in the business of designing, manufacturing or distributing fluid control components, valves and related products and services for use in fluid-control systems; so long as, (A) both immediately prior to such acquisition and after giving effect thereto no Default shall be continuing, and (B) the Company shall have delivered to the Agent a Compliance Certificate, showing to the satisfaction of the Agent on a pro forma basis (giving effect to the cost and any increased cash flow of such acquisition, but disregarding any gains on extraordinary or nonrecurring items, synergies or other savings arising from such acquisition) compliance with the provisions of Sections 9.10, 9.11, 9.12 and 9.13 hereof for the period of four fiscal quarters most recently ended prior to the date of such acquisition.

1. The Company will not, nor will it permit any of its Subsidiaries to, convey, sell, lease, transfer or otherwise dispose of, in one transaction or a series of transactions, any part of its business or Property, whether now owned or hereafter acquired (including, without limitation, receivables and leasehold interests, but excluding (i) obsolete or worn-out Property, tools or equipment no longer used or useful in its business so long as the amount thereof sold in any single fiscal year by the Company and its Subsidiaries shall not have a fair market value in excess of \$5,000,000, (ii) any inventory or other Property sold or disposed of in the ordinary course of business and on ordinary business terms, (iii) the Spartenburg Disposition and (iv) other dispositions so long as the aggregate fair market value of all Property disposed of pursuant to this Section 9.05(c) (iv) does not exceed \$5,000,000).

A. Limitation on Liens. The Company will not, nor will it permit any of -----  
its Subsidiaries (other than any Immaterial Subsidiary) to, create, incur, assume or suffer to exist any Lien upon any of its Property, whether now owned or hereafter acquired, except:

1. Liens in existence on the date hereof and listed in Part B of Schedule I hereto (excluding, however, following the making of the initial Loans hereunder, Liens securing Indebtedness to be repaid with the proceeds of such Loans, as indicated on said Schedule I);

1. Liens imposed by any governmental authority for taxes, assessments or charges not yet due or that are being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are maintained on the books of the Company or the affected Subsidiaries, as the case may be, in accordance with GAAP;

1. carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business that are not overdue for a period of more than 30 days or that are being contested in good faith and by appropriate proceedings and Liens securing judgments but only to the extent for an amount and for a period not resulting in an Event of Default under Section 10(h) hereof;

1. pledges or deposits under worker's compensation, unemployment insurance and other social security legislation;

1. deposits to secure the performance of bids, trade contracts (other than for Indebtedness), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

1. easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business and encumbrances consisting of zoning restrictions, easements, licenses, restrictions on the use of Property or minor imperfections in title thereto that, in the aggregate, are not material in amount, and that do not in any case materially detract from the value of the Property subject thereto or interfere with the ordinary conduct of the business of the Company or any of its Subsidiaries;

1. Liens on Property of any corporation that becomes a Subsidiary of the Company after the date of this Agreement, provided that such Liens are in existence at the time such corporation becomes a Subsidiary of the Company and were not created in anticipation thereof;

1. Liens upon real and/or tangible personal Property acquired after the date hereof (by purchase, construction or otherwise) by the Company or any of its Subsidiaries, each of which Liens either (A) existed on such Property before the time of its acquisition and was not created in anticipation thereof or (B) was created solely for the purpose of securing Indebtedness representing, or incurred to finance, refinance or refund, the cost (including the cost of construction) of such Property; provided that (i) no such Lien shall extend to

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or cover any Property of the Company or such Subsidiary other than the Property so acquired and improvements thereon and (ii) the principal amount of Indebtedness secured by any such Lien shall at no time exceed 80% of the fair market value (as determined in good faith by a senior financial officer of the Company) of such Property at the time it was acquired (by purchase, construction or otherwise); and

1. additional Liens upon real and/or personal Property created after the date hereof, provided that the aggregate Indebtedness secured thereby and

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incurred on and after the date hereof shall not exceed \$10,000,000 in the aggregate at any one time outstanding.

A. Indebtedness. The Company will not, nor will it permit any of its

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Subsidiaries to, create, incur or suffer to exist any Indebtedness except:

1. Indebtedness to the Lenders hereunder;

1. Indebtedness outstanding on the date hereof and listed in Part A of Schedule I hereto (excluding, however, following the making of the initial Loans hereunder, the Indebtedness to be repaid with the proceeds of such Loans, as indicated on said Schedule I);

1. Indebtedness of Subsidiaries of the Company to the Company or to other Subsidiaries of the Company;

1. additional Indebtedness of the Company and its Subsidiaries (including, without limitation, Capital Lease Obligations and other Indebtedness secured by Liens permitted under Sections 9.06(h) or 9.06(i) hereof) up to but not exceeding \$10,000,000 at any one time outstanding; and

1. Indebtedness under the Senior Notes.

A. Investments. The Company will not, nor will it permit any of its

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Subsidiaries to, make or permit to remain outstanding any Investments except:

1. Investments outstanding on the date hereof and identified in Part B of Schedule III hereto;

1. operating deposit accounts with lenders;

1. Permitted Investments;

1. Investments by the Company and its Subsidiaries in capital stock of Subsidiaries of the Company to the extent outstanding on the date of the financial statements of the Company and its Subsidiaries referred to in Section 8.02 hereof and advances by the Company and its Subsidiaries to (i) Subsidiaries of the Company that are not Foreign Subsidiaries in the ordinary course of business and (ii) Foreign Subsidiaries so long as the amount of such advances by the Company to its Foreign Subsidiaries shall not exceed \$10,000,000 in the aggregate at any one time;

1. Interest Rate Protection Agreements;

1. additional Investments up to but not exceeding \$5,000,000 in the aggregate; and

1. acquisitions permitted under Section 9.05(b)(z) hereof and financed with Indebtedness hereunder.

A. Dividend Payments and Other Restricted Payments. The Company will

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not, nor will it permit any of its Subsidiaries to, declare or make any Dividend Payment at any time, except that the Company may declare and make Dividend Payments in cash, subject to the satisfaction of each of the following conditions on the date of such Dividend Payment and after giving effect thereto:

a) no Default shall have occurred and be continuing;

a) the aggregate amount of Dividend Payments made during the period commencing on the Closing Date and ending on and including the last day of, the fiscal quarter most recently ended prior to the date of such Dividend Payment shall not exceed an amount equal to 50% of consolidated net income of the Company and its Subsidiaries for such period (treated for these purposes as a single accounting period); and

a) the Company shall have delivered to each Lender, at least ten Business Days (but not more than twenty Business Days) prior to the date of the proposed Dividend Payment, a certificate of the chief financial officer of the Company setting forth computations in reasonable detail demonstrating satisfaction of the foregoing conditions as at the date of such certificate.

A. Leverage Ratio. The Company will not permit the Leverage Ratio as at

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the last day for any fiscal quarter of the Company to exceed 3.50 to 1; provided

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that if, during any such fiscal quarter, the Borrower or any of its Subsidiaries shall have made one or more acquisitions pursuant to Section 9.05(b)(iv), EBITDA for such fiscal quarter (for purposes of the calculation of the Leverage Ratio only) shall be calculated on a pro forma basis as if each such

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acquisition had been made on the first day of such fiscal quarter, giving pro forma effect to such acquisition to the extent permitted under Section 9.05(b) (iv).

A. Net Worth. The Company will not permit Net Worth as at the last day of any fiscal quarter of the Company to be less than the sum of (a) \$160,000,000 plus (b) 50% of Net Income for each fiscal quarter of the Company ending after the Closing Date for which Net Income is a positive number.

A. Interest Coverage Ratio. The Company will not permit the Interest Coverage Ratio as at the last day of any fiscal quarter of the Company to be less than 2.50 to 1.

A. Fixed Charges Coverage Ratio. The Company will not permit the Fixed Charges Coverage Ratio as at the last day of any fiscal quarter of the Company to be less than 1.50 to 1.

A. Capital Expenditures. The Company will not permit the aggregate amount of Capital Expenditures by the Company and its Subsidiaries in any fiscal year of the Company to exceed an amount equal to 3% of the consolidated net revenues of the Company and its Subsidiaries for such fiscal year.

A. Interest Rate Protection Agreements. The Company will within 180 days of the Closing Date and at all times thereafter maintain in full force and effect one or more Interest Rate Protection Agreements with respect to at least 50% of the sum of (a) the aggregate principal amount of all Loans and (b) the aggregate principal amount of all Indebtedness under the Senior Notes, in each case on terms and conditions reasonably satisfactory to the Agent.

A. Lines of Business. Neither the Company nor any of its Subsidiaries will engage to any substantial extent in any line or lines of business activity other than the business of manufacturing, distributing and selling values and related products, except as otherwise permitted under Section 9.05(b) (z).

A. Transaction with Affiliates. Except as expressly permitted by this Agreement and except for the Transaction, the Company will not, nor will it permit any of its Subsidiaries to, directly or indirectly: (a) make any Investment in an Affiliate; (b) transfer, sell, lease, assign or otherwise dispose of any Property to an Affiliate; (c) merge into or consolidate with or purchase or acquire Property from an Affiliate; or (d) enter into any other transaction directly or indirectly with or for the benefit of an Affiliate (including, without limitation, Guarantees and assumptions of obligations of an Affiliate); provided that (x) any Affiliate who is an individual may serve as a director, officer or employee of the Company or any of its Subsidiaries and receive reasonable compensation for his or her services in such capacity, (y) the Company and its Subsidiaries may enter into transactions (other than extensions of credit by the Company or any of its Subsidiaries to an Affiliate) if the monetary or business consideration arising therefrom would be substantially as advantageous to the Company and its Subsidiaries as the monetary or business consideration that would obtain in a comparable transaction with a Person not an Affiliate and (z) agreements between the Company and Watts Industries, Inc. (and its affiliates) to the extent identified on Schedule VIII, shall not be prohibited by this Section.

A. Use of Proceeds. The Company will use the proceeds of the Loans hereunder solely to recapitalize the Company in connection with the Transaction and to finance

capital expenditures and for working capital purposes (in compliance with all applicable legal and regulatory requirements); provided that neither the Agent

nor any Lender shall have any responsibility as to the use of any of such proceeds.

A. Certain Obligations. The Company will, and will cause each of its

Subsidiaries to, take such action from time to time as shall be necessary to ensure that each of its Subsidiaries is a Wholly Owned Subsidiary. The Company will not, and will not permit any of its Subsidiaries to, enter into, after the date of this Agreement, any indenture, agreement, instrument or other arrangement that, directly or indirectly, prohibits or restrains, or has the effect of prohibiting or restraining, or imposes materially adverse conditions upon, the incurrence or payment of Indebtedness, the granting of Liens, the declaration or payment of dividends, the making of loans, advances or Investments or the sale, assignment, transfer or other disposition of Property.

A. Additional Subsidiary Guarantors. The Company will take such action,

and will cause each of its Subsidiaries to take such action, from time to time as shall be necessary to ensure that all Subsidiaries of the Company (other than Foreign Subsidiaries) are Subsidiary Guarantors and, thereby, "Obligors"

hereunder. Without limiting the generality of the foregoing, in the event that the Company or any of its Subsidiaries shall form or acquire any new Subsidiary (other than Foreign Subsidiaries), the Company or the respective Subsidiary will cause such new Subsidiary to become a "Subsidiary Guarantor" (and, thereby, an

"Obligor") hereunder pursuant to a written instrument in form and substance

satisfactory to each Lender and the Agent, and to deliver such proof of corporate action, incumbency of officers, opinions of counsel and other documents as is consistent with those delivered by each Obligor pursuant to Section 7.01 hereof upon the Closing Date or as the Agent shall have requested.

A. Modifications of Material Agreements. The Company will not, nor will

it permit any of its Subsidiaries to, consent to any modification, supplement or waiver of any of the provisions of any Material Agreement, which modification, supplement or waiver is materially adverse to the interests of any Lender, without the prior consent of the Agent (with the approval of the Majority Lenders).

A. Post-closing Collateral. If, by the 15th day after the Closing Date,

a letter from a rating agency described in Section 7.01(m), and assigned the minimum rating set forth in said Section, has not been delivered to the Agent, the Company and its Subsidiaries shall promptly (and in any event within five Business Days) enter into documentation reasonably satisfactory to the Majority Lenders, and do such other acts and things as may be required, to provide (subject to Permitted Liens) a first priority perfected Lien over substantially all of the Property of the Obligors (other than the Obligors that are Foreign Subsidiaries) as collateral security for the obligations of the Company under this Agreement and the Notes, and as collateral security for the First Union Indebtedness on a pari passu basis, including (without limitation) executing appropriate security and pledge agreements, delivering for filing appropriate Uniform Commercial Code Financing Statements, delivery to the Agent of the certificates representing the capital stock of all of the Subsidiaries of the Company, and obtaining policies of mortgagee's title insurance with respect to all of the real property of the Obligors. Likewise, if at any time the Lenders take collateral security for the obligations of the Company and the Subsidiary Guarantors under this Agreement, such collateral shall also secure the First Union Indebtedness on a pari passu basis.

I. Section Events of Default. If one or more of the following events

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(herein called "Events of Default") shall occur and be continuing:

1. The Company shall: (i) default in the payment of any principal of any Loan when due (whether at stated maturity or at mandatory); or (ii) default in the payment of any interest on any Loan, any fee or any other amount payable by it hereunder or under any other Basic Document when due and such default shall have continued unremedied for three or more days; or

1. The Company or any of its Subsidiaries (other than any Immaterial Subsidiary) shall default in the payment when due of any principal of or interest on any of its other Indebtedness of the Company or any of its Subsidiaries (other than any Immaterial Subsidiary) having a principal amount, individually or in the aggregate, in excess of \$10,000,000, or in the payment when due of any amount under any Interest Rate Protection Agreement; or any event specified in any note, agreement, indenture or other document evidencing or relating to any such Indebtedness or any event specified in any Interest Rate Protection Agreement shall occur if the effect of such event is to cause, or (with the giving of any notice or the lapse of time or both) to permit the holder or holders of such Indebtedness (or a trustee or agent on behalf of such holder or holders) to cause, such Indebtedness to become due, or to be prepaid in full (whether by redemption, purchase, offer to purchase or otherwise), prior to its stated maturity or, in the case of an Interest Rate Protection Agreement, to permit the payments owing under such Interest Rate Protection Agreement to be liquidated; or

1. Any representation, warranty or certification made or deemed made herein or in any other Basic Document (or in any modification or supplement hereto or thereto) by any the Company or any of its Subsidiaries, or any certificate furnished to any Lender or the Agent pursuant to the provisions hereof or thereof, shall prove to have been false or misleading as of the time made or furnished in any material respect; or

1. The Company shall default in the performance of any of its obligations under any of Sections 9.01, 9.03, 9.04, 9.05, 9.06, 9.07, 9.08, 9.09, 9.10, 9.11, 9.12, 9.13, 9.14, 9.15 or 9.17 hereof, or the Company or any Obligor shall default in the performance of any of its other obligations in this Agreement or any other Basic Document and such default shall continue unremedied for a period of thirty or more days after notice thereof to the Company by the Agent or any Lender (through the Agent); or

1. The Company or any of its Subsidiaries (other than any Immaterial Subsidiary) shall admit in writing its inability to, or be generally unable to, pay its debts as such debts become due; or

1. The Company or any of its Subsidiaries (other than any Immaterial Subsidiary) shall (i) apply for or consent to the appointment of, or the taking of possession by, a receiver, custodian, trustee, examiner or liquidator of itself or of all or a substantial part of its Property, (ii) make a general assignment for the benefit of its creditors, (iii) commence a voluntary case under the Bankruptcy Code, (iv) file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization, liquidation, dissolution, arrangement or winding-up, or composition or readjustment of debts, (v) fail to controvert in a timely and appropriate manner, or acquiesce in writing to, any petition filed against it in an involuntary case

under the Bankruptcy Code or (vi) take any corporate action for the purpose of effecting any of the foregoing; or

1. A proceeding or case shall be commenced, without the application or consent of the Company or any of its Subsidiaries (other than any Immaterial Subsidiary), in any court of competent jurisdiction, seeking (i) its reorganization, liquidation, dissolution, arrangement or winding-up, or the composition or readjustment of its debts, (ii) the appointment of a receiver, custodian, trustee, examiner, liquidator or the like of such Person or of all or any substantial part of its Property, or (iii) similar relief in respect of such Person under any law relating to bankruptcy, insolvency, reorganization, winding-up, or composition or adjustment of debts, and such proceeding or case shall continue undismissed, or an order, judgment or decree approving or ordering any of the foregoing shall be entered and continue unstayed and in effect, for a period of 60 or more days; or an order for relief against the Company or any of its Subsidiaries (other than any Immaterial Subsidiary) shall be entered in an involuntary case under the Bankruptcy Code; or

1. A final judgment or judgments for the payment of money in excess of \$10,000,000 in the aggregate shall be rendered by one or more courts, administrative tribunals or other bodies having jurisdiction against the Company or any of its Subsidiaries (other than any Immaterial Subsidiary) and the same shall not be discharged (or provision shall not be made for such discharge), or a stay of execution thereof shall not be procured, within 30 days from the date of entry thereof and such Person shall not, within said period of 30 days, or such longer period during which execution of the same shall have been stayed, appeal therefrom and cause the execution thereof to be stayed during such appeal; or

1. An event or condition specified in Section 9.01(f) hereof shall occur or exist with respect to any Plan or Multiemployer Plan and, as a result of such event or condition, together with all other such events or conditions, the Company or any ERISA Affiliate shall incur or in the opinion of the Majority Lenders shall be reasonably likely to incur a liability to a Plan, a Multiemployer Plan or PBGC (or any combination of the foregoing) that, in the determination of the Majority Lenders, would (either individually or in the aggregate) have a Material Adverse Effect; or

1. A reasonable basis shall exist for the assertion against the Company or any of its Subsidiaries, or any predecessor in interest of the Company or any of its Subsidiaries or Affiliates, of (or there shall have been asserted against the Company or any of its Subsidiaries) an Environmental Claim that, in the judgment of the Majority Lenders is reasonably likely to be determined adversely to the Company or any of its Subsidiaries, and the amount thereof (either individually or in the aggregate) is reasonably likely to have a Material Adverse Effect (insofar as such amount is payable by the Company or any of its Subsidiaries but after deducting any portion thereof that is reasonably expected to be paid by other creditworthy Persons jointly and severally liable therefor); or

1. A Change of Control shall occur;

THEREUPON: (1) in the case of an Event of Default other than one referred to in clause (f) or (g) of this Section 10 with respect to any Obligor, (A) the Agent may reject any request for borrowings hereunder and shall, by notice to the Company and at the direction of the Majority Lenders, terminate the Commitments and they shall thereupon terminate, and (B) the Agent may

and, upon request of the Majority Lenders shall, by notice to the Company declare the principal amount then outstanding of, and the accrued interest on, the Loans and all other amounts payable by the Obligors hereunder and under the Notes to be forthwith due and payable, whereupon such amounts shall be immediately due and payable without presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by each Obligor; and (2) in the case of the occurrence of an Event of Default referred to in clause (f) or (g) of this Section 10 with respect to any Obligor, the Commitments shall automatically be terminated and the principal amount then outstanding of, and the accrued interest on, the Loans and all other amounts payable by the Obligors hereunder and under the Notes shall automatically become immediately due and payable without presentment, demand, protest or other formalities of any kind, all of which are hereby expressly waived by each Obligor.

I. Section The Agent.  
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A. Appointment, Powers and Immunities. Each Lender hereby irrevocably  
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appoints and authorizes the Agent to act as its agent hereunder and under the other Basic Documents with such powers as are specifically delegated to the Agent by the terms of this Agreement and of the other Basic Documents, together with such other powers as are reasonably incidental thereto. The Agent (which term as used in this sentence and in Section 11.05 and the first sentence of Section 11.06 hereof shall include reference to its affiliates and its own and its affiliates' officers, directors, employees and agents): (a) shall have no duties or responsibilities except those expressly set forth in this Agreement and in the other Basic Documents, and shall not by reason of this Agreement or any other Basic Document be a trustee for any Lender; (b) shall not be responsible to the Lenders for any recitals, statements, representations or warranties contained in this Agreement or in any other Basic Document, or in any certificate or other document referred to or provided for in, or received by any of them under, this Agreement or any other Basic Document, or for the value, validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement, any Note or any other Basic Document or any other document referred to or provided for herein or therein or for any failure by the Company or any other Person to perform any of its obligations hereunder or thereunder; (c) shall not be required to initiate or conduct any litigation or collection proceedings hereunder or under any other Basic Document, except as provided in Section 11.03 hereof; and (d) shall not be responsible for any action taken or omitted to be taken by it hereunder or under any other Basic Document or under any other document or instrument referred to or provided for herein or therein or in connection herewith or therewith, except for its own gross negligence or willful misconduct. The Agent shall promptly forward to the Lenders copies of all reports and notices received by it under Sections 9.01 and 9.02 hereof. The Agent may employ agents and attorneys-in-fact and shall not be responsible for the negligence or misconduct of any such agents or attorneys-in-fact selected by it in good faith. The Agent may deem and treat the payee of any Note as the holder thereof for all purposes hereof unless and until a notice of the assignment or transfer thereof shall have been filed with the Agent, together with the consent of the Company to such assignment or transfer (to the extent provided in Section 12.06(b) hereof).

A. Reliance by Agent. The Agent shall be entitled to rely upon any  
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certification, notice or other communication (including, without limitation, any thereof by telephone, telecopy, telex, telegram or cable) believed by it to be genuine and correct and to have been signed or sent by or on behalf of the proper Person or Persons, and upon advice and statements of legal counsel, independent accountants and other experts selected by the Agent.

As to any matters not expressly provided for by this Agreement or any other Basic Document, the Agent shall in all cases be fully protected in acting, or in refraining from acting, hereunder or thereunder in accordance with instructions given by the Majority Lenders or, if provided herein, in accordance with the instructions given by the Majority Lenders or all of the Lenders as is required in such circumstance, and such instructions of such Lenders and any action taken or failure to act pursuant thereto shall be binding on all of the Lenders.

A. Defaults. The Agent shall not be deemed to have knowledge or notice

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of the occurrence of a Default unless the Agent has received notice from a Lender or the Company specifying such Default and stating that such notice is a "Notice of Default". In the event that the Agent receives such a notice of the occurrence of a Default, the Agent shall give prompt notice thereof to the Lenders. The Agent shall (subject to Section 11.07 hereof) take such action with respect to such Default as shall be directed by the Majority Lenders, provided

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that, unless and until the Agent shall have received such directions, the Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Default as it shall deem advisable in the best interest of the Lenders except to the extent that this Agreement expressly requires that such action be taken, or not be taken, only with the consent or upon the authorization of the Majority Lenders or all of the Lenders.

A. Rights as a Lender. With respect to its Commitments and the Loans

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made by it, ING (U.S.) Capital LLC (and any successor acting as Agent) in its capacity as a Lender hereunder shall have the same rights and powers hereunder as any other Lender and may exercise the same as though it were not acting as the Agent, and the term "Lender" or "Lenders" shall, unless the context otherwise indicates, include the Agent in its individual capacity. ING (U.S.) Capital LLC (and any successor acting as Agent) and its affiliates may (without having to account therefor to any Lender) accept deposits from, lend money to, make investments in and generally engage in any kind of banking, trust or other business with the Obligors (and any of their Subsidiaries or Affiliates) as if it were not acting as the Agent, and its affiliates may accept fees and other consideration from the Obligors for services in connection with this Agreement or otherwise without having to account for the same to the Lenders.

A. Indemnification. The Lenders agree to indemnify the Agent (to the

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extent not reimbursed under Section 12.03 hereof, but without limiting the obligations of the Company under said Section 12.03) ratably in accordance with their respective Commitments, for any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind and nature whatsoever that may be imposed on, incurred by or asserted against the Agent (including by any Lender) arising out of or by reason of any investigation in or in any way relating to or arising out of this Agreement or any other Basic Document or any other documents contemplated by or referred to herein or therein or the transactions contemplated hereby or thereby (including, without limitation, the costs and expenses that the Company is obligated to pay under Section 12.03 hereof, but excluding, unless a Default has occurred and is continuing, normal administrative costs and expenses incident to the performance of its agency duties hereunder) or the enforcement of any of the terms hereof or thereof or of any such other documents, provided that no Lender

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shall be liable for any of the foregoing to the extent they arise from the gross negligence or willful misconduct of the party to be indemnified.

A. Non-Reliance on Agent and Other Lenders. Each Lender agrees that it

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has, independently and without reliance on the Agent or any other Lender, and based on such

documents and information as it has deemed appropriate, made its own credit analysis of the Company and its Subsidiaries and decision to enter into this Agreement and that it will, independently and without reliance upon the Agent or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own analysis and decisions in taking or not taking action under this Agreement or under any other Basic Document. The Agent shall not be required to keep itself informed as to the performance or observance by any Obligor of this Agreement or any of the other Basic Documents or any other document referred to or provided for herein or therein or to inspect the Properties or books of the Company or any of its Subsidiaries. Except for notices, reports and other documents and information expressly required to be furnished to the Lenders by the Agent hereunder, the Agent shall not have any duty or responsibility to provide any Lender with any credit or other information concerning the affairs, financial condition or business of the Company or any of its Subsidiaries (or any of their affiliates) that may come into the possession of the Agent or any of its affiliates.

A. Failure to Act. Except for action expressly required of the Agent

hereunder and under the other Basic Documents, the Agent shall in all cases be fully justified in failing or refusing to act hereunder and thereunder unless it shall receive further assurances to its satisfaction from the Lenders of their indemnification obligations under Section 11.05 hereof against any and all liability and expense that may be incurred by it by reason of taking or continuing to take any such action.

A. Resignation or Removal of Agent. Subject to the appointment and

acceptance of a successor Agent as provided below, the Agent may resign at any time by giving notice thereof to the Lenders and the Company, and the Agent may be removed at any time with or without cause by the Majority Lenders. Upon any such resignation or removal, the Majority Lenders shall have the right to appoint a successor Agent. If no successor Agent shall have been so appointed by the Majority Lenders and shall have accepted such appointment within 30 days after the retiring Agent's giving of notice of resignation or the Majority Lenders' removal of the retiring Agent, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent, that shall be a lender that has an office in New York, New York. 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 or removal hereunder as Agent, the provisions of this Section 11 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 the Agent.

A. Consents under Other Basic Documents. Except as otherwise provided in

Section 12.04 hereof with respect to this Agreement, the Agent may, with the prior consent of the Majority Lenders (but not otherwise), consent to any modification, supplement or waiver under any of the Basic Documents.

I. Section Miscellaneous.  
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A. Waiver. No failure on the part of the Agent or any Lender to  
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exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege under this Agreement or any Note shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under this Agreement or any Note preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

Each Obligor irrevocably waives, to the fullest extent permitted by applicable law, any claim that any action or proceeding commenced by the Agent or any Lender relating in any way to this Agreement should be dismissed or stayed by reason, or pending the resolution, of any action or proceeding commenced by any Obligor relating in any way to this Agreement whether or not commenced earlier. To the fullest extent permitted by applicable law, the Obligors shall take all measures necessary for any such action or proceeding commenced by the Agent or any Lender to proceed to judgment prior to the entry of judgment in any such action or proceeding commenced by any Obligor.

A. Notices. All notices, requests and other communications  
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provided for herein (including, without limitation, any modifications of, or waivers, requests or consents under, this Agreement) shall be given or made in writing (including, without limitation, by telex or telecopy), delivered to the intended recipient at the "Address for Notices" specified below its name on the signature pages hereof (below the name of the Company, in the case of any Guarantor); or, as to any party, at such other address as shall be designated by such party in a notice to each other party. Except as otherwise provided in this Agreement, all such communications shall be deemed to have been duly given when transmitted by telex or telecopier or personally delivered or, in the case of a mailed notice, upon receipt, in each case given or addressed as aforesaid.

A. Expenses, Etc. The Company agrees to pay or reimburse each of  
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the Lenders and the Agent for: (a) all reasonable out-of-pocket costs and expenses of the Agent (including, without limitation, the reasonable fees and expenses of Mayer, Brown & Platt, special New York counsel to the Agent) in connection with (i) the negotiation, preparation, execution and delivery of this Agreement and the other Basic Documents and the extension of credit hereunder, (ii) the negotiation or preparation of any modification, supplement or waiver of any of the terms of this Agreement or any of the other Basic Documents (whether or not consummated) and (iii) the syndication of the Loans hereunder; (b) all reasonable out-of-pocket costs and expenses of the Lenders and the Agent (including, without limitation, the reasonable fees and expenses of legal counsel) in connection with (i) any Default and any enforcement or collection proceedings resulting therefrom, including, without limitation, all manner of participation in or other involvement with (x) bankruptcy, insolvency, receivership, foreclosure, winding up or liquidation proceedings, (y) judicial or regulatory proceedings and (z) workout, restructuring or other negotiations or proceedings (whether or not the workout, restructuring or transaction contemplated thereby is consummated) and (ii) the enforcement of this Section 12.03; and (c) all transfer, stamp, documentary or other similar taxes, assessments or charges levied by any governmental or revenue authority in respect of this Agreement or any of the other Basic Documents or any other document referred to herein or therein and all costs, expenses, taxes, assessments and other charges incurred in connection with any filing, registration,

recording or perfection of any security interest contemplated by any Basic Document or any other document referred to therein.

The Company hereby agrees to indemnify the Agent and each Lender and their respective directors, officers, employees, attorneys and agents from, and hold each of them harmless against, any and all losses, liabilities, claims, damages or expenses incurred by any of them (including, without limitation, any and all losses, liabilities, claims, damages or expenses incurred by the Agent to any Lender, whether or not the Agent or any Lender is a party thereto) arising out of or by reason of any investigation or litigation or other proceedings (including any threatened investigation or litigation or other proceedings) relating to the extensions of credit hereunder or any actual or proposed use by the Company or any of its Subsidiaries of the proceeds of any of the extensions of credit hereunder, including, without limitation, the reasonable fees and disbursements of counsel incurred in connection with any such investigation or litigation or other proceedings (but excluding any such losses, liabilities, claims, damages or expenses incurred by reason of the gross negligence or willful misconduct of the Person to be indemnified). Without limiting the foregoing, the Company will indemnify the Agent and each Lender and their respective directors, officers, employees, attorneys and agents from, and hold each of them harmless against, any and all losses, liabilities, claims, damages or expenses incurred by any of them (including, without limitation, any and all losses, liabilities, claims, damages or expenses incurred by the Agent to any Lender, whether or not the Agent or any Lender is a party thereto) arising out of or by reason of any investigation or litigation or other proceedings (including any threatened investigation or litigation or other proceedings) arising under any Environmental Law as a result of the past, present or future operations of the Company or any of its Subsidiaries (or any predecessor in interest to the Company or any of its Subsidiaries), or the past, present or future condition of any site or facility owned, operated or leased at any time by the Company or any of its Subsidiaries (or any such predecessor in interest), or any Release or threatened Release of any Hazardous Materials at or from any such site or facility as result of the past, present or future operations of the Company or any of its Subsidiaries (or any predecessor in interest to the Company or any of its Subsidiaries).

A. Amendments, Etc. Except as otherwise expressly provided in  
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this Agreement, any provision of this Agreement may be modified or supplemented only by an instrument in writing signed by the Company and the Majority Lenders, or by the Company and the Agent acting with the consent of the Majority Lenders, and any provision of this Agreement may be waived by the Majority Lenders or by the Agent acting with the consent of the Majority Lenders; provided that: (a) no  
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modification, supplement or waiver shall, unless by an instrument signed by all of the Lenders or by the Agent acting with the consent of all of the Lenders:  
(i) increase, or extend the term of any of the Commitments, or extend the time or waive any requirement for the reduction or termination of any of the Commitments, (ii) extend the date fixed for the payment of principal of or interest on any Loan or any fee hereunder, (iii) reduce the amount of any such payment of principal, (iv) reduce the rate at which interest is payable thereon or any fee is payable hereunder, (v) alter the rights or obligations of the Company to prepay Loans, (vi) alter the terms of this Section 12.04 or (vii) modify the definition of the term "Majority Lenders" or modify in any other manner the number or percentage of the Lenders required to make any determinations or waive any rights hereunder or to modify any provision hereof;  
(b) any modification or supplement of Section 11 hereof shall require the consent of the Agent; and (c) any modification or supplement of Section 6 hereof shall require the consent of each Guarantor. At any time when a Default exists or is continuing, no waiver or amendment that increases, or extends the term of, the Revolving Credit Commitments shall be effective

without the written consent of Revolving Credit Lenders having more than 66 % of the sum of the aggregate amount of the Revolving Credit Commitments (or, if the Revolving Credit Commitments have terminated, the aggregate unpaid principal amount of Revolving Credit Loans).

A. Successors and Assigns. This Agreement shall be binding upon  
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and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

A. Assignments and Participations.  
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1. No Obligor may assign any of its rights or obligations hereunder or under the Notes without the prior consent of all of the Lenders and the Agent.

1. Each Lender may assign any of its Loans, its Notes and its Commitments (but only with the consent, not to be unreasonably withheld, of the Agent and, so long as no Event of Default exists or is continuing, the Company); provided that (i) no such consent by the Company or the Agent shall be required  
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in the case of any assignment to another Lender; (ii) any such partial assignment shall be in an amount at least equal to \$5,000,000; (iii) each such assignment by a Lender of its Revolving Credit Loans, Revolving Credit Note Revolving Credit Commitment shall be made in such manner so that the same portion of its Revolving Credit Loans, Revolving Credit Note and Revolving Credit Commitment is assigned to the respective assignee; and (iv) each such assignment by a Lender of its Term Loans or Term Loan Commitment shall be made in such manner so that the same portion of its Term Loans and Term Loan Commitment is assigned to the respective assignee. Upon execution and delivery by the assignee to the Company and the Agent of an instrument in writing pursuant to which such assignee agrees to become a "Lender" hereunder (if not already a Lender) having the Commitment(s) and Loans specified in such instrument, and upon consent thereto by the Company and the Agent to the extent required above, the assignee shall have, to the extent of such assignment (unless otherwise provided in such assignment with the consent of the Company and the Agent), the obligations, rights and benefits of a Lender hereunder holding the Commitment(s) and Loans (or portions thereof) assigned to it (in addition to the Commitment(s) and Loans, if any, theretofore held by such assignee) and the assigning Lender shall, to the extent of such assignment, be released from the Commitment(s) (or portion(s) thereof) so assigned. No such assignment shall be effective unless and until the assignee Lender shall pay the Agent an assignment fee of \$3,500.

2. A Lender may sell or agree to sell to one or more other Persons a participation in all or any part of any Loans held by it, or in its Commitments, in which event each purchaser of a participation (a "Participant")  
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shall be entitled to the rights and benefits of the provisions of Section 9.01(g) hereof with respect to its participation in such Loans and Commitments as if (and the Company shall be directly obligated to such Participant under such provisions as if) such Participant were a "Lender" for purposes of said Section, but, except as otherwise provided in Section 4.07(c) hereof, shall not have any other rights or benefits under this Agreement or any Note or any other Basic Document (the Participant's rights against such Lender in respect of such participation to be those set forth in the agreements executed by such Lender in favor of the Participant). All amounts payable by the Company to any Lender under Section 5 hereof in respect of Loans and Commitments held by it, and its Commitments, shall be determined as if such Lender had not sold or agreed to sell any participations in such Loans and Commitments, and as if such Lender were funding each of such Loan and Commitments in the same way that it is funding the portion of such Loan and Commitments in which no

participations have been sold. In no event shall a Lender that sells a participation agree with the Participant to take or refrain from taking any action hereunder or under any other Basic Document except that such Lender may agree with the Participant that it will not, without the consent of the Participant, agree to (i) increase or extend the term, or extend the time or waive any requirement for the reduction or termination, of such Lender's related Commitment, (ii) extend the date fixed for the payment of principal of or interest on the related Loan or Loans or any portion of any fee hereunder payable to the Participant, (iii) reduce the amount of any such payment of principal, (iv) reduce the rate at which interest is payable thereon, or any fee hereunder payable to the Participant, to a level below the rate at which the Participant is entitled to receive such interest or fee, (v) alter the rights or obligations of the Company to prepay the related Loans.

1. In addition to the assignments and participations permitted under the foregoing provisions of this Section 12.06, any Lender may (without notice to the Company, the Agent or any other Lender and without payment of any fee) (i) assign and pledge all or any portion of its Loans and its Notes to any Federal Reserve Lender as collateral security pursuant to Regulation A and any operating circular issued by such Federal Reserve Lender and (ii) assign all or any portion of its rights under this Agreement and its Loans and its Notes to an affiliate. No such assignment shall release the assigning Lender from its obligations hereunder.

1. A Lender may furnish any information concerning the Company or any of its Subsidiaries in the possession of such Lender from time to time to assignees and participants (including prospective assignees and participants), subject, however, to the provisions of Section 12.12(b) hereof.

1. Anything in this Section 12.06 to the contrary notwithstanding, no Lender may assign or participate any interest in any Loan held by it hereunder to the Company or any of its Affiliates or Subsidiaries without the prior consent of each Lender.

A. Survival. The obligations of the Company under Sections 5.01, -----  
5.05, and 12.03 hereof, the obligations of each Guarantor under Section 6.03 hereof, and the obligations of the Lenders under Section 11.05 hereof, shall survive the repayment of the Loans and the termination of the Commitments. In addition, each representation and warranty made, or deemed to be made by a notice of any extension of credit, herein or pursuant hereto shall survive the making of such representation and warranty, and no Lender shall be deemed to have waived, by reason of making any extension of credit hereunder, any Default that may arise by reason of such representation or warranty proving to have been false or misleading, notwithstanding that such Lender or the Agent may have had notice or knowledge or reason to believe that such representation or warranty was false or misleading at the time such extension of credit was made.

B. Captions. The table of contents and captions and section -----  
headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

A. Counterparts. This Agreement may be executed in any number of -----  
counterparts, all of which taken together shall constitute one and the same instrument and any of the parties hereto may execute this Agreement by signing any such counterpart.

A. Governing Law; Submission to Jurisdiction. This Agreement and -----  
the Notes shall be governed by, and construed in accordance with, the law of the State of New York

without regard to New York conflicts of laws principles. Each Obligor hereby submits to the nonexclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York state court sitting in New York City for the purposes of all legal proceedings arising out of or relating to this Agreement or the transactions contemplated hereby. Each Obligor irrevocably waives, to the fullest extent permitted by applicable law, any objection that it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum.

A. Waiver of Jury Trial. EACH OF THE OBLIGORS, THE AGENT AND THE  
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LENDERS HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHT TO TRIAL BY JURY IN ANY LEGAL PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

A. Treatment of Certain Information; Confidentiality.  
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1. The Company acknowledges that from time to time financial advisory, investment banking and other services may be offered or provided to the Company or one or more of its Subsidiaries (in connection with this Agreement or otherwise) by any Lender or by one or more subsidiaries or affiliates of such Lender and the Company hereby authorizes each Lender to share any information delivered to such Lender by the Company and its Subsidiaries pursuant to this Agreement, or in connection with the decision of such Lender to enter into this Agreement, to any such subsidiary or affiliate, it being understood that any such subsidiary or affiliate receiving such information shall be bound by the provisions of clause (b) below as if it were a Lender hereunder. Such authorization shall survive the repayment of the Loans and the termination of the Commitments.

1. Each Lender and the Agent agrees (on behalf of itself and each of its affiliates, directors, officers, employees and representatives) to use reasonable precautions 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 Company pursuant to this Agreement that is identified by such Person as being confidential at the time the same is delivered to the Lenders or the Agent, provided that nothing herein shall limit the disclosure of

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any such information (i) to the extent required by statute, rule, regulation or judicial process, (ii) to counsel for any of the Lenders or the Agent, (iii) to bank examiners, auditors or accountants, (iv) to the Agent or any other Lender (or to ING Barings LLC, (v) in connection with any litigation to which any one or more of the Lenders or the Agent is a party in connection with the Basic Documents or the Transaction, (vi) to a subsidiary or affiliate of such Lender as provided in clause (a) above or (vii) to any assignee or participant (or prospective assignee or participant) so long as such assignee or participant (or prospective assignee or participant) first executes and delivers to the respective Lender a Confidentiality Agreement substantially in the form of Exhibit D hereto; provided, further, that (x) unless specifically prohibited by

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applicable law or court order, each Lender and the Agent shall, prior to disclosure thereof, notify the Company of any request for disclosure of any such non-public information (A) by any governmental agency or representative thereof (other than any such request in connection with an examination of the financial condition of such Lender by such governmental agency) or (B) pursuant to legal process and (y) in no event shall any Lender or the Agent be obligated or required to return any materials furnished by

the Company. The obligations of each Lender under this Section 12.12 shall supersede and replace the obligations of such Lender under the confidentiality letter in respect of this financing signed and delivered by such Lender to the Company prior to the date hereof; in addition, the obligations of any assignee that has executed a Confidentiality Agreement in the form of Exhibit E hereto shall be superseded by this Section 12.12 upon the date upon which such assignee becomes a Lender hereunder pursuant to Section 12.06 hereof.

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

CIRCOR INTERNATIONAL, INC.

By /s/ David A. Bloss, Sr.  
Name: David A. Bloss, Sr.  
Title: President

Address for Notices:  
CIRCOR International, Inc.  
35 Corporate Drive  
Burlington, MA 01803  
Attention: Corporate Secretary

Telecopier No.:

Telephone No.: (781) 273-6266

SUBSIDIARY GUARANTORS

-----

CIRCOR, INC.

By /s/ David A. Bloss, Sr.  
Name: David A. Bloss, Sr.  
Title: President

CIRCOR IP HOLDING CO.

By /s/ David A. Bloss, Sr.  
Name: David A. Bloss, Sr.  
Title: President

CIRCLE SEAL CONTROLS, INC.

By /s/ David A. Bloss, Sr.  
Name: David A. Bloss, Sr.  
Title: President

CIRCLE SEAL CORPORATION

By /s/ David A. Bloss, Sr.  
Name: David A. Bloss, Sr.  
Title: President

GO REGULATOR, INC.

By /s/ David A. Bloss, Sr.  
Name: David A. Bloss, Sr.  
Title: President

HOKE, INC.

By /s/ David A. Bloss, Sr.  
Name: David A. Bloss, Sr.  
Title: President

KF INDUSTRIES, INC.

By /s/ David A. Bloss, Sr.  
Name: David A. Bloss, Sr.  
Title: President

KF SALES CORPORATION

By /s/ David A. Bloss, Sr.  
Name: David A. Bloss, Sr.  
Title: President

LESLIE CONTROLS, INC.

By /s/ David A. Bloss, Sr.  
Name: David A. Bloss, Sr.  
Title: President

SPENCE ENGINEERING COMPANY, INC.

By /s/ David A. Bloss, Sr.  
Name: David A. Bloss, Sr.  
Title: President

LENDERS

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Revolving Credit Commitment

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\$17,000,000.00

Term Loan Commitment

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\$35,000,000.00

ING (U.S.) CAPITAL LLC

By: /s/ Gerlach Jacobs

-----

Name: Gerlach Jacobs

Title: Director

Lending Office for Base Rate Loans:  
55 East 52nd Street  
New York, NY 10022

Lending Office for Loans other than  
Base Rate Loans:  
55 East 52nd Street  
New York, NY 10022

Address for Notices:  
135 East 57th Street  
New York, NY 10022

Attention: Tina Wong

Telecopier No.: 212-750-8934

Telephone No.: 212-409-1934

Revolving Credit Commitment  
-----  
\$17,000,000.00

BANKBOSTON, N.A.

By /s/ Fred Myers  
-----  
Name: Fred Myers  
Title: Vice President

Lending Office for Base Rate Loans:  
100 Federal Street  
Boston, MA 02110

Lending Office for Loans other than  
Base Rate Loans:  
100 Federal Street  
Boston, MA 02110

Address for Notices:  
100 Federal Street  
Boston, MA 02110

Attention: Ruth Barragan

Telecopier No.: 617-434-0601

Telephone No.: 617-434-2801

Revolving Credit Commitment  
-----  
\$10,000,000.00

BROWN BROTHERS HARRIMAN & CO.

By /s/ Louise Coughlan  
-----  
Name: Louise Coughlan  
Title: Manager

Lending Office for Base Rate Loans:  
40 Water Street  
Boston, MA 02109

Lending Office for Loans other than  
Base Rate Loans:  
40 Water Street  
Boston, MA 02109

Address for Notices:  
40 Water Street  
Boston, MA 02109

Attention: Andrea Ronchetti

Telecopier No.: 617-772-1138

Telephone No: 617-772-1136

Revolving Credit Commitment

FIRST UNION NATIONAL BANK

-----  
\$17,000,000.00

By /s/ David Hauglid

-----  
Name: David Hauglid  
Title: Vice President

Lending Office for Base Rate Loans:  
201 South College Street  
TW-5  
Charlotte, NC 28288

Lending Office for Loans other than  
Base Rate Loans:  
201 South College Street  
TW-5  
Charlotte, NC 28288

Address for Notices:  
201 South College Street  
Charlotte Plaza-24  
Charlotte, NC 28288

Attention: Lisa Van Note

Telecopier No.: 704-374-2802

Telephone No.: 704-374-4282

Revolving Credit Commitment  
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CITIZENS BANK OF MASSACHUSETTS

\$14,000,000.00

By /s/ Daniel Gillette  
-----  
Name: Daniel Gillette  
Title: Vice-President

Lending Office for Base Rate Loans:  
28 State Street  
Boston, MA 02109

Lending Office for Loans other than  
Base Rate Loans:  
28 State Street  
Boston, MA 02109

Address for Notices:  
1 Citizens Drive  
Riverside, RI 02915

Attention: Xiamara Cabrera

Telecopier No.: 401-282-4629

Telephone No.: 401-456-7613

ING (U.S.) CAPITAL LLC  
as Agent

By /s/ Gerlach Jacobs  
-----  
Name: Gerlach Jacobs  
Title: Director

Address for Notices to ING as Agent:

135 East 57th Street  
New York, NY 10022

Attention: Tina Wong

Telecopier No.: 212-750-8934

Telephone No.: 212-409-1934

Payment Instructions:

Pay to: The Chase Manhattan Bank

ABA No.: 021-000-021

Account of: ING (U.S.) Capital Corporation

Account No.: 930-1035763

Reference: CIRCOR International

Attention: Tina Wong

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CIRCOR INTERNATIONAL, INC.

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Note Purchase Agreement  
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DATED AS OF OCTOBER 19, 1999

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\$75,000,000 8.23% SENIOR NOTES DUE OCTOBER 19, 2006  
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CIRCOR INTERNATIONAL, INC.  
35 Corporate Drive  
Burlington, Massachusetts 01803

8.23% Senior Notes Due October 19, 2006

To Each of the Purchasers Listed in  
the Attached Schedule A:

Ladies and Gentlemen:

CIRCOR INTERNATIONAL, INC., a Delaware corporation (together with its successors and assigns, the "Company") and each of the Subsidiaries of the Company identified under the caption "SUBSIDIARY GUARANTORS" on the signature pages hereto (together with any other Subsidiary of the Company that guarantees the Guaranteed Obligations in accordance with Section 22, the "Subsidiary Guarantors" and, together with the Company, the "Obligors"), agree with you as follows:

1. AUTHORIZATION OF NOTES; UNCONDITIONAL GUARANTEE

1.1. Authorization of Notes.

The Company will authorize the issue and sale of \$75,000,000 aggregate principal amount of its 8.23% Senior Notes due October 19, 2006 (the "Notes", such term to include any such notes issued in substitution therefor pursuant to Section 13 of this Agreement or the Other Agreements (as hereinafter defined)). The Notes shall be substantially in the form set out in Exhibit 1, with such changes therefrom, if any, as may be approved by you and the Company. Certain capitalized terms used in this Agreement are defined in Schedule B; references to a "Schedule" or an "Exhibit" are, unless otherwise specified, to a Schedule or an Exhibit attached to this Agreement.

1.2. Unconditional Guarantee.

To induce you and each of the other purchasers named in Schedule A (the "Other Purchasers") to purchase the Notes from the Company in accordance with the terms hereof, the obligations of the Company hereunder and under the Notes are fully and unconditionally guaranteed by the Subsidiary Guarantors, as provided in Section 22.

## 2. SALE AND PURCHASE OF NOTES.

Subject to the terms and conditions of this Agreement, the Company will issue and sell to you and you will purchase from the Company, at the Closing provided for in Section 3, Notes in the principal amount specified below your name in Schedule A at the purchase price of 100% of the principal amount thereof. Contemporaneously with entering into this Agreement, the Company is entering into separate Note Purchase Agreements (the "Other Agreements") identical with this Agreement with each of the Other Purchasers, providing for the sale at such Closing to each of the Other Purchasers of Notes in the principal amount specified below its name in Schedule A. Your obligation hereunder and the obligations of the Other Purchasers under the Other Agreements are several and not joint obligations and you shall have no obligation under any Other Agreement and no liability to any Person for the performance or non-performance by any Other Purchaser thereunder.

## 3. CLOSING

The sale and purchase of the Notes to be purchased by you and the Other Purchasers shall occur at the offices of Bingham Dana LLP, One State Street, Hartford, Connecticut 06103, at 10:00 a.m., local time, at a closing (the "Closing") on October 19, 1999 or on such other Business Day as may be agreed upon by the Company and you and the Other Purchasers. At the Closing the Company will deliver to you the Notes to be purchased by you in the form of a single Note (or such greater number of Notes in denominations of at least \$100,000 as you may request), dated the date of the Closing and registered in your name (or in the name of your nominee), as indicated in Schedule A, against payment by federal funds wire transfer in immediately available funds of the amount of the purchase price therefor as directed by the Company in Schedule 3. If at the Closing the Company shall fail to tender such Notes to you as provided above in this Section 3, or any of the conditions specified in Section 4 shall not have been fulfilled to your satisfaction, you shall, at your election, be relieved of all further obligations under this Agreement, without thereby waiving any rights you may have by reason of such failure or such nonfulfillment.

## 4. CONDITIONS TO CLOSING.

Your obligation to purchase and pay for the Notes to be sold to you at the Closing is subject to the fulfillment to your satisfaction, prior to or at the Closing, of the following conditions:

### 4.1. Representations and Warranties.

The representations and warranties of the Company in this Agreement shall be correct when made and at the time of the Closing.

### 4.2. Performance; No Default.

The Company shall have performed and complied with all agreements and conditions contained in this Agreement required to be performed or complied with by

it prior to or at the Closing and after giving effect to the issue and sale of the Notes (and the application of the proceeds thereof as contemplated by Schedule 5.14) no Default or Event of Default shall have occurred and be continuing. Neither the Company nor any Subsidiary shall have entered into any transaction since the date of the Memorandum that would have been prohibited by any of Sections 10.1, 10.3 or 10.4 had such Sections applied since such date.

#### 4.3. Compliance Certificates.

(a) Officer's Certificate. The Company shall have delivered to you an

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Officer's Certificate, dated the date of the Closing, (i) certifying that the conditions specified in Sections 4.1, 4.2 and 4.9 have been fulfilled, and (ii) with a list of Immaterial Subsidiaries as of the date of the Closing (and including calculations demonstrating that such Subsidiaries comply with the definition of "Immaterial Subsidiary" in Schedule B).

(b) Secretary's Certificate. Each Obligor shall have delivered to you

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a certificate of its Secretary or one of its Assistant Secretaries, dated the date of the Closing, certifying as to the resolutions attached thereto and other corporate proceedings relating to the authorization, execution and delivery of this Agreement and the Other Agreements, and, in the case of the Company, the Notes.

#### 4.4. Opinions of Counsel.

You shall have received opinions in form and substance satisfactory to you, dated the date of the Closing, from

(a) Goodwin, Procter & Hoar LLP, counsel to the Obligors in the form set out in Exhibit 4.4(a) (and each Obligor hereby instructs such counsel to deliver such opinion to you) and

(b) Bingham Dana LLP, your special counsel in connection with such transactions, substantially in the form set out in Exhibit 4.4(b) and covering such other matters incident to such transactions as you may reasonably request.

#### 4.5. Purchase Permitted By Applicable Law, etc.

On the date of the Closing your purchase of Notes shall (a) be permitted by the laws and regulations of each jurisdiction to which you are subject, without recourse to provisions (such as section 1405(a)(8) of the New York Insurance Law) permitting limited investments by insurance companies without restriction as to the character of the particular investment, (b) not violate any applicable law or regulation (including, without limitation, Regulation T, U or X of the Board of Governors of the Federal Reserve System) and (c) not subject you to any tax, penalty or liability under or pursuant to any applicable law or regulation. If requested by you, you shall have received an Officer's Certificate certifying as to such matters of

fact as you may reasonably specify to enable you to determine whether such purchase is so permitted.

#### 4.6. Sale of Other Notes.

Contemporaneously with the Closing the Company shall sell to the Other Purchasers and the Other Purchasers shall purchase the Notes to be purchased by them at the Closing as specified in Schedule A.

#### 4.7. Payment of Special Counsel Fees.

Without limiting the provisions of Section 15.1, the Company shall have paid on or before the Closing the fees, charges and disbursements of your special counsel referred to in Section 4.4(b) to the extent reflected in a statement of such counsel rendered to the Company at least one Business Day prior to the date of the Closing.

#### 4.8. Private Placement Number.

A Private Placement Number issued by Standard & Poor's CUSIP Service Bureau (in cooperation with the Securities Valuation Office of the National Association of Insurance Commissioners) shall have been obtained for the Notes.

#### 4.9. Changes in Corporate Structure.

Except as specified in Schedule 4.9, the Company shall not have changed its jurisdiction of incorporation or been a party to any merger or consolidation and, except for the Transaction, shall not have succeeded to all or any substantial part of the liabilities of any other entity, at any time following the date of the most recent financial statements referred to in Schedule 5.5.

#### 4.10. Insurance.

The Company shall have delivered to you certificates of insurance evidencing the existence of all insurance required to be maintained by the Company pursuant to Section 9.2. In addition, the Company shall have delivered a certificate of a Senior Financial Officer of the Company setting forth the insurance obtained by it in accordance with the requirements of Section 9.2 and stating that such insurance is in full force and effect and that all premiums then due and payable thereon have been paid.

#### 4.11. Environmental Information.

The Company shall have delivered to you copies of all of the written information referred to in Section 5.19, together with a report by Pilko & Associates with respect to such information.

#### 4.12. Solvency Analysis.

The Company shall have delivered to you a certificate from a Senior Financial Officer of the Company, which presents an analysis to the effect that, as of the date of the Closing and after giving effect to the Transaction, the issuance and sale of the Notes and to the other transactions contemplated hereby, (a) the aggregate value of all properties of the Company and its Subsidiaries at their present fair saleable value (i.e., the amount that may be realized within a reasonable time, considered to be six months to one year, either through collection or sale at the regular market value, conceiving the latter as the amount that could be obtained for the property in question within such period by a capable and diligent businessperson from an interested buyer who is willing to purchase under ordinary selling conditions), exceed the amount of all the debts and liabilities (including contingent, subordinated, unmatured and unliquidated liabilities and their probable amounts) of the Company and its Subsidiaries, (b) the Company and its Subsidiaries will not, on a consolidated basis, have an unreasonably small capital with which to conduct their business operations as heretofore conducted, and (c) the Company and its Subsidiaries will have, on a consolidated basis, sufficient cash flow to enable them to pay their debts as they mature. You shall have also received a certificate from a Senior Financial Officer of the Company certifying the conclusions specified in clauses (a), (b) and (c) above and that the assumptions contained in such analyses were at the time made, and on the date of the Closing are, fair and reasonable and accurately computed.

#### 4.13. Material Agreements, etc.

The Company shall have delivered to you, and you shall be satisfied with, copies of any and all Material Agreements.

#### 4.14. Consummation of Transaction.

The Company shall have delivered to you evidence and documentation, to your reasonable satisfaction, in connection with the terms and conditions of the Transaction (any such conditions requiring the satisfaction of any Person other than you and the Other Purchasers to be deemed to require your satisfaction). You shall have received an opinion of counsel to the Company regarding substantive consolidation in form and substance satisfactory to you.

#### 4.15. Credit Rating.

You shall have received evidence and documentation, to your satisfaction, that confirms (either on a preliminary or a final basis) the Company's credit rating on the date of the Closing as being at least "BBB-" by Duff & Phelps Credit Rating Co.

#### 4.16. Proceedings and Documents.

All corporate and other proceedings in connection with the transactions contemplated by this Agreement and all documents and instruments incident to such transactions shall be satisfactory to you and your special counsel, and you and

your special counsel shall have received all such counterpart originals or certified or other copies of such documents as you or they may reasonably request.

#### 5. REPRESENTATIONS AND WARRANTIES OF THE COMPANY.

The Company represents and warrants to you, as of the date of the Closing that:

##### 5.1. Corporate Existence.

Each of the Obligors and the Company's Material Subsidiaries: (a) is a corporation, partnership or other entity duly organized, validly existing and in good standing under the laws of its jurisdiction of organization; (b) has all requisite corporate or other power, and has all material governmental licenses, authorizations, consents and approvals necessary to own its assets and carry on its business as now being or as proposed to be conducted; and (c) is qualified to do business and is in good standing in all jurisdictions in which the nature of the business conducted by it makes such qualification necessary and where failure so to qualify could reasonably be expected to (either individually or in the aggregate) have a Material Adverse Effect.

##### 5.2. Action.

Each Obligor has all necessary corporate power, authority and legal right to execute, deliver and perform its obligations under this Agreement and the Other Agreements and each agreement in respect of the Transaction to which it is a party, and, in the case of the Company, the Notes; the execution, delivery and performance by each Obligor of this Agreement and the Other Agreements and each agreement in respect of the Transaction to which it is a party, and, in the case of the Company, the Notes, have been duly authorized by all necessary corporate action on its part (including, without limitation, any required shareholder approvals); and this Agreement and the Other Agreements and each agreement in respect of the Transaction to which any Obligor is a party have been duly and validly executed and delivered by each Obligor and constitutes, and each of the Notes, when executed and delivered by the Company, will constitute, its legal, valid and binding obligation, enforceable against each Obligor in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws of general applicability affecting the enforcement of creditors' rights.

##### 5.3. True and Complete Disclosure.

This Agreement (with exhibits and schedules), the CIRCOR International, Inc. Registration Statement on Form 10 (File No. 000-26961), in the form in which it was declared effective by the Securities and Exchange Commission on October 18, 1999 (including all exhibits thereto), and the Private Placement Memorandum, dated August 1999 (the "Memorandum"), delivered to you and each Other Purchaser through the Company's agent, ING Barings LLC, relating to the transactions contemplated hereby, together with the information, reports, financial

statements, exhibits and schedules furnished in writing by or on behalf of the Obligors to you in connection with the negotiation, preparation or delivery of this Agreement, the Other Agreements and the Notes, or included herein or therein or delivered pursuant hereto or thereto (collectively, the "Disclosure Documents"), when taken as a whole do not contain any untrue statement of material fact or omit to state any material fact necessary to make the statements herein or therein, in light of the circumstances under which they were made, not misleading, except as disclosed in Schedule 5.3. All written information furnished after the date hereof by the Obligors to you in connection with this Agreement, the Other Agreements and the Notes and the transactions contemplated hereby and thereby will be true, complete and accurate in every material respect, on the date as of which such information is stated or certified; provided, however, that the Company makes no representation as to any financial projections other than that such projections have been made in good faith and on reasonable assumptions, have been accurately calculated and have not been delivered with the intent to misinform or mislead and are estimates and not a guaranty of actual results. There is no fact known to the Company that could reasonably be expected to have a Material Adverse Effect that has not been disclosed herein, or in the Disclosure Documents. Notwithstanding the foregoing, the Company has read the letter of Goodwin, Procter & Hoar LLP, dated October 19, 1999, a copy of which is attached as Exhibit 5.3, and to the best of the Company's knowledge, information and belief, as of the date hereof, all facts, statements, assumptions and conclusions contained in Section I of such opinion letter are true and correct and have been true and correct since the formation of Watts Industries, Inc., in all material respects.

#### 5.4. Subsidiaries, Etc.

(a) Set forth in Schedule 5.4 is a complete and correct list, as of the date hereof, of all of the Subsidiaries, together with, for each such Subsidiary, (i) the jurisdiction of organization of such Subsidiary, (ii) each Person holding ownership interests in such Subsidiary and (iii) the nature of the ownership interests held by each such Person and the percentage of ownership of such Subsidiary represented by such ownership interests. Except as disclosed in Schedule 5.4, (x) each of the Obligors owns, free and clear of Liens, and has the unencumbered right to vote, all outstanding ownership interests in each Person shown to be held by it in Schedule 5.4, (y) all of the issued and outstanding Capital Stock of each such Person organized as a corporation is validly issued, fully paid and nonassessable and (z) there are no outstanding Equity Rights with respect to such Person.

(b) Set forth in Schedule 5.4 is a complete and correct list, as of the date of this Agreement, of all Investments held by any of the Obligors in any Person and, for each such Investment, (x) the identity of the Person or Persons holding such Investment and (y) the nature of such Investment. Except as disclosed in Schedule 5.4, each of the Obligors owns, free and clear of all Liens, all such Investments.

(c) Except as provided in Schedule 5.4, none of the Subsidiaries is, on the date of this Agreement, subject to any indenture, agreement, instrument or other arrangement of the type described in the last sentence of Section 10.11.

#### 5.5. Financial Condition.

The Company has heretofore furnished to you and each Other Purchaser copies of the financial statements of the Company and its Subsidiaries listed in Schedule 5.5. All such financial statements are complete and correct and fairly present the combined financial condition of the Company and its Subsidiaries as at the respective dates specified in such Schedule and the combined results of their operations for the respective periods so specified, all in accordance with generally accepted accounting principles and practices applied on a consistent basis. Except as set forth in the Memorandum or as expressly described in Schedule 5.3, or in one of the documents, certificates or other writings identified therein, or in the financial statements listed in Schedule 5.5, neither the Company nor any of its respective Subsidiaries has on the date hereof any material contingent liabilities, liabilities for taxes, unusual forward or long-term commitments or unrealized or anticipated losses from any unfavorable commitments, except as referred to or reflected or provided for in said financial statements as at said dates. Since June 30, 1999, taking into account that the Transaction had occurred on October 18, 1999, there has been no material adverse change in the combined financial condition, operations or business taken as a whole of the Company and its Subsidiaries from that set forth in the Memorandum or the financial statements listed in Schedule 5.5 as at the respective dates specified in Schedule 5.5.

#### 5.6. No Breach.

(a) None of the execution and delivery of this Agreement, the Other Agreements and the Notes, the consummation of the transactions herein and therein contemplated or compliance with the terms and provisions hereof and thereof will conflict with or result in a breach of, or require any consent under, the charter or by-laws of any Obligor, or any applicable law or regulation, or any order, writ, injunction or decree of any court or other Governmental Authority or agency, or any material agreement or instrument to which the Company or any of its Subsidiaries is a party or by which any of them or any of their property is bound or to which any of them is subject, or constitute a material default under any such material agreement or instrument, or result in the creation or imposition of any Lien upon any property of the Company or any of its Subsidiaries pursuant to the terms of any such material agreement or instrument.

(b) None of the execution and delivery of any of the agreements in respect of the Transaction, the consummation of the transactions therein contemplated or compliance with the terms and provisions thereof will (i) conflict with or result in a breach of, or require any consent under, the charter or by-laws of any Obligor, or (ii) except where the failure to obtain the

same could not reasonably be expected to have a Material Adverse Effect, conflict with or result in a breach of, or require any consent under, any applicable law or regulation, or any order, writ, injunction or decree of any court or other Governmental Authority or agency, or any material agreement or instrument to which the Company or any of its Subsidiaries is a party or by which any of them or any of their property is bound or to which any of them is subject, or (iii) except where the same could not reasonably be expected to have a Material Adverse Effect, constitute a material default under any such agreement or instrument, or result in the creation or imposition of any Lien upon any property of the Company or any of its Subsidiaries pursuant to the terms of any such agreement or instrument.

#### 5.7. Approvals.

No authorizations, approvals or consents of, and no filings or registrations with, any Governmental Authority, which have not been obtained or made, are necessary for the execution, delivery or performance by any Obligor of this Agreement and each agreement in respect of the Transaction to which an Obligor is a party or by the Company of the Notes or for the legality, validity or enforceability hereof or thereof.

#### 5.8. Litigation.

There are no legal or arbitral proceedings, or any proceedings by or before any Governmental Authority, now pending or (to the knowledge of the Company) threatened against (a) the Company or any of its Subsidiaries or (b) Watts Industries, Inc, that, if adversely determined could reasonably be expected to (either individually or in the aggregate) have a Material Adverse Effect.

#### 5.9. Taxes.

Immediately following completion of the Transaction, the Company and its Subsidiaries (excluding Foreign Subsidiaries) are members of an affiliated group of corporations filing consolidated returns for federal income tax purposes, of which the Company is the "common parent" (within the meaning of Section 1504 of the Code) of such group. There is no tax sharing, tax allocation or similar agreement currently in effect providing for the manner in which tax payments owing by the members of such affiliated group (whether in respect of federal or state income or other taxes) are allocated among the members of the group. The Company and its Subsidiaries have filed (either directly or indirectly through the Company or Watts Industries, Inc., which has filed returns and paid all taxes due on the Company's behalf prior to the completion of the Transaction) all federal income tax returns and all other material tax returns that are required to be filed by them and have paid (either directly or indirectly through the Company or Watts Industries, Inc., which has filed returns and paid all taxes due on the Company's behalf prior to the completion of the Transaction) all taxes due pursuant to such returns or pursuant to any assessment received by the Company or by the Company or any of its Subsidiaries. The charges, accruals and reserves on the books of the Company and its Subsidiaries

in respect of taxes and other governmental charges are, in the opinion of the Company adequate. The Company has not given or been requested to give a waiver of the statute of limitations relating to the payment of federal, state, local and foreign taxes or other impositions.

5.10. Title to Assets.

Immediately following completion of the Transaction, the Company will own and have on the date of the Closing good and marketable title (subject only to Liens permitted by Section 10.4 hereof) to the properties shown to be owned in the most recent financial statements referred to in Section 5.5 (other than properties disposed of in the ordinary course of business or otherwise permitted to be disposed of pursuant to Section 10.3). Immediately following completion of the Transaction, the Company will own and have on the date of the Closing good and marketable title to, and enjoy peaceful and undisturbed possession of, all properties (subject only to Liens permitted by Section 10.4) that are materially necessary for the operation and conduct of its businesses.

5.11. Real Property.

Set forth in Schedule 5.11 is a list, as of the date of the Closing, of all of the real property interests held by the Company and its Subsidiaries (other than any Immaterial Subsidiary), indicating in each case whether the respective property is owned or leased, the identity of the owner or lessee and the location of the respective property.

5.12. Compliance with ERISA.

(a) The Company and each ERISA Affiliate have operated and administered each Plan in compliance with all applicable laws except for such instances of noncompliance as have not resulted in and could not reasonably be expected to result in a Material Adverse Effect. Neither the Company nor any ERISA Affiliate has incurred any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans (as defined in section 3(3) of ERISA), and no event, transaction or condition has occurred or exists that could reasonably be expected to result in the incurrence of any such liability by the Company or any ERISA Affiliate, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate, in either case pursuant to Title I or IV of ERISA or to such penalty or excise tax provisions or to section 401(a)(29) or 412 of the Code, other than such liabilities or Liens as would not be individually or in the aggregate Material.

(b) The present value of the aggregate benefit liabilities under each of the Plans (other than Multiemployer Plans), determined as of the end of such Plan's most recently ended plan year on the basis of the actuarial assumptions specified for funding purposes in such Plan's most recent actuarial valuation report, did not exceed the aggregate current value of the

assets of such Plan allocable to such benefit liabilities by more than \$500,000. The term "benefit liabilities" has the meaning specified in section 4001(a)(16) of ERISA and the terms "current value" and "present value" have the meanings specified in sections 3(26) and 3(27) of ERISA, respectively.

(c) The Company and the ERISA Affiliates have not incurred withdrawal liabilities (and are not subject to contingent withdrawal liabilities) under section 4201 or 4204 of ERISA in respect of Multiemployer Plans that individually or in the aggregate are Material.

(d) The expected postretirement benefit obligation (determined as of the last day of the Company's most recently ended fiscal year in accordance with Financial Accounting Standards Board Statement No. 106, without regard to liabilities attributable to continuation coverage mandated by section 4980B of the Code) of the Company and its Subsidiaries is not Material.

(e) The execution and delivery of this Agreement and the issuance and sale of the Notes hereunder will not involve any transaction that is subject to the prohibitions of section 406 of ERISA or in connection with which a tax could be imposed pursuant to section 4975(c)(1)(A)-(D) of the Code. The representation by the Company in the first sentence of this Section 5.12(e) is made in reliance upon and subject to the accuracy of your representation in Section 6.2 as to the Sources used to pay the purchase price of the Notes to be purchased by you.

(f) Schedule 5.12 sets forth all ERISA Affiliates and all "employee benefit plans" maintained by the Company (or any "affiliate" thereof) or in respect of which the Notes could constitute an "employer security" ("employee benefit plan" has the meaning specified in section 3(3) of ERISA, "affiliate" has the meaning specified in section 407(d)(7) of ERISA and section V of the Department of Labor Prohibited Transaction Exemption 95-60 (60 FR 35925, July 12, 1995) and "employer security" has the meaning specified in section 407(d)(1) of ERISA).

#### 5.13. Private Offering by the Company.

Neither the Company, any of the Subsidiary Guarantors nor anyone acting on their behalf has offered the Notes or any similar securities for sale to, or solicited any offer to buy any of the same from, or otherwise approached or negotiated in respect thereof with, any Person other than you, the Other Purchasers and not more than 44 other Institutional Investors, each of which has been offered the Notes at a private sale for investment. Neither the Company, any of the Subsidiary Guarantors nor anyone acting on their behalf has taken, or will take, any action that would subject the issuance or sale of the Notes to the registration requirements of section 5 of the Securities Act.

#### 5.14. Use of Proceeds.

The Company will apply the proceeds of the sale of the Notes as set forth in Schedule 5.14. Neither of the Company nor any of its Subsidiaries is engaged principally, or as one of its important activities, in the business of extending credit for the purpose, whether immediate, incidental or ultimate, of buying or carrying margin stock, and no part of the proceeds of the sale of the Notes hereunder will be used to buy or carry any margin stock. Margin stock does not constitute more than 1% of the value of the consolidated assets of the Company and its Subsidiaries and the Company does not have any present intention that margin stock will constitute more than 1% of the value of such assets. As used in this Section, the terms "margin stock" and "purpose of buying or carrying" shall have the meanings assigned to them in Regulation U of the Board of Governors of the Federal Reserve System (12 CFR 221).

5.15. Material Agreements and Liens.

(a) Schedule 5.15 sets forth a complete and correct list, as of the date of the Closing, of each credit agreement, loan agreement, indenture, purchase agreement, guarantee, letter of credit or other arrangement providing for or otherwise relating to any Debt or any extension of credit (or commitment for any extension of credit) to, or guarantee by, the Company or any of its Subsidiaries (other than any Immaterial Subsidiary), in each case in respect of Debt not less than \$1,000,000 and the aggregate principal or face amount outstanding or that may become outstanding under each such arrangement is correctly described in Schedule 5.15. Schedule 5.15 also includes a list of the principal agreements evidencing or documenting the Transaction.

(b) Schedule 5.15 sets forth a complete and correct list, as of the date of the Closing, of each Lien securing Debt of any Person and covering any property of the Company or any of its Subsidiaries (other than any Immaterial Subsidiary), and the aggregate Debt secured (or that may be secured) by each such Lien and the property covered by each such Lien is correctly described in Schedule 5.15.

5.16. Foreign Assets Control Regulations, etc.

Neither the sale of the Notes by the Company hereunder nor the Company's use of the proceeds thereof will violate the Trading with the Enemy Act, as amended, or any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto.

5.17. Investment Company Act.

Neither the Company nor any of its Subsidiaries is an "investment company", or a company "controlled" by an "investment company", within the meaning of the Investment Company Act of 1940, as amended.

5.18. Public Utility Holding Company Act.

Neither the Company nor any of its Subsidiaries is a "holding company", or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

#### 5.19. Environmental Matters.

Each of the Company and its Subsidiaries has obtained all environmental, health and safety permits, licenses and other authorizations required under all Environmental Laws to carry on its business as conducted, giving effect to the consummation of the Transaction, except to the extent failure to have any such permit, license or authorization would not (either individually or in the aggregate) have a Material Adverse Effect. Each of such permits, licenses and authorizations is in full force and effect and each of the Company and its Subsidiaries is in compliance with the terms and conditions thereof, and is also in compliance with applicable Environmental Laws and any plan, order, decree, judgment, injunction, notice or demand letter issued, entered, promulgated or approved thereunder, except to the extent that such failure to have a permit, license or authorization in full force and effect or such failure to comply with applicable Environmental Laws would not (either individually or in the aggregate) have a Material Adverse Effect.

In addition, except as set forth in Schedule 5.19 (and except, in the case of clauses (a) through (f) below, with respect to any Immaterial Subsidiary):

(a) No notice, notification, demand, request for information, citation, summons or order has been issued, no complaint has been filed, no penalty has been assessed and, to the knowledge of the Company or any of its Subsidiaries, no investigation or review is pending or threatened by any governmental or other entity with respect to any alleged failure by the Company or any of its Subsidiaries to have any environmental, health or safety permit, license or other authorization required under any Environmental Law in connection with the conduct of the business of the Company or any of its Subsidiaries or with respect to any generation, treatment, storage, recycling, transportation, discharge or disposal, or any Release of any Hazardous Materials generated by the Company or any of its Subsidiaries, in each case, to the extent that the same could reasonably be expected to have a Material Adverse Effect.

(b) Neither the Company nor any of its Subsidiaries owns, operates or leases a treatment, storage or disposal facility requiring a permit under the Resource Conservation and Recovery Act of 1976, as amended, or under any comparable state or local statute; and (except to the extent in material compliance with applicable Environmental Laws)

(i) no polychlorinated biphenyls (PCB's) are present at any site or facility now or previously owned, operated or leased by the Company or any of its Subsidiaries;

(ii) no asbestos or asbestos-containing materials are present at any site or facility now or previously owned, operated or leased by the Company or any of its Subsidiaries;

(iii) there are no underground storage tanks or surface impoundments for Hazardous Materials, active or abandoned, at any site or facility now or previously owned, operated or leased by the Company or any of its Subsidiaries; and

(iv) no Hazardous Materials have been Released at, on or under any site or facility now or previously owned, operated or leased by the Company or any of its Subsidiaries in a reportable quantity established by statute, ordinance, rule, regulation or order.

(c) Neither the Company nor any of its Subsidiaries has transported or arranged for the transportation of any Hazardous Material to any location that is listed on the National Priorities List ("NPL") under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), listed for possible inclusion on the NPL by the Environmental Protection Agency in the Comprehensive Environmental Response and Liability Information System, as provided for by 40 C.F.R. ss. 300.5 ("CERCLIS"), or on any similar state or local list or that is the subject of Federal, state or local enforcement actions.

(d) No written notification of a Release of a Hazardous Material has been filed by or on behalf of the Company or any of its Subsidiaries and no site or facility owned, operated or leased by the Company or any of its Subsidiaries is listed or proposed for listing on the NPL, CERCLIS or any similar state list of sites requiring investigation or clean-up.

(e) No Liens have arisen under or pursuant to any Environmental Laws on any site or facility owned, operated or leased by the Company or any of its Subsidiaries, and, to the knowledge of the Company or any of its Subsidiaries, no government action has been taken or is in process that could subject any such site or facility to such Liens and neither the Company nor any of its Subsidiaries has been required to place any notice or restriction relating to the presence of Hazardous Materials at any site or facility owned by it in any deed to the real property on which such site or facility is located.

(f) All environmental site assessments and investigations, conducted by or that are in the possession of the Company or any of its Subsidiaries concerning matters relevant to any site or facility owned, operated or leased by the Company or any of its Subsidiaries have been made available to you and the Other Purchasers.

## 5.20. Capitalization.

The authorized Capital Stock of the Company immediately following completion of the Transaction will consist of an aggregate of 30,000,000 shares consisting of (i) 29,000,000 shares of common stock, par value \$0.10 per share, of which 13,228,877 shares are duly and validly issued and outstanding, each of which shares is fully paid and nonassessable and (ii) 1,000,000 shares of preferred stock, of which no shares are duly and validly issued and outstanding. As of the date of the Closing, (x) except as set forth in Schedule 5.20, there are no outstanding Equity Rights with respect to the Company and (y) except as set forth in Schedule 5.20, there are no outstanding obligations of the Company or any of its Subsidiaries to repurchase, redeem, or otherwise acquire any shares of Capital Stock of the Company nor are there any outstanding obligations of the Company or any of its Subsidiaries to make payments to any Person, such as "phantom stock" payments, where the amount thereof is calculated with reference to the fair market value or equity value of the Company or any of its Subsidiaries.

5.21. Year 2000.

Each Obligor has reviewed the areas within its business and operations which could be adversely affected by, and has developed or is developing a program to address on a timely basis, the risk that computer applications used by such Obligor may be unable to recognize and properly perform date-sensitive functions involving certain dates prior to and any date after December 31, 1999 (the "Year 2000 Problem"). Based on such review and program and to the knowledge of each Obligor's respective management, the Year 2000 Problem could not reasonably be expected to have a Material Adverse Effect.

6. REPRESENTATIONS OF THE PURCHASER.

6.1. Purchase for Investment.

You represent that you are purchasing the Notes for your own account or for one or more separate accounts maintained by you or for the account of one or more pension or trust funds and not with a view to the distribution thereof, provided that the disposition of your or their property shall at all times be within your or their control. You understand that the Notes have not been registered under the Securities Act and may be resold only if registered pursuant to the provisions of the Securities Act or if an exemption from registration is available, except under circumstances where neither such registration nor such an exemption is required by law, and that the Company is not required to register the Notes.

6.2. Source of Funds.

You represent that at least one of the following statements is an accurate representation as to each source of funds (a "Source") to be used by you to pay the purchase price of the Notes to be purchased by you hereunder:

(a) the Source is an "insurance company general account" as defined in United States Department of Labor Prohibited Transaction

Exemption ("PTE") 95-60 (60 FR 35925, July 12, 1995) and in respect thereof you represent that there is no "employee benefit plan" (as defined in section 3(3) of ERISA and section 4975(e)(1) of the Code, treating as a single plan all plans maintained by the same employer or employee organization or affiliate thereof) with respect to which the amount of the general account reserves and liabilities of all contracts held by or on behalf of such plan exceeds 10% of the total reserves and liabilities of such general account (exclusive of separate account liabilities) plus surplus, as set forth in the National Association of Insurance Commissioners' Annual Statement filed with your state of domicile and that such acquisition is eligible for and satisfies the other requirements of such exemption; or

(b) if you are an insurance company, the Source does not include assets allocated to any separate account maintained by you in which any employee benefit plan (or its related trust) has any interest, other than a separate account that is maintained solely in connection with your fixed contractual obligations under which the amounts payable, or credited, to such plan and to any participant or beneficiary of such plan (including any annuitant) are not affected in any manner by the investment performance of the separate account; or

(c) the Source is either (i) an insurance company pooled separate account, within the meaning of PTE 90-1 (55 FR 2891, January 29, 1990), or (ii) a bank collective investment fund, within the meaning of the PTE 91-38 (56 FR 31966, July 12, 1991) and, except as you have disclosed to the Company in writing pursuant to this paragraph (c), no employee benefit plan or group of plans maintained by the same employer or employee organization beneficially owns more than 10% of all assets allocated to such pooled separate account or collective investment fund; or

(d) the Source constitutes assets of an "investment fund" (within the meaning of part V of PTE 84-14 (49 FR 9494, March 13, 1984) (the "QPAM Exemption")) managed by a "qualified professional asset manager" or "QPAM" (within the meaning of part V of the QPAM Exemption), no employee benefit plan's assets that are included in such investment fund, when combined with the assets of all other employee benefit plans established or maintained by the same employer or by an affiliate (within the meaning of section V(c)(1) of the QPAM Exemption) of such employer or by the same employee organization and managed by such QPAM, exceed 20% of the total client assets managed by such QPAM, the conditions of part I(c) and (g) of the QPAM Exemption are satisfied, neither the QPAM nor a person controlling or controlled by the QPAM (applying the definition of "control" in section V(e) of the QPAM Exemption) owns a 5% or more interest in the Company and (i) the identity of such QPAM and (ii) the names of all employee benefit plans whose assets are included in such investment fund have been disclosed to the Company in writing pursuant to this paragraph (d); or

(e) the Source is a governmental plan; or

(f) the Source is one or more employee benefit plans, or a separate account or trust fund comprised of one or more employee benefit plans, each of which has been identified to the Company in writing pursuant to this paragraph (f); or

(g) the Source does not include assets of any employee benefit plan, other than a plan exempt from the coverage of ERISA.

As used in this Section 6.2, the terms "employee benefit plan", "governmental plan" and "separate account" shall have the respective meanings assigned to such terms in Section 3 of ERISA.

7. INFORMATION AS TO COMPANY.

7.1. Financial and Business Information.

The Company shall deliver to each holder of Notes that is an Institutional Investor:

(a) Quarterly Statements -- within 45 days after the end of each  
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quarterly fiscal period in each fiscal year of the Company (other than the last quarterly fiscal period of each such fiscal year), duplicate copies of,

(i) a consolidated balance sheet of the Company and its Subsidiaries as at the end of such quarter, and

(ii) consolidated statements of operations, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such quarter and (in the case of the second and third quarters) for the portion of the fiscal year ending with such quarter,

setting forth in each case in comparative form the figures for the corresponding periods in the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP applicable to quarterly financial statements generally, and certified by a Senior Financial Officer as fairly presenting, in all material respects, the consolidated financial position of the companies being reported on and their consolidated results of operations and cash flows, subject to changes resulting from year-end adjustments, provided that delivery within the time period specified above of copies of the Company's Quarterly Report on Form 10-Q prepared in compliance with the requirements therefor and filed with the Securities and Exchange Commission shall be deemed to satisfy the requirements of this Section 7.1(a);

(b) Annual Statements - within 120 days after the end of each fiscal  
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year of the Company, duplicate copies of,

(i) consolidated and consolidating balance sheets of the Company and its Subsidiaries, as at the end of such year, and

(ii) consolidated and consolidating statements of operations, changes in shareholders' equity and cash flows of the Company and its Subsidiaries, for such year,

setting forth in each case in comparative form the figures for the previous fiscal year, all in reasonable detail, prepared in accordance with GAAP, and accompanied by

(A) an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that such financial statements present fairly, in all material respects, the consolidated and consolidating financial positions of the companies being reported upon and their consolidated and consolidating results of operations and cash flows and have been prepared in conformity with GAAP, and that the examination of such accountants in connection with such financial statements has been made in accordance with generally accepted auditing standards, and that such audit provides a reasonable basis for such opinion in the circumstances, and

(B) a certificate of such accountants stating that they have reviewed this Agreement and stating further whether, in making their audit, they have become aware of any condition or event that then constitutes a Default or an Event of Default, and, if they are aware that any such condition or event then exists, specifying the nature and period of the existence thereof (it being understood that such accountants shall not be liable, directly or indirectly, for any failure to obtain knowledge of any Default or Event of Default unless such accountants should have obtained knowledge thereof in making an audit in accordance with generally accepted auditing standards or did not make such an audit),

provided that the delivery within the time period specified above of the -----

Company's Annual Report on Form 10-K for such fiscal year prepared in accordance with the requirements therefor and filed with the Securities and Exchange Commission, together with the accountant's certificate described in clause (B) above, shall be deemed to satisfy the requirements of this Section 7.1(b);

(c) SEC and Other Reports -- promptly upon their becoming available, -----

one copy of (i) each financial statement, report (including, without limitation, the Company's annual report to shareholders, if any, prepared pursuant to Rule 14a-3 under the Exchange Act), notice or proxy statement

sent by the Company or any Subsidiary to public securities holders generally, and (ii) each regular or periodic report, each registration statement (without exhibits except as expressly requested by such holder), and each prospectus and all amendments thereto filed by the Company or any Subsidiary with the Securities and Exchange Commission and of all press releases and other statements made available generally by the Company or any Subsidiary to the public concerning developments that are Material;

(d) Notice of Default or Event of Default -- promptly, and in any

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event within five Business Days after a Responsible Officer becoming aware of the existence of any Default or Event of Default or that any Person has given any notice or taken any action with respect to a claimed default hereunder or that any Person has given any notice or taken any action with respect to a claimed default of the type referred to in Section 11(f), a written notice specifying the nature and period of existence thereof and what action the Company is taking or proposes to take with respect thereto;

(e) ERISA Matters -- promptly, and in any event within five Business

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Days after a Responsible Officer becoming aware of any of the following, a written notice setting forth the nature thereof and the action, if any, that the Company or an ERISA Affiliate proposes to take with respect thereto:

(i) with respect to any Plan, any reportable event, as defined in section 4043(c) of ERISA and the regulations thereunder, for which notice thereof has not been waived pursuant to such regulations as in effect on the date of the Closing; or

(ii) the taking by the PBGC of steps to institute, or the threatening by the PBGC of the institution of, proceedings under section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Plan, or the receipt by the Company or any ERISA Affiliate of a notice from a Multiemployer Plan that such action has been taken by the PBGC with respect to such Multiemployer Plan; or

(iii) any event, transaction or condition that could result in the incurrence of any liability by the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, or in the imposition of any Lien on any of the rights, properties or assets of the Company or any ERISA Affiliate pursuant to Title I or IV of ERISA or such penalty or excise tax provisions, if such liability or Lien, taken together with any other such liabilities or Liens then existing, could reasonably be expected to have a Material Adverse Effect;

(f) Notices from Governmental Authority -- promptly, and in any event

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within 30 days of receipt thereof, copies of any notice to the Company

or any Subsidiary from any Federal or state Governmental Authority relating to any order, ruling, statute or other law or regulation that could reasonably be expected to have a Material Adverse Effect;

(g) Actions, Proceedings - promptly after a Responsible Officer

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becomes aware of the commencement thereof, notice of any action or proceeding relating to the Company or any Subsidiary in any court or before any Governmental Authority or arbitration board or tribunal as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected to have a Material Adverse Effect; and

(h) Requested Information -- with reasonable promptness, such other

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data and information relating to the business, operations, affairs, financial condition, assets or properties of the Company or any of its Subsidiaries or relating to the ability of the Obligors to perform their obligations hereunder and under the Notes as from time to time may be reasonably requested by any such holder of Notes, or such information regarding the Company required to satisfy the requirements of 17 C.F.R. 230.144A, as amended from time to time, in connection with any contemplated transfer of the Notes.

## 7.2. Officer's Certificate

Each set of financial statements delivered to a holder of Notes pursuant to Section 7.1(a) or Section 7.1(b) hereof shall be accompanied by a certificate of a Senior Financial Officer setting forth:

(a) Covenant Compliance -- the information (including detailed

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calculations) required in order to establish whether the Company was in compliance with the requirements of Sections 10.3 through 10.9, inclusive, during the quarterly or annual period covered by the statements then being furnished (including with respect to each such Section, where applicable, the calculations of the maximum or minimum amount, ratio or percentage, as the case may be, permissible under the terms of such Sections, and the calculation of the amount, ratio or percentage then in existence); and

(b) Event of Default -- a statement that such officer has reviewed the

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relevant terms hereof and has made, or caused to be made, under his or her supervision, a review of the transactions and conditions of the Company and its Subsidiaries from the beginning of the quarterly or annual period covered by the statements then being furnished to the date of the certificate and that such review has not disclosed the existence during such period of any condition or event that constitutes a Default or an Event of Default or, if any such condition or event existed or exists (including, without limitation, any such event or condition resulting from the failure of the Company or any Subsidiary to comply with any Environmental Law), specifying the nature

and period of existence thereof and what action the Company shall have taken or proposes to take with respect thereto.

### 7.3. Inspection.

The Company shall permit the representatives of each holder of Notes that is an Institutional Investor:

(a) No Default -- if no Default or Event of Default then exists, at

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the expense of such holder and upon reasonable prior notice to the Company, to visit the principal executive office of the Company, to discuss the affairs, finances and accounts of the Company and its Subsidiaries with the Company's officers, and (with the consent of the Company, which consent will not be unreasonably withheld) its independent public accountants, and (with the consent of the Company, which consent will not be unreasonably withheld) to visit the other offices and properties of the Company and each Subsidiary, all at such reasonable times and as often as may be reasonably requested in writing; and

(b) Default -- if a Default or Event of Default then exists, at the

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expense of the Company to visit and inspect any of the offices or properties of the Company or any Subsidiary, to examine all their respective books of account, records, reports and other papers, to make copies and extracts therefrom, and to discuss their respective affairs, finances and accounts with their respective officers and independent public accountants (and by this provision the Company authorizes said accountants to discuss the affairs, finances and accounts of the Company and its Subsidiaries), all at such times and as often as may be requested.

## 8. PAYMENT OF THE NOTES.

### 8.1. Required Prepayments; Payment at Maturity.

On October 19, 2002 and on each October 19 thereafter to and including October 19, 2005 the Company will prepay \$15,000,000 principal amount (or such lesser principal amount as shall then be outstanding) of the Notes at par and without payment of the Make-Whole Amount or any premium, and the Company will pay all of the principal amount of the Notes remaining outstanding, if any, on October 19, 2006. Each partial prepayment of the Notes pursuant to Section 8.2 or Section 8.3 will reduce the principal amount of each mandatory prepayment applicable to the Notes, as set forth in this Section 8.1, and the payment at maturity of the Notes, in the same proportion as the aggregate unpaid principal amount of the Notes is reduced as a result of such prepayment.

### 8.2. Optional Prepayments with Make-Whole Amount.

The Company may, at its option, upon notice as provided below, prepay at any time all, or from time to time any part of, the Notes, in an amount not less than 10% of the aggregate principal amount of the Notes then outstanding in the case of a

partial prepayment, at 100% of the principal amount so prepaid, plus the Make-Whole Amount determined for the prepayment date with respect to such principal amount. The Company will give each holder of Notes written notice of each optional prepayment under this Section 8.2 not less than 30 days and not more than 60 days prior to the date fixed for such prepayment. Each such notice shall specify such prepayment date, the aggregate principal amount of the Notes to be prepaid on such date, the principal amount of each Note held by such holder to be prepaid (determined in accordance with Section 8.4), and the interest to be paid on the prepayment date with respect to such principal amount being prepaid, and shall be accompanied by a certificate of a Senior Financial Officer as to the estimated Make-Whole Amount due in connection with such prepayment (calculated as if the date of such notice were the date of the prepayment), setting forth the details of such computation. Two Business Days prior to such prepayment, the Company shall deliver to each holder of Notes a certificate of a Senior Financial Officer specifying the calculation of such Make-Whole Amount as of the specified prepayment date.

### 8.3. Change in Control.

(a) Notice of Change in Control or Control Event. The Company will, within five Business Days after any Responsible Officer of the Company has knowledge of the occurrence of any Change in Control or Control Event, give written notice of such Change in Control or Control Event to each holder of Notes unless notice in respect of such Change in Control (or the Change in Control contemplated by such Control Event) shall have been given pursuant to Section 8.3(b). If a Change in Control has occurred, such notice shall contain and constitute an offer to prepay Notes as described in Section 8.3(c) and shall be accompanied by the certificate described in Section 8.3(g).

(b) Condition to Action of Company. The Company will not take any action that consummates or finalizes a Change in Control unless

(i) at least 30 days prior to such action the Company shall have given to each holder of Notes written notice containing and constituting an offer to prepay Notes as described in Section 8.3(c), accompanied by the certificate described in Section 8.3(g), and

(ii) contemporaneously with such action, the Company prepays all Notes required to be prepaid in accordance with this Section 8.3.

(c) Offer to Prepay Notes. The offer to prepay Notes contemplated by Section 8.3(a) and Section 8.3(b) shall be an offer to prepay, in accordance with and subject to this Section 8.3, all, but not less than all, the Notes held by each holder (in this case only, "holder" in respect of any Note registered in the name of a nominee for a disclosed beneficial owner shall mean such beneficial owner) on a date specified in such offer (the

"Proposed Prepayment Date"). If such Proposed Prepayment Date is in connection with an offer contemplated by Section 8.3(a), such date shall be not less than 30 days and not more than 60 days after the date of such offer. If the Proposed Prepayment Date shall not be specified in such offer, the Proposed Prepayment Date shall be the 30th day after the date of such offer.

(d) Acceptance. A holder of Notes may accept the offer to prepay made pursuant to this Section 8.3 by causing a notice of such acceptance to be delivered to the Company at least five Business Days prior to the Proposed Prepayment Date. A failure by a holder of Notes to respond to an offer to prepay made pursuant to this Section 8.3 shall be deemed to constitute an acceptance of such offer by such holder.

(e) Prepayment. Prepayment of the Notes to be prepaid pursuant to this Section 8.3 shall be at 100% of the principal amount of such Notes, together with any Make-Whole Amount with respect thereto and interest on the Notes then being prepaid accrued to the date of prepayment. The prepayment shall be made on the Proposed Prepayment Date except as provided in Section 8.3(f).

(f) Deferral of Obligation to Purchase. The obligation of the Company to prepay Notes pursuant to the offers accepted in accordance with Section 8.3(d) is subject to the occurrence of the Change in Control in respect of which such offers and acceptances shall have been made. In the event that such Change in Control does not occur on the Proposed Prepayment Date in respect thereof, the prepayment shall be deferred until and shall be made on the date on which such Change in Control occurs. The Company shall keep each holder of Notes reasonably and timely informed of

(i) any such deferral of the date of prepayment,

(ii) the date on which such Change in Control and the prepayment are expected to occur, and

(iii) any determination by the Company that efforts to effect such Change in Control have ceased or been abandoned (in which case the offers and acceptances made pursuant to this Section 8.3 in respect of such Change in Control shall be deemed rescinded).

(g) Officer's Certificate. Each offer to prepay the Notes pursuant to this Section 8.3 shall be accompanied by a certificate, executed by a Senior Financial Officer of the Company and dated the date of such offer, specifying:

(i) the Proposed Prepayment Date;

(ii) that such offer is made pursuant to this Section 8.3;

(iii) the principal amount of each Note offered to be prepaid;

(iv) the last date upon which the offer can be accepted or rejected, and setting forth the consequences of failing to provide an acceptance or rejection, as provided in Section 8.3(d);

(v) the interest that would be due on each Note offered to be prepaid, accrued to the Proposed Prepayment Date;

(vi) the calculation of the estimated Make-Whole Amount, if any, due in connection with each Note offered to be prepaid ; and

(vii) in reasonable detail, the nature and date or proposed date of the Change in Control.

#### 8.4. Allocation of Partial Prepayments.

In the case of each partial prepayment of the Notes under Section 8.2, the principal amount of the Notes to be prepaid shall be allocated among all of the Notes at the time outstanding in proportion, as nearly as practicable, to the respective unpaid principal amounts thereof not theretofore called for prepayment.

#### 8.5. Maturity; Surrender, etc.

In the case of each prepayment of Notes pursuant to this Section 8, the principal amount of each Note to be prepaid shall mature and become due and payable on the date fixed for such prepayment, together with interest on such principal amount accrued to such date and the applicable Make-Whole Amount, if any. From and after such date, unless the Company shall fail to pay such principal amount when so due and payable, together with the interest and Make-Whole Amount, if any, as aforesaid, interest on such principal amount shall cease to accrue. Any Note paid or prepaid in full shall be surrendered to the Company and cancelled and shall not be reissued, and no Note shall be issued in lieu of any prepaid principal amount of any Note.

#### 8.6. No Other Optional Prepayments or Purchase of Notes.

The Company will not prepay (whether directly or indirectly by purchase, redemption or other acquisition) any of the outstanding Notes except upon the payment or prepayment of the Notes in accordance with the terms of this Section 8. The Company will promptly cancel all Notes acquired by it or any Affiliate pursuant to any payment, prepayment or purchase of Notes pursuant to any provision of this Section 8 and no Notes may be issued in substitution or exchange for any such Notes.

#### 8.7. Make-Whole Amount.

The term "Make-Whole Amount" means, with respect to any Note, an amount equal to the excess, if any, of the Discounted Value of the Remaining Scheduled Payments with respect to the Called Principal of such Note over the amount of such Called Principal, provided that the Make-Whole Amount may in no event be

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less than zero. For the purposes of determining the Make-Whole Amount, the following terms have the following meanings:

"Called Principal" means, with respect to any Note, the principal of such Note that is to be prepaid pursuant to Section 8.2 or Section 8.3 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

"Discounted Value" means, with respect to the Called Principal of any Note, the amount obtained by discounting all Remaining Scheduled Payments with respect to such Called Principal from their respective scheduled due dates to the Settlement Date with respect to such Called Principal, in accordance with accepted financial practice and at a discount factor (applied on the same periodic basis as that on which interest on the Notes is payable) equal to the Reinvestment Yield with respect to such Called Principal.

"Reinvestment Yield" means, with respect to the Called Principal of any Note, 0.50% over the yield to maturity implied by (a) the yields reported, as of 10:00 A.M. (New York City time) on the second Business Day preceding the Settlement Date with respect to such Called Principal, on the display designated as "Page UST" on the Bloomberg Financial Market Service (or such other display as may replace Page "UST" on the Bloomberg Financial Market Service) for actively traded U.S. Treasury securities having a maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date, or (b) if such yields are not reported as of such time or the yields reported as of such time are not ascertainable, the Treasury Constant Maturity Series Yields reported, for the latest day for which such yields have been so reported as of the second Business Day preceding the Settlement Date with respect to such Called Principal, in Federal Reserve Statistical Release H.15 (519) (or any comparable successor publication) for actively traded U.S. Treasury securities having a constant maturity equal to the Remaining Average Life of such Called Principal as of such Settlement Date. Such implied yield will be determined, if necessary, by (i) converting U.S. Treasury bill quotations to bond-equivalent yields in accordance with accepted financial practice and (ii) interpolating linearly between (1) the actively traded U.S. Treasury security with the maturity closest to and greater than the Remaining Average Life and (2) the actively traded U.S. Treasury security with the maturity closest to and less than the Remaining Average Life.

"Remaining Average Life" means, with respect to any Called Principal, the number of years (calculated to the nearest one-twelfth year) obtained by dividing (a) such Called Principal into (b) the sum of the products obtained by multiplying (i) the principal component of each Remaining Scheduled Payment with respect to such Called Principal by (ii) the number of years (calculated to the nearest one-twelfth year) that will elapse between the Settlement Date with respect to such Called Principal and the scheduled due date of such Remaining Scheduled Payment.

"Remaining Scheduled Payments" means, with respect to the Called Principal of any Note, all payments of such Called Principal and interest thereon that would be due after the Settlement Date with respect to such Called Principal if no payment of such Called Principal were made prior to its scheduled due date, provided that if such Settlement Date is not a date on which interest payments are due to be made under the terms of the Notes, then the amount of the next succeeding scheduled interest payment will be reduced by the amount of interest accrued to such Settlement Date and required to be paid on such Settlement Date pursuant to Section 8.2, Section 8.3 or 12.1.

"Settlement Date" means, with respect to the Called Principal of any Note, the date on which such Called Principal is to be prepaid pursuant to Section 8.2 or Section 8.3 or has become or is declared to be immediately due and payable pursuant to Section 12.1, as the context requires.

#### 9. AFFIRMATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

##### 9.1. Existence, Etc.

The Company will, and will cause each of its Subsidiaries (other than, in the case of clauses (a) through (c) below, any Immaterial Subsidiaries) to:

(a) preserve and maintain its legal existence and all of its material rights, privileges, licenses and franchises (provided that nothing in this Section 9.1 shall prohibit any transaction expressly permitted under Sections 10.2 and 10.3);

(b) comply with the requirements of all applicable laws, rules, regulations and orders of governmental or regulatory authorities if failure to comply with such requirements could (either individually or in the aggregate) reasonably be expected to have a Material Adverse Effect;

(c) pay and discharge all taxes, assessments and governmental charges or levies imposed on it or on its income or profits or on any of its property prior to the date on which penalties attach thereto, except for any such tax, assessment, charge or levy the payment of which is being contested

in good faith and by proper proceedings and against which adequate reserves are being maintained;

(d) maintain all of its properties used or useful in its business in good working order and condition, ordinary wear and tear excepted, except as could not reasonably be expected to have a Material Adverse Effect; and

(e) keep adequate records and books of account, in which complete entries will be made in accordance with generally accepted accounting principles consistently applied.

## 9.2. Insurance.

The Company will, and will cause each of its Material Subsidiaries to, maintain insurance with financially sound and reputable insurance companies, and with respect to property and risks of a character usually maintained by corporations engaged in the same or a similar business and similarly situated, against loss, damage and liability of the kinds and in the amounts customarily maintained by such corporations. On or before the date of the Closing, the Company will deliver to you certificates of insurance reasonably satisfactory to you evidencing the existence of all insurance required to be maintained by the Company hereunder setting forth the respective coverages, limits of liability, carrier, policy number and period of coverage and showing that such insurance will remain in effect through the December 31 falling at least six months after the date hereof, subject only to the payment of premiums as they become due. Thereafter, on or before each November 15 in each year (commencing with November 15, 2000), the Company will deliver to each holder of Notes that is an Institutional Investor certificates of insurance evidencing that all insurance required to be maintained by the Company hereunder will be in effect through the December 31 of the calendar year following the calendar year of the current November 15, subject only to the payment of premiums as they become due.

## 10. NEGATIVE COVENANTS.

The Company covenants that so long as any of the Notes are outstanding:

### 10.1. Transactions with Affiliates.

Except as expressly permitted by this Agreement and except for the Transaction, the Company will not, nor will it permit any of its Subsidiaries to, directly or indirectly: (a) make any Investment in an Affiliate; (b) transfer, sell, lease, assign or otherwise dispose of any property to an Affiliate; (c) merge into or consolidate with or purchase or acquire property from an Affiliate; or (d) enter into any other transaction directly or indirectly with or for the benefit of an Affiliate (including, without limitation, Guaranties and assumptions of obligations of an Affiliate); provided that (x) any Affiliate who is an individual may serve as a director, officer or employee of the Company or any of its Subsidiaries and receive reasonable compensation for his or her services in such capacity, (y) the Company

and its Subsidiaries may enter into transactions (other than extensions of credit by the Company or any of its Subsidiaries to an Affiliate) in the ordinary course and pursuant to the reasonable requirements of the Company's or such Subsidiary's business and if the monetary or business consideration arising therefrom would be substantially as advantageous to the Company and its Subsidiaries as the monetary or business consideration that would obtain in a comparable transaction with a Person not an Affiliate, and (z) agreements between the Company and Watts Industries, Inc. (and its affiliates) to the extent identified on Schedule 10.1, shall not be prohibited by this Section 10.1.

10.2. Merger, Consolidation, etc.

The Company will not, and will not permit any of its Subsidiaries to, consolidate with or merge with any other Person or convey, transfer or lease substantially all of its assets in a single transaction or series of transactions to any Person (except that a Subsidiary of the Company may (x) consolidate with or merge with the Company or a Wholly-Owned Subsidiary (that is not a Foreign Subsidiary) if the Company or such Wholly-Owned Subsidiary is the continuing or surviving corporation and if immediately after giving effect to such transaction no Default or Event of Default would exist, (y) consolidate with or merge with any other Person, so long as (1) the successor formed by such consolidation or the survivor of such merger shall be a Subsidiary Guarantor, (2) such Subsidiary Guarantor would be permitted by the provisions of Section 10.5 and Section 10.6 to incur at least \$1.00 of additional Debt, and (3) immediately after giving effect to such transaction no Default or Event of Default would exist, and (z) convey, transfer or lease all of its assets in compliance with the provisions of Section 10.3), provided that the foregoing restriction does not apply to the consolidation or merger of the Company with, or the conveyance, transfer or lease of substantially all of the assets of the Company in a single transaction or series of transactions to, any Person so long as:

(a) the successor formed by such consolidation or the survivor of such merger or the Person that acquires by conveyance, transfer or lease substantially all of the assets of the Company as an entirety, as the case may be (the "Successor Corporation"), shall be a solvent corporation organized and existing under the laws of the United States of America, any State thereof or the District of Columbia;

(b) if the Company is not the Successor Corporation, such corporation shall have executed and delivered to each holder of Notes its assumption of the due and punctual performance and observance of each covenant and condition of this Agreement, the Other Agreements and the Notes (pursuant to such agreements and instruments as shall be reasonably satisfactory to the Required Holders), and the Company shall have caused to be delivered to each holder of Notes an opinion of nationally recognized independent counsel, or other independent counsel reasonably satisfactory to the Required Holders, to the effect that all agreements or instruments effecting such assumption are enforceable in accordance with their terms and comply with the terms hereof; and

(c) immediately after giving effect to such transaction:

(i) no Default or Event of Default would exist, and

(ii) the Successor Corporation would be permitted by the provisions of Section 10.5 to incur at least \$1.00 of additional Funded Debt owing to a Person other than a Subsidiary of the Successor Corporation.

No such conveyance, transfer or lease of substantially all of the assets of the Company shall have the effect of releasing the Company or any Successor Corporation from its liability under this Agreement or the Notes.

### 10.3. Sale of Assets, etc.

(a) Sale of Assets. Except as permitted under Section 10.2, the Company will not, and will not permit any of its Subsidiaries to, make any Asset Disposition unless:

(i) in the good faith opinion of the Company, the Asset Disposition is in exchange for consideration having a Fair Market Value at least equal to that of the property exchanged and is in the best interest of the Company or such Subsidiary;

(ii) immediately prior to and after giving effect to the Asset Disposition, no Default or Event of Default would exist;

(iii) immediately after giving effect to the Asset Disposition, the Disposition Value of all property that was the subject of any Asset Disposition occurring in the then current fiscal year of the Company would not exceed 10% of Consolidated Total Assets determined as of the end of the then most recently ended fiscal year of the Company; and

(iv) immediately after giving effect to the Asset Disposition, the Disposition Value of all property that was the subject of any Asset Disposition occurring on or after the date of the Closing would not exceed 25% of Consolidated Total Assets determined as of the end of the then most recently ended fiscal quarter of the Company.

If the Net Proceeds Amount for any Transfer is applied to a Debt Prepayment Application or a Property Reinvestment Application within 365 days after such Transfer, then such Transfer, only for the purpose of determining compliance with subsections (iii) and (iv) of this Section 10.3(a) as of a date on or after the Net Proceeds Amount is so applied, shall be deemed not to be an Asset Disposition.

(b) Disposal of Ownership of a Subsidiary. The Company will not, and will not permit any of its Subsidiaries to, Transfer any shares of Subsidiary Stock (including, without limitation, pursuant to any merger, consolidation or other transaction specified in Section 10.2 hereof), nor will the Company permit any such Subsidiary to issue or Transfer any shares of its own Subsidiary Stock, provided that the foregoing restrictions do not apply to:

(i) the issue of directors' qualifying shares by any such Subsidiary;

(ii) any such Transfer of Subsidiary Stock constituting a Transfer described in clause (a) of the definition of "Asset Disposition"; and

(iii) the Transfer of all of the Subsidiary Stock of a Subsidiary owned by the Company and the other Subsidiaries if:

(A) such Transfer satisfies the requirements of Section 10.3(a) hereof,

(B) in connection with such Transfer the entire investment (whether represented by stock, Debt, claims or otherwise) of the Company and the other Subsidiaries in such Subsidiary is sold, transferred or otherwise disposed of to a Person other than (1) the Company, (2) another Subsidiary not being simultaneously disposed of, or (3) an Affiliate, and

(c) the Subsidiary being disposed of has no continuing Investment in any other Subsidiary not being simultaneously disposed of or in the Company.

#### 10.4. Limitations on Liens.

The Company will not, nor will it permit any of its Subsidiaries (other than any Immaterial Subsidiary) to, create, incur, assume or suffer to exist any Lien upon any of its property, whether now owned or hereafter acquired (whether or not provision is made for the equal and ratable securing of the Notes in accordance with the last paragraph of this Section 10.4), except:

(a) Liens in existence on the date hereof and securing the Debt of the Company and its Subsidiaries referred to in Part B of Schedule 5.15;

(b) Liens imposed by any Governmental Authority for taxes, assessments or charges not yet due or that are being contested in good faith and by appropriate proceedings if adequate reserves with respect thereto are

maintained on the books of the Company or the affected Subsidiaries, as the case may be, in accordance with GAAP;

(c) carriers', warehousemen's, mechanics', materialmen's, repairmen's or other like Liens arising in the ordinary course of business that are not overdue for a period of more than 30 days or that are being contested in good faith and by appropriate proceedings and Liens securing judgments but only to the extent for an amount and for a period not resulting in an Event of Default under Section 11(i) hereof;

(d) pledges or deposits under worker's compensation, unemployment insurance and other social security legislation;

(e) deposits to secure the performance of bids, trade contracts (other than for Debt), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business;

(f) easements, rights-of-way, restrictions and other similar encumbrances incurred in the ordinary course of business and encumbrances consisting of zoning restrictions, easements, licenses, restrictions on the use of property or minor imperfections in title thereto that, in the aggregate, are not material in amount, and that do not in any case materially detract from the value of the property subject thereto or interfere with the ordinary conduct of the business of the Company or any of its Subsidiaries;

(g) Liens on property of any corporation that becomes a Subsidiary of the Company after the date of this Agreement, provided that (i) such Liens are in existence at the time such corporation becomes a Subsidiary of the Company and were not created in anticipation thereof, (ii) each such Lien shall extend solely to the item or items of property so acquired and, if required by the terms of the instrument originally creating such Lien, other property which is an improvement to or is acquired for specific use in connection with such acquired property; and (iii) the principal amount of the Debt secured by any such Lien shall at no time exceed an amount equal to the lesser of (A) the cost to such corporation of the property (or improvement thereon) so acquired and (B) the Fair Market Value (as determined in good faith by the board of directors of such corporation) of such property (or improvement thereon) at the time of such acquisition;

(h) Liens created to secure all or any part of the purchase price, or to secure Debt incurred or assumed to pay all or any part of the purchase price or cost of construction, of real and/or tangible personal property (or any improvement thereon) acquired or constructed by the Company or a Subsidiary after the date of the Closing, provided that (i) any such Lien shall extend solely to the item or items of such property (or improvement thereon) so acquired or constructed and, if required by the terms of the instrument originally creating such Lien, other property (or improvement thereon) which

is an improvement to or is acquired for specific use in connection with such acquired or constructed property (or improvement thereon) or which is real property being improved by such acquired or constructed property (or improvement thereon), (ii) the principal amount of the Debt secured by any such Lien shall at no time exceed an amount equal to the lesser of (A) the cost to the Company or such Subsidiary of the property (or improvement thereon) so acquired or constructed and (B) the Fair Market Value (as determined in good faith by the board of directors of the Company) of such property (or improvement thereon) at the time of such acquisition or construction, and (iii) any such Lien shall be created contemporaneously with, or within 120 days after, the acquisition or construction of such property;

(i) Liens on property or assets of the Company or any of its Subsidiaries securing Debt owing to the Company or to any of its Wholly-Owned Subsidiaries;

(j) any Lien renewing, extending or refunding any Lien permitted by paragraph (a) of this Section 10.4, provided that (i) the principal amount of Debt secured by such Lien immediately prior to such extension, renewal or refunding is not increased or the maturity thereof reduced, (ii) such Lien is not extended to any other property and (iii) immediately after such extension, renewal or refunding no Default or Event of Default would exist; and

(k) other Liens not otherwise permitted by paragraphs (a) through (j), provided that the total amount of all outstanding Debt secured by such Liens would be permitted by the provisions of Section 10.6 at such time.

If, notwithstanding the prohibition contained herein, the Company shall, or shall permit any of its Subsidiaries (other than any Immaterial Subsidiary) to, create, incur, assume or suffer to exist any Lien upon any of its property, whether now owned or hereafter acquired, other than those Liens permitted by the provisions of paragraphs (a) through (k) of this Section 10.4, it will make or cause to made effective provision whereby the Notes and the Unconditional Guarantee will be secured equally and ratably with any and all other obligations thereby secured, such security to be pursuant to agreements reasonably satisfactory to the Required Holders and, in any such case, the Notes and the Unconditional Guarantee shall have the benefit, to the fullest extent that, and with such priority as, the holders of the Notes may be entitled under applicable law, of an equitable Lien on such property. Such violation of this Section 10.4 will constitute an Event of Default, whether or not provision is made for an equal and ratable Lien pursuant to this Section 10.4.

#### 10.5. Debt.

The Company will not, and will not permit any Subsidiary to, directly or indirectly, create, incur, assume, guarantee, or otherwise become directly or indirectly liable with respect to, any Debt, unless on the date the Company or such

Subsidiary becomes liable with respect to any such Debt and immediately after giving effect thereto and the concurrent retirement of any other Debt,

(a) no Default or Event of Default exists, and

(b) Consolidated Total Debt does not exceed 60% of Consolidated Total Capitalization as of the then most recently ended fiscal quarter of the Company.

#### 10.6. Priority Debt.

The Company will not, and will not permit any Subsidiary to, directly or indirectly, create, incur, assume, guarantee, or otherwise become directly or indirectly liable with respect to, any Priority Debt, unless on the date the Company or such Subsidiary becomes liable with respect to any such Priority Debt and immediately after giving effect thereto and the concurrent retirement of any other Debt,

(a) no Default or Event of Default exists, and

(b) Priority Debt does not exceed 20% of Consolidated Net Worth as of the then most recently ended fiscal quarter of the Company.

#### 10.7. Debt Maintenance.

The Company will not, at any time, permit the ratio of:

(a) Consolidated Funded Debt at such time; to

(b) EBITDA for the period of four consecutive fiscal quarters of the Company most recently ended at such time;

to be greater than the ratio applicable for such quarter as set forth in the chart below:

Fiscal Quarters	Ratio
For Fiscal Quarters ending on or prior to the earlier of the date of the Equity Offering and one year from the date of the Closing	3.50 : 1.0
For Fiscal Quarters thereafter and ending on or before the earlier of the date two years from the date of the Equity Offering and the date three years from the date of the Closing	3.25 : 1.0
For each Fiscal Quarter ending thereafter	3.00 : 1.0

#### 10.8. Consolidated Minimum Net Worth.

(a) The Company will not, at any time prior to the Equity Offering, permit Consolidated Net Worth to be less than the sum of (i) \$125,000,000 plus (ii) an aggregate amount equal to 25% of Consolidated Net Income (but, in each case, only if a positive number) for each completed fiscal quarter beginning with the fiscal quarter ended December 31, 1999.

(b) The Company will not, at any time after the Equity Offering, permit Consolidated Net Worth to be less than the sum of (i) \$150,000,000 plus (ii) an aggregate amount equal to 25% of Consolidated Net Income (but, in each case, only if a positive number) for each completed fiscal quarter beginning with the fiscal quarter ended immediately after the Equity Offering.

#### 10.9. Fixed Charge Coverage Ratio.

The Company will not, at any time, permit the Fixed Charge Coverage Ratio to be less than 2.50 to 1.

#### 10.10. Lines of Business.

Neither the Company nor any of its Subsidiaries will engage to any substantial extent in any line or lines of business activity other than the business of designing, manufacturing or distributing fluid control components, valves and related products and services for use in fluid -control systems.

#### 10.11. Certain Obligations.

The Company will, and will cause each of its Subsidiaries to, take such action from time to time as shall be necessary to ensure that each of its Subsidiaries (other than Suzhou Watts Valve Co., Ltd.) is a Wholly-Owned Subsidiary. The Company will not, and will not permit any of its Subsidiaries to, enter into, after the date of this Agreement, any indenture, agreement, instrument or other arrangement that, directly or indirectly, prohibits or restrains, or has the effect of prohibiting or restraining, or imposes materially adverse conditions upon, the incurrence or payment of Debt, the granting of Liens, the declaration or payment of dividends, the making of loans, advances or Investments or the sale, assignment, transfer or other disposition of property.

#### 10.12. Additional Subsidiary Guarantors.

The Company will take such action, and will cause each of its Subsidiaries to take such action, from time to time as shall be necessary to ensure that all Subsidiaries of the Company (other than Foreign Subsidiaries, unless such Foreign Subsidiary has issued any Guaranty with respect to any Debt (including any Guaranty with respect to the Bank Credit Agreement)) are Subsidiary Guarantors and, thereby, "Obligors" hereunder. Without limiting the generality of the foregoing, in the event that the Company or any of its Subsidiaries shall form or acquire any new Subsidiary (other than Foreign Subsidiaries), the Company or the respective Subsidiary will cause such new Subsidiary to become a "Subsidiary Guarantor" (and,

thereby, an "Obligor") hereunder pursuant to a written instrument in form and substance satisfactory to each holder of the Notes, and to deliver such proof of corporate action, incumbency of officers, opinions of counsel and other documents as is consistent with those delivered by each Obligor pursuant to Section 4 upon the date of the Closing or as the Required Holders shall have requested.

#### 10.13. Modifications of Material Agreements.

The Company will not, nor will it permit any of its Subsidiaries to, consent to any modification, supplement or waiver of any of the provisions of any Material Agreement, which modification, supplement or waiver is materially adverse to the interests of any holder of the Notes, without the prior consent of the Required Holders.

#### 11. EVENTS OF DEFAULT.

An "Event of Default" shall exist if any of the following conditions or events shall occur and be continuing:

(a) the Company defaults in the payment of any principal or Make-Whole Amount, if any, on any Note when the same becomes due and payable, whether at maturity or at a date fixed for prepayment or by declaration or otherwise; or

(b) the Company defaults in the payment of any interest on any Note for more than five Business Days after the same becomes due and payable; or

(c) the Company defaults in the performance of or compliance with any term contained in any of Sections 7.1(a), 7.1(b), 7.1(d), 7.1(e), 9, or 10.1 through 10.9, inclusive; or

(d) the Company defaults in the performance of or compliance with any term contained herein (other than those referred to in paragraphs (a), (b) and (c) of this Section 11) and such default is not remedied within 30 days after the earlier of (i) a Responsible Officer obtaining actual knowledge of such default and (ii) the Company receiving written notice of such default from any holder of a Note; or

(e) any representation or warranty made in writing by or on behalf of any of the Obligors or by any officer of any of the Obligors in this Agreement or in any writing furnished in connection with the transactions contemplated hereby proves to have been false or incorrect in any material respect on the date as of which made; or

(f) (i) the Company or any Material Subsidiary is in default (as principal or as guarantor or other surety) in the payment of any principal of or premium or make-whole amount or interest on any Debt of the Company or any Material Subsidiary (other than Debt under this Agreement and the

Notes) beyond any period of grace provided with respect thereto, that individually or together with such other Debt as to which any such failure exists has an aggregate outstanding principal amount of at least \$10,000,000, or

(ii) the Company or any Material Subsidiary is in default in the performance of or compliance with any term of any evidence of any Debt of the Company or any Material Subsidiary (other than Debt under this Agreement and the Notes), that individually or together with such other Debt as to which any such failure exists has an aggregate outstanding principal amount of at least \$10,000,000, or of any mortgage, indenture or other agreement relating thereto or any other condition exists, and as a consequence of such default or condition such Debt has become, or has been declared (or one or more Persons are entitled to declare such Debt to be), due and payable before its stated maturity or before its regularly scheduled dates of payment, or

(iii) as a consequence of the occurrence or continuation of any event or condition (other than the passage of time or the right of the holder of Debt to convert such Debt into equity interests),

(A) the Company or any Material Subsidiary has become obligated to purchase or repay Debt before its regular maturity or before its regularly scheduled dates of payment in an aggregate outstanding principal amount of at least \$10,000,000, or

(B) one or more Persons have the right to require the Company or any Material Subsidiary so to purchase or repay such Debt; or

(g) the Company or any Material Subsidiary (i) is generally not paying, or admits in writing its inability to pay, its debts as they become due, (ii) files, or consents by answer or otherwise to the filing against it of, a petition for relief or reorganization or arrangement or any other petition in bankruptcy, for liquidation or to take advantage of any bankruptcy, insolvency, reorganization, moratorium or other similar law of any jurisdiction, (iii) makes an assignment for the benefit of its creditors, (iv) consents to the appointment of a custodian, receiver, trustee or other officer with similar powers with respect to it or with respect to any substantial part of its property, (v) is adjudicated as insolvent or to be liquidated, or (vi) takes corporate action for the purpose of any of the foregoing; or

(h) a court or Governmental Authority of competent jurisdiction enters an order appointing, without consent by the Company or any Material Subsidiary, a custodian, receiver, trustee or other officer with similar powers

with respect to the Company or any Material Subsidiary or with respect to any substantial part of the property of the Company or any Material Subsidiary, or constituting an order for relief or approving a petition for relief or reorganization or any other petition in bankruptcy or for liquidation or to take advantage of any bankruptcy or insolvency law of any jurisdiction, or ordering the dissolution, winding-up or liquidation of the Company or any Material Subsidiary, or any such petition shall be filed against the Company or any Material Subsidiary and such petition shall not be dismissed within 60 days; or

(i) a final judgment or judgments for the payment of money aggregating in excess of \$5,000,000 are rendered against one or more of the Company and its Subsidiaries (other than any Immaterial Subsidiary) and which judgments are not, within 45 days after entry thereof, bonded, discharged or stayed pending appeal, or are not discharged within 45 days after the expiration of such stay; or

(j) if

(i) the Unconditional Guarantee shall cease to be in full force and effect or shall be declared by a court or other Governmental Authority of competent jurisdiction to be void, voidable or unenforceable against any Subsidiary Guarantor,

(ii) the validity or enforceability of this Agreement against any Subsidiary Guarantor shall be contested by such Subsidiary Guarantor or any Subsidiary thereof, or

(iii) any Subsidiary Guarantor or any Subsidiary thereof shall deny that such Subsidiary Guarantor has any further liability or obligation under this Agreement; or

(k) if (i) any Plan shall fail to satisfy the minimum funding standards of ERISA or the Code for any plan year or part thereof or a waiver of such standards or extension of any amortization period is sought or granted under section 412 of the Code, (ii) a notice of intent to terminate any Plan shall have been or is reasonably expected to be filed with the PBGC or the PBGC shall have instituted proceedings under ERISA section 4042 to terminate or appoint a trustee to administer any Plan or the PBGC shall have notified the Company or any ERISA Affiliate that a Plan may become a subject of any such proceedings, (iii) the aggregate "amount of unfunded benefit liabilities" (within the meaning of section 4001(a)(18) of ERISA) under all Plans, determined in accordance with Title IV of ERISA, shall exceed \$5,000,000, (iv) the Company or any ERISA Affiliate shall have incurred or is reasonably expected to incur any liability pursuant to Title I or IV of ERISA or the penalty or excise tax provisions of the Code relating to employee benefit plans, (v) the Company or any ERISA Affiliate withdraws from any Multiemployer Plan, or (vi) the Company or any Subsidiary establishes or

amends any employee welfare benefit plan that provides post-employment welfare benefits in a manner that would increase the liability of the Company or any Subsidiary thereunder; and any such event or events described in clauses (i) through (vi) above, either individually or together with any other such event or events, could reasonably be expected to have a Material Adverse Effect.

As used in Section 11(k), the terms "employee benefit plan" and "employee welfare benefit plan" shall have the respective meanings assigned to such terms in section 3 of ERISA.

## 12. REMEDIES ON DEFAULT, ETC.

### 12.1. Acceleration.

(a) If an Event of Default with respect to the Company described in paragraph (g) or paragraph (h) of Section 11 (other than an Event of Default described in clause (i) of paragraph (g) or described in clause (vi) of paragraph (g) by virtue of the fact that such clause encompasses clause (i) of paragraph (g)) has occurred, all the Notes then outstanding shall automatically become immediately due and payable.

(b) If any other Event of Default has occurred and is continuing, any holder or holders of more than 50% in principal amount of the Notes at the time outstanding may at any time at its or their option, by notice or notices to the Company, declare all the Notes then outstanding to be immediately due and payable.

(c) If any Event of Default described in paragraph (a) or (b) of Section 11 has occurred and is continuing, any holder or holders of Notes at the time outstanding affected by such Event of Default may at any time, at its or their option, by notice or notices to the Company, declare all the Notes held by it or them to be immediately due and payable.

Upon any Notes becoming due and payable under this Section 12.1, whether automatically or by declaration, such Notes will forthwith mature and the entire unpaid principal amount of such Notes, plus (x) all accrued and unpaid interest thereon and (y) the Make-Whole Amount determined in respect of such principal amount (to the full extent permitted by applicable law), shall all be immediately due and payable, in each and every case without presentment, demand, protest or further notice, all of which are hereby waived. The Company acknowledges, and the parties hereto agree, that each holder of a Note has the right to maintain its investment in the Notes free from repayment by the Company (except as herein specifically provided for) and that the provision for payment of a Make-Whole Amount by the Company in the event that the Notes are prepaid or are accelerated as a result of an Event of Default, is intended to provide compensation for the deprivation of such right under such circumstances.

## 12.2. Other Remedies.

If any Default or Event of Default has occurred and is continuing, and irrespective of whether any Notes have become or have been declared immediately due and payable under Section 12.1, the holder of any Note at the time outstanding may proceed to protect and enforce the rights of such holder by an action at law, suit in equity or other appropriate proceeding, whether for the specific performance of any agreement contained herein or in any Note, or for an injunction against a violation of any of the terms hereof or thereof, or in aid of the exercise of any power granted hereby or thereby or by law or otherwise.

## 12.3. Rescission.

At any time after any Notes have been declared due and payable pursuant to clause (b) or clause (c) of Section 12.1, the holders of not less than 66-2/3% in principal amount of the Notes then outstanding, by written notice to the Company, may rescind and annul any such declaration and its consequences if (a) the Company has paid all overdue interest on the Notes, all principal of and Make-Whole Amount, if any, due and payable on any Notes other than by reason of such declaration, and all interest on such overdue principal and Make-Whole Amount, if any, and (to the extent permitted by applicable law) any overdue interest in respect of the Notes, at the Default Rate, (b) all Events of Default and Defaults, other than non-payment of amounts that have become due solely by reason of such declaration, have been cured or have been waived pursuant to Section 17, and (c) no judgment or decree has been entered for the payment of any monies due pursuant hereto or to the Notes. No rescission and annulment under this Section 12.3 will extend to or affect any subsequent Event of Default or Default or impair any right consequent thereon.

## 12.4. No Waivers or Election of Remedies, Expenses, etc.

No course of dealing and no delay on the part of any holder of any Note in exercising any right, power or remedy shall operate as a waiver thereof or otherwise prejudice such holder's rights, powers or remedies. No right, power or remedy conferred by this Agreement or by any Note upon any holder thereof shall be exclusive of any other right, power or remedy referred to herein or therein or now or hereafter available at law, in equity, by statute or otherwise. Without limiting the obligations of the Company under Section 15, the Company will pay to the holder of each Note on demand such further amount as shall be sufficient to cover all costs and expenses of such holder incurred in any enforcement or collection under this Section 12, including, without limitation, reasonable attorneys' fees, expenses and disbursements.

## 13. REGISTRATION; EXCHANGE; SUBSTITUTION OF NOTES

### 13.1. Registration of Notes.

The Company shall keep at its principal executive office a register for the registration and registration of transfers of Notes. The name and address of each holder of one or more Notes, each transfer thereof and the name and address of each transferee of one or more Notes shall be registered in such register. Prior to due presentment for registration of transfer, the Person in whose name any Note shall be registered shall be deemed and treated as the owner and holder thereof for all purposes hereof, and the Company shall not be affected by any notice or knowledge to the contrary. The Company shall give to any holder of a Note that is an Institutional Investor promptly upon request therefor, a complete and correct copy of the names and addresses of all registered holders of Notes.

### 13.2. Transfer and Exchange of Notes.

Upon surrender of any Note at the principal executive office of the Company for registration of transfer or exchange (and in the case of a surrender for registration of transfer, duly endorsed or accompanied by a written instrument of transfer duly executed by the registered holder of such Note or his attorney duly authorized in writing and accompanied by the address for notices of each transferee of such Note or part thereof), the Company shall execute and deliver, at the Company's expense (except as provided below), one or more new Notes (as requested by the holder thereof) in exchange therefor, in an aggregate principal amount equal to the unpaid principal amount of the surrendered Note. Each such new Note shall be payable to such Person as such holder may request and shall be substantially in the form of Exhibit 1. Each such new Note shall be dated and bear interest from the date to which interest shall have been paid on the surrendered Note or dated the date of the surrendered Note if no interest shall have been paid thereon. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any such transfer of Notes. Notes shall not be transferred in denominations of less than \$100,000, provided that if necessary

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to enable the registration of transfer by a holder of its entire holding of Notes, one Note may be in a denomination of less than \$100,000. Any transferee, by its acceptance of a Note registered in its name (or the name of its nominee), shall be deemed to have made the representation set forth in Section 6.2.

### 13.3. Replacement of Notes.

Upon receipt by the Company of evidence reasonably satisfactory to it of the ownership of and the loss, theft, destruction or mutilation of any Note (which evidence shall be, in the case of an Institutional Investor, notice from such Institutional Investor of such ownership and such loss, theft, destruction or mutilation), and

(a) in the case of loss, theft or destruction, of indemnity reasonably satisfactory to it (provided that if the holder of such Note is, or is a  
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nominee for, an original purchaser or a Qualified Institutional Buyer, such Person's own unsecured agreement of indemnity shall be deemed to be satisfactory), or

(b) in the case of mutilation, upon surrender and cancellation thereof,

the Company at its own expense shall execute and deliver, in lieu thereof, a new Note, dated and bearing interest from the date to which interest shall have been paid on such lost, stolen, destroyed or mutilated Note or dated the date of such lost, stolen, destroyed or mutilated Note if no interest shall have been paid thereon.

#### 14. PAYMENTS ON NOTES.

##### 14.1. Place of Payment.

Subject to Section 14.2, payments of principal, Make-Whole Amount, if any, and interest becoming due and payable on the Notes shall be made in Burlington, Massachusetts at the principal office of the Company in such jurisdiction. The Company may at any time, by notice to each holder of a Note, change the place of payment of the Notes so long as such place of payment shall be either the principal office of the Company in such jurisdiction or the principal office of a bank or trust company in such jurisdiction. The Company may at any time thereafter, by notice to each holder of a Note, change the place of payment of the Notes so long as such place of payment shall be either a principal office of the Company in the United States or a principal office of a bank or trust company in the United States.

##### 14.2. Home Office Payment.

So long as you or your nominee shall be the holder of any Note, and notwithstanding anything contained in Section 14.1 or in such Note to the contrary, the Company will pay all sums becoming due on such Note for principal, Make-Whole Amount, if any, and interest by the method and at the address specified for such purpose below your name in Schedule A, or by such other method or at such other address as you shall have from time to time specified to the Company in writing for such purpose, without the presentation or surrender of such Note or the making of any notation thereon, except that upon written request of the Company made concurrently with or reasonably promptly after payment or prepayment in full of any Note, you shall surrender such Note for cancellation, reasonably promptly after any such request, to the Company at its principal executive office or at the place of payment most recently designated by the Company pursuant to Section 14.1. Prior to any sale or other disposition of any Note held by you or your nominee you will, at your election, either endorse thereon the amount of principal paid thereon and the last date to which interest has been paid thereon or surrender such Note to the Company in exchange for a new Note or Notes pursuant to Section 13.2. The Company will afford the benefits of this Section 14.2 to any Institutional Investor that is the direct or indirect transferee of any Note purchased by you under this Agreement and that has made the same agreement relating to such Note as you have made in this Section 14.2.

#### 15. EXPENSES, ETC.

#### 15.1. Transaction Expenses.

Whether or not the transactions contemplated hereby are consummated, the Company will pay all costs and expenses (including reasonable attorneys' fees of one special counsel for all Purchasers and, if reasonably required, local or other counsel) incurred by you and each Other Purchaser or holder of a Note in connection with such transactions and in connection with any amendments, waivers or consents under or in respect of this Agreement or the Notes (whether or not such amendment, waiver or consent becomes effective), including, without limitation: (a) the costs and expenses incurred in enforcing or defending (or determining whether or how to enforce or defend) any rights under this Agreement or the Notes or in responding to any subpoena or other legal process or informal investigative demand issued in connection with this Agreement or the Notes, or by reason of being a holder of any Note, and (b) the costs and expenses, including financial advisors' fees, incurred in connection with the insolvency or bankruptcy of the Company or any Subsidiary or in connection with any work-out or restructuring of the transactions contemplated hereby and by the Notes. The Company will pay, and will save you and each other holder of a Note harmless from, all claims in respect of any fees, costs or expenses if any, of brokers and finders (other than those retained by you).

#### 15.2. Survival.

The obligations of the Company under this Section 15 will survive the payment or transfer of any Note, the enforcement, amendment or waiver of any provision of this Agreement or the Notes, and the termination of this Agreement.

#### 16. SURVIVAL OF REPRESENTATIONS AND WARRANTIES; ENTIRE AGREEMENT.

All representations and warranties contained herein shall survive the execution and delivery of this Agreement and the Notes, the purchase or transfer by you of any Note or portion thereof or interest therein and the payment of any Note, and may be relied upon by any subsequent holder of a Note, regardless of any investigation made at any time by or on behalf of you or any other holder of a Note. All statements contained in any certificate or other instrument delivered by or on behalf of the Company pursuant to this Agreement shall be deemed representations and warranties of the Company under this Agreement. Subject to the preceding sentence, this Agreement and the Notes embody the entire agreement and understanding between you and the Obligors and supersede all prior agreements and understandings relating to the subject matter hereof.

#### 17. AMENDMENT AND WAIVER.

##### 17.1. Requirements.

This Agreement and the Notes may be amended, and the observance of any term hereof or of the Notes may be waived (either retroactively or prospectively), with (and only with) the written consent of the Company and the Required Holders,

except that (a) no amendment or waiver of any of the provisions of any of Sections 1, 2, 3, 4, 5, 6 and 21, or any defined term (as it is used therein), will be effective as to you unless consented to by you in writing, (b) no such amendment or waiver may, without the written consent of the holder of each Note at the time outstanding affected thereby, (i) subject to the provisions of Section 12 relating to acceleration or rescission, change the amount or time of any prepayment or payment of principal of, or change the rate or change the time of payment or method of computation of interest or of the Make-Whole Amount on, the Notes, (ii) change the percentage of the principal amount of the Notes the holders of which are required to consent to any such amendment or waiver, or (iii) amend any of Sections 8, 11(a), 11(b), 12, 17, 20 or 22, and (c) no amendment or waiver of any of the provisions of Section 22, or any defined term (as it used therein), will be effective as to any Subsidiary Guarantor unless consented to by such Subsidiary Guarantor in writing.

17.2. Solicitation of Holders of Notes.

(a) Solicitation. The Company will provide each holder of the Notes  
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(irrespective of the amount of Notes then owned by it) with sufficient information, sufficiently far in advance of the date a decision is required, to enable such holder to make an informed and considered decision with respect to any proposed amendment, waiver or consent in respect of any of the provisions hereof or of the Notes. The Company will deliver executed or true and correct copies of each amendment, waiver or consent effected pursuant to the provisions of this Section 17 to each holder of outstanding Notes promptly following the date on which it is executed and delivered by, or receives the consent or approval of, the requisite holders of Notes.

(b) Payment. The Company will not directly or indirectly pay or cause  
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to be paid any remuneration, whether by way of supplemental or additional interest, fee or otherwise, or grant any security, to any holder of Notes as consideration for or as an inducement to the entering into by any holder of Notes of any waiver or amendment of any of the terms and provisions hereof unless such remuneration is concurrently paid, or security is concurrently granted, on the same terms, ratably to each holder of Notes then outstanding even if such holder did not consent to such waiver or amendment.

17.3. Binding Effect, etc.

Any amendment or waiver consented to as provided in this Section 17 applies equally to all holders of Notes and is binding upon them and upon each future holder of any Note and upon the Company without regard to whether such Note has been marked to indicate such amendment or waiver. No such amendment or waiver will extend to or affect any obligation, covenant, agreement, Default or Event of Default not expressly amended or waived or impair any right consequent thereon. No course of dealing between the Company and the holder of any Note nor any delay in exercising any rights hereunder or under any Note shall operate as a waiver of any rights of any holder of such Note. As used herein, the term "this Agreement" and

references thereto shall mean this Agreement as it may from time to time be amended or supplemented.

#### 17.4. Notes held by Company, etc.

Solely for the purpose of determining whether the holders of the requisite percentage of the aggregate principal amount of Notes then outstanding approved or consented to any amendment, waiver or consent to be given under this Agreement or the Notes, or have directed the taking of any action provided herein or in the Notes to be taken upon the direction of the holders of a specified percentage of the aggregate principal amount of Notes then outstanding, Notes directly or indirectly owned by the Company or any of its Affiliates shall be deemed not to be outstanding.

#### 18. NOTICES.

All notices and communications provided for hereunder shall be in writing and sent (a) by telecopy if the sender on the same day sends a confirming copy

of such notice by a recognized overnight delivery service (charges prepaid), or (b) by registered or certified mail with return receipt requested (postage

prepaid), or (c) by a recognized overnight delivery service (with charges

prepaid). Any such notice must be sent:

(i) if to you or your nominee, to you or it at the address specified for such communications in Schedule A, or at such other address as you or it shall have specified to the Company in writing,

(ii) if to any other holder of any Note, to such holder at such address as such other holder shall have specified to the Company in writing,

(iii) if to the Company, to the Company at its address set forth at the beginning hereof to the attention of David A. Bloss, Sr., or at such other address as the Company shall have specified to the holder of each Note in writing, or

(iv) if to any Subsidiary Guarantor, to such Subsidiary Guarantor in care of the Company.

Notices under this Section 18 will be deemed given only when actually received.

#### 19. REPRODUCTION OF DOCUMENTS.

This Agreement and all documents relating hereto, including, without limitation, (a) consents, waivers and modifications that may hereafter be executed, (b) documents received by you at the Closing (except the Notes themselves), and (c) financial statements, certificates and other information previously or hereafter furnished to you, may be reproduced by you by any photographic, photostatic, microfilm, microcard, miniature photographic or other similar process and you may destroy any original document so reproduced. The Company agrees and stipulates

that, to the extent permitted by applicable law, any such reproduction shall be admissible in evidence as the original itself in any judicial or administrative proceeding (whether or not the original is in existence and whether or not such reproduction was made by you in the regular course of business) and any enlargement, facsimile or further reproduction of such reproduction shall likewise be admissible in evidence. This Section 19 shall not prohibit the Company or any other holder of Notes from contesting any such reproduction to the same extent that it could contest the original, or from introducing evidence to demonstrate the inaccuracy of any such reproduction.

## 20. CONFIDENTIAL INFORMATION.

For the purposes of this Section 20, "Confidential Information" means information delivered to you by or on behalf of the Company or any Subsidiary in connection with the transactions contemplated by or otherwise pursuant to this Agreement that is proprietary in nature and that was clearly marked or labeled or otherwise adequately identified when received by you as being confidential information of the Company or such Subsidiary, provided that such term does not include information that

(a) was publicly known or otherwise known to you prior to the time of such disclosure,

(b) subsequently becomes publicly known through no act or omission by you or any person acting on your behalf,

(c) otherwise becomes known to you other than through disclosure by the Company or any Subsidiary by a Person who was not, to your knowledge, bound by any confidentiality obligation to the Company, or

(d) constitutes financial statements delivered to you under Section 7.1 that are otherwise publicly available.

You will maintain the confidentiality of such Confidential Information in accordance with procedures adopted by you in good faith to protect confidential information of third parties delivered to you, provided that you may deliver or disclose Confidential Information to:

(i) your directors, officers, trustees, employees, agents, attorneys and affiliates (to the extent such disclosure reasonably relates to the administration of the investment represented by your Notes),

(ii) your financial advisors and other professional advisors who agree to hold confidential the Confidential Information substantially in accordance with the terms of this Section 20,

(iii) any other holder of any Note,

(iv) any Institutional Investor to which you sell or offer to sell such Note or any part thereof or any participation therein (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20),

(v) any Person from which you offer to purchase any security of the Company (if such Person has agreed in writing prior to its receipt of such Confidential Information to be bound by the provisions of this Section 20),

(vi) any federal or state regulatory authority having jurisdiction over you,

(vii) the National Association of Insurance Commissioners or any similar organization, or any nationally recognized rating agency that requires access to information about your investment portfolio or

(viii) any other Person to which such delivery or disclosure may be necessary or appropriate

(A) to effect compliance with any law, rule, regulation or order applicable to you,

(B) in response to any subpoena or other legal process,

(C) in connection with any litigation to which you are a party or

(D) if an Event of Default has occurred and is continuing, to the extent you may reasonably determine such delivery and disclosure to be necessary or appropriate in the enforcement or for the protection of the rights and remedies under your Notes and this Agreement.

Each holder of a Note, by its acceptance of a Note, will be deemed to have agreed to be bound by and to be entitled to the benefits of this Section 20 as though it were a party to this Agreement. On reasonable request by the Company in connection with the delivery to any holder of a Note of information required to be delivered to such holder under this Agreement or requested by such holder (other than a holder that is a party to this Agreement or its nominee), such holder will enter into an agreement with the Company embodying the provisions of this Section 20.

#### 21. SUBSTITUTION OF PURCHASER.

You shall have the right to substitute any one of your Affiliates as the purchaser of the Notes that you have agreed to purchase hereunder, by written notice to the Company, which notice shall be signed by both you and such Affiliate,

shall contain such Affiliate's agreement to be bound by this Agreement and shall contain a confirmation by such Affiliate of the accuracy with respect to it of the representations set forth in Section 6. Upon receipt of such notice, wherever the word "you" is used in this Agreement (other than in this Section 21), such word shall be deemed to refer to such Affiliate in lieu of you. In the event that such Affiliate is so substituted as a purchaser hereunder and such Affiliate thereafter transfers to you all of the Notes then held by such Affiliate, upon receipt by the Company of notice of such transfer, wherever the word "you" is used in this Agreement (other than in this Section 21), such word shall no longer be deemed to refer to such Affiliate, but shall refer to you, and you shall have all the rights of an original holder of the Notes under this Agreement.

## 22. GUARANTEE.

### 22.1. The Guarantee.

The Subsidiary Guarantors hereby jointly and severally guarantee to you and to each holder of any Note or Notes at any time outstanding, the prompt payment in full when due (whether at stated maturity, by acceleration or otherwise) of the principal of, and interest and Make-Whole Amount (if any) on, the Notes and all other amounts from time to time owing to the holders of the Notes by the Company under this Agreement and under the Notes (including, without limitation, taxes, and reasonable costs, expenses, and fees of attorneys), and the prompt performance and observance by the Company of all covenants, agreements and conditions on its part to be performed and observed hereunder, in each case strictly in accordance with the terms hereof (such obligations being herein collectively called the "Guaranteed Obligations"). The Subsidiary Guarantors hereby further jointly and severally agree that if the Company shall fail to pay in full when due (whether at stated maturity, by acceleration or otherwise) any of the Guaranteed Obligations, the Subsidiary Guarantors will promptly pay the same, upon demand, and that in the case of any extension of time of payment or renewal of any of the Guaranteed Obligations, the same will be promptly paid in full when due (whether at extended maturity, by acceleration or otherwise) in accordance with the terms of such extension or renewal.

### 22.2. Obligations Unconditional.

The obligations of the Subsidiary Guarantors under this Section 22 (the "Unconditional Guarantee") are absolute and unconditional, joint and several, irrespective of the value, genuineness, validity, regularity or enforceability of the obligations of the Company under this Agreement, the Notes or any other agreement or instrument referred to herein or therein, or any substitution, release or exchange of any other guarantee of or security for any of the Guaranteed Obligations, and, to the fullest extent permitted by applicable law, irrespective of any other circumstance whatsoever that might otherwise constitute a legal or equitable discharge or defense of a surety or guarantor, it being the intent of this Section 22 that the obligations of the Subsidiary Guarantors hereunder shall be absolute and unconditional, joint and several, under any and all circumstances. Without limiting the generality of the

foregoing, it is agreed that the occurrence of any one or more of the following shall not alter or impair the liability of the Subsidiary Guarantors under this Section 22, such liability to remain absolute and unconditional as described above:

(a) at any time or from time to time, without notice to the Subsidiary Guarantors, the time for any performance of or compliance with any of the Guaranteed Obligations shall be extended, or such performance or compliance shall be waived;

(b) any of the acts mentioned in any of the provisions of this Agreement or the Notes or any other agreement or instrument referred to herein or therein shall be done or omitted;

(c) the maturity of any of the Guaranteed Obligations shall be accelerated, or any of the Guaranteed Obligations shall be modified, supplemented or amended in any respect, or any right under this Agreement or the Notes or any other agreement or instrument referred to herein or therein shall be waived or any other guarantee of any of the Guaranteed Obligations or any security therefor shall be released or exchanged in whole or in part or otherwise dealt with; or

(d) any lien or security interest granted to, or in favor of, any of the holders of the Notes as security for any of the Guaranteed Obligations shall fail to be perfected.

The Subsidiary Guarantors hereby expressly waive diligence, presentment, demand of payment, protest and all notices whatsoever (except as otherwise provided herein), and any requirement that the holders of the Notes exhaust any right, power or remedy or proceed against the Company under this Agreement or the Notes or any other agreement or instrument referred to herein or therein, or against any other Person under any other guarantee of, or security for, any of the Guaranteed Obligations.

#### 22.3. Reinstatement.

The obligations of the Subsidiary Guarantors under this Section 22 shall be automatically reinstated if and to the extent that for any reason any payment by or on behalf of the Company in respect of the Guaranteed Obligations is rescinded or must be otherwise restored by any holder of any of the Guaranteed Obligations or is repaid in good faith settlement of a pending or threatened avoidance claim, whether as a result of any proceedings in bankruptcy or reorganization or otherwise and the Subsidiary Guarantors jointly and severally agree that they will indemnify the holders of the Notes on demand for all reasonable costs and expenses (including, without limitation, fees of counsel) incurred by the holders of the Notes in connection with such settlement or rescission or restoration, including any such costs and expenses incurred in defending against any claim alleging that such payment constituted a preference, fraudulent transfer or similar payment under any bankruptcy, insolvency or similar law.

#### 22.4. Subrogation.

The Subsidiary Guarantors hereby jointly and severally agree that until the payment and satisfaction in full of all Guaranteed Obligations under this Agreement they shall not exercise any right or remedy arising by reason of any performance by them of their guarantee in Section 22.1 hereof, whether by subrogation or otherwise, against the Company or any other guarantor of any of the Guaranteed Obligations or any security for any of the Guaranteed Obligations.

#### 22.5. Remedies.

The Subsidiary Guarantors jointly and severally agree that, as between the Subsidiary Guarantors and the holders of the Notes, the obligations of the Company under this Agreement and the Notes may be declared to be forthwith due and payable as provided in Section 12 hereof (and shall be deemed to have become automatically due and payable in the circumstances provided in said Section 12) for purposes of Section 22.1 hereof notwithstanding any stay, injunction or other prohibition preventing such declaration (or such obligations from becoming automatically due and payable) as against the Company and that, in the event of such declaration (or such obligations being deemed to have become automatically due and payable), such obligations (whether or not due and payable by the Company) shall forthwith become due and payable by the Subsidiary Guarantors for purposes of said Section 22.1.

#### 22.6. Instrument for the Payment of Money.

Each Subsidiary Guarantor hereby acknowledges that the guarantee in this Section 22 constitutes an instrument for the payment of money, and consents and agrees that any holder of the Notes, at its sole option, in the event of a dispute by such Subsidiary Guarantor in the payment of any moneys due hereunder, shall have the right to bring motion-action under New York CPLR Section 3213.

#### 22.7. Continuing Guarantee.

The guarantee in this Section 22 is a continuing guarantee, and shall apply to all Guaranteed Obligations whenever arising.

#### 22.8. Rights of Contribution.

The Subsidiary Guarantors hereby agree, as between themselves, that if any Subsidiary Guarantor shall become an Excess Funding Guarantor (as defined below) by reason of the payment by such Subsidiary Guarantor of any Guaranteed Obligations, each other Subsidiary Guarantor shall, on demand of such Excess Funding Guarantor (but subject to the next sentence), pay to such Excess Funding Guarantor an amount equal to such Subsidiary Guarantor's Pro Rata Share (as defined below and determined, for this purpose, without reference to the properties, debts and liabilities of such Excess Funding Guarantor) of the Excess Payment (as defined below) in respect of such Guaranteed Obligations. The payment obligation of a Subsidiary Guarantor to any Excess Funding Guarantor under this Section 22.8

shall be subordinate and subject in right of payment to the prior payment in full of the obligations of such Subsidiary Guarantor under the other provisions of this Section 22 and such Excess Funding Guarantor shall not exercise any right or remedy with respect to such excess until payment and satisfaction in full of all of such obligations.

For purposes of this Section 22.8,

(i) "Excess Funding Guarantor" shall mean, in respect of any Guaranteed Obligations, a Subsidiary Guarantor that has paid an amount in excess of its Pro Rata Share of such Guaranteed Obligations,

(ii) "Excess Payment" shall mean, in respect of any Guaranteed Obligations, the amount paid by an Excess Funding Guarantor in excess of its Pro Rata Share of such Guaranteed Obligations and

(iii) "Pro Rata Share" shall mean, for any Subsidiary Guarantor, the ratio (expressed as a percentage) of (x) the amount by which the aggregate present fair saleable value of all properties of such Subsidiary Guarantor (excluding any shares of stock of any other Subsidiary Guarantor) exceeds the amount of all the debts and liabilities of such Subsidiary Guarantor (including contingent, subordinated, unmatured and unliquidated liabilities, but excluding the obligations of such Subsidiary Guarantor hereunder and any obligations of any other Subsidiary Guarantor that have been Guaranteed by such Subsidiary Guarantor) to (y) the amount by which the aggregate fair saleable value of all properties of all of the Subsidiary Guarantors exceeds the amount of all the debts and liabilities (including contingent, subordinated, unmatured and unliquidated liabilities, but excluding the obligations of the Subsidiary Guarantors hereunder) of all of the Subsidiary Guarantors, all as of the date of the Closing. If any Subsidiary becomes a Subsidiary Guarantor hereunder subsequent to the date of the Closing, then for purposes of this Section 22.8 such subsequent Subsidiary Guarantor shall be deemed to have been a Subsidiary Guarantor as of the date of the Closing and the aggregate present fair saleable value of the properties, and the amount of the debts and liabilities, of such Subsidiary Guarantor as of the date of the Closing shall be deemed to be equal to such value and amount on the date such Subsidiary Guarantor becomes a Subsidiary Guarantor hereunder.

#### 22.9. General Limitation on Guaranteed Obligations.

In any action or proceeding involving any state corporate law, or any state or federal bankruptcy, insolvency, reorganization or other law affecting the rights of creditors generally, if the obligations of any Subsidiary Guarantor under Section

22.1 would otherwise, taking into account the provisions of Section 22.8, be held or determined to be void, invalid or unenforceable, or subordinated to the claims of any other creditors, on account of the amount of its liability under said Section 22.1, then, notwithstanding any other provision hereof to the contrary, the amount of such liability shall, without any further action by such Subsidiary Guarantor, any holder of the Notes or any other Person, be automatically limited and reduced to the highest amount that is valid and enforceable and not subordinated to the claims of other creditors as determined in such action or proceeding.

23. MISCELLANEOUS.

23.1. Successors and Assigns.

All covenants and other agreements contained in this Agreement by or on behalf of any of the parties hereto bind and inure to the benefit of their respective successors and assigns (including, without limitation, any subsequent holder of a Note) whether so expressed or not.

23.2. Payments Due on Non-Business Days; When Payments Deemed Received.

(a) Payments Due on Non-Business Days. Anything in this Agreement or -----  
the Notes to the contrary notwithstanding, any payment of principal of or Make-Whole Amount or interest on any Note that is due on a date other than a Business Day shall be made on the next succeeding Business Day without including the additional days elapsed in the computation of the interest payable on such next succeeding Business Day.

(b) Payments, When Received. Any payment to be made to the holders of -----  
Notes hereunder or under the Notes shall be deemed to have been made on the Business Day such payment actually becomes available to such holder at such holder's bank prior to 12:00 noon (local time of such bank).

23.3. Severability.

Any provision of this Agreement that is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall (to the full extent permitted by law) not invalidate or render unenforceable such provision in any other jurisdiction.

23.4. Construction.

Each covenant contained herein shall be construed (absent express provision to the contrary) as being independent of each other covenant contained herein, so that compliance with any one covenant shall not (absent such an express contrary provision) be deemed to excuse compliance with any other covenant. Where any provision herein refers to action to be taken by any Person, or which such Person is

prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such Person.

23.5. Counterparts.

This Agreement may be executed in any number of counterparts, each of which shall be an original but all of which together shall constitute one instrument. Each counterpart may consist of a number of copies hereof, each signed by less than all, but together signed by all, of the parties hereto.

23.6. Governing Law.

THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, AND THE RIGHTS OF THE PARTIES SHALL BE GOVERNED BY, THE LAW OF THE STATE OF NEW YORK EXCLUDING CHOICE-OF-LAW PRINCIPLES OF THE LAW OF SUCH STATE THAT WOULD REQUIRE THE APPLICATION OF THE LAWS OF A JURISDICTION OTHER THAN SUCH STATE.

[Remainder of page intentionally blank. Next page is signature page.]

If you are in agreement with the foregoing, please sign the form of agreement on the accompanying counterpart of this Agreement and return it to the Company, whereupon the foregoing shall become a binding agreement between you and the Company.

Very truly yours,

CIRCOR INTERNATIONAL, INC.

By /s/ David A. Bloss, Sr.

-----  
Name: David A. Bloss, Sr.  
Title: President

SUBSIDIARY GUARANTORS

-----  
CIRCOR, INC.

By /s/ David A. Bloss, Sr.

-----  
Name: David A. Bloss, Sr.  
Title: President

CIRCOR IP HOLDING CO.

By /s/ David A. Bloss, Sr.

-----  
Name: David A. Bloss, Sr.  
Title: President

CIRCLE SEAL CONTROLS, INC.

By /s/ David A. Bloss, Sr.

-----  
Name: David A. Bloss, Sr.  
Title: President

CIRCLE SEAL CORPORATION

By /s/ David A. Bloss, Sr.

-----  
Name: David A. Bloss, Sr.  
Title: President

GO REGULATOR, INC.

By /s/ David A. Bloss, Sr.

-----  
Name: David A. Bloss, Sr.  
Title: President

HOKE, INC.

By /s/ David A. Bloss, Sr.

-----  
Name: David A. Bloss, Sr.  
Title: President

KF INDUSTRIES, INC.

By /s/ David A. Bloss, Sr.

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Name: David A. Bloss, Sr.  
Title: President

KF SALES CORPORATION

By: /s/ David A. Bloss, Sr.

-----  
Name: David A. Bloss, Sr.  
Title: President

LESLIE CONTROLS, INC.

By: /s/ David A. Bloss, Sr.

-----  
Name: David A. Bloss, Sr.  
Title: President

SPENCE ENGINEERING COMPANY,  
INC.

By: /s/ David A. Bloss, Sr.

-----  
Name: David A. Bloss, Sr.  
Title: President

The foregoing is hereby  
agreed to as of the  
date thereof.

ALLSTATE LIFE INSURANCE COMPANY

By: /s/ Rhonda L. Hopps

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Name: Rhonda L. Hopps  
Title:

By: /s/ Patricia W. Wilson

-----  
Name: Patricia W. Wilson  
Title: Authorized Signature

ALLSTATE INSURANCE COMPANY

By: /s/ Rhonda L. Hopps

-----  
Name: Rhonda L. Hopps  
Title:

By: /s/ Patricia W. Wilson

-----  
Name: Patricia W. Wilson  
Title: Authorized Signature

MINNESOTA LIFE INSURANCE COMPANY

By: Advantus Capital Management, Inc.

By: /s/ Marilyn Froelich

-----  
Name: Marilyn Froelich  
Title: Vice President

FARM BUREAU LIFE INSURANCE COMPANY OF MICHIGAN

By: Advantus Capital Management, Inc.

By: /s/ James Tatera

-----  
Name: James Tatera  
Title: Vice President

INTER-STATE ASSURANCE COMPANY

By: Advantus Capital Management, Inc.

By: /s/ David R. Hackney

-----  
Name: David R. Hackney

Title: Vice President

UNITED MUTUAL LIFE INSURANCE COMPANY - ANNUITY PORTFOLIO

By: Advantus Capital Management, Inc.

By: /s/ Kent R. Weber

Name: Kent R. Weber

Title: Vice President

NATIONAL TRAVELERS LIFE COMPANY

By: Advantus Capital Management, Inc.

By: /s/ E.A. Bergsland

Name: E.A. Bergsland

Title: Vice President

MUTUAL TRUST LIFE INSURANCE COMPANY

By: Advantus Capital Management, Inc.

By: /s/ Lynne M. Mills

Name: Lynne M. Mills

Title: Vice President

COLUMBIAN MUTUAL LIFE INSURANCE COMPANY

By: Advantus Capital Management, Inc.

By: /s/ Sean M. O'Connell

Name: Sean M. O'Connell

Title: Vice President

FARM BUREAU GENERAL INSURANCE COMPANY OF MICHIGAN

By: Advantus Capital Management, Inc.

By: /s/ Loren Haugland

Name: Loren Haugland

Title: Vice President

MONY LIFE INSURANCE COMPANY

By: /s/ Barry J. Scheinholtz

Name: Barry J. Scheinholtz

Title: Assistant Vice President

THE GUARDIAN LIFE INSURANCE COMPANY OF AMERICA

By: /s/ Raymond J. Henry

Name: Raymond J. Henry

Title: Second Vice President

THE CANADA LIFE INSURANCE COMPANY

By: /s/ C. Paul English

Name: C. Paul English

Title: Associate Treasurer

CANADA LIFE INSURANCE COMPANY OF AMERICA

By: /s/ C. Paul English

Name: C. Paul English

Title: Assistant Treasurer



NEWS RELEASE

FOR IMMEDIATE RELEASE

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Contact:	Cosmo S. Trapani	Joe M. Grillo
	CIRCOR International, Inc.	Nicolazzo & Associates
	(781) 273-6268	(617) 951-0000

CIRCOR INTERNATIONAL, INC. (NYSE:CIR) BEGINS  
TRADING ON THE NEW YORK STOCK EXCHANGE

New Spin-Off Delivers Critical Valve Technologies to Global  
Instrumentation and Fluid Regulation and Petrochemical Markets

BURLINGTON, Mass., Tuesday, Oct. 19, 1999 - CIRCOR International, Inc, a leading global provider of valve technologies for the instrumentation and fluid regulation and petrochemical industries, today began trading its shares on The New York Stock Exchange under the symbol "CIR."

CIRCOR was spun off from Watts Industries, Inc. (NYSE:WTS). CIRCOR and its affiliates own and operate all of the businesses that previously comprised Watts' industrial, oil and gas businesses. Collectively, these businesses represent \$323 million in revenues for the fiscal year ended June 30, 1999.

Earlier today, David A. Bloss, Sr., CIRCOR Chairman, President and Chief Executive Officer, board members and other senior company executives attended special first-day-of-trading ceremonies on the floor of the Exchange. Bloss, who was previously President and Chief Operating Officer of Watts, purchased the first shares traded on the Exchange and later in the day is expected to bang the gavel to close the session.

Commenting from New York, Bloss said, "The launch of CIRCOR is an exciting opportunity to grow the global presence of our valve technology. Our vision is to offer products that assist in the world's ability to use fluids safely and efficiently in improving everyday life. We have assembled a core management team that have a proven track record to fulfill that vision and grow the company. CIRCOR products will set the standard for quality, value and mission-critical applications."

(more)

Oct. 19, 1999

In addition, CIRCOR has adopted a Shareholder Rights Plan. The Plan is designed to enhance the Board's ability to protect shareholder interests and to ensure that shareholders receive fair treatment in the event any coercive takeover attempt of CIRCOR is made in the future. The Plan is intended to provide the Board with sufficient time to consider any and all alternatives to such an action.

CIRCOR designs, manufactures and distributes a full line of products through two major product groups: Instrumentation and Fluid Regulation Group and Petrochemical Products Group. The Instrumentation and Fluid Regulation Products Group manufactures and markets valves and controls for diverse end-user applications including hydraulic, pneumatic, cryogenic and steam applications. Products include precision valves, compression tube and pipe fittings, control valves and regulators. Businesses in this unit include Aerodyne Controls, Atkomatic Valve Company, Circle Seal Controls, Inc., Go Regulator, Inc., Hoke, Inc., Leslie Controls, Inc., Nicholson Steam Trap and Spence Engineering Company.

The Petrochemical Products Group manufactures and supplies flanged and threaded floating ball valves, trunnion supported ball valves, needle valves, check valves, butterfly valves, large forged steel ball valves, gate valves and strainers for use in oil, gas and chemical processing and industrial applications. This group is one of the top producers of ball valves for the oil and gas market worldwide. Companies within this group include Contromatics Industrial Products, KF Industries, Inc., Pibiviesse S.p.A, SWVC Ltd., SSI Equipment and Telford Valve and Specialties, Inc.

CIRCOR markets its products to distributors and end-users primarily through commissioned representatives and also has a direct sales force. The company, which will have approximately 1,635 employees worldwide, has fully integrated and highly automated manufacturing capabilities and all its major facilities have acquired ISO 9000, 9001 or 9002 certification as well as American Petroleum Institute certification for petrochemical products.

CIRCOR has operations in California, Connecticut, Florida, New Hampshire, New York, Oklahoma, South Carolina and Texas; Canadian plant operations in Burlington, Ontario and Edmonton, Alberta; and overseas facilities in China and Italy.

(more)

CIRCOR International, Inc. is a leading provider of leading edge technologies that help customers around the world use fluids safely and efficiently while improving the quality of everyday life. The Company's products address mission-critical applications in the Fluid Regulation and Instrumentation and Petrochemical markets, CIRCOR is headquartered at, 35 Corporate Drive, Burlington, Mass. 01803, (781) 270-1200. The company can be found on the World Wide Web at [www.circor.com](http://www.circor.com).

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This press release contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Reliance should not be placed on forward-looking statements because they involve unknown risks, uncertainties and other factors, which are, in some cases, beyond the control of CIRCOR. Actual events, performance and results could differ materially from the anticipated events, performance or results expressed or implied by such forward-looking statements. The factors which may cause such differences include, among other things, CIRCOR's ability to complete future acquisitions and to successfully integrate future and past acquisitions; CIRCOR's ability to develop and market new products; the competitive environment; and general economic conditions. For further information, please refer to CIRCOR's filings with the Securities and Exchange Commission.

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