

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

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

OR

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

Commission File Number 001-14962

CIRCOR INTERNATIONAL, INC.
(A Delaware Corporation)

I.R.S. Identification No. 04-3477276

c/o Circor, Inc.
Suite 290
35 Corporate Drive, Burlington, MA 01803-4244
Telephone: (781) 270-1200

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, par value \$.01 per share
Preferred Stock Purchase Rights

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

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

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

Indicate by check mark whether the registrant is an accelerated filer. Yes No

The aggregate market value of voting stock held by non-affiliates of the Registrant as of June 28, 2002 was \$258,501,453.

As of February 28, 2003, there were 15,109,850 shares of the Registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates by reference certain portions of the information from the Registrant's definitive Proxy Statement for the 2003 Annual Meeting of Stockholders to be held on April 24, 2003. The definitive Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the end of 2002.

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PART I

ITEM 1. BUSINESS

This report contains certain statements that are “forward-looking statements” as that term is defined under the Private Securities Litigation Reform Act of 1995 (the “Act”) and releases issued by the Securities and Exchange Commission. The words “may,” “hope,” “will,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “potential,” “continue” and other expressions which are predictions of or indicate future events and trends and which do not relate to historical matters, identify forward-looking statements. We have used forward-looking statements in a number of parts of this report, including, without limitation, “Item 1, Our Business”, including specifically the section captioned “Our Business Objectives and Strategies”, and “Item 7, Management’s Discussion and Analysis of Financial Condition and Results of Operations.” We believe that it is important to communicate our future expectations to our stockholders, and we, therefore, make forward-looking statements in reliance upon the safe harbor provisions of the Act. However, there may be events in the future that we are not able to accurately predict or control, and our actual results may differ materially from the expectations we describe in our forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. We have included a discussion of some of these risks and uncertainties under the heading “Certain Risk Factors That May Affect Future Results.” We have discussed these risks and uncertainties in detail within this section and encourage you to read it in its entirety in order to understand the risks and uncertainties that can affect our forward-looking statements, as well as our business generally.

Available Information

We file periodic reports on Form 10-K and 10-Q with the Securities and Exchange Commission (“SEC”) on a quarterly basis and a Definitive Proxy Statement on an annual basis. These and other reports filed by us, with, or furnished to, the SEC in accordance with section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge from the SEC on their website at <http://www.sec.gov>. Additionally, our Form 10-Q and Form 10-K reports are available without charge, as soon as reasonably practicable after they have been filed with the SEC, from our website at www.circor.com by using the “Investor Relations” hyperlink.

Our History

We were established by our former parent, Watts Industries, Inc. (“Watts”), to continue to operate the former industrial, oil and gas businesses of Watts. On October 18, 1999, Watts distributed all of our outstanding common stock to Watts shareholders of record as of October 6, 1999 in a tax-free distribution. As a result, information related to historical activities of our business units also include time periods when they constituted the former industrial, oil and gas businesses of Watts. In connection with the spin-off, our common stock was listed on the NYSE under the symbol “CIR” and we entered into agreements with Watts regarding licensing and tax sharing arrangements, benefits and indemnification matters. As used in this report, the terms “we,” “us,” “our,” and “CIRCOR” mean CIRCOR International, Inc. and its subsidiaries (unless the context indicates another meaning). The term “common stock” means our common stock, par value \$0.01 per share.

Our Business

We design, manufacture and distribute a broad array of valves and related products and services to a variety of end-markets for use in a wide range of applications to optimize the efficiency and/or ensure the safety of fluid-control systems. We have a global presence and operate 17 manufacturing facilities that are located in the United States, Canada, Western Europe and the People’s Republic of China. We have two major product groups: Instrumentation and Thermal Fluid Controls Products, and Petrochemical Products. Our products are sold through more than 1,300 distributors servicing more than 11,000 customers in over 100 countries around the world. Within our major product groups, we have used both internal product development and strategic acquisitions to assemble an array of fluid-control products and technologies that enable us to address our customers’ unique fluid-control application needs.

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Instrumentation and Thermal Fluid Controls Products Group. The Instrumentation and Thermal Fluid Controls Products Group designs, manufactures and distributes valves, fittings and controls for diverse end-uses, including instrumentation, aerospace, cryogenic and steam applications. Selected products include precision valves, compression tube and pipefitting, control valves, relief valves, couplers, regulators and strainers. The Instrumentation and Thermal Fluid Controls Products Group consists primarily of the following product brand names: Aerodyne Controls; Circle Seal Controls; Leslie Controls; Nicholson Steam Trap; GO Regulator; Hoke; Spence Engineering; Atkomatic Valve; CPC-Cryolab; RTK; SART von Rohr; Rockwood Swendeman; SSI Equipment; Tomco Products and U.S. Para Plate.

The Instrumentation and Thermal Fluid Controls Products Group accounted for \$190.5 million, or 57.5%, of our net revenues for the year ended December 31, 2002.

We have had a long-standing presence in the steam application markets, starting with our 1984 acquisition of Spence Engineering Company, Inc. ("Spence Engineering" or "Spence") and our 1989 acquisitions of Leslie Controls, Inc. ("Leslie Controls") and Nicholson Steam Trap, Inc. ("Nicholson Steam Trap"). In January 1999, we acquired SSI Equipment Inc. ("SSI") and added a wide variety of strainers to expand our industrial products line. This business was originally reported within the Petrochemical Products Group. However, in March 2002, we transferred SSI to the Instrumentation and Thermal Fluid Controls Group, to better reflect the products and markets that this business serves. Prior periods have been restated and net revenues, operating income, and identifiable assets are not materially different as a result of this reclassification. In June 2001, we acquired Regeltechnik Kornwestheim GmbH and affiliates ("RTK") and Société Alsacienne Regulaves Thermiques von Rohr, S.A. ("SART"). We believe that we have a very strong franchise in steam valve products. Both Leslie Controls and Nicholson Steam Trap have been in the steam pressure reduction and control business for over 100 years. Spence Engineering has also been in these businesses for over 70 years. Due to the reputation of these businesses for reliability and quality, customers often specifically request our products by brand name. Our steam valve products are used in: municipal and institutional steam heating and air-conditioning applications; power plants; industrial and food processing; and commercial and military maritime applications.

Commencing with the 1990 acquisition of Circle Seal Controls, Inc. ("Circle Seal"), we have acquired eleven businesses that serve the instrumentation and aerospace fluid control markets. These acquisitions included Aerodyne Controls ("Aerodyne") in December 1997, Atkomatic Valve ("Atkomatic") in April 1998, Hoke, Inc ("Hoke") in July 1998, GO Regulator in April 1999, Tomco Products, Inc. ("Tomco") in October 2002 and U.S. Para Plate Corporation ("U.S. Para Plate") in October 2002. Aerodyne manufactures high-precision valve components for the medical, analytical, military and aerospace markets. Aerodyne also provides advanced technologies and control systems capabilities to other companies in the Instrumentation and Thermal Fluid Controls Products Group. Atkomatic makes heavy-duty process solenoid valves that automate the regulation and sequencing of liquid levels or volume flow. GO Regulator offers a complete line of specialized cylinder valves, customized valves and pneumatic pressure regulators for instrumentation, analytical and process applications. Tomco produces a full line of quick connect and disconnect couplers for general-purpose industrial applications and more sophisticated instrumentation markets. U.S. Para Plate develops and produces high-pressure valves and regulators for aerospace and military applications.

We significantly expanded the breadth of our instrumentation fluid control product lines with the acquisition of Hoke in July 1998. Our largest acquisition to date, Hoke provides us with a leading line of Gyrolok[®] compression tube fittings, as well as instrumentation ball valves, plug valves, metering valves and needle valves. Circle Seal and Hoke serve several common markets and we cross-market their products through their respective distribution channels. Furthermore, Hoke, with nearly 50% of its revenues derived from outside of the United States, significantly expanded our geographic marketing and distribution capabilities. We integrated the administrative and distribution activities of Circle Seal and Hoke to further reduce costs. We believe that our ability to provide various instrumentation markets with complete fluid-control solutions is enhanced by the combined product line offerings of Circle Seal, Hoke and GO Regulator.

With the acquisition of the Cryolab product line in 1995, we entered the cryogenic sector of the valve market, further enhancing our position in the instrumentation and thermal fluid controls valve business. Since then we have added Consolidated Precision Corporation ("CPC") in 1996 and the Rockwood Swendeman product line in 2000 which

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collectively gave us a broader array of valve products for demanding cryogenic applications and enabled us to expand our presence in the industrial gas markets.

Petrochemical Products Group. The Petrochemical Products Group designs, manufactures and distributes flanged-end and threaded-end floating and trunnion ball valves, needle valves, check valves, butterfly valves, large forged steel ball valves, gate valves and pipeline closures for use in oil, gas and chemical processing and industrial applications. We believe that our Petrochemical Products Group is one of the leading producers of ball valves for the oil and natural gas markets worldwide. The Petrochemical Products Group consists primarily of the following product brand names: KF Industries; KF Contromatics; Pibiviesse; KF Telford; and Suzhou KF Valve.

The Petrochemical Products Group accounted for \$140.9 million, or 42.5%, of our net revenues for the year ended December 31, 2002.

We entered the petrochemical products market in 1978 with the formation by Watts of the industrial products division and our development of a floating ball valve for industrial and chemical processing applications. With the acquisition of KF Industries, Inc. ("KF Industries") in July 1988, we expanded our product offerings to include floating and trunnion-supported ball valves and needle valves. KF Industries gave us entry into the oil and gas transmission, distribution and exploration markets. In 1989, we acquired Eagle Check Valve, which added check valves to our product line. Pibiviesse S.p.A. ("Pibiviesse"), based in Nerviano, Italy, was acquired in November 1994. Pibiviesse manufactures forged steel ball valves for the petrochemical market, including a complete range of trunnion-mounted ball valves. Pibiviesse's manufacturing capabilities include valve sizes up through 60 inches in diameter, including very high pressure ratings to meet demanding international oil and gas pipeline and production requirements. In March 1998, we acquired and added Telford Valve and Specialties, Inc. ("KF Telford") to KF Industries. KF Telford had been one of KF Industries' largest distributors and, with its acquisition, KF Industries increased its presence in Canada, as well as introduced KF Telford's products (check valves, pipeline closures, and specialty gate valves) through its worldwide representative network. KF Telford also has assumed the Canadian sales activities for other of our Petrochemical Products Group companies to strengthen our overall presence in Canada. During 1999, we consolidated the industrial products division of Watts under the KF Contromatics name into KF Industries in Oklahoma City, Oklahoma. These industrial products consist of carbon steel and stainless steel ball valves, butterfly valves and pneumatic actuators that are used in a variety of industrial, pulp, paper and chemical processing applications.

We also own 60% of Suzhou KF Valve Company, Ltd. ("Suzhou KF Valve"), a joint venture located in Suzhou, People's Republic of China. Suzhou KF Valve manufactures two inch through twelve-inch carbon and stainless steel ball valves for us and Suzhou Valve Factory, our joint venture partner. We sell products manufactured by Suzhou KF Valve to customers worldwide for oil and gas applications and outside the People's Republic of China for industrial applications. Our joint venture partner and its related entities have exclusive rights to sell Suzhou KF Valve products for all industrial (i.e., non-oil and gas) applications within the People's Republic of China and to certain customers outside the People's Republic of China for oil and gas applications.

Industry

Oil and Gas and Petrochemical Markets. The oil and gas and petrochemical markets include domestic and international oil and gas exploration and production, distribution, refining, pipeline construction and maintenance, chemical processing and general industrial applications.

Process and Power Markets. The process and power markets use valves to control steam and other fluids for a variety of applications, including: heating facilities; production of hot water and electricity; freeze protection of external piping; cleaning by laundries; food processing and cooking; and heat transfer applications using steam or hot water in industrial processes.

HVAC and Maritime Markets. The HVAC market utilizes valves and control systems, primarily in steam-related commercial and institutional heating applications. Steam control products also are used in the maritime market, which includes the U.S. Navy and commercial shipping.

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Aerospace Markets. The commercial and military aerospace markets we serve include valve applications used on military combat and transport aircraft, helicopters, missiles, tracked vehicles and ships. Our products also are used on commercial, commuter and business aircraft, space launch vehicles, space shuttles and satellites. Our products also are sold into the support infrastructure for these markets, with such diverse applications as ground support maintenance equipment. We supply products used in hydraulic, fuel, water, and air systems.

Pharmaceutical, Medical and Analytical Instrumentation Markets. The pharmaceutical industry uses products manufactured by our Instrumentation and Thermal Fluid Controls Products Group in research and development, analytical instrumentation and process measurement applications. The Instrumentation and Thermal Fluid Controls Products Group also markets its products to original equipment manufacturers of surgical and medical instruments. Representative applications include: surgical and medical instruments; orthopedic devices and surgical supplies; diagnostic reagents; electro-medical equipment; x-ray equipment; and dental equipment.

Our Business Objectives and Strategies

We are focused on providing solutions for our customers' fluid-control requirements through a broad base of products and services. We believe many of our product lines have leading positions in their niche markets. Our objective is to enhance shareholder value through profitable growth of our diversified, multi-national, fluid-control company. In order to achieve this objective, our key strategies are to:

- Continue to build market positions;
- Improve the profitability of our business;
- Expand into various fluid control industries and markets and capitalize on integration opportunities;
- Increase product offerings; and
- Expand our geographic coverage.

Overall, our growth strategies are expected to continue increasing our market positions, building our product offerings, enhancing marketing and distribution channels and providing additional opportunities to realize integration cost savings.

Products

The following table lists the principal products and markets served by each of the businesses within our two product groups. Within the majority of our product lines, we believe that we have the broadest product offerings in terms of distinct designs, sizes and configurations of our valves.

Product Families	Principal Products	Primary Markets Served
Instrumentation and Thermal Fluid Controls Products Group		
Aerodyne Controls	Pneumatic manifold switches; mercury-free motion switches; pneumatic valves; control assemblies	Aerospace; medical instrumentation; military; automotive
Circle Seal Controls	Motor operated valves; check valves; relief valves; pneumatic valves; solenoid valves; regulators	General industrial; power generation; medical; pharmaceutical; aerospace; military; natural gas vehicles
CPC, Cryolab and Rockwood Swendeman	Cryogenic control and safety relief valves; valve assemblies	Liquified industrial gases; other high purity processing
GO Regulator	Pressure reducing regulators; specialized cylinder manifolds; high pressure regulators; pneumatic pressure regulators; diaphragm valves	Analytical instrumentation; chemical processing; semiconductors

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Product Families	Principal Products	Primary Markets Served
Hoke	Compression tube fittings; pipefitting; instrument ball and needle valves; cylinders; cylinder valves; actuators	General industrial; analytical instrumentation; compressed natural gas; natural gas vehicles; chemical processing; semiconductors
Leslie Controls	Steam and water regulators; steam control valves; electric actuated shut-off valves; steam water heaters	General industrial and power; maritime; chemical processing; HVAC
Nicholson Steam Trap	Steam traps; condensate pumps; unions	HVAC; general industrial; industrial processing
RTK and SART	Control valves; regulators; actuators; and related instrumentation products	HVAC; industrial; food and beverage; pharmaceutical
Spence Engineering	Safety and relief valves; pilot operated and direct steam regulators; steam control valves	HVAC; general industrial
SSI Equipment	Specialty strainers; check valves; butterfly valves; connectors	General industrial; chemical processing; refining; power; and HVAC
Tomco Products	Quick connect and disconnect couplers	General industrial; instrumentation
U.S. Para Plate	High pressure valves and regulators	Aerospace; military; industrial wash systems
Petrochemical Products Group		
KF Contromatics	Threaded-end and flanged-end floating ball valves; butterfly valves; pneumatic and electric activators	Oil and gas; refining; general industrial; chemical processing
KF Industries	Threaded-end and flanged-end floating ball valves; actuators; pipeline closures; trunnion supported ball valves; needle valves; check valves	Oil and gas exploration; production; refining and transmission; maritime; chemical processing
Pibiviesse	Forged steel ball valves	Oil and gas exploration; production; refining and transmission
KF Telford Engineered Products	Mud valves; pipeline closures, check valves and specialty gate valves	Oil and gas exploration; production; refining and transmission
Suzhou KF Valve	Flanged and floating ball valves	Oil and gas exploration; production; refining and transmission; chemical processing

Sales and Distribution

We sell our products to distributors and end-users primarily through commissioned representatives and through our direct sales forces. Our representative networks offer technically trained sales forces with strong relationships to key markets without fixed costs to us.

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We believe that our multifaceted and well established sales and distribution channels constitute a competitive strength, providing access to all of our markets. We believe that we have good relationships with our representatives and distributors and we continue to implement marketing programs to enhance these relationships. Ongoing distribution-enhancement programs include shortening shelf stock delivery, reducing assemble-to-order lead times, introducing new products, offering competitive pricing and increasing inventory turns.

Manufacturing

We have fully-integrated and highly automated manufacturing capabilities including machining operations and assembly. Our machining operations feature computer-controlled machine tools, high-speed chucking machines and automatic screw machines for machining brass, iron and steel components. We believe that our fully-integrated manufacturing capabilities are essential in the valve industry in order to control product quality, to be responsive to customers' custom design requirements and to ensure timely delivery. Product quality and performance are a priority for our customers, especially since many of our product applications involve caustic or volatile chemicals and, in many cases, involve processes that are used in the precise control of fluids. We have implemented integrated enterprise-wide software systems at most of our major locations to make operations more efficient and to improve communications with our suppliers and customers.

We are committed to maintaining our manufacturing equipment at a level consistent with current technology in order to maintain high levels of quality and manufacturing efficiencies. As part of this commitment, we have spent a total of \$4.4 million, \$5.0 million, and \$3.7 million on capital expenditures for the years ended December 31, 2002, 2001, and 2000, respectively. Depreciation expense for these periods was \$10.3 million, \$10.0 million, and \$10.1 million, respectively.

We believe that our current facilities will meet our near-term production requirements without the need for additional facilities.

Quality Control

The majority of our products require and have been approved by applicable industry standards agencies in the United States and European markets. We have consistently advocated the development and enforcement of performance and safety standards, and are currently planning new investments and implementing additional procedures as part of our commitment to meet these standards. We maintain quality control and testing procedures at each of our manufacturing facilities in order to produce products in compliance with these standards. Additionally, most of our major manufacturing subsidiaries have acquired ISO 9000, 9001 or 9002 certification from the International Organization for Standardization and, for those in the Petrochemical Products Group, American Petroleum Institute certification.

Our products are designed, manufactured and tested to meet the requirements of various government or industry regulatory bodies. The primary industry standards that certain of our Instrumentation and Thermal Fluid Controls Products must meet include standards promulgated by: Underwriters' Laboratory; American National Standards Institute; American Society of Mechanical Engineers; U.S. Military; Federal Aviation Administration; Society of Automotive Engineers; Boeing Basic and Advanced Management System; Aerospace Quality Assurance System; the American Gas Association; the Department of Transportation; and European Pressure Equipment Directive ("PED") and Technical Inspection Association ("TÜV"). The primary industry standards required to be met by and applicable to our Petrochemical Products include: American National Standards Institute; American Society of Mechanical Engineers; American Petroleum Institute and Factory Mutual.

Product Development

We continue to develop new and innovative products to enhance our market positions. Our product development capabilities include the ability to design and manufacture custom applications to meet high tolerance or close precision requirements. For example, KF Industries has fire-safe testing capabilities, Circle Seal has the ability to meet the testing specifications of the aerospace industry and Pibiviesse can meet the tolerance requirements of sub-sea and cryogenic environments. These testing and manufacturing capabilities have enabled us to develop customer-specified applications, unique characteristics of which have been subsequently utilized in broader product offerings. Our

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research and development expenditures for the years ended December 31, 2002, 2001 and 2000, were \$2.8 million, \$2.6 million, and \$2.8 million, respectively.

Raw Materials

The raw materials used most often in our production processes are stainless steel, carbon steel, aluminum, bronze, and brass. We purchase these materials from numerous suppliers and have not historically experienced significant difficulties in obtaining these commodities in quantities sufficient for our operations. However, these materials are subject to price fluctuations that may adversely affect our results of operations. Historically, increases in the prices of raw materials have been partially offset by increased sales prices, active materials management, project engineering programs and the diversity of materials used in our production processes.

Competition

The domestic and international markets for our products are highly competitive. Some of our competitors have substantially greater financial, marketing, personnel and other resources than us. We consider product quality, performance, price, distribution capabilities and breadth of product offerings to be the primary competitive factors in these markets. We believe that new product development and product engineering are also important to our success and that our position in the industry is attributable, in significant part, to our ability to develop innovative products quickly, and to adapt and enhance existing products to specific customer applications.

The primary competitors of our Instrumentation and Thermal Fluid Controls Products Group include: Swagelok Company; Parker Hannifin Corporation; Samson AG; Spirax-Sarco Engineering plc; Flowseal (a division of Crane Co.); and Fisher (a division of Emerson Process Management).

The primary competitors of our Petrochemical Products Group include: Grove/Dresser Valve (a unit of First Reserve Corporation and Odyssey Investment Partners, LLC); Cooper Cameron Corporation; Apollo (a unit of Conbraco Industries, Inc.); Jamesbury, Inc. (a division of Metso USA which is part of the Metso Corporation); Balon; and Worcester Controls Corp. (a unit of Flowserve).

Trademarks and Patents

We own patents that are scheduled to expire between 2004 and 2021 and trademarks that can be renewed as long as we continue to use them. We do not believe the vitality and competitiveness of either of our business segments as a whole depends on any one or more patents or trademarks. We own certain licenses such as software licenses, but we also do not believe that our business as a whole depends on any one or more licenses.

Customers, Cyclicity and Seasonality

For the year ended December 31, 2002, revenues from one of our distributors in the Petrochemical Products segment amounted to \$17.6 million. No other single customer accounted for more than 10% of revenues for either the Instrumentation and Thermal Fluid Controls Products Group or the Petrochemical Products Group.

We have experienced and expect to continue to experience fluctuations in revenues and operating results due to economic and business cycles. Our businesses, particularly the Petrochemical Products Group, are cyclical in nature as the worldwide demand for oil and gas fluctuates. When the worldwide demand for oil and gas is depressed, the demand for our products used in those markets declines. Future changes in demand for petrochemical products could have a material adverse effect on our business, financial condition or results of operations. Similarly, although not to the same extent as the oil and gas markets, the aerospace, military and maritime markets have historically experienced cyclical fluctuations in demand that could also have a material adverse effect on our business, financial condition or results of operations.

Backlog

Our total order backlog was \$79.4 million as of February 24, 2003, compared to \$76.9 million as of February 24, 2002. We expect all but \$6.4 million of the backlog at February 24, 2003 will be shipped by December 31, 2003. The change in our

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backlog was primarily due to increased orders for major oil and gas projects and thermal fluid controls products and the October 2002 acquisitions of Tomco and U.S. Para Plate. These increases were partially offset by reductions to order backlog in our Oklahoma manufacturing facility for Petrochemical Products as a result of decreased oil and gas drilling in North America.

Employees

As of December 31, 2002, our worldwide operations directly employed approximately 2,000 people, including 108 employees at our Suzhou KF Valve joint venture in the People's Republic of China. We have 83 employees in the United States who are covered by a single collective bargaining agreement. We also have 137 employees in Italy, 69 employees in France and 112 employees in Germany covered by governmental regulations or workers councils. We believe that our employee relations are good at this time.

Segment and Geographic Financial Data

Financial information by segment and geographic area is incorporated herein by reference to Part II, Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and note 16 in the notes to consolidated financial statements included in this report.

Government Regulation Regarding the Environment

As a result of our manufacturing and assembly operations, our businesses are subject to federal, state, local and foreign laws, as well as other legal requirements relating to the generation, storage, transport and disposal of materials. These laws include, without limitation, the Resource Conservation and Recovery Act, the Clean Air Act, the Clean Water Act and the Comprehensive Environmental Response and Compensation and Liability Act.

We currently do not anticipate any materially adverse impact on our business, financial condition or results of operations as a result of our compliance with federal, state, local and foreign environmental laws. However, risk of environmental liability and charges associated with maintaining compliance with environmental laws is inherent in the nature of our manufacturing operations and there is no assurance that material liabilities or charges could not arise. During the year ended December 31, 2002, we capitalized \$0.1 million related to environmental and safety control facilities. We expect to capitalize \$0.2 million during the fiscal year ending December 31, 2003. We also incurred and expensed \$0.3 million of charges during the year ended December 31, 2002. We expect to incur and expense \$0.3 million in the fiscal year ending December 31, 2003.

ITEM 2. PROPERTIES

We maintain 18 major facilities worldwide, including 17 manufacturing operations located in the United States, Canada, Western Europe and the People's Republic of China. Many of these facilities contain sales offices or warehouses from which we ship finished goods to customers, distributors and commissioned representative organizations. Our executive office is located in Burlington, Massachusetts.

The Instrumentation and Thermal Fluid Controls Products Group has facilities located in the United States, Canada, Germany, France, and the United Kingdom. Properties in Ronkonkoma, New York; Berlin, Connecticut; Spartanburg, South Carolina; and Auburn, California are leased. The Petrochemical Products Group has facilities located in the United States, Canada, Italy and the People's Republic of China. Properties in Nerviano, Italy; Naviglio, Italy; Edmonton, Canada; a distribution center in Oklahoma City, Oklahoma; and Suzhou, People's Republic of China are leased. Certain of our facilities are subject to mortgages and collateral assignments under loan agreements with long-term lenders.

In general, we believe that our properties, including machinery, tools and equipment, are in good condition, are well maintained, and are adequate and suitable for their intended uses. Our manufacturing facilities generally operate five days per week on one or two shifts. We believe our manufacturing capacity could be increased by working additional shifts and weekends. This utilization is subject to change as a result of increases or decreases in orders.

ITEM 3. LEGAL PROCEEDINGS

We, like other worldwide manufacturing companies, are subject to a variety of potential liabilities connected with our business operations, including potential liabilities and expenses associated with possible product defects or failures and compliance with environmental laws. We maintain \$5.0 million in aggregate product liability insurance and \$75.0 million under an excess umbrella liability insurance policy. We also maintain a separate product liability policy with aggregate limits of \$200.0 million for the aviation products produced by our worldwide operations.

We believe this coverage to be consistent with industry practices. Nonetheless, such insurance coverage may not be adequate to protect us fully against substantial damage claims, which may arise from product defects and failures or from environmental liability.

Like many other manufacturers of fluid control products, we have been named as defendants in a growing number of product liability actions brought on behalf of individuals who seek compensation for their alleged exposure to airborne asbestos fibers. In particular, Leslie, Spence, and Hoke, all subsidiaries of CIRCOR, collectively have been named as defendants or third-party defendants in asbestos related claims brought on behalf of approximately 14,000 plaintiffs against anywhere from 50 to 400 defendants. In some instances, CIRCOR also has been named as successor in interest to one or more of these subsidiaries. These cases have been brought in state courts in California, Connecticut, Maryland, Michigan, Mississippi, New Jersey and New York, with the vast majority of claimants having brought their claims in Mississippi. The cases brought on behalf of the vast majority of claimants seek unspecified compensatory and punitive damages against all defendants in the aggregate. However, with respect to the complaints filed on behalf of approximately 121 plaintiffs in New York, each plaintiff seeks \$5.0 million compensatory damages and \$5.0 million punitive damages against the aggregate of defendants under each of six causes of action. Similarly, with respect to the complaints filed in California on behalf of eleven claimants, each plaintiff seeks approximately \$400,000 compensatory damages and \$2.5 million punitive damages against the aggregate of defendants. And, with respect to approximately 1,384 claimants in Mississippi, each such claimant seeks approximately \$5.0 million compensatory damages and \$50.0 million punitive damages against the aggregate of defendants.

Any components containing asbestos formerly used in Leslie, Spence and Hoke products were entirely internal to the product and, we believe, would not give rise to ambient asbestos dust during normal operation. As such, we believe that we have minimal, if any, liability with respect to the vast majority of these cases and that these cases, in the aggregate, will not have a material adverse effect on our financial condition, results of operations or cash flows. However, due to the nature and number of variables associated with asbestos related claims, such as the rate at which new claims may be filed; the availability of insurance policies to continue to recover certain of our costs relating to the defense and payment of these claims; the impact of bankruptcies of other companies currently or historically defending asbestos claims, including our co-defendants; the uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case; the impact of potential changes in legislative or judicial standards; the type and severity of the disease alleged to be suffered by each claimant; and increases in the expense of medical treatment, we are unable to reliably estimate the ultimate costs to us of these claims.

As we previously have disclosed, we learned on July 12, 2000 that the United States Customs Service ("Customs") had commenced an investigation to determine whether our subsidiary KF Industries, Inc. ("KF") was then in compliance with country of origin marking requirements on those valves that KF imports from sources in the People's Republic of China including our joint venture there. We believe that Customs is concluding its investigation and are hopeful that we will be able to achieve resolution of this matter in the near future. In this regard, although we continue to believe that any such resolution will not result in any material financial impact, we cannot provide any assurances regarding the timing or nature of such a resolution. Moreover, if the investigation were to prove that violations of the Customs laws occurred, KF could be subjected to civil fines, forfeitures and (if such violations were determined to be intentional) criminal penalties, which could be material.

We are currently a party to or otherwise involved in various administrative or legal proceedings under federal, state or local environmental laws or regulations involving a number of sites, in some cases as a participant in a group of potentially responsible parties, referred to as PRPs. Two of these sites, the Sharkey and Combe Landfills in New Jersey, are listed on the National Priorities List. With respect to the Sharkey Landfill in New Jersey, we have been allocated

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0.75% of the remediation costs, an amount that is not material to us. With respect to the Combe Landfill, we have settled both the Federal Government's claim and the State of New Jersey's claim for an amount that is immaterial to us. Moreover, our insurers have covered defense and settlement costs to date with respect to the Sharkey and Combe Landfills. In addition, we have also been named as a PRP with respect to the Solvent Recovery Service of New England site and the Old Southington landfill site, both in Connecticut. These sites are also on the National Priorities List but, with respect to both sites, we have the right to indemnification from the prior owners of the affected subsidiaries. We also have been identified as a PRP with respect to the Lightman Drum Company site in New Jersey and, in this matter, we also have the right to indemnification from the former owners of the affected subsidiary. Based on currently available information, we believe that any share of clean-up costs at these sites attributable to us will not be material, particularly given our indemnification rights against the respective former owners.

We have reviewed all of our pending judicial and legal proceedings, reasonably anticipated costs and expenses in connection with such proceedings, and availability and limits of our insurance coverage, and we have established reserves that we believe are appropriate in light of those outcomes that we believe are probable and estimable at this time.

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

There were no matters submitted during the fourth quarter of the fiscal year covered by this report to a vote of security holders through solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

Our common stock is traded on the New York Stock Exchange under the symbol "CIR". Quarterly share prices and dividends declared and paid are incorporated herein by reference to note 17 to the consolidated financial statements included in this report.

During the first quarter of 2003, we also declared a dividend of \$0.0375 per outstanding common share payable on March 17, 2003 to shareholders of record on March 3, 2003.

Our board of directors is responsible for determining our dividend policy. Although we currently intend to continue paying cash dividends, the timing and level of such dividends will necessarily depend on our board of directors' assessments of earnings, financial condition, capital requirements and other factors, including restrictions, if any, imposed by our lenders.

As of February 28, 2003, there were 15,109,850 shares of our common stock outstanding and we had approximately 123 holders of record of our common stock. We believe the number of beneficial owners of our common stock was substantially greater on that date.

The following table provides information as of December 31, 2002 regarding our shares of common stock that may be issued under our existing equity compensation plans, including the 1999 Stock Option and Incentive Plan (the "1999 Stock Plan"), and the Management Stock Purchase Plan, which is a component of the 1999 Stock Plan. The table sets forth the total number of shares of our common stock issuable upon the exercise of assumed options as of December 31, 2002, and the weighted average exercise price of these options:

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted Average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plan (excluding securities referenced in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	1,398,369 (1)	\$ 12.16 (2)	519,461
Equity compensation plans not approved by security holders	—	—	—
Total	1,398,369	\$ 12.16	519,461

- (1) Does not include 336,407 options with a weighted average exercise price of \$11.44, which were issued at the time of our spin-off from Watts to replace options previously granted by Watts to individuals who became our employees.
- (2) Does not include information about outstanding Restricted Stock Units under the 1999 Plan because such units do not have an exercise price. Subject to vesting and service requirements, Restricted Stock Units will convert to common stock on a one-for-one basis. See note 11 to the consolidated financial statements for further information concerning our 1999 Stock Plan in general and restricted stock units in particular.

Use of Proceeds From Registered Securities

On March 16, 2001, we sold 1,552,500 shares of our common stock in a public offering at a price of \$13.25 per share pursuant to a Registration Statement on Form S-3 (the "Registration Statement") (Registration No. 333-54428), which was declared effective by the Securities and Exchange Commission on March 15, 2001. The managing underwriters of the offering were Robert W. Baird & Co. Incorporated and ING Barings LLC. Our aggregate proceeds from the offering were approximately \$18.7 million reflecting gross proceeds of \$20.6 million net of underwriting fees of approximately \$1.3 million and other offering costs of approximately \$0.6 million. None of the proceeds of the offering were paid by us, directly or indirectly, to any of our directors, officers or general partners or any of their associates, to any persons owning ten percent or more of our outstanding stock, or to any of our affiliates, except for payments made to Goodwin Procter LLP, the Boston, Massachusetts law firm that represented us in connection with the Registration Statement. David F. Dietz, a director and officer of our company, is the sole owner of David F. Dietz, P.C, a partner of Goodwin Procter LLP. The net proceeds from the offering were used consistent with the use of proceeds described in our registration statement and were disbursed through the quarter ended September 30, 2002. We immediately used \$2.0 million of the \$18.7 million in net proceeds received to reduce the balance owed on our unsecured revolving credit facility to zero. During June 2001, we acquired 100% of SART and 75% of RTK. During March 2002, we acquired the remaining 25% minority interest in RTK. In the course of acquiring these companies, we utilized \$12.6 million of the proceeds to purchase these businesses and retire a portion of assumed debt. During the second quarter of 2002, we used \$2.5 million of the proceeds for: \$1.1 million related to our capital expenditure program, \$0.9 million for scheduled debt reduction payments and \$0.5 million for dividends paid to our common shareholders. During the third quarter of 2002, we used \$1.6 million for scheduled debt reductions.

ITEM 6. SELECTED FINANCIAL DATA

The following table presents certain selected financial data that has been derived from our audited consolidated financial statements and notes related thereto and should be read along with the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations" and our audited consolidated financial statements and notes included in this report.

The consolidated statements of operations and consolidated statements of cash flows data for the years ended December 31, 2002, 2001 and 2000, and the consolidated balance sheet data as of December 31, 2002 and 2001 are

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derived from, and should be read in conjunction with, our audited consolidated financial statements and the related notes included in this report. The consolidated statements of operations and consolidated statements of cash flows data for the six months ended December 31, 1999 and fiscal years ended June 30, 1999 and 1998, and the consolidated balance sheet data as of December 31, 2000 and 1999 and as of June 30, 1999 and June 30, 1998, are derived from our audited consolidated financial statements not included in this report.

The selected, unaudited pro forma financial data for 1999 included in the following table are derived from the respective audited and unaudited consolidated financial statements for those years. The pro forma presentation for 1999 includes estimated additional administrative expense that would have been incurred by CIRCOR as a publicly owned, independent company. In addition, estimated incremental interest expense for estimated outstanding borrowings under the CIRCOR and other credit facilities is provided.

SELECTED FINANCIAL DATA
(In thousands, except per share data)

	Years Ended December 31,				Six Months Ended December 31,		Fiscal Years Ended June 30,			
	2002(1)	2001(1)	2000(1)	Pro Forma 1999(1)(2)	1999(1)	Pro Forma 1999(1)(2)	1999(1)	Pro Forma 1999(2)	1999	1998
			(unaudited)	(unaudited)	(unaudited)			(unaudited)		
Statement of Operations Data:										
Net revenues	\$ 331,448	\$ 343,083	\$ 316,863	\$ 314,726	\$ 314,726	\$ 157,265	\$ 157,265	\$ 324,258	\$ 324,258	\$ 291,580
Gross profit	98,285	103,477	95,791	100,496	100,496	48,652	48,652	103,646	103,646	93,428
Goodwill amortization expense	–	2,737	2,528	2,662	2,662	1,422	1,422	2,779	2,779	994
Operating income	30,374	33,617	27,636	27,627	27,815	13,785	13,846	29,297	29,550	38,191
Income before interest and taxes	31,060	33,096	26,876	17,059	18,152	13,325	13,386	29,526	29,779	38,497
Net income	15,577	15,596	10,560	9,894	10,550	4,650	4,880	11,736	12,510	22,425
Balance Sheet Data:										
Total assets	\$ 390,734	\$ 386,121	\$ 347,062	\$ 367,085	\$ 367,085	\$ 367,085	\$ 367,085	\$ 362,370	\$ 359,043	\$ 256,914
Total debt(3)	77,990	97,662	91,533	125,127	125,127	125,127	125,127	116,248	26,582	15,753
Shareholders' equity	243,659	222,440	191,181	183,409	183,409	183,409	183,409	169,590	259,256	168,656
Total capitalization	321,649	320,102	282,714	308,536	308,536	308,536	308,536	285,838	285,838	184,409
Other Financial Data:										
Cash flow provided by (used in):										
Operating activities	\$ 24,925	\$ 44,847	\$ 31,700	\$ (519)	\$ 137	\$ (15,059)	\$ (14,829)	\$ 19,754	\$ 20,528	\$ 21,075
Investing activities	(23,241)	(14,501)	5,827	(21,762)	(21,762)	(5,171)	(5,171)	(82,704)	(82,704)	(29,197)
Financing activities	(20,504)	18,618	(34,683)	24,245	23,589	18,666	18,436	63,719	62,945	11,633
Net interest expense	6,721	7,102	9,276	9,823	8,918	4,864	4,542	9,845	8,808	3,471
Capital expenditures	4,418	4,950	3,743	11,984	11,984	4,557	4,557	9,499	9,499	6,115
Diluted earnings per common share(4)	\$ 1.00	\$ 1.04	\$ 0.78	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Diluted weighted average common shares										
Outstanding(4)	15,610	15,023	13,480	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Cash dividends declared per common share	\$ 0.15	\$ 0.15	\$ 0.1125	\$ –	\$ –	\$ –	\$ –	n/a	n/a	n/a

Notes:

- (1) The statement of operations data for the years ended December 31, 2002, 2001, 2000 and 1999 and the six months ended December 31, 1999 includes, respectively, \$0.7 million, \$0.2 million, \$1.9 million, \$0.7 million and \$0.7 million of special charges associated with the closure, consolidation and reorganization of certain manufacturing plants.
- (2) As adjusted for the spin-off for: the assumption by CIRCOR of selected indebtedness from Watts; our credit facility and the placement of \$75.0 million of senior unsecured notes.
- (3) Includes capitalized leases of: \$0.1 million; \$0.6 million; and \$4.1 million as of December 31, 2000 and 1999 and June 30, 1999, respectively.
- (4) Diluted earnings per common share and diluted weighted average common shares outstanding are applicable only for quarterly and annual periods ended after December 31, 1999, since we were not a publicly-owned company with a capital structure of our own until after the October 18, 1999 spin-off.

n/a Not applicable

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

This report contains certain statements that are "forward-looking statements" as that term is defined under the Private Securities Litigation Reform Act of 1995 (the "Act") and releases issued by the Securities and Exchange Commission. The words "may," "hope," "will," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," "potential," "continue," and other expressions which are predictions of or indicate future events and trends and which do not relate to historical matters, identify forward-looking statements. We believe that it is important to communicate our future expectations to our stockholders, and we, therefore, make forward-looking statements in reliance upon the safe harbor provisions of the Act. However, there may be events in the future that we are not able to accurately predict or control, and our actual results may differ materially from the expectations we describe in our forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements to differ materially from anticipated future results, performance or achievements expressed or implied by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, the cyclical and highly competitive nature of some of our end markets which can affect the overall demand for and pricing of our products, changes in the price of and demand for oil and gas in both domestic and international markets, variability of raw material and component pricing, fluctuations in foreign currency exchange rates, our ability to continue operating our manufacturing facilities at efficient levels and to successfully implement our acquisition strategy, and the uncertain continuing impact on economic and financial conditions in the United States and around the world as a result of the September 11th terrorist attacks and related matters and current tensions in Iraq and throughout the Middle East. We advise you to read further about certain of these and other risk factors set forth under the caption "Certain Risk Factors That May Affect Future Results". We undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Basis of Presentation

All significant intercompany balances and transactions have been eliminated in consolidation. Certain prior period financial statement amounts have been reclassified to conform to currently reported presentations. We monitor our business in two segments: Instrumentation and Thermal Fluid Controls, and Petrochemical Products.

In March 2002, we transferred SSI from the Petrochemical Products segment to the Instrumentation and Thermal Fluid Controls Products segment. We believe that this change better reflects the products and markets that SSI serves. Prior periods have been restated to reflect this transfer and net revenues, operating income and identifiable assets are not materially different with this reclassification.

Critical Accounting Policies

The following discussion of accounting policies is intended to supplement the section "Summary of Significant Accounting Policies" presented in note 2 to our consolidated financial statements. These policies were selected because they are broadly applicable within our operating units. The expenses and accrued liabilities or allowances related to certain of these policies are initially based on our best estimates at the time of original entry in our accounting records. Adjustments are recorded when our actual experience, or new information concerning our expected experience, differs from underlying initial estimates. These adjustments could be material if our actual or expected experience were to change significantly in a short period of time. We make frequent comparisons of actual experience and expected experience in order to mitigate the likelihood of material adjustments.

Revenue Recognition and Allowance for Sales Returns

Revenue is recognized when products are shipped and title has passed to the customer provided that no significant post-delivery obligations remain and collection of the resulting receivable is reasonably assured. Allowances for sales returns are recorded as a reduction of revenues based upon historical experience, return policies and contractual product return rights granted to customers. Adjustments to the allowance account are made as new information becomes available. Shipping and handling costs invoiced to customers are recorded as components of revenues and the associated costs are recorded as cost of sales.

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Allowance for Doubtful Accounts

We estimate the collectibility of our accounts receivable and the amount of bad debts that may be incurred in the future. We analyze specific customer accounts, historical experience, customer concentrations and relationships, credit ratings, and current economic trends when evaluating the adequacy of our allowance for doubtful accounts.

Inventories

Inventories are recorded at the lower of cost or market value. Cost is generally determined on the first-in, first-out ("FIFO") basis. Where appropriate, standard cost systems are utilized for purposes of determining cost; the standards are adjusted as necessary to ensure they approximate actual costs. Estimates of the lower of cost or market value of inventory are determined at the operating unit level and are evaluated periodically. Estimates for obsolescence or unmarketable inventory are maintained based on current economic conditions, historical sales quantities and patterns and, in some cases, the specific risk of loss on specifically identified inventories. Such inventories are recorded at estimated realizable value net of the costs of disposal.

Impairment of Long-Lived Assets

Effective January 1, 2002, we adopted Financial Accounting Standards Board ("FASB") Statement No. 142, "Goodwill and Other Intangible Assets," ("Statement No. 142"), and as a result we no longer amortize goodwill. Statement No. 142 requires that a transitional impairment evaluation of goodwill and indefinite-lived intangible assets be completed within six months of the date of adoption and then at least on an annual basis thereafter. During the first half of 2002, we completed our transitional impairment review and determined that there were no impairment losses related to goodwill and intangibles. During the fourth quarter of 2002, we completed our annual impairment evaluation of goodwill and indefinite-lived intangible assets and again determined that there were no impairment losses. In assessing the fair value of goodwill and indefinite-lived intangible assets, projections regarding future cash flows and other factors are made to determine the fair value of the respective assets. If these estimates or related projections change in the future, we may be required to record impairment charges.

Other long-lived assets include property, plant, and equipment and intangibles with definite lives. We perform impairment analyses of our other long-lived assets whenever events and circumstances indicate that they may be impaired. When the undiscounted future cash flows are expected to be less than the carrying value of the assets being reviewed for impairment, the assets are written down to fair market value.

Taxes

Significant management judgment is required in determining our provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against deferred tax assets. We have recorded a valuation allowance of \$0.7 million as of December 31, 2002, due to uncertainties related to our ability to utilize deferred tax assets, primarily consisting of certain state net operating losses and state tax credits carried forward. The valuation allowance is based on estimates of taxable income in each of the jurisdictions in which we operate and the period over which our deferred tax assets will be recoverable.

Other Reserves

We establish reserves for other exposures, such as environmental claims, product liability and litigation costs. Establishing loss reserves for these matters requires the use of estimates and judgment in regards to risk exposure and ultimate liability. We estimate such losses using consistent and appropriate methods; however, changes to our assumptions could materially affect our recorded liabilities for loss.

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Year Ended December 31, 2002 Compared to the Year Ended December 31, 2001

The following tables set forth the results of operations, percentage of net revenues and the yearly percentage change in certain financial data for the years ended December 31, 2002 and 2001 (In thousands):

	Year Ended December 31,				% Change
	2002		2001		
Net revenues	\$ 331,448	100.0%	\$ 343,083	100.0%	(3.4)%
Cost of revenues	233,163	70.3	239,606	69.8	(2.7)
Gross profit	98,285	29.7	103,477	30.2	(5.0)
Selling, general and administrative expenses	67,166	20.3	66,919	19.5	0.4
Goodwill amortization expense	–	–	2,737	0.8	(100.0)
Special charges	745	0.2	204	0.1	265.2
Operating income	30,374	9.2	33,617	9.8	(9.6)
Other expense:					
Interest expense, net	6,721	2.1	7,102	2.1	(5.4)
Other (income) expense, net	(686)	(0.2)	521	0.1	(231.7)
Income before income taxes	24,339	7.3	25,994	7.6	(6.4)
Provision for income taxes	8,762	2.6	10,398	3.1	(15.7)
Net income	\$ 15,577	4.7%	\$ 15,596	4.5%	(0.1)%

Net revenues for the year ended December 31, 2002 decreased by approximately \$11.7 million, or 3.4%, to \$331.4 million compared to \$343.1 million for the year ended December 31, 2001. The decrease in net revenues for the year ended December 31, 2002 was attributable to the following (In thousands):

Segment	2002	2001	Total Change	Acquisitions	Operations	Foreign Exchange
Instrumentation & Thermal Fluid Controls	\$190,524	\$193,297	\$ (2,773)	\$ 10,518	\$ (15,325)	\$ 2,034
Petrochemical	140,924	149,786	(8,862)	–	(11,574)	2,712
Total	\$331,448	\$343,083	\$ (11,635)	\$ 10,518	\$ (26,899)	\$ 4,746

The Instrumentation and Thermal Fluid Controls Products segment accounted for 57.5% of net revenues for the year ended December 31, 2002 compared to 56.3% for the year ended December 31, 2001. The Petrochemical Products segment accounted for 42.5% of net revenues for the year ended December 31, 2002 compared to 43.7% for the year ended December 31, 2001.

Instrumentation and Thermal Fluid Controls Product revenues decreased \$2.8 million, or 1.4%, for the year ended December 31, 2002. Product revenues from general industrial markets decreased \$17.5 million, primarily due to reduced sales volume caused by weak economic conditions in chemical processing, power generation, commercial aerospace and other general industrial instrumentation markets. Steam and HVAC markets improved later in the year with increased sales of \$2.2 million over the prior year. Incremental revenue of \$10.5 million provided from the June 2001 acquisitions of RTK and SART and the October 2002 acquisitions of Tomco and U.S. Para Plate and a \$2.0 million increase in revenues resulting from changes in exchange rates affecting our European business units also partially offset revenue decreases in other markets. Petrochemical Products revenues decreased by \$8.9 million, or 5.9%. Revenues from our North American operations decreased by \$19.2 million, principally due to reduced oil and gas drilling and production activity and the short cycle maintenance, repair and overhaul (“MRO”) business, and to a lesser extent, economic weakness in chemical processing and general industrial markets. Revenues generated in the People’s Republic of China decreased by \$1.2 million. These decreases in revenue were partially offset by a \$8.8 million increase in revenues from our Italian subsidiary, resulting from higher volume shipments of product for large international oil and gas projects; and a \$2.7 million increase in revenues resulting from changes in exchange rates which affected our Canadian and Italian operations.

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Gross profit decreased \$5.2 million, or 5.0%, to \$98.3 million for the year ended December 31, 2002 compared to \$103.5 million for the year ended December 31, 2001. Gross margin decreased to 29.7% for the year ended December 31, 2002 compared to 30.2% for the year ended December 31, 2001. Gross profit for the Instrumentation and Thermal Fluid Controls Products segment decreased \$4.9 million. The net decrease consisted of a \$9.2 million gross profit reduction from operations, partially offset by the incremental \$3.7 million of gross profit from the June 2001 acquisitions of RTK and SART and the October 2002 acquisitions of Tomco and U.S. Para Plate, and a \$0.6 million increase resulting from changes in foreign exchange rates affecting our European business units. Gross profit and gross margin decreased due to soft end-market conditions and reduced sales volume, a lower proportion of higher margin commercial aerospace and general industrial market products, a higher proportion of lower margin project order shipments, unabsorbed manufacturing costs that could not be fully avoided as orders declined and increased current year insurance costs. Gross profit for the Petrochemical Products segment decreased \$0.3 million for the year ended December 31, 2002 compared to the year ended December 31, 2001. The net gross profit decrease consisted of a reduction of \$0.9 million in North America caused by lower product sales volume for higher margin maintenance and repair orders, competitive price reductions and higher insurance costs, partially offset by an increase in the volume, pricing and margin for large international oil and gas projects, certain manufacturing and operating cost reductions and favorable foreign exchange rate changes of \$0.6 million.

Selling, general and administrative expenses increased \$0.2 million, or 0.4%, to \$67.2 million for the year ended December 31, 2002 compared with \$66.9 million for the year ended December 31, 2001. Selling, general and administrative expenses for the Instrumentation and Thermal Fluid Controls Products segment increased by approximately \$0.9 million. The net increase was principally the result of: \$2.2 million of additional expenses related to the June 2001 acquisitions of RTK and SART and the October 2002 acquisitions of Tomco and U.S. Para Plate; a \$0.4 million increase due to foreign exchange rate changes; offset by a \$1.7 million reduction realized through lower spending for variable general and administrative and compensation expenses on lower staffing levels, partially offset by higher insurance costs. Selling, general and administrative expenses for the Petrochemical Products segment decreased \$0.7 million due to \$1.0 million of lower variable selling and compensation expenses; partially offset by a \$0.3 million increase due to foreign exchange rate changes. Significant expense reductions realized in our North American operations were partially offset by the higher costs in our Italian operation as a result of increased sales activity. Corporate general and administrative expenses increased less than \$0.1 million, as a result of higher corporate development, insurance costs, and legal and professional fees, partially offset by lower variable compensation and fringe benefit costs.

Goodwill amortization expense was not recorded for the year ended December 31, 2002 compared with \$2.7 million for the year ended December 31, 2001. Goodwill amortization expense for the year ended December 31, 2001 consisted of \$2.3 million for the Instrumentation and Thermal Fluid Controls Products segment and \$0.4 million for the Petrochemical Products segment. On January 1, 2002, we adopted Statement No. 142 that requires goodwill no longer be amortized. See note 2 to the consolidated financial statements for further information on our adoption of Statement No. 142.

Special charges of \$0.7 million and \$0.2 million were incurred in the Petrochemical Products segment for the years ended December 31, 2002 and 2001, respectively. These charges were associated with the closure, consolidation and reorganization of certain North American manufacturing operations. Special charges incurred during 2002 consisted of \$0.3 million of manufacturing equipment write-offs, \$0.2 million of severance costs for 16 employees and \$0.2 million of exit costs principally related to leased facilities that were closed. Special charges incurred during 2001 consisted of \$0.1 million of severance and \$0.1 million of exit costs. Special charges were expensed in the periods incurred. The accrued liability for severance and exit costs to be paid subsequent to December 31, 2002 is less than \$0.1 million.

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The change in operating income for the year ended December 31, 2002 compared to the year ended December 31, 2001 was as follows (In thousands):

<u>Segment</u>	<u>2002</u>	<u>2001</u>	<u>Total Change</u>	<u>Acquisitions</u>	<u>Operations</u>	<u>Foreign Exchange</u>
Instrumentation & Thermal Fluid Controls	\$28,614	\$32,158	\$ (3,544)	\$ 1,425	\$ (5,132)	\$ 163
Petrochemical	9,480	9,194	286	–	(71)	357
Corporate	(7,720)	(7,735)	15	–	15	–
Total	\$30,374	\$33,617	\$ (3,243)	\$ 1,425	\$ (5,188)	\$ 520

Operating income decreased \$3.2 million, or 9.6%, to \$30.4 million for the year ended December 31, 2002 compared to \$33.6 million for the year ended December 31, 2001. Operating income for the Instrumentation and Thermal Fluid Controls Products segment declined \$3.5 million, or 11.0%, for the year ended December 31, 2002 compared to the year ended December 31, 2001. Operating income for this segment was affected by a \$7.4 million decrease primarily from: lower sales volume; reduced sales of higher margin products; unabsorbed manufacturing costs in high volume manufacturing operations and higher insurance costs, partially offset by reductions in variable general and administrative and compensation expenses and lower staffing levels. This operating income decrease was partially offset by the \$2.3 million from the discontinuation of amortizing goodwill, the \$1.4 million contributed by the June 2001 acquisitions of RTK and SART and the October 2002 acquisitions of Tomco and U.S. Para Plate, and \$0.2 million from changes in foreign exchange rates. Operating income for the Petrochemical Products segment increased \$0.3 million, or 3.1%, for the year ended December 31, 2002 compared to the year ended December 31, 2001. The increase in the operating income for this segment consisted of: an increase of \$0.4 million due to the discontinuation of amortizing goodwill; a net increase of \$0.1 million from operating activities; a \$0.3 million increase due to favorable foreign exchange rate changes, partially offset by a \$0.5 million increase in special charges. The net \$0.1 million increase from operating activities primarily was the result of: higher revenues and the resulting gross profits generated from large international oil and gas projects, and lower variable selling expenses; partially offset by a reduction in sales attributable to weaker MRO demand in oil and gas markets; domestic price reductions in the second, third, and fourth quarters; and increased insurance costs.

Net interest expense decreased approximately \$0.4 million to \$6.7 million for the year ended December 31, 2002 compared to \$7.1 million for the year ended December 31, 2001. The decrease is primarily related to the \$15.0 million principal payment of our senior notes, the \$4.6 million reduction of debt assumed from prior years acquisitions and from lower average interest rates on variable rate debt. Interest income on invested balances remained unchanged despite higher average cash balances during 2002 as a result of lower interest rates in 2002.

Net other (income) expense decreased \$1.2 million from a net \$0.5 million expense for the year ended December 31, 2001 to a net (\$0.7) million income for the year ended December 31, 2002. The decrease is primarily attributable to a \$1.1 million increase in favorable foreign exchange income, a \$0.4 million reduction in minority interest expense resulting from reduced profitability of our Chinese joint venture, partially offset by \$0.1 million higher losses on the disposal of capital equipment, \$0.1 million in fees incurred for the early extinguishments of debt and a \$0.1 million reduction in nonoperating municipal grant income.

The effective tax rate decreased to 36.0% for the year ended December 31, 2002 compared to 40.0% for the year ended December 31, 2001. The decrease in the tax rate is primarily the result of the elimination of goodwill amortization expense in accordance with Statement No. 142, which was not deductible for income tax purposes. Additionally, the implementation of various tax strategies at the beginning of 2002 provided a modest rate reduction benefit.

Net income decreased less than \$0.1 million, or 0.1%, to \$15.6 million for the year ended December 31, 2002 compared to \$15.6 million for the year ended December 31, 2001. The net decrease is the result of reduced gross profit on lower current year revenue, additional insurance expenses, and higher special charges in the current year, offset by the elimination of goodwill amortization expense, improved operating results within the Petrochemical Products segment, lower non-operating expenses, and reduced net interest expenses, as discussed above.

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Year Ended December 31, 2001 Compared to the Year Ended December 31, 2000

The following tables set forth the results of operations, percentage of net revenues and the yearly percentage change in certain financial data for the years ended December 31, 2001 and 2000 (In thousands):

	Year Ended December 31,				% Change
	2001		2000		
Net revenues	\$ 343,083	100.0%	\$ 316,863	100.0%	8.3%
Cost of revenues	239,606	69.8	221,072	69.8	8.4
Gross profit	103,477	30.2	95,791	30.2	8.0
Selling, general and administrative expenses	66,919	19.5	63,718	20.1	5.0
Goodwill amortization expense	2,737	0.8	2,528	0.8	8.3
Special charges	204	0.1	1,909	0.6	(89.3)
Operating income	33,617	9.8	27,636	8.7	21.6
Other expense:					
Interest expense, net	7,102	2.1	9,276	2.9	(23.4)
Other expense, net	521	0.1	760	0.2	(31.4)
Income before income taxes	25,994	7.6	17,600	5.6	47.7
Provision for income taxes	10,398	3.1	7,040	2.3	47.7
Net income	\$ 15,596	4.5%	\$ 10,560	3.3%	47.7%

Net revenues for the year ended December 31, 2001 increased by \$26.2 million, or 8.3%, to \$343.1 million compared to \$316.9 million for the year ended December 31, 2000. The increase in net revenues for the year ended December 31, 2001 was attributable to the following (In thousands):

Segment	2001	2000	Total Change	Acquisitions	Operations	Foreign Exchange
Instrumentation & Thermal Fluid Controls	\$193,297	\$183,524	\$ 9,773	\$ 9,911	\$ 1,331	\$ (1,469)
Petrochemical	149,786	133,339	16,447	-	19,150	(2,703)
Total	\$343,083	\$316,863	\$26,220	\$ 9,911	\$ 20,481	\$ (4,172)

The Instrumentation and Thermal Fluid Controls Products segment accounted for 56.3% of net revenues for the year ended December 31, 2001 compared to 57.9% for the year ended December 31, 2000. The Petrochemical Products segment accounted for 43.7% of net revenues for the year ended December 31, 2001 compared to 42.1% for the year ended December 31, 2000.

Instrumentation and Thermal Fluid Controls Product revenues increased \$9.8 million, or 5.3%, for the year ended December 31, 2001. Revenue increases were due to: \$9.9 million of incremental revenue from the Rockwood Swendeman product line, purchased in November 2000, and from the RTK and SART companies acquired at the end of June 2001; a \$4.0 million net increase in thermal fluid controls revenues resulting from general year-over-year demand and increased shipments of marine and industrial steam trap applications offset by reduced revenues for commercial and other industrial applications; and a \$3.5 million increase in revenues from European power and power generation, medical and general instrumentation markets, primarily due to increased sales penetration and higher volume sales. These increases were partially offset by a \$6.2 million decrease in North American and Asian demand for products in our instrumentation applications, principally the result of lower demand in the chemical processing, semi-conductor manufacturing and general industrial markets; and a \$1.4 million reduction resulting from changes in exchange rates affecting our Canadian and European business units. Revenues from aerospace customers were relatively unchanged as gains early in the year were offset by a reduction in revenues following the September 11th terrorist attacks. The \$16.4 million increase in Petrochemical Products revenues for the year ended December 31, 2001, or 12.3%, was the result of: \$9.4 million in higher North American revenues related to increased customer spending on maintenance and repair and increased capital project spending in both the oil and gas markets; a \$9.1 million increase in revenues from

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our Italian based operation due to higher shipments of products for large international oil and gas construction projects; and a \$0.6 million increase in revenues from Chinese customers. These increases were partially offset by a \$2.7 million decrease resulting from changes in exchange rates that affected our Canadian and Italian-based operations.

Gross profit increased \$7.7 million, or 8.0%, to \$103.5 million for the year ended December 31, 2001 compared to \$95.8 million for the year ended December 31, 2000. Gross margin remained the same at 30.2% for both 2001 and 2000. Gross profit for the Instrumentation and Thermal Fluid Controls Products segment increased \$1.1 million as a result of: a \$3.4 million increase from the prior year acquisition of the Rockwood Swendeman product line and the current year acquisitions of RTK and SART; partially offset by a net decrease of \$1.9 million from lower gross profit from operations. The Instrumentation and Thermal Fluid Controls segment gross profits were negatively affected by the slowdown in the general industrial market. Despite spending cuts implemented during the year, unabsorbed manufacturing costs decreased gross profit for this segment. This segment's gross margin also decreased by \$0.4 million due to unfavorable foreign exchange. Gross profit for the Petrochemical Products segment increased \$6.6 million for the year ended December 31, 2001 compared to the year ended December 31, 2000. Gross profit improvement of \$7.1 million was primarily due to: improved operating efficiencies in a key North American manufacturing plant; higher sales volume in a recovering worldwide oil and gas markets; selective price increases and improved margins in our Italian-based manufacturing operation. During the year ended December 31, 2000, both gross profit and gross margin were negatively impacted as a result of inefficiencies and delays in the completion of the consolidation and integration of certain product lines in one of our key North American plants. Gross profits for our Italian-based operation increased in 2001 despite accepting reduced margin contracts that were shipped and recognized in the first quarter. The Italian plant's first quarter competitive pricing strategy, for certain large oil and gas projects, enabled us to demonstrate our engineering and manufacturing capabilities on the largest size ball valves and qualified us for follow-on application orders. Unfavorable current year foreign currency exchange rates reduced gross profit for the Petrochemical Products segment by \$0.5 million.

Selling, general and administrative expenses increased \$3.2 million, or 5.0%, to \$66.9 million for the year ended December 31, 2001 compared with \$63.7 million for the year ended December 31, 2000. Operating expenses for the Instrumentation and Thermal Fluid Controls Products segment increased by \$1.5 million. This increase resulted from \$2.1 million incremental current year operating expenses related to the acquisitions of the Rockwood Swendeman product line and RTK and SART. This increase was partially offset by \$0.3 million of operational expense reductions in our other businesses and \$0.3 million lower expenses due to changes in foreign currency exchange rates. The Petrochemical Products segment operating expenses increased \$0.7 million for the year ended December 31, 2001 compared to the year ended December 31, 2000 primarily the result of \$1.0 million of increased variable selling and other operating expenses, partially offset by a \$0.3 million decrease due to changes in foreign currency exchange rates. Corporate spending increased by \$1.0 million for the year ended December 31, 2001, attributable to higher variable employee compensation and acquisition search expenses compared to the year ended December 31, 2000.

Goodwill amortization expense increased by \$0.2 million to \$2.7 million for the year ended December 31, 2001 compared to \$2.5 million for the year ended December 31, 2000 as a result of the acquisitions of the Rockwood Swendeman product line and RTK and SART.

Special charges of \$0.2 million were incurred in the Petrochemical Products segment for the year ended December 31, 2001. During the year ended December 31, 2000, special charges of \$1.9 million were incurred, of which \$1.6 million were incurred in the Instrumentation and Thermal Fluid Controls Products segment and \$0.3 million in the Petrochemical Products segment. These special charges were associated with the closure, consolidation and reorganization of certain U.S. manufacturing operations and were expensed in the periods as incurred.

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The change in operating income for the year ended December 31, 2001 compared to the year ended December 31, 2000 was as follows (In thousands):

<u>Segment</u>	<u>2001</u>	<u>2000</u>	<u>Total Change</u>	<u>Acquisitions</u>	<u>Operations</u>	<u>Foreign Exchange</u>
Instrumentation & Thermal Fluid Controls	\$32,158	\$31,211	\$ 947	\$ 1,257	\$ (196)	\$ (114)
Petrochemical	9,194	3,137	6,057	–	6,246	(189)
Corporate	(7,735)	(6,712)	(1,023)	–	(1,023)	–
Total	\$33,617	\$27,636	\$ 5,981	\$ 1,257	\$ 5,027	\$ (303)

Operating income increased \$6.0 million, or 21.6%, to \$33.6 million for the year ended December 31, 2001 compared to \$27.6 million for the year ended December 31, 2000. Operating income in the Instrumentation and Thermal Fluid Controls Products segment increased \$0.9 million primarily attributable to improved manufacturing and administrative operating efficiencies and the absence of special charges in the current year, partially offset by the unfavorable impact of unabsorbed manufacturing costs. The \$6.1 million increase in operating income in the Petrochemical Products segment was primarily the result of additional gross profits due to: higher current year sales volume; selective price increases; and manufacturing process improvements and efficiencies. Corporate spending increased by \$1.0 million for the year ended December 31, 2001 compared to the year ended December 31, 2000.

Net interest expense decreased approximately \$2.2 million to \$7.1 million for the year ended December 31, 2001 compared to \$9.3 million for the year ended December 31, 2000. The decrease was due to: lower average debt balances outstanding; lower average interest rates on variable rate debt; and an increase in current year interest income on invested balances. Significant net positive cash flow generated during our prior year enabled us to reduce our revolving line of credit debt balance to zero as of December 31, 2000. Proceeds from our equity offering in March 2001 were used to: payoff first quarter borrowings from our unsecured revolving line of credit; fund our June 2001 acquisitions; reduce outstanding debt balances of acquired companies; and generate interest income on invested balances.

Other expense decreased \$0.2 million to \$0.5 million for the year ended December 31, 2001, compared to \$0.8 million for the year ended December 31, 2000, primarily as a result of reductions in net losses from foreign currency exchange rate changes.

The effective tax rate remained the same at 40.0% for the years ended December 31, 2001 and 2000.

Net income increased \$5.0 million, or 47.7%, to \$15.6 million for the year ended December 31, 2001 compared to \$10.6 million for the year ended December 31, 2000. Improved operating results within the Petrochemical Products segment, lower special charges in the current year and reduced net interest expenses were the primary reasons for this change.

Liquidity and Capital Resources

The following table summarizes our cash flow activities for the periods indicated (In thousands):

	Year Ended December 31,	
	2002	2001
Cash flow from:		
Operating activities	\$ 24,925	\$ 44,847
Investing activities	(23,241)	(14,501)
Financing activities	(20,504)	18,618
Effect of exchange rates on cash balances	192	(146)
Increase (decrease) in cash and cash equivalents	\$ (18,628)	\$ 48,818

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During the year ended December 31, 2002, we generated \$24.9 million in cash flow from operating activities. Net income plus non-cash charges, such as depreciation, amortization, losses on the disposal and write-off of property, plant and equipment and the change in deferred taxes, accounted for \$29.7 million of operating cash flows. Increases in working capital used \$4.8 million of operating cash, and consisted of: a decrease in trade accounts receivable of \$6.7 million, an increase in inventories of \$4.3 million, an increase in prepaid expenses and other assets of \$2.4 million, and a decrease in accounts payable accrued expenses and other liabilities of \$4.9 million. The \$23.2 million used for investing activities included: a net \$18.9 million used for acquisition activities that included \$17.6 million for the purchases of Tomco and U.S. Para Plate, approximately \$2.5 million for the purchase of the remaining 25% minority interest in our RTK subsidiary, a \$0.1 million reduction in purchase price relating to the acquisition of SART, and \$1.1 million in purchase price adjustments relating to our prior acquisitions of Leslie Controls, Inc. and Hoke, Inc.; \$4.4 million for the purchase of capital equipment, partially offset by the receipt of \$0.1 million in proceeds from the disposal of equipment. We used \$20.5 million for financing activities that included: a net \$20.6 million reduction of our long-term debt, \$2.3 million to pay dividends to shareholders; offset by \$2.4 million in cash received from the exercise of stock options and the conversion of restricted stock units. The effects of exchange rate changes on cash and cash equivalents increased cash balances by \$0.2 million.

We have \$4.1 million of marketable securities that are designated as available for sale and readily convertible to cash should the need for additional working capital arise.

Our capital expenditure budget for the fiscal year ending December 31, 2003 is \$8.0 million. Capital expenditures are primarily for machinery and equipment as part of our ongoing commitment to further improve our manufacturing operations and to manufacture new products.

The ratio of current assets to current liabilities as of December 31, 2002 was 3.2:1 compared to 3.4:1 as of December 31, 2001. Cash and cash equivalents were \$38.4 million as of December 31, 2002 compared to \$57.0 million as of December 31, 2001. Net debt (total debt less cash and marketable securities) as a percentage of total net capital (net debt plus equity) employed was 12.7% as of December 31, 2002 compared to 15.5% as of December 31, 2001.

As of December 31, 2002 and 2001, we had no amounts outstanding under our corporate unsecured revolving credit facility. On December 4, 2002, we refinanced this credit facility by entering into an amendment to the original credit agreement that extends the term of the credit facility to December 2006. The amendment to the credit agreement also provides us with an option to increase the line to \$100 million, subject to leverage and certain other conditions. In accordance with the credit facility agreement, the rate of interest and facility fees we are charged vary based upon changes in our net debt leverage ratio. We can borrow at either the Euro dollar rate plus an applicable margin of 0.625% to 1.625%, or at a base rate plus an applicable margin of 0% to 0.25%. The base rate for any day is the higher of the federal funds rate plus ½ of 1% or the lender's prime rate. We are also required to pay an unused facility fee that can range from 0.15% to 0.35% per annum, and a utilization fee of 0.125% per annum if our borrowings exceed 50% of the credit facility limit. As of December 31, 2002, we had \$75.0 million available under the revolving credit facility to support our acquisition program, working capital requirements and general corporate purposes.

Certain of our loan agreements contain covenants that require, among other items, maintenance of certain financial ratios and also limit our ability to: enter into secured and unsecured borrowing arrangements; issue dividends to shareholders; acquire and dispose of businesses; invest in capital equipment; participate in certain higher yielding long-term investment vehicles; and issue additional shares of our stock. We were in compliance with all covenants related to our existing debt obligations at December 31, 2002 and 2001.

On February 5, 2002, the minority interest shareholder of RTK exercised the put option rights granted in the purchase agreement, thereby electing to sell us the remaining 25% interest in RTK. Accordingly, we disbursed an additional \$2.5 million during the first quarter of 2002 for the purchase of this 25% interest in RTK.

On April 9, 2002, we filed a registration statement on Form S-3. The registration statement, which was amended and filed on June 6, 2002, relates to the sale of up to an aggregate of 1.0 million shares of common stock currently outstanding and beneficially owned by Timothy P. Horne and other members of the Horne family. We will not receive any of the proceeds from the sale of the shares of our common stock offered by this prospectus. We paid the preparation and filing expenses for the registration statement for these shares.

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During August 2002, we paid down the remaining outstanding \$3.5 million of debt that had been assumed as a part of our purchase of RTK. As a result of pre-paying these debt balances, we also incurred and paid an additional \$0.1 million in bank fees.

In October 2002, we purchased Tomco and U.S. Para Plate for \$17.6 million in cash, net of cash acquired, and assumed \$0.7 million in debt and \$4.0 million of marketable securities at fair market value. We also deposited an additional \$2.3 million into separate escrow accounts for the benefit of the sellers, subject to any such claims by us as are allowed in accordance with the purchase agreements. Any funds remaining in the escrow funds at the conclusion of the contingency periods will be distributed to the sellers and accounted for as additional purchase cost.

Beginning on October 19, 2002, we commenced making \$15.0 million annual payments, in accordance with the note agreement, to reduce the \$75.0 million outstanding balance of our unsecured 8.23% senior notes, which mature in October 2006.

During November 2002, we contributed an additional \$3.0 million into our pension plan trust, increasing the level of current year contributions to \$5.7 million. This additional contribution was made to increase plan assets to a level that was equivalent to the accumulated benefit obligations as of December 31, 2002.

From time-to-time, we are involved with product liability, environmental and other litigation proceedings and incur costs on an ongoing basis related to these matters. We have not incurred material expenditures during the year ended December 31, 2002 in connection with any of these matters.

The following table summarizes our significant contractual obligations and commercial commitments at December 31, 2002 that affect our liquidity (In thousands):

	Payments due by Period				
	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	Thereafter
<u>Contractual Cash Obligations:</u>					
Notes payable	\$ 3,166	\$ 3,166	\$ –	\$ –	\$ –
Current portion of long-term debt	15,430	15,430	–	–	–
Total short-term borrowings	18,596	18,596	–	–	–
Long-term debt, less current portion	59,394	–	31,418	22,814	5,162
Operating leases	16,097	3,249	5,284	4,374	3,190
Total contractual cash obligations	\$94,087	\$ 21,845	\$36,702	\$27,188	\$ 8,352
<u>Other Commercial Commitments:</u>					
U.S. standby letters of credit	\$ 2,045	\$ 1,880	\$ –	\$ –	\$ 165
International standby letters of credit	4,103	1,930	1,843	330	–
Commercial contract commitments	2,543	1,290	949	287	17
Total commercial commitments	\$ 8,691	\$ 5,100	\$ 2,792	\$ 617	\$ 182

We anticipate that available cash balances, marketable securities that are readily convertible to cash and those funds provided from ongoing operations will be sufficient to meet current operating requirements, anticipated capital expenditures, scheduled debt payments and contingencies for at least the next 24 months.

Effects of Recent Accounting Pronouncements

We adopted FASB Statement No. 142, "Goodwill and Other Intangible Assets," on January 1, 2002. See note 2 to the consolidated financial statements contained in Item 8 for further information concerning our adoption of Statement No. 142.

We also adopted FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("Statement No. 144") on January 1, 2002. Statement No. 144 refines existing impairment accounting guidance and extends the use of accounting for discontinued operations to both reporting segments and distinguishable components thereof. Statement No. 144 also eliminates the existing exception to consolidation of a subsidiary for which control is likely to be temporary.

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The adoption of Statement No. 144 did not have a material impact on our consolidated results of operations or financial position.

In April 2002, FASB Statement No. 145, "Rescission of FASB Statement Nos. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections," ("Statement No. 145"), was issued effective for fiscal years beginning May 15, 2002 or later. Statement No. 145 rescinds Statement No. 4, "Reporting Gains and Losses from the Extinguishment of Debt," Statement No. 44, "Accounting for Intangible Assets of Motor Carriers" and Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." Statement No. 145 also amends Statement No. 13, "Accounting For Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and for certain transactions that have economic effects that are similar to sale-leaseback transactions. This statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meaning or describe their applicability under changed conditions. We adopted the provisions of Statement No. 145 effective April 1, 2002, and the adoption had no impact on our reported results of operations or financial position.

In July 2002, FASB Statement No. 146, "Accounting for Costs Associated With Exit or Disposal Activities," ("Statement No. 146"), was issued. Statement No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This statement is effective for fiscal years beginning after December 31, 2002. We do not believe the impact of adopting Statement No. 146 will have a material impact on our reported results of operation or financial position.

In December 2002, FASB Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-An Amendment of SFAS No. 123," ("Statement No. 148"), was issued. Statement No. 148 amends Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("Statement No. 123"), to provide alternative methods of transition for a voluntary change to the fair-value-based method of accounting for stock-based employee compensation that measures the associated compensation cost on the date of the award and recognizes the expense over the service period. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in not only annual, but also interim financial statements about the effect the fair value method would have had on reported results. The transition and annual disclosure requirements of Statement No. 148 are effective for fiscal years ending after December 15, 2002. We have adopted the annual disclosure provisions of Statement No. 148 in the consolidated financial statements contained in Item 8. The interim disclosure requirements are effective for interim periods beginning after December 15, 2002. We have chosen to continue to account for stock-based compensation for employees using the intrinsic method prescribed in APB No.25. The method does not result in recording an associated expense in our results of operations until the options are exercised.

FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34," ("FIN No. 45") was issued in November 2002. FIN No. 45 elaborates on the disclosures to be made by a guarantor and clarifies requirements relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. FIN No. 45 requires that upon issuance of a guarantee, companies recognize a liability for the fair value of the obligation it assumes under that guarantee. We have adopted the annual disclosure provisions of FIN No. 45 in the consolidated financial statements contained in Item 8. We will adopt the provisions for initial recognition and measurement and interim disclosures during the first quarter of 2003. We do offer warranties, but the returns under warranty have been immaterial. We have not issued any guarantees other than for stand-by letters of credit used in the ordinary course of conducting our business. The adoption of FIN No. 45 is not expected to have a material effect on the consolidated financial statements.

In January 2003, FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51," ("FIN No. 46") was issued. FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN No. 46 must be applied for the first interim or annual period beginning after June 15, 2003. We have no variable interest entities at this time, and as such, the adoption of FIN No. 46 will not have an effect on the consolidated financial statements.

CERTAIN RISK FACTORS THAT MAY AFFECT FUTURE RESULTS

Set forth below are certain risk factors that we believe are material to our stockholders. If any of the following risks occur, our business, financial condition, results of operations, and reputation could be harmed. You should also consider these risk factors when you read "forward-looking statements" elsewhere in this report. You can identify forward-looking statements by terms such as "may," "hope," "will," "should," "expect," "plan," "anticipate," "intend," "believe," "estimate," "predict," or "continue," the negative of those terms or other comparable terminology. Those forward-looking statements are only predictions and can be adversely affected if any of the following risks occur:

Some of our end-markets are cyclical, which may cause us to experience fluctuations in revenues or operating results.

We have experienced, and expect to continue to experience, fluctuations in revenues and operating results due to economic and business cycles. We sell our products principally to oil, gas, petrochemical, process, power, aerospace, military, heating, ventilation and air conditioning, or HVAC, maritime, pharmaceutical, medical and instrumentation markets. Although we serve a variety of markets to avoid a dependency on any one, a significant downturn in any one of these markets could cause a material reduction in our revenues that could be difficult to offset.

In particular, our petrochemical business is cyclical in nature as the worldwide demand for oil and gas fluctuates. When worldwide demand for oil and gas is depressed, the demand for our products used in maintenance and repair of existing oil and gas applications, as well as exploration or new oil and gas project applications, is reduced. As a result, we historically have generated lower revenues and profits in periods of declining demand for petrochemical products. Therefore, results of operations for any particular period are not necessarily indicative of the results of operations for any future period. Future downturns in demand for petrochemical products could have a material adverse effect on our business, financial condition or results of operations. Similarly, although not to the same extent as the oil and gas markets, the aerospace, military and maritime markets have historically experienced cyclical fluctuations in demand that also could have a material adverse effect on our business, financial condition or results of operations.

We face the continuing impact on economic and financial conditions in the United States and around the world as a result of the September 11th terrorist attacks and related matters, as well as current tensions in Iraq and the rest of the Middle East.

The terrorist attacks have negatively impacted general economic, market and political conditions. In particular, the terrorist attacks, compounded with the slowing national economy, have resulted in reduced revenues in the aerospace and general industrial markets in fiscal year 2002. Additional terrorist acts or acts of war (wherever located around the world) may cause damage or disruption to our business, our facilities, our joint-venture partners or our employees which could significantly impact our business, financial condition or results of operations. The potential for future terrorist attacks, the national and international responses to terrorist attacks, and other acts of war or hostility, including the current tensions in Iraq and the Middle East, have created many economic and political uncertainties, which could adversely affect our business and results of operations in ways that cannot presently be predicted. In addition, with manufacturing facilities located worldwide, including facilities located in the United States, Canada, Western Europe and the People's Republic of China, we may be impacted by terrorist actions not only against the United States but in other parts of the world as well. We are predominately uninsured for losses and interruptions caused by terrorist acts and acts of war.

If we cannot continue operating our manufacturing facilities at current or higher levels, our results of operations could be adversely affected.

We operate a number of manufacturing facilities for the production of our products. The equipment and management systems necessary for such operations may break down, perform poorly, or fail, resulting in fluctuations in manufacturing efficiencies. Such fluctuations may affect our ability to deliver products to our customers on a timely basis, which could have a material adverse effect on our business, financial condition or results of operations.

We face significant competition in our markets and, if we are not able to respond to competition in our markets, our revenues may decrease.

We face significant competition from a variety of competitors in each of our markets. Some of our competitors have substantially greater financial, marketing, personnel and other resources than we do. New competitors also could enter our markets. We consider product quality, performance, price, distribution capabilities and breadth of product offerings to be the primary competitive factors in our markets. Our competitors may be able to offer more attractive pricing, duplicate our strategies, or develop enhancements to products that could offer performance features that are superior to our products. Competitive pressures, including those described above, and other factors could adversely affect our competitive position, involving a loss of market share or decreases in prices, either of which could have a material adverse effect on our business, financial condition or results of operations. In addition, some of our competitors are based in foreign countries and have cost structures and prices based on foreign currencies. Accordingly, currency fluctuations could cause our U.S. dollar-priced products to be less competitive than our competitors' products that are priced in other currencies.

If we experience delays in introducing new products or if our existing or new products do not achieve or maintain market acceptance, our revenues may decrease.

Our industries are characterized by: intense competition; changes in end-user requirements; technically complex products; and evolving product offerings and introductions.

We believe our future success will depend, in part, on our ability to anticipate or adapt to these factors and to offer, on a timely basis, products that meet customer demands. Failure to develop new and innovative products or to custom design existing products could result in the loss of existing customers to competitors or the inability to attract new business, either of which may adversely affect our revenues. The development of new or enhanced products is a complex and uncertain process requiring the anticipation of technological and market trends. We may experience design, manufacturing, marketing or other difficulties, such as an inability to attract a sufficient number of qualified engineers, that could delay or prevent our development, introduction or marketing of new products or enhancements and result in unexpected expenses.

Implementation of our acquisition strategy may not be successful, which could affect our ability to increase our revenues or could reduce our profitability.

One of our continued strategies is to increase our revenues and expand our markets through acquisitions that will provide us with complementary instrumentation and thermal fluid controls and petrochemical products. We expect to spend significant time and effort in expanding our existing businesses and identifying, completing and integrating acquisitions. We expect to face competition for acquisition candidates that may limit the number of acquisition opportunities available to us and may result in higher acquisition prices. We cannot be certain that we will be able to identify, acquire or profitably manage additional companies or successfully integrate such additional companies without substantial costs, delays or other problems. Also, there can be no assurance that companies we acquire in the future will achieve revenues, profitability or cash flows that justify our investment in them. In addition, acquisitions may involve a number of special risks, including: adverse short-term effects on our reported operating results; diversion of management's attention; loss of key personnel at acquired companies; or unanticipated management or operational problems or legal liabilities. Some or all of these special risks could have a material adverse effect on our business, financial condition or results of operations.

If we fail to manufacture and deliver high quality products, we may lose customers.

Product quality and performance are a priority for our customers since many of our product applications involve caustic or volatile chemicals and, in many cases, involve processes that require precise control of fluids. Our products also are used in the aerospace, military, commercial aircraft, pharmaceutical, medical, analytical equipment, oil and gas exploration, transmission and refining, chemical processing, and maritime industries. These industries require products that meet stringent performance and safety standards. If we fail to maintain and enforce quality control and testing

procedures, our products will not meet these stringent performance and safety standards. Substandard products would seriously harm our reputation, resulting in both a loss of current customers to our competitors and damage to our ability to attract new customers, which could have a material adverse effect on our business, financial condition or results of operations.

If we are unable to continue operating successfully overseas or to successfully expand into new international markets, our revenues may decrease.

We derive a significant portion of our revenue from sales outside the United States. In addition, one of our key growth strategies is to market our products in international markets not currently served by us in portions of Europe, Latin America and Asia. We may not succeed in marketing, selling and distributing our products in these new markets. Moreover, conducting business outside the United States is subject to additional risks, including currency exchange rate fluctuations, changes in regional, political or economic conditions, trade protection measures such as tariffs or import or export restrictions, and unexpected changes in regulatory requirements. One or more of these factors could prevent us from successfully expanding into new international markets and could also have a material adverse effect on our current international operations.

Prices of our raw materials may increase which may adversely affect our business.

We obtain our raw materials for the manufacture of our products from third-party suppliers. We do not have contracts with many of these suppliers that require them to sell us the materials we need to manufacture our products. Historically, stainless steel, iron and carbon steel, in particular, have each increased in price as a result of increases in demand. While in the past we have not experienced difficulties in obtaining the raw materials we require (including stainless steel, cast iron and carbon steel), we cannot be certain that our suppliers will continue to provide us with the raw materials we need in the quantities requested or at a price we are willing to pay. In the past we have been able to partially offset increases in the cost of raw materials by increased sales prices, active materials management, product engineering programs and the diversity of materials used in our production processes. However, we cannot be certain that we will be able to accomplish this in the future. Since we do not control the actual production of these raw materials, we may also be subject to delays caused by interruption in production of materials for reasons we cannot control. These include job actions or strikes by employees of suppliers, transportation interruptions and natural disasters or other catastrophic events. Our inability to obtain adequate supplies of raw materials for our products at favorable prices, or at all, could have a material adverse effect on our business, financial condition or results of operations.

A change in international governmental policies or restrictions could result in decreased availability and increased costs for certain components and finished products that we outsource, which could adversely affect our profitability.

Like most manufacturers of fluid control products, we attempt, where appropriate, to reduce costs by seeking lower cost sources of certain components and finished products. Many such sources are located in developing countries such as the People's Republic of China, India and Taiwan where a change in governmental approach toward U.S. trade could restrict the availability to us of such sources. In addition, periods of war or other international tension could interfere with international freight operations and hinder our ability to take delivery of such components and products. A decrease in the availability of these items could hinder our ability to meet timely our customers' orders. We attempt, when possible, to mitigate this risk by maintaining alternate sources for these components and products and by maintaining the capability to produce such items in our own manufacturing facilities. However, even when we are able to mitigate this risk, the cost of obtaining such items from alternate sources or producing them ourselves is often considerably greater, and a shift toward such higher cost production could therefore adversely affect our profitability.

The costs of complying with existing or future environmental regulations, and of curing any violations of these regulations, could increase our expenses or reduce our profitability.

We are subject to a variety of environmental laws relating to the storage, discharge, handling, emission, generation, use and disposal of chemicals, solid and hazardous waste and other toxic and hazardous materials used to manufacture, or

resulting from the process of manufacturing, our products. We cannot predict the nature, scope or effect of future regulatory requirements to which our operations might be subject or the manner in which existing or future laws will be administered or interpreted. Future regulations could be applied to materials, products or activities that have not been subject to regulation previously. The costs of complying with new or more stringent regulations, or with more vigorous enforcement of these or existing regulations could be significant.

Environmental laws require us to maintain and comply with a number of permits, authorizations and approvals and to maintain and update training programs and safety data regarding materials used in our processes. Violations of these requirements could result in financial penalties and other enforcement actions. We also could be required to halt one or more portions of our operations until a violation is cured. Although we attempt to operate in compliance with these environmental laws, we may not succeed in this effort at all times. The costs of curing violations or resolving enforcement actions that might be initiated by government authorities could be substantial.

The costs of complying with existing or future governmental regulations applicable to our importing and exporting practices, and of curing any violations of these regulations, could increase our expenses, reduce our revenues or reduce our profitability.

We are subject to a variety of laws regarding our international trade practices including regulations issued by the United States Customs Service, the Bureau of Export Administration, the Department of State, and the Department of Treasury. We cannot predict the nature, scope or effect of future regulatory requirements to which our international trading practices might be subject or the manner in which existing laws might be administered or interpreted. Future regulations could limit the countries into which certain of our products may be sold or could restrict our access to and increase the cost of obtaining products from foreign sources. In addition, actual or alleged violations of import-export laws could result in enforcement actions and/or financial penalties that could result in substantial costs.

We face risks from product liability lawsuits that may adversely affect our business.

We, like other manufacturers and distributors of products designed to control and regulate fluids and chemicals, face an inherent risk of exposure to product liability claims in the event that the use of our products results in personal injury, property damage or business interruption to our customers. We may be subjected to various product liability claims, including, among others, that our products include inadequate or improper instructions for use or installation, or inadequate warnings concerning the effects of the failure of our products. Although we maintain strict quality controls and procedures, including the testing of raw materials and safety testing of selected finished products, we cannot be certain that our products will be completely free from defect. In addition, in certain cases, we rely on third-party manufacturers for our products or components of our products. Although we have liability insurance coverage, we cannot be certain that this insurance coverage will continue to be available to us at a reasonable cost, or, if available, will be adequate to cover any such liabilities. We generally seek to obtain contractual indemnification from our third-party suppliers, and for us to be added as an additional insured party under such parties' insurance policies. Any such indemnification or insurance is limited by its terms and, as a practical matter, is limited to the credit worthiness of the indemnifying or insuring party. In the event that we do not have adequate insurance or contractual indemnification, product liabilities could have a material adverse effect on our business, financial condition or results of operations.

The costs associated with the defense of asbestos-related claims and the payment of any judgments or settlements with respect to such claims are subject to a number of uncertainties. As such, we cannot guarantee that such claims ultimately will not have an adverse effect on our financial statements, results of operations or cash flows.

Like many other manufacturers of fluid control products, we have been named as defendants in a growing number of product liability actions brought on behalf of individuals who seek compensation for their alleged exposure to airborne asbestos fibers. In general, any components containing asbestos formerly used in our products were entirely internal to the product and, we believe, would not give rise to ambient asbestos dust during normal operation. As such, we believe that we have minimal, if any, liability with respect to the vast majority of these cases and that these cases, in the aggregate, will not have a material adverse effect on our financial condition, results of operations or cash flows. However, due to the nature and number of variables associated with asbestos related claims, such as the rate at which

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new claims may be filed; the availability of insurance policies to continue to recover certain of our costs relating to the defense and payment of these claims; the impact of bankruptcies of other companies currently or historically defending asbestos claims; the uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case; the impact of potential changes in legislative or judicial standards; the type and severity of the disease alleged to be suffered by each claimant; and increases in the expense of medical treatment, we are unable to reliably estimate the ultimate costs of these claims.

We may be responsible for certain historical liabilities in the event Watts and its affiliates are ultimately unable to satisfy such liabilities.

Until the spin-off, we were a member of Watts' consolidated group for federal income tax purposes. Each member of the consolidated group is liable for the federal income tax liability of the other members of the group, as well as for pension and benefit funding liabilities of the other group members. Under federal law we continue to be contingently liable for these Watts consolidated group liabilities for periods beginning before the spin-off.

We entered into a distribution agreement with Watts that allocates tax, pension and benefit funding liabilities between Watts and us. Under this agreement, Watts maintains full control and absolute discretion with regard to any combined or consolidated United States federal and state tax filings for periods through the spin-off date. Watts also maintains full control and absolute discretion regarding common tax audit issues of such entities. These arrangements may result in conflicts of interest with Watts. In addition, if Watts is ultimately unable to satisfy its liabilities, we could be responsible for satisfying them, despite the distribution agreement.

We would be jointly and severally liable for Watts' federal income taxes resulting from the spin-off if the Internal Revenue Service, or IRS, treats the spin-off as a taxable distribution.

At the time of the spin-off, Watts received a ruling from the IRS to the effect that, for United States federal income tax purposes, the spin-off would be tax-free to Watts and its shareholders. If the undertakings made to the IRS regarding the spin-off are not complied with or if representations made to the IRS regarding the spin-off were inaccurate, we could lose the benefit of the IRS tax ruling and the IRS could assert that the spin-off was a taxable distribution. In that case, under United States federal income tax law, we would be jointly and severally liable with Watts for a material amount of federal income tax. In our distribution agreement with Watts, we agreed that we will be wholly responsible for that tax if it results from our act or omission, and Watts will be wholly responsible for that tax if it results from Watts' act or omission. Under federal income tax law, however, we would be required to pay that tax if Watts was unable to, regardless of the distribution agreement.

We depend on our key personnel and the loss of their services may adversely affect our business.

We believe that our success will depend on the continued employment of our senior management team and other key personnel. If one or more members of our senior management team or other key personnel were unable or unwilling to continue in their present positions, our business could be seriously harmed. In addition, if any of our key personnel joins a competitor or forms a competing company, some of our customers might choose to use the services of that competitor or those of a new company instead of our own. Other companies seeking to develop capabilities and products similar to ours may hire away some of our key personnel. Nonetheless, if we are unable to maintain our key personnel and attract new employees, the execution of our business strategy may be hindered and our growth limited.

Various restrictions and agreements could hinder a takeover of us which is not supported by our board of directors or which is leveraged.

Our amended and restated certificate of incorporation and amended and restated by-laws, the Delaware General Corporation Law and our shareholder rights plan contain provisions that could delay or prevent a change in control in a transaction that is not approved by our board of directors or that is on a leveraged basis or otherwise. These include provisions creating a staggered board, limiting the shareholders' powers to remove directors, and prohibiting shareholders from calling a special meeting or taking action by written consent in lieu of a shareholders' meeting. In

addition, our board of directors has the authority, without further action by the shareholders, to set the terms of and to issue preferred stock. Issuing preferred stock could adversely affect the voting power of the owners of our common stock, including the loss of voting control to others. Additionally, we have adopted a shareholder rights plan providing for the issuance of rights that will cause substantial dilution to a person or group of persons that acquires 15% or more of our shares of common stock, unless the rights are redeemed.

Delaying or preventing a takeover could result in our shareholders ultimately receiving less for their shares by deterring potential bidders for our stock or assets.

Our debt agreements limit our ability to issue equity, make acquisitions, incur debt, pay dividends, make investments, sell assets, merge or raise capital.

Our senior note purchase agreement, dated October 19, 1999, and our revolving credit facility agreement, dated October 19, 1999 and most recently amended on December 4, 2002, govern our indebtedness to our lenders. The debt agreements include provisions which place limitations on certain activities including our ability to: issue shares of our common stock; incur additional indebtedness; create any liens or encumbrances on our assets or make any guarantees; make certain investments; pay cash dividends above certain limits; or dispose of or sell assets or enter into a merger or a similar transaction.

The trading price of our common stock may be volatile and investors in our common stock may experience substantial losses.

The trading price of our common stock may be volatile. Our common stock could decline or fluctuate in response to a variety of factors, including, but not limited to: our failure to meet the performance estimates of securities analysts; changes in financial estimates of our revenues and operating results or buy/sell recommendations by securities analysts; the timing of announcements by us or our competitors concerning significant product line developments, contracts or acquisitions or publicity regarding actual or potential results or performance; fluctuation in our quarterly operating results caused by fluctuations in revenue and expenses; substantial sales of our common stock by our existing shareholders; general stock market conditions; or other economic or external factors.

In addition, the stock market as a whole has recently experienced extreme price and volume fluctuations. In the past, securities class action litigation has often been instituted against companies following periods of volatility in the market price of their securities. This type of litigation could result in substantial costs and a diversion of management attention and resources.

Our international activities expose us to fluctuations in currency exchange rates that could adversely effect our results of operations and cash flows.

Our international manufacturing and sales activities expose us changes in foreign currency exchange rates. Such fluctuations could result in our (i) paying higher prices for certain imported goods and services, (ii) realizing lower prices for any sales denominated in currencies other than U.S. dollars, (iii) realizing lower net income, on a U.S. dollar basis, from our international operations due to the effects of translation from weakened functional currencies, and (iv) realizing higher costs to settle transactions denominated in other currencies. Any of these risks could adversely effect our results of operations and cash flows. Our major foreign currency exposures involve the markets in Western Europe, Canada and Asia.

We use forward contracts to manage the currency risk related to business transactions denominated in foreign currencies. We primarily utilize forward exchange contracts with maturities of less than eighteen months. To the extent these transactions are completed, the contracts do not subject us to significant risk from exchange rate fluctuations because they offset gains and losses on the related foreign currency denominated transactions.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market Risk

The oil and gas markets historically have been subject to cyclicity depending upon supply and demand for crude oil, its derivatives and natural gas. When oil or gas prices decrease, expenditures on maintenance and repair decline rapidly and outlays for exploration and in-field drilling projects decrease and, accordingly, demand for valve products is reduced. However, when oil and gas prices rise, maintenance and repair activity and spending for facilities projects normally increase, and we benefit from increased demand for valve products. However, oil or gas price increases may be considered temporary in nature, or not driven by customer demand and, therefore, may result in longer lead times for increases in petrochemical sales orders. As a result, the timing and magnitude of changes in market demand for oil and gas valve products are difficult to predict. Similarly, although not to the same extent as the oil and gas markets, the aerospace, military and maritime markets have historically experienced cyclical fluctuations in demand that also could have a material adverse effect on our business, financial condition or results of operations.

Interest Rate Sensitivity Risk

As of December 31, 2002, our primary interest rate risk is related to borrowings under our revolving credit facility and our industrial revenue bonds. The interest rates for our revolving credit facility and industrial revenue bonds fluctuate with changes in short-term borrowing rates. There were no borrowings under our revolving credit facility outstanding as of December 31, 2002. Based upon expected levels of borrowings under our credit facility in 2003 and our current balances for industrial revenue bonds, an increase in variable interest rates of 100 basis points would not have a material effect on our results of operations or cash flows.

Currency Exchange Risk

We use forward contracts to manage the currency risk related to business transactions denominated in foreign currencies. Related gains and losses are recognized when the contracts expire, which are generally in the same period as the underlying foreign currency denominated transactions. To the extent these transactions are completed, the contracts do not subject us to significant risk from exchange rate movements because they offset gains and losses on the related foreign currency denominated transactions. As of December 31, 2002, we had forward contracts to buy foreign currencies with a face value of \$1.0 million. These contracts mature on various dates between January and March 2003. Net unrealized gains attributable to foreign currency forward contracts were less than \$0.1 million at December 31, 2002 and \$0.1 million at December 31, 2001. The counterparties to these contracts are major financial institutions. Our risk of loss in the event of non-performance by the counterparties is not significant.

We do not use derivative financial instruments for trading purposes. Risk management strategies are reviewed and approved by senior management before implementation.

Commodity Price Risk

The primary raw materials used in our production process are stainless steel, carbon steel, cast iron and brass. We purchase these materials from numerous suppliers nationally and internationally, and have not historically experienced significant difficulties in obtaining these commodities in quantities sufficient for our operations. However, these commodities are subject to price fluctuations that may adversely affect our results of operations. We manage this risk by offsetting increases in commodities with increased sales prices, active materials management, product engineering programs and the diversity of materials used in our production processes.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**CIRCOR INTERNATIONAL, INC
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ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information appearing under the sections "Information Regarding Directors" and "Information Regarding Executive Officers" in our Definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held on April 24, 2003 is incorporated herein by reference.

ITEM 11. EXECUTIVE COMPENSATION

The information appearing under the section "Executive Compensation" in our Definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held April 24, 2003 is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information appearing under the section "Security Ownership of CIRCOR Common Stock by Certain Beneficial Owners, Directors and Executive Officers of the Company" in our Definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held April 24, 2003 is incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTION

The information appearing under the section "Certain Relationships and Related Transactions" in our Definitive Proxy Statement relating to the Annual Meeting of Stockholders to be held April 24, 2003 is incorporated herein by reference.

ITEM 14. CONTROLS AND PROCEDURES

(a) Evaluation of disclosure controls and procedures.

As required by new Rule 13a-15 under the Securities Exchange Act of 1934 (the "Exchange Act"), within the 90 days prior to the date of this report, we carried out an evaluation under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. We will continue to review and document our disclosure controls and procedures and consider such changes, as we may deem advisable based on future evaluations of the effectiveness of such controls and procedures

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(b) Changes in internal controls.

There have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation. From time-to-time, we may make changes in our system of internal controls aimed at enhancing their effectiveness and to ensure that our systems evolve with our business.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a)(1) Financial Statements

The financial statements filed as part of the report are listed in Part II, Item 8 of this report on the Index to Consolidated Financial Statements.

(a)(2) Financial Statement Schedules

Schedule I Valuation and Qualifying Accounts for the years ended December 31, 2002, 2001 and 2000

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All schedules for which provision is made in the applicable accounting regulations of the Security and Exchange Commission are not required under the related instructions or are not material, and therefore have been omitted.

(a)(3) Exhibits

Exhibit No.	Description and Location
2	Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession:
2.1	Distribution Agreement between Watts Industries, Inc. and CIRCOR International, Inc. dated as of October 1, 1999, is incorporated herein by reference to Exhibit 2.1 to Amendment No. 2 to CIRCOR International, Inc.'s Registration Statement on Form 10, File No. 000-26961, filed with the Securities and Exchange Commission on October 6, 1999 ("Amendment No. 2 to the Form 10").
3	Articles of Incorporation and By-Laws:
3.1	The Amended and Restated Certificate of Incorporation of CIRCOR International, Inc. is incorporated herein by reference to Exhibit 3.1 to CIRCOR International, Inc.'s Registration Statement on Form 10, File No. 000-26961, filed with the Securities and Exchange Commission on August 6, 1999 ("Form 10").
3.2	The Amended and Restated By-Laws of CIRCOR International, Inc. are incorporated herein by reference to Exhibit 3.2 to the Form 10.
3.3	Certificate of Designations, Preferences and Rights of a Series of Preferred Stock of CIRCOR International, Inc. classifying and designating the Series A Junior Participating Cumulative Preferred Stock is incorporated herein by reference to Exhibit 3.1 to CIRCOR International, Inc.'s Registration Statement on Form 8-A, File No. 001-14962, filed with the Securities and Exchange Commission on October 21, 1999 ("Form 8-A").
4	Instruments Defining the Rights of Security Holders, Including Debentures:
4.1	Shareholder Rights Agreement, dated as of September 16, 1999, between CIRCOR International, Inc. and BankBoston, N.A., as Rights Agent is incorporated herein by reference to Exhibit 4.1 to the Form 8-A.
*4.2	Agreement of Substitution and Amendment of Shareholder Rights Agent Agreement dated as of November 1, 2002 between CIRCOR International, Inc. and American Stock Transfer and Trust Company.
9	Voting Trust Agreements:
9.1	The Amended and Restated George B. Horne Voting Trust Agreement-1997 dated as of September 14, 1999 is incorporated herein by reference to Exhibit 9.1 to Amendment No. 1 to the Company's Registration Statement on Form 10, File No. 000-26961, filed with the Securities and Exchange Commission on September 22, 1999 ("Amendment No. 1 to the Form 10").
10	Material Contracts:

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Exhibit No.	Description and Location
10.1	CIRCOR International, Inc. 1999 Stock Option and Incentive Plan is incorporated herein by reference to Exhibit 10.1 to Amendment No. 1 to the Form 10.
10.2	Form of Incentive Stock Option Agreement under the 1999 Stock Option and Incentive Plan is incorporated herein by reference to Exhibit 10.2 to Amendment No. 1 to the Form 10.
10.3	Form of Non-Qualified Stock Option Agreement for Employees under the 1999 Stock Option and Incentive Plan (Five Year Graduated Vesting Schedule) is incorporated herein by reference to Exhibit 10.3 to Amendment No. 1 to the Form 10.
10.4	Form of Non-Qualified Stock Option Agreement for Employees under the 1999 Stock Option and Incentive Plan (Performance Accelerated Vesting Schedule) is incorporated herein by reference to Exhibit 10.4 to Amendment No. 1 to the Form 10.
10.5	Form of Non-Qualified Stock Option Agreement for Independent Directors under the 1999 Stock Option and Incentive Plan is incorporated herein by reference to Exhibit 10.5 to Amendment No. 1 to the Form 10.
10.6	CIRCOR International, Inc. Management Stock Purchase Plan is incorporated herein by reference to Exhibit 10.6 to Amendment No. 1 to the Form 10.
10.7	Form of CIRCOR International, Inc. Supplemental Employee Retirement Plan is incorporated herein by reference to Exhibit 10.7 to Amendment No. 1 to the Form 10.
10.8	Lease Agreement, dated as of February 14, 1999, between BY-PASS 85 Associates, LLC and CIRCOR International, Inc. is incorporated herein by reference to Exhibit 10.10 to Amendment No. 1 to the Form 10.
*10.9	Trust Indenture from Village of Walden Industrial Development Agency to The First National Bank of Boston, as Trustee, dated June 1, 1994.
*10.10	Loan Agreement between Hillsborough County Industrial Development Authority and Leslie Controls, Inc. dated July 1, 1994.
*10.11	Trust Indenture from Hillsborough County Industrial Development Authority to The First National Bank of Boston, as Trustee, dated July 1, 1994.
*10.12	Form of Indemnification Agreement between CIRCOR International, Inc. and each of its Directors dated November 6, 2002 is incorporated herein by reference.
*10.13	Executive Employment Agreement, as amended and restated, between CIRCOR, Inc. and David A. Bloss, Sr., dated as of October 23, 2002.
10.14	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 is incorporated herein by reference to Exhibit 10.17 to CIRCOR International, Inc.'s Current Report on Form 8-K, File No. 001-14962, filed with the Securities and Exchange Commission on October 21, 1999.
10.15	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 is incorporated herein by reference to Exhibit 10.18 to CIRCOR International, Inc.'s Current Report on Form 8-K, File No. 001-14962, filed with the Securities and Exchange Commission on October 21, 1999.
10.16	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 is incorporated herein by reference to Exhibit 10.19 to CIRCOR International, Inc.'s Current Report on Form 8-K, File No. 001-14962, filed with the Securities and Exchange Commission on October 21, 1999.
10.17	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 is incorporated herein by reference to Exhibit 10.20 to CIRCOR International, Inc.'s Current Report on Form 8-K, File No. 001-14962, filed with the Securities and Exchange Commission on October 21, 1999.

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Exhibit No.	Description and Location
10.18	Sharing agreements regarding the rights of debt holders relative to one another in the event of insolvency is incorporated herein by reference to Exhibit 10.21 on Form 10-Q/A filed with the Securities and Exchange Commission on August 14, 2000.
10.19	Executive Change of Control Agreement between CIRCOR, Inc. and Alan R. Carlsen dated August 8, 2000 is incorporated herein by reference to Exhibit 10.23 on Form 10-Q, File No. 001-14962, filed with the Securities and Exchange Commission on November 14, 2000.
10.20	Executive Change of Control Agreement between CIRCOR, Inc. and Kenneth W. Smith dated August 8, 2000 is incorporated herein by reference to Exhibit 10.24 on Form 10-Q, File No. 001-14962, filed with the Securities and Exchange Commission on November 14, 2000.
10.21	Executive Change of Control Agreement between CIRCOR, Inc. and Stephen J. Carriere dated August 8, 2000 is incorporated herein by reference to Exhibit 10.25 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 7, 2001.
10.22	Executive Change of Control Agreement between CIRCOR, Inc. and Alan J. Glass dated August 8, 2000 is incorporated herein by reference to Exhibit 10.26 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 7, 2001.
10.23	Executive Change of Control Agreement between CIRCOR, Inc. and Paul M. Coppinger dated August 1, 2001 is incorporated herein by reference to Exhibit 10.28 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 7, 2001.
10.24	First Amendment to Executive Change of Control Agreement between Alan R. Carlsen and CIRCOR, Inc. dated December 7, 2001 is incorporated herein by reference to Exhibit 10.27 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 12, 2002.
10.25	First Amendment to Executive Change of Control Agreement between Kenneth W. Smith and CIRCOR, Inc. dated December 7, 2001 is incorporated herein by reference to Exhibit 10.28 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 12, 2002.
10.26	First Amendment to Executive Change of Control Agreement between Stephen J. Carriere and CIRCOR, Inc. dated December 7, 2001 is incorporated herein by reference to Exhibit 10.29 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 12, 2002.
10.27	First Amendment to Executive Change of Control Agreement between Alan J. Glass and CIRCOR, Inc. dated December 7, 2001 is incorporated herein by reference to Exhibit 10.30 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 12, 2002.
10.28	First Amendment to Executive Change of Control Agreement between Paul M. Coppinger and CIRCOR, Inc. dated December 7, 2001 is incorporated herein by reference to Exhibit 10.31 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 12, 2002.
10.29	Executive Change of Control Agreement between Douglas E. Frank and CIRCOR, Inc. dated December 7, 2001 is incorporated herein by reference to Exhibit 10.32 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 12, 2002.
10.30	Executive Change of Control Agreement between Carl J. Nasca and CIRCOR, Inc. dated December 7, 2001 is incorporated herein by reference to Exhibit 10.33 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 12, 2002.
10.31	Executive Change of Control Agreement between Barry L. Taylor, Sr. and CIRCOR, Inc. dated December 7, 2001 is incorporated herein by reference to Exhibit 10.34 on Form 10-K, File No. 001-14962, filed with the Securities and Exchange Commission on March 12, 2002.
*10.32	Amendment No. 1 to the Credit Agreement dated as of December 22, 2000, among CIRCOR International, Inc.; each of the Subsidiary Guarantors referred to therein; each of the lenders that is a signatory hereto; and ING Capital LLC, a Delaware limited liability company, as agent for the lenders that are a signatory thereto.

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Exhibit No.	Description and Location
10.33	Amendment No. 2 to the Credit Agreement dated as of December 4, 2002, among CIRCOR International, Inc.; each of the Subsidiary Guarantors referred to therein; each of the lenders that is a signatory hereto; and ING Capital LLC, a Delaware limited liability company, as agent for the lenders that are a signatory thereto is incorporated herein by reference to Exhibit 10.2 on Form 8-K, file No. 001-14962, filed with the Securities and Exchange Commission on December 12, 2002.
* 21	Schedule of Subsidiaries of CIRCOR International, Inc.
* 23	Consent of KPMG LLP.

* Filed with this report

(b) Reports on Form 8-K.

The registrant filed a Current Report on Form 8-K on December 12, 2002 relating to the refinancing of the Company's existing \$75.0 million revolving line of credit by entering into Amendment No. 2 to the original Credit Agreement.

(c) See Item 15(a)(3) above.

(d) See Item 15(a)(2) above.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CIRCOR INTERNATIONAL, INC.

By: /s/ DAVID A. BLOSS, SR.

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

Date: March 12, 2003

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

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ DAVID A. BLOSS, SR.</u> David A. Bloss, Sr.	Chairman, President, Chief Executive Officer and Director (Principal Executive Officer)	March 12, 2003
<u>/s/ KENNETH W. SMITH</u> Kenneth W. Smith	Vice President, Chief Financial Officer and Treasurer (Principal Financial Officer)	March 12, 2003
<u>/s/ STEPHEN J. CARRIERE</u> Stephen J. Carriere	Vice President, Corporate Controller and Assistant Treasurer (Principal Accounting Officer)	March 12, 2003
<u>/s/ DEWAIN K. CROSS</u> Dewain K. Cross	Director	March 12, 2003
<u>/s/ DAVID F. DIETZ</u> David F. Dietz	Director	March 12, 2003
<u>/s/ DOUGLAS M. HAYES</u> Douglas M. Hayes	Director	March 12, 2003
<u>/s/ DANIEL J. MURPHY, III</u> Daniel J. Murphy, III	Director	March 12, 2003
<u>/s/ THOMAS E. CALLAHAN</u> Thomas E. Callahan	Director	March 12, 2003
<u>/s/ THOMAS E. NAUGLE</u> Thomas E. Naugle	Director	March 12, 2003

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, David A. Bloss, Sr., certify that:

1. I have reviewed this annual report on Form 10-K of CIRCOR International, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 12, 2003

Signature: **/s/ DAVID A. BLOSS, SR.**

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

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Kenneth W. Smith, certify that:

1. I have reviewed this annual report on Form 10-K of CIRCOR International, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a. designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - b. evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - c. presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors:
 - a. all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 12, 2003

Signature:

/s/ KENNETH W. SMITH

Kenneth W. Smith
Vice President, Chief Financial Officer
and Treasurer

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders
CIRCOR International, Inc.

We have audited the accompanying consolidated balance sheets of CIRCOR International, Inc. as of December 31, 2002 and 2001 and the related consolidated statements of operations, cash flows and shareholders' equity for the years ended December 31, 2002, 2001 and 2000. In connection with our audits of the consolidated financial statements, we also audited the accompanying financial statement schedule of valuation and qualifying accounts. These consolidated financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CIRCOR International, Inc. as of December 31, 2002 and 2001, and the results of its operations and its cash flows for the years ended December 31, 2002, 2001 and 2000 in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

As discussed in note 2 to the consolidated financial statements, effective January 1, 2002, the Company changed its method of accounting for goodwill and other intangible assets.

/s/ KPMG LLP
Boston, Massachusetts
February 4, 2003

CIRCOR INTERNATIONAL, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	December 31,	
	2002	2001
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 38,382	\$ 57,010
Marketable securities	4,064	–
Trade accounts receivable, less allowance for doubtful accounts of \$2,041 and \$2,637, respectively	56,130	58,855
Inventories	110,287	99,879
Prepaid expenses and other current assets	4,262	4,450
Deferred income taxes	5,884	5,998
	<hr/>	<hr/>
Total Current Assets	219,009	226,192
PROPERTY, PLANT AND EQUIPMENT, NET	64,365	66,973
OTHER ASSETS:		
Goodwill, net of accumulated amortization of \$17,040	100,419	89,833
Other assets	6,941	3,123
	<hr/>	<hr/>
TOTAL ASSETS	\$390,734	\$386,121
	<hr/>	<hr/>
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 26,769	\$ 27,593
Accrued expenses and other current liabilities	14,715	12,365
Accrued compensation and benefits	5,252	5,853
Income taxes payable	2,801	1,782
Notes payable and current portion of long-term debt	18,596	19,844
	<hr/>	<hr/>
Total Current Liabilities	68,133	67,437
LONG-TERM DEBT, NET OF CURRENT PORTION	59,394	77,818
DEFERRED INCOME TAXES	3,934	2,576
OTHER NONCURRENT LIABILITIES	10,605	9,794
MINORITY INTEREST	5,009	6,056
SHAREHOLDERS' EQUITY:		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized; no shares issued and outstanding	–	–
Common stock, \$0.01 par value; 29,000,000 shares authorized; 15,107,850 and 14,861,890 issued and outstanding at December 31, 2002 and 2001, respectively	151	149
Additional paid-in capital	203,952	200,559
Retained earnings	39,200	25,878
Accumulated other comprehensive income (loss)	356	(4,146)
	<hr/>	<hr/>
Total Shareholders' Equity	243,659	222,440
	<hr/>	<hr/>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$390,734	\$386,121
	<hr/>	<hr/>

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

CIRCOR INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)

	Year Ended December 31,		
	2002	2001	2000
Net revenues	\$331,448	\$343,083	\$316,863
Cost of revenues	233,163	239,606	221,072
GROSS PROFIT	98,285	103,477	95,791
Selling, general and administrative expenses	67,166	66,919	63,718
Goodwill amortization expense	–	2,737	2,528
Special charges	745	204	1,909
OPERATING INCOME	30,374	33,617	27,636
Other (income) expense:			
Interest income	(966)	(922)	(451)
Interest expense	7,687	8,024	9,727
Other, net	(686)	521	760
TOTAL OTHER EXPENSE	6,035	7,623	10,036
INCOME BEFORE INCOME TAXES	24,339	25,994	17,600
Provision for income taxes	8,762	10,398	7,040
NET INCOME	\$ 15,577	\$ 15,596	\$ 10,560
Earnings per common share:			
Basic	\$ 1.04	\$ 1.08	\$ 0.80
Diluted	\$ 1.00	\$ 1.04	\$ 0.78
Weighted average common shares outstanding:			
Basic	15,028	14,477	13,238
Diluted	15,610	15,023	13,480

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

CIRCOR INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)

	Year Ended December 31,		
	2002	2001	2000
OPERATING ACTIVITIES			
Net income	\$ 15,577	\$ 15,596	\$ 10,560
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation	10,343	9,977	10,141
Amortization	307	3,069	2,864
Deferred income taxes	3,064	289	1,315
(Gain) loss on disposal of property, plant and equipment	139	(22)	(312)
Loss on write-off of property, plant and equipment	325	-	-
Changes in operating assets and liabilities, net of effects from business acquisitions:			
Trade accounts receivable	6,740	1,291	1,681
Inventories	(4,251)	12,927	(4,147)
Prepaid expenses and other assets	(2,425)	3,532	1,357
Accounts payable, accrued expenses and other liabilities	(4,894)	(1,812)	8,241
Net cash provided by operating activities	<u>24,925</u>	<u>44,847</u>	<u>31,700</u>
INVESTING ACTIVITIES			
Additions to property, plant and equipment	(4,418)	(4,950)	(3,743)
Proceeds from the disposal of property, plant and equipment	119	66	4,179
Business acquisitions, net of cash acquired	(19,964)	(9,617)	(4,105)
Purchase price adjustments on previous acquisitions	1,088	-	9,500
Other	(66)	-	(4)
Net cash provided by (used in) investing activities	<u>(23,241)</u>	<u>(14,501)</u>	<u>5,827</u>
FINANCING ACTIVITIES			
Proceeds from long-term debt	3,934	17,952	36,172
Payments of long-term debt	(24,564)	(16,241)	(69,590)
Proceeds from the issuance of common stock, net of issuance costs	-	18,698	-
Dividends paid	(2,255)	(2,169)	(1,502)
Proceeds from the exercise of stock options	2,249	369	179
Conversion of restricted stock units	132	9	58
Net cash provided by (used in) financing activities	<u>(20,504)</u>	<u>18,618</u>	<u>(34,683)</u>
Effect of exchange rate changes on cash and cash equivalents	192	(146)	195
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	<u>(18,628)</u>	<u>48,818</u>	<u>3,039</u>
Cash and cash equivalents at beginning of year	57,010	8,192	5,153
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 38,382</u>	<u>\$ 57,010</u>	<u>\$ 8,192</u>
Supplemental Cash Flow Information:			
Cash paid during the twelve months for:			
Income taxes	\$ 4,387	\$ 7,460	\$ 5,573
Interest	\$ 7,240	\$ 7,689	\$ 9,727
Pension plan contributions	\$ 5,717	\$ 69	\$ 918

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

CIRCOR INTERNATIONAL, INC.
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(In thousands)

	Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
	Shares	Amount				
BALANCE AT DECEMBER 31, 1999	13,237	\$ 132	\$ 180,887	\$ 3,393	\$ (1,003)	\$ 183,409
Net income				10,560		10,560
Cumulative translation adjustment					(1,584)	(1,584)
Comprehensive income						8,976
Common stock dividends declared				(1,502)		(1,502)
Stock options exercised	20	1	178			179
Conversion of restricted stock units	6	-	58			58
Net change in restricted stock units			61			61
BALANCE AT DECEMBER 31, 2000	13,263	133	181,184	12,451	(2,587)	191,181
Net income				15,596		15,596
Cumulative translation adjustment					(1,559)	(1,559)
Comprehensive income						14,037
Issuance of common stock	1,553	16	18,682			18,698
Common stock dividends declared				(2,169)		(2,169)
Stock options exercised	45	-	527			527
Conversion of restricted stock units	1	-	9			9
Net change in restricted stock units			157			157
BALANCE AT DECEMBER 31, 2001	14,862	149	200,559	25,878	(4,146)	222,440
Net income				15,577		15,577
Cumulative translation adjustment					5,481	5,481
Additional minimum pension liability (net of tax benefit of \$608)					(996)	(996)
Unrealized net gain-marketable securities (net of tax of \$10)					17	17
Comprehensive income						20,079
Common stock dividends declared				(2,255)		(2,255)
Stock options exercised	234	2	3,064			3,066
Conversion of restricted stock units	12	-	132			132
Net change in restricted stock units			197			197
BALANCE AT DECEMBER 31, 2002	15,108	\$ 151	\$ 203,952	\$ 39,200	\$ 356	\$ 243,659

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

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(1) Description of Business

CIRCOR International, Inc. ("CIRCOR" or the "Company" or "we") designs, manufactures and distributes valves and related products and services for use in a wide range of applications to optimize the efficiency or ensure the safety of fluid-control systems. The valves and related fluid-control products we manufacture are used in processing industries; oil and gas exploration, production, distribution and refining; pipeline construction and maintenance; HVAC and power; aerospace, military and commercial aircraft; and maritime manufacturing and maintenance. We have used both internal product development and strategic acquisitions to assemble a complete array of fluid-control products and technologies that enables us to address our customers' unique fluid-control application needs. We have two major product groups: Instrumentation and Thermal Fluid Controls Products, and Petrochemical Products.

The Instrumentation and Thermal Fluid Controls Products Group designs, manufactures and sells valves and controls for diverse end-uses including instrumentation, aerospace, cryogenic and steam applications. Selected products include precision valves, compression tube and pipefitting, control valves, relief valves, couplers, regulators and strainers. The Instrumentation and Thermal Fluid Controls Products Group includes the following subsidiaries and major divisions: Aerodyne Controls; Circle Seal Controls, Inc.; CPC-Cryolab; Hoke, Inc.; Leslie Controls, Inc.; Nicholson Steam Trap; Rockwood Swendem; Regeltechnik Kornwestheim GmbH; Société Alsacienne Regulaves Thermiques von Rohr, S.A.; Spence Engineering Company, Inc.; SSI Equipment, Inc.; Tomco Products, Inc.; and U.S. Para Plate Corporation.

The Petrochemical Products Group designs, manufactures and sells flanged-end and threaded-end floating and trunnion ball valves, needle valves, check valves, butterfly valves and large forged steel ball valves and gate valves for use in oil, gas and chemical processing and industrial applications. The Petrochemical Products Group includes the following subsidiaries and major divisions: KF Contromatics Specialty Products; KF Industries, Inc.; Pibiviesse S.p.A.; Suzhou KF Valve Co., Ltd.; and KF Telford Engineered Products.

On October 18, 1999 (the "spin-off date"), we became a publicly owned company as a result of a tax-free distribution of our common stock (the "distribution" or "spin-off") to the shareholders of our former parent, Watts Industries, Inc. ("Watts").

(2) Summary of Significant Accounting Policies

Principles of Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of CIRCOR International, Inc. and its wholly and majority owned subsidiaries. The results of companies acquired during the year are included in the consolidated financial statements from the date of acquisition. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of these financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying disclosures. Some of the more significant estimates include depreciation, amortization and impairment of long-lived assets, pension obligations, deferred income taxes, inventory valuations, sales returns, special charges, environmental liability, product liability, warranty accruals and allowance for doubtful accounts. While management believes that the estimates and assumptions used in the preparation of the financial statements are appropriate, actual results could differ from those estimates.

Revenue Recognition and Allowance for Sales Returns

Revenue is recognized when products are shipped and title has passed to the customer provided that no significant post-delivery obligations remain and collection of the resulting receivable is reasonably assured. Allowances for sales returns are recorded as a reduction of revenues based upon historical experience, return policies and contractual

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

product return rights granted to customers. Adjustments to the allowance account are made as new information becomes available. Shipping and handling costs invoiced to customers are recorded as components of revenues and the associated costs are recorded as cost of sales.

Allowance for Doubtful Accounts

We estimate the collectibility of our accounts receivable and the amount of bad debts that may be incurred in the future. We analyze specific customer accounts, historical experience, customer concentrations and relationships, credit ratings, and current economic trends when evaluating the adequacy of our allowance for doubtful accounts.

Cash Equivalents

Cash equivalents consist of highly liquid investments with maturities of three months or less.

Marketable Securities

Marketable securities consist of various forms of mutual funds and equity securities, all of which are currently designated as available for sale. As such, the carrying values of our marketable securities are marked to market and unrealized gains and losses at the balance sheet date are recognized net of tax in other comprehensive income.

Inventories

Inventories are valued at the lower of cost or market. Cost is generally determined on the first-in, first-out ("FIFO") basis. Where appropriate, standard cost systems are utilized for purposes of determining cost; the standards are adjusted as necessary to ensure they approximate actual costs. Estimates of lower of cost or market value of inventory are determined at the operating unit level and evaluated periodically. Estimates for obsolescence or unmarketable inventory are maintained based on current economic conditions, historical sales quantities and patterns and, in some cases, the specific risk of loss on specifically identified inventories. Such inventories are recorded at estimated realizable value net of the costs of disposal.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets, which range from 10 to 50 years for buildings and improvements and 3 to 15 years for machinery and equipment. Leasehold improvements are amortized on a straight-line basis over the shorter of the lease term or estimated useful life of the asset. Repairs and maintenance costs are expensed as incurred.

Goodwill and Other Intangible Assets

We adopted Financial Accounting Standards Board ("FASB") Statement No. 142, "Goodwill and Other Intangible Assets," ("Statement No. 142") on January 1, 2002. Statement No. 142 addresses the financial accounting and reporting standards for the acquisition of intangible assets outside of a business combination and for goodwill and other intangible assets subsequent to their acquisition. As a result of adopting Statement No. 142, we no longer amortize goodwill and indefinite-lived intangible assets; rather they are written-down, as needed, based upon impairment. During the first half of 2002, we completed our transitional impairment review, as required by Statement No. 142, and determined that there was no impairment. Additionally, we perform an impairment test on an annual basis or more frequently if circumstances warrant. Intangible assets that have definite useful lives continue to be amortized over their useful lives.

Impairment of Other Long-Lived Assets

Other long-lived assets include property, plant, and equipment and intangibles with definite lives. We perform impairment analyses of our other long-lived assets whenever events and circumstances indicate that they may be

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

impaired. When the undiscounted future cash flows are expected to be less than the carrying value of the assets being reviewed for impairment, the assets are written down to fair market value.

Research and Development

Research and development expenditures are expensed when incurred and are included in the operating income in the Consolidated Statements of Operations. Our research and development expenditures for the years ended December 31, 2002, 2001 and 2000, were \$2.8 million, \$2.6 million and \$2.8 million, respectively.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recognized if we anticipate that we may not realize some or all of a deferred tax asset.

Environmental Compliance and Remediation

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to existing conditions caused by past operations, which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and, or, remedial efforts are probable and the costs can be reasonably estimated. Estimated costs are based upon current laws and regulations, existing technology and the most probable method of remediation. The costs are not discounted and exclude the effects of inflation. If the cost estimates result in a range of equally probable amounts, the lower end of the range is accrued.

Foreign Currency Translation

Our international subsidiaries operate and report their financial results using local functional currencies. Accordingly, all assets and liabilities of these subsidiaries are translated into United States dollars using exchange rates in effect at the end of the period, and revenues and costs are translated using weighted average exchange rates for the period. The resulting translation adjustments are presented as a separate component of accumulated other comprehensive income. We do not provide for U.S. income taxes on foreign currency translation adjustments since we do not provide for such taxes on undistributed earnings of foreign subsidiaries.

Earnings Per Common Share

Basic earnings per common share is calculated by dividing net income by the number of weighted average common shares outstanding. Diluted earnings per common share is calculated by dividing net income by the weighted average common shares outstanding and assumes the conversion of all dilutive securities.

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Earnings per common share and the weighted average number of shares used to compute net earnings per common share, basic and assuming full dilution, are reconciled below (In thousands, except per share data):

	Year Ended December 31,					
	2002			2001		
	Net Income	Shares	Per Share Amount	Net Income	Shares	Per Share Amount
Basic EPS	\$15,577	15,028	\$ 1.04	\$15,596	14,477	\$ 1.08
Dilutive securities, principally common stock options	—	582	.04	—	546	.04
Diluted EPS	\$15,577	15,610	\$ 1.00	\$15,596	15,023	\$ 1.04

Options to purchase 255,500 and 260,500 shares of our common stock, at an exercise price of \$16.32 in both years, were not included in the computation of diluted earnings per share for the years ended December 31, 2002 and 2001, respectively, because the exercise price was more than the average market price of the common shares for the twelve-month period.

Stock Based Compensation

We measure compensation cost in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees," ("APB No. 25") and related interpretations. Accordingly, no accounting recognition is given to stock options granted to our employees at fair market value until the options are exercised. Upon exercise, we credit the net proceeds, including income tax benefits realized, if any, to equity. The following table illustrates the effect on net income and earnings per share if we had applied the fair value recognition provisions of FASB Statement No. 123, "Accounting for Stock Based Compensation", to stock based employee compensation (In thousands, except per share data):

	Year Ended December 31,		
	2002	2001	2000
Net income	\$15,577	\$15,596	\$10,560
Stock-based employee compensation cost, net of tax, that would have been included in the determination of income if the fair value based method had been applied to all awards	639	397	299
Pro forma net income as if the fair value based method had been applied to all awards	\$14,938	\$15,199	\$10,261
Earnings per common share (as reported):			
Basic	\$ 1.04	\$ 1.08	\$ 0.80
Diluted	\$ 1.00	\$ 1.04	\$ 0.78
Pro forma earnings per common share:			
Basic	\$ 0.99	\$ 1.05	\$ 0.78
Diluted	\$ 0.96	\$ 1.01	\$ 0.76

Derivative Financial Instruments

We use foreign currency forward exchange contracts to manage currency exchange exposures in certain foreign currency denominated transactions. Gains and losses on contracts designated as hedges are recognized when the contracts expire, which is generally in the same time period as the underlying foreign currency denominated transactions. Gains and losses on contracts that do not qualify for hedge accounting treatment are recognized as incurred as a component of other non-operating income or expense.

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

New Accounting Standards

We adopted FASB Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," ("Statement No. 144") on January 1, 2002. Statement No. 144 refines existing impairment accounting guidance for long-lived assets and extends the use of accounting for discontinued operations to both reporting segments and distinguishable components thereof. Statement No. 144 also eliminates the existing exception to consolidation of a subsidiary for which control is likely to be temporary. The adoption of Statement No. 144 had no impact on our consolidated results of operations or financial position.

In April 2002, FASB Statement No. 145, "Rescission of FASB Statement Nos. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections," ("Statement No. 145"), was issued effective for fiscal years beginning May 15, 2002 or later. Statement No. 145 rescinds Statement No. 4, "Reporting Gains and Losses from the Extinguishment of Debt," Statement No. 44, "Accounting for Intangible Assets of Motor Carriers" and Statement No. 64, "Extinguishments of Debt Made to Satisfy Sinking-Fund Requirements." Statement No. 145 also amends Statement No. 13, "Accounting For Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and for certain transactions that have economic effects that are similar to sale-leaseback transactions. This statement also amends other existing authoritative pronouncements to make various technical corrections, clarify meaning or describe their applicability under changed conditions. We adopted the provisions of Statement No. 145 effective April 1, 2002, and the adoption had no impact on our consolidated results of operations or financial position.

In July 2002, FASB Statement No. 146, "Accounting for Costs Associated With Exit or Disposal Activities," ("Statement No. 146"), was issued. Statement No. 146 requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. This statement is effective for fiscal years beginning after December 31, 2002. We do not believe the impact of adopting Statement No. 146 will have a material impact on our reported consolidated of operation or financial position.

In December 2002, FASB Statement No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure-An Amendment of SFAS No. 123," ("Statement No. 148"), was issued. Statement No. 148 amends Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("Statement No. 123"), to provide alternative methods of transition for a voluntary change to the fair-value-based method of accounting for stock-based employee compensation. In addition, this Statement amends the disclosure requirements of Statement No. 123 to require prominent disclosures in not only annual, but also interim financial statements about the effect the fair value method would have had on reported results. The transition and annual disclosure requirements of Statement No. 148 are effective for fiscal years ending after December 15, 2002. We have adopted the annual disclosure provisions of Statement No. 148 in these consolidated financial statements. The interim disclosure requirements are effective for interim periods beginning after December 15, 2002. We have chosen to continue to account for stock-based compensation of employees using the fair value method prescribed in APB No.25.

FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others, an Interpretation of FASB No. 5, 57, and 107 and Rescission of FASB Interpretation No. 34," ("FIN No. 45") was issued in November 2002. FIN No. 45 elaborates on the disclosures to be made by a guarantor and clarifies requirements relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. FIN No. 45 requires that upon issuance of a guarantee, companies recognize a liability for the fair value of the obligation it assumes under that guarantee. We have adopted the annual disclosure provisions of FIN No. 45 in these consolidated financial statements. We will adopt the provisions for initial recognition and measurement and interim disclosures during the first quarter of 2003. We do offer warranties, but the returns under warranty have been immaterial. The adoption of FIN No. 45 is not expected to have a material effect on the consolidated financial statements.

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In January 2003, FASB Interpretation No. 46, "Consolidation of Variable Interest Entities, an Interpretation of ARB No. 51," ("FIN No. 46") was issued. FIN No. 46 requires certain variable interest entities to be consolidated by the primary beneficiary of the entity if the equity investors in the entity do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. FIN No. 46 is effective for all new variable interest entities created or acquired after January 31, 2003. For variable interest entities created or acquired prior to February 1, 2003, the provisions of FIN No. 46 must be applied for the first interim or annual period beginning after June 15, 2003. We have no variable interest entities at this time, and as such, the adoption of FIN No. 46 will not have an effect on the consolidated financial statements.

(3) Business Acquisitions

On July 22, 1998, Watts Investment Company, a subsidiary of Watts, acquired Hoke, Inc. ("Hoke"), a multinational manufacturer of industrial valves and fittings, for approximately \$85.0 million, consisting of cash and the assumption of debt. On October 18, 1999, the spin-off date, the ownership of Hoke was transferred to CIRCOR. Additionally, Watts Investment Company assigned to us all of its rights under the Stock Purchase Agreement governing the Hoke acquisition (the "Stock Purchase Agreement"). As a result, we became the claimant in two separate arbitration proceedings against the former Hoke stockholders. In early 1999, pursuant to the terms of the Stock Purchase Agreement, arbitration proceedings began between the former Hoke stockholders and us to determine the net worth of the Hoke closing balance sheet. In May 2000, the arbitrator awarded us a purchase price adjustment in the amount of \$6.2 million. Because the Stock Purchase Agreement provided for a deferred purchase price payment by us of \$3.5 million, the net effect of the arbitrator's award resulted in a net payment to us of \$1.5 million net of associated professional fees. The former Hoke stockholders paid all amounts owed to us as a result of this award. In a second claim made on December 11, 1998, we asserted that the former Hoke stockholders, either intentionally or unintentionally, made misrepresentations in the Stock Purchase Agreement regarding Hoke's financial statements and that those misrepresentations caused Hoke's earnings for 1997 to be inflated, thereby causing us harm. This claim was the subject of a separate proceeding with a different arbitrator than was used in the closing date balance sheet dispute. During November 2000, the former Hoke stockholders agreed to settle this claim and paid us \$8.0 million net of professional fees. During September 2002, we reduced recorded goodwill by \$0.6 million as a result of the recovery of a portion of our purchase price paid for the acquisition of Hoke. This recovery of purchase price was in accordance with an arbitration agreement with the former shareholders of Hoke, who awarded us the rights to the recovery of certain previously paid income taxes.

On November 29, 2000, we acquired the Rockwood Swendeman product line, a line of cryogenic safety relief valves that was manufactured and distributed in Scarborough, Maine. The cost of this acquisition was \$4.0 million and was paid in cash. The excess of the purchase price over the fair value of the net identifiable assets of \$3.4 million acquired has been recorded as goodwill. The purchase agreement also provides for additional payments over the next five years contingent on future sales. The additional payments, if any, will be accounted for as additional goodwill. As of December 31, 2002, no additional payments have been made.

On June 25, 2001, we acquired a 75% interest in Regeltechnik Kornwestheim GmbH and affiliates ("RTK"), a German closed corporation. The aggregate purchase price paid for RTK was \$10.6 million, net of cash acquired and included the assumption of \$4.2 in long-term debt. RTK manufactures and sells control valves, regulators, actuators and related instrumentation products primarily for steam and fluid process applications in the HVAC, industrial, food, beverage and pharmaceutical markets. On February 5, 2002, the minority interest shareholder of RTK exercised the put option granted to him in the purchase agreement, thereby electing to sell us the remaining 25% interest in RTK. Accordingly, during March 2002 we paid cash of approximately \$2.5 million for the purchase of this 25% interest in RTK, resulting in \$1.3 million of additional goodwill. The aggregate purchase price for RTK acquisition was \$13.0 million, consisting of \$8.8 million of cash, net of acquired cash, and the assumption of \$4.2 million of long-term debt. The excess of the purchase price over the fair value of the net identifiable assets of \$5.2 million acquired has been recorded as goodwill.

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The results of operations for this business have previously been included in our consolidated financial statements from the date our initial 75% ownership share was acquired in June 2001.

On June 29, 2001, we acquired 100% interest in Société Alsacienne Regulaves Thermiques von Rohr, S.A. ("SART"), a French limited liability company. SART manufactures and sells control valves, regulators, actuators and related instrumentation products primarily for steam and fluid process applications in the HVAC, industrial, food, beverage and pharmaceutical markets. We paid \$2.8 million in cash; net of \$0.1 million in cash acquired, and assumed \$0.3 million of long-term debt for an aggregate purchase price of \$3.1 million. The purchase agreement also provides for additional payments over the next five years contingent on future sales. The excess of the purchase price over the fair value of the net identifiable assets of \$0.7 million acquired has been recorded as goodwill. The results of operations of SART have been included in our consolidated financial statements since the date of acquisition.

During June 2002, we received \$0.5 million in cash representing a purchase price adjustment relating to the resolution of indemnification claims that were previously made against the former owners of Leslie Controls, Inc. The refunded cash purchase price was accounted for as a reduction of recorded goodwill.

In October 2002, we purchased Tomco and U.S. Para Plate for \$17.6 million in cash. We assumed \$0.7 million in long-term debt, received \$2.5 million in cash, and \$4.0 million in marketable securities at fair market value. We also deposited an additional \$2.3 million into separate escrow accounts for the benefit of the sellers subject to any such claims by us as are allowed in accordance with the purchase agreements. Any funds remaining in the escrow account at the conclusion of the contingency periods will be distributed to the sellers and accounted for as additional purchase price. Tomco, located in Painesville, Ohio, manufactures a full line of quick connect and disconnect couplers for general purpose industrial applications and for use in more sophisticated instrumentation markets. U.S. Para Plate, located in Auburn, California, develops and produces high-pressure valves and regulators for industrial, aerospace and military applications. The combined annual revenues for both Tomco and U.S. Para Plate are approximately \$13.0 million. We financed both of these acquisitions through our available cash flow. The excess of the purchase price over the fair value of the net identifiable assets of \$9.5 million has been recorded as goodwill and is expected to be deductible for tax purposes.

All acquisitions were accounted for as purchase business combinations.

The following table reflects unaudited pro forma consolidated results on the basis that Tomco, U.S. Para Plate, RTK and SART acquisitions took place and were recorded at the beginning of the fiscal year for each of the respective periods presented (In thousands):

	Year Ended December 31,		
	2002	2001	2000
Net revenue	\$343,420	\$364,180	\$348,186
Net income	16,561	16,735	11,378
Earnings per share: basic	1.10	1.16	.86
diluted	1.06	1.11	.84

The unaudited pro forma consolidated results of operations may not be indicative of the actual results that would have occurred had the acquisitions been consummated at the beginning of each fiscal period, or of future operations of the consolidated companies under our ownership and management.

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following tables provide reconciliations of the net cash paid and goodwill recorded for acquisitions during the years ended December 31, 2002, 2001 and 2000 (In thousands):

	Year Ended December 31,		
	2002	2001	2000
Reconciliation of net cash paid:			
Fair value of assets acquired	\$24,960	\$19,542	\$ 4,350
Purchase price adjustment	(1,088)	—	(9,500)
Less: liabilities assumed	2,377	9,140	245
	21,495	10,402	(5,395)
Cash paid (received)			
Less: cash acquired	2,619	785	—
	\$18,876	\$ 9,617	\$(5,395)
Net cash paid (received) for acquired businesses			
Determination of goodwill:			
Cash paid (received), net of cash acquired	\$18,876	\$ 9,617	\$(5,395)
Liabilities assumed	2,377	9,140	245
Less: fair value of tangible assets acquired, net of cash acquired	11,780	13,764	832
	\$ 9,473	\$ 4,993	\$(5,982)
Goodwill			

(4) Marketable Securities

All marketable securities are designated as available for sale. No marketable securities were held in 2000 or 2001. A schedule of marketable securities at December 31, 2002 follows (In thousands):

	Adjusted Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government agency mutual funds	\$ 3,150	\$ 27	\$ —	\$ 3,177
Equity mutual funds	254	—	5	249
Equity securities	633	8	3	638
	\$ 4,037	\$ 35	\$ 8	\$ 4,064

(5) Inventories

Inventories consist of the following (In thousands):

	December 31,	
	2002	2001
Raw materials	\$ 44,065	\$42,829
Work in process	26,480	26,111
Finished goods	39,742	30,939
	\$110,287	\$99,879

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(6) Property, Plant and Equipment

Property, plant and equipment consists of the following (In thousands):

	December 31,	
	2002	2001
Land	\$ 6,433	\$ 4,662
Buildings and improvements	33,406	25,063
Machinery and equipment	118,234	119,425
Construction in progress	925	311
	158,998	149,461
Accumulated depreciation	(94,633)	(82,488)
	\$ 64,365	\$ 66,973

(7) Goodwill and Other Intangible Assets

In accordance with Statement No. 142, we completed a transitional goodwill impairment evaluation by comparing the fair value of our reporting units as of January 1, 2002 to their carrying values and determined that the fair value of the reporting units' goodwill exceeded their carrying value and that no impairment existed. We completed our annual goodwill impairment valuation as of November 1, 2002 during the fourth quarter of 2002, and determined that the fair value of the reporting units' goodwill exceeded their carrying value and that no impairment existed for the annual evaluation as well.

The following table shows goodwill, by segment, net of accumulated amortization, as of December 31, 2002 (In thousands):

	Instrumentation & Thermal Fluid Controls Products	Petrochemical Products	Consolidated Total
Goodwill as of December 31, 2001	\$ 77,905	\$ 11,928	\$ 89,833
Business acquisitions (see note 3)	10,561	-	10,561
Purchase price adjustment of previous acquisitions (see note 3)	(1,088)	-	(1,088)
Currency translation adjustments	1,094	19	1,113
	\$ 88,472	\$ 11,947	\$ 100,419

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

In accordance with Statement No. 142, goodwill associated with acquisitions consummated after June 30, 2001 is not amortized and the amortization of goodwill from business combinations consummated before June 30, 2001 ceased on January 1, 2002. The following table reflects the results of operations had Statement No. 142 been adopted and applied to all prior periods (In thousands, except per share data):

	Year Ended December 31,		
	2002	2001	2000
Net income	\$15,577	\$15,596	\$10,560
Goodwill amortization expense	—	2,737	2,528
Adjusted net income	<u>\$15,577</u>	<u>\$18,333</u>	<u>\$13,088</u>
Basic earnings per Share:			
Net income	\$ 1.04	\$ 1.08	\$ 0.80
Goodwill amortization expense	—	0.19	0.19
Adjusted earnings per share	<u>\$ 1.04</u>	<u>\$ 1.27</u>	<u>\$ 0.99</u>
Diluted earnings per share:			
Net income	\$ 1.00	\$ 1.04	\$ 0.78
Goodwill amortization expense	—	0.18	0.19
Adjusted earnings per share	<u>\$ 1.00</u>	<u>\$ 1.22</u>	<u>\$ 0.97</u>

The table below presents gross intangible assets and the related accumulated amortization as of December 31, 2002 (In thousands):

	Gross Carrying Amount	Accumulated Amortization
Patents	\$ 2,935	\$ (2,591)
Trademarks and trade names	1,613	(1,051)
Land use rights	1,180	(243)
Other	149	(149)
Total	<u>\$ 5,877</u>	<u>\$ (4,034)</u>
Net carrying value of intangible assets	<u>\$ 1,843</u>	

The table below presents estimated amortization expense for intangible assets recorded as of January 1, 2002 (In thousands):

	2003	2004	2005	2006	2007	After 2007
Estimated amortization expense	\$292	\$152	\$139	\$128	\$ 60	\$1,072

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(8) Income Taxes

The significant components of our deferred income tax liabilities and assets are as follows (In thousands):

	December 31,	
	2002	2001
Deferred income tax liabilities:		
Excess tax over book depreciation	\$ 7,320	\$ 7,034
Inventory	4,483	2,978
Other	—	580
	11,803	10,592
Deferred income tax assets:		
Accrued expenses	6,104	6,026
Net operating loss and credit carryforward	1,741	1,681
Cost basis differences in intangible assets	1,290	1,649
Other	5,330	5,214
	14,465	14,570
Valuation allowance	712	556
	13,753	14,014
Deferred income tax asset, net of valuation allowance	\$ 1,950	\$ 3,422
Deferred income tax asset, net	\$ 1,950	\$ 3,422
The above components of deferred income taxes are classified in the respective consolidated balance sheet as follows:		
Net current deferred income tax assets	\$ 5,884	\$ 5,998
Net noncurrent deferred income tax liabilities	(3,934)	(2,576)
	\$ 1,950	\$ 3,422

The provision for income taxes is based on the following pre-tax income (In thousands):

	Year Ended December 31,		
	2002	2001	2000
Domestic	\$15,516	\$18,699	\$13,790
Foreign	8,823	7,295	3,810
	\$24,339	\$25,994	\$17,600

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The provision for income taxes (benefit) consists of the following (In thousands):

	Year Ended December 31,		
	2002	2001	2000
Current tax expense:			
Federal	\$ 1,714	\$ 7,030	\$ 3,759
Foreign	3,604	2,380	1,354
State	380	699	612
	5,698	10,109	5,725
Deferred tax expense (benefit):			
Federal	3,334	9	73
Foreign	(572)	180	954
State	302	100	288
	3,064	289	1,315
	\$ 8,762	\$ 10,398	\$ 7,040

Actual income taxes reported from operations are different from those that would have been computed by applying the federal statutory tax rate to income before income taxes. The reasons for these differences are as follows:

	Year Ended December 31,		
	2002	2001	2000
Computed expected federal income tax rate	35.0%	35.0%	35.0%
State income taxes, net of federal tax benefit	1.8	2.0	3.3
Goodwill amortization	0.0	2.9	4.4
Foreign tax rate differential	0.6	—	1.5
Extraterritorial income exclusion (formerly FSC)	(2.2)	(2.0)	(5.0)
Other, net	0.8	2.1	0.8
	36.0%	40.0%	40.0%
Effective Tax Rate	36.0%	40.0%	40.0%

At December 31, 2002, we had a foreign net operating loss of \$877,000 and foreign tax credits of \$760,000. The Company also had state net operating losses of \$5.3 million and state tax credits of \$400,000. At December 31, 2001, the Company had foreign tax credits of \$1.1 million, federal net operating loss of \$155,000, state net operating losses of \$3.9 million, and state tax credits of \$341,000. The foreign net operating losses can be carried forward indefinitely. Foreign tax credits if not utilized will expire in 2005. The state net operating losses and state tax credits if not utilized will expire in 2014 through 2022. The Company had a valuation allowance of \$712,000 and \$556,000 as of December 31, 2002 and December 31, 2001, respectively, against the state net operating losses and state tax credits. Management believes that after considering all of the available objective evidence, it is more likely than not that the results of future operations will generate sufficient taxable income to realize the remaining deferred tax assets.

Undistributed earnings of our foreign subsidiaries amounted to \$12.5 million at December 31, 2002 and \$8.0 million at December 31, 2001. Those earnings are considered to be indefinitely reinvested and, accordingly, no provision for U.S. federal and state income taxes has been recorded thereon. Upon distribution of those earnings, in the form of dividends or otherwise, we will be subject to both U.S. income taxes (subject to an adjustment for foreign tax credits) and withholding taxes payable to the various foreign countries. Determination of the amount of U.S. income tax liability that would be incurred is not practicable because of the complexities associated with its hypothetical calculation; however, unrecognized foreign tax credits would be available to reduce some portion of any U.S. income tax liability. Withholding taxes of \$0.5 million would be payable upon remittance of all previously unremitted earnings at December 31, 2002.

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(9) Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following (In thousands):

	December 31,	
	2002	2001
Commissions and sales incentives payable	\$ 4,900	\$ 3,582
Insurance	2,627	2,121
Interest	1,210	1,513
Other	5,978	5,149
	\$14,715	\$12,365

(10) Financing Arrangements

Long-term debt consists of the following (In thousands):

	December 31,	
	2002	2001
Senior unsecured notes, maturing October 19, 2002-2006, at a fixed interest rate of 8.23%	\$60,000	\$75,000
Industrial revenue bonds, maturing in December 2006 and August 2019, at variable interest rates of 1.45% and 1.64% at December 31, 2002, and 1.45% and 1.60% at December 31, 2001	12,260	12,265
Capital lease obligations	3	—
Other borrowings, at varying interest rates ranging from 1.65% to 8.5% in 2002 and 2.15% to 8.5% in 2001	5,727	10,397
	77,990	97,662
Less: current portion	18,596	19,844
	\$59,394	\$77,818

On October 18, 1999, we entered into a \$75.0 million unsecured revolving credit facility agreement maturing in October 2003. On December 4, 2002, we refinanced this credit line by entering into an amendment to the original credit agreement that extends the term of the facility to December 2006. The credit agreement provides us with an option to increase the line to \$100 million. In accordance with the credit facility agreement, the rate of interest and facility fees we are charged vary based upon changes in our net debt leverage ratio. We can borrow at either the Euro dollar rate plus an applicable margin of 0.625% to 1.625% or at a base rate plus an applicable margin of 0% to 0.25%. The base rate for any day is the higher of the federal funds rate plus ½ of 1% or the lenders prime rate. We are also required to pay an unused facility fee that can range from 0.15 to 0.35% per annum and a utilization fee of 0.125% per annum if our borrowings exceed 50% of the credit facility limit.

At December 31, 2002, we had \$75.0 million available from the unsecured revolving credit facility to support our acquisition program, working capital requirements, and for general corporate purposes.

On October 19, 1999, we also issued \$75.0 million of unsecured notes that matures through annual principal payments from October 2002–2006. Proceeds from the notes and borrowings under the credit facility were used to repay \$96.0 million of investments by, and advances from, Watts and the outstanding balance under a then existing term loan agreement. Beginning on October 19, 2002, we commenced making \$15.0 million annual payments reducing the \$75.0 million outstanding balance of our unsecured 8.23% senior notes, which mature in October 2006.

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Certain of our loan agreements contain covenants that require, among other items, maintenance of certain financial ratios and also limits our ability to: enter into secured and unsecured borrowing arrangements; issue dividends to shareholders; acquire and dispose of businesses; invest in capital equipment; participate in certain higher yielding long-term investment vehicles; and issue additional shares of our stock. We were in compliance with all covenants related to our existing debt obligations at December 31, 2002 and 2001.

At December 31, 2002, minimum principal payments required during each of the next five years are as follows (In thousands):

Year ending December 31,

2003	\$	18,596
2004		16,153
2005		15,265
2006		22,765
2007		49
Thereafter		5,162
	\$	77,990

(11) Stock-Based Compensation

The 1999 Stock Option and Incentive Plan (the "1999 Stock Plan") adopted by our Board of Directors permits the grant of the following types of awards to our officers, other employees and non-employee directors: incentive stock options, non-qualified stock options, deferred stock awards, restricted stock awards, unrestricted stock awards, performance share awards and dividend equivalent rights. The 1999 Stock Plan provides for the issuance of up to 2,000,000 new shares of common stock (subject to adjustment for stock splits and similar events). New options granted under the 1999 Stock Plan could have varying vesting provisions and exercise periods. Options granted vest in periods ranging from 1 to 7 years and expire 10 years after the grant date.

The CIRCOR Management Stock Purchase Plan, which is a component of the 1999 Stock Plan, provides that eligible employees may elect to receive restricted stock units in lieu of all or a portion of their pre-tax annual incentive bonus and, in some cases, make after-tax contributions in exchange for restricted stock units. In addition, non-employee directors may elect to receive restricted stock units in lieu of all or a portion of their annual directors' fees. Each restricted stock unit represents a right to receive one share of our common stock after a three-year vesting period. Restricted stock units are granted at a discount of 33% from the fair market value of the shares of common stock on the date of grant. This discount is amortized as compensation expense ratably over the vesting period.

At the spin-off date, vested and non-vested Watts options held by our employees terminated in accordance with their terms and new options of equivalent value were issued under the 1999 Stock Plan to replace the Watts options ("replacement options"). The vesting dates and exercise periods of the options were not affected by the replacement. Based on their original Watts grant date, CIRCOR replacement options vest during the years 1999 to 2003 and expire 10 years after grant of the original Watts options. Additionally, at the spin-off date, vested and non-vested Watts restricted stock units and stock appreciation rights ("SARS") held by our employees were converted into comparable restricted stock units and SARS based on our common stock. Vested restricted stock units will be distributed in shares of our common stock. Upon exercise, vested SARS will be payable in cash. At December 31, 2002, there were 236,389 restricted stock units and 50,441 SARS outstanding. Compensation expense related to restricted stock units and SARS for the years ended December 31, 2002, 2001 and 2000 was \$0.3 million, \$0.4 million and \$0.1 million, respectively.

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The fair value of each option grant was estimated as of the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	December 31,		
	2002	2001	2000
Risk-free interest rate	4.1%	5.4%	5.8%
Expected life (years)	7	7	5
Expected stock volatility	45.5%	55.7%	46.3%
Expected dividend yield	0.9%	0.9%	1.8%

A summary of the status of all options granted to employees and non-employee directors at December 31, 2002, 2001, and 2000 and changes during the years then ended is presented in the table below (Options in thousands):

	December 31,					
	2002		2001		2000	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Options outstanding at beginning of period	1,417	\$ 11.14	1,232	\$ 9.85	1,025	\$ 10.43
Granted	339	13.90	279	16.10	406	8.60
Exercised	(234)	9.58	(45)	8.11	(20)	8.78
Canceled	(24)	9.95	(49)	10.59	(179)	10.48
Options outstanding at end of period	1,498	\$ 12.00	1,417	\$ 11.14	1,232	\$ 9.85
Options exercisable at end of period	644	\$ 10.75	631	\$ 10.49	464	\$ 10.62
Weighted average fair value of options granted	\$	6.69	\$	9.17	\$	3.61

The following table summarizes information about stock options outstanding at December 31, 2002 (Options in thousands):

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
\$ 7.50 – \$ 8.37	301	7.0	\$ 7.63	148	\$ 7.76
9.43 – 10.50	307	6.7	10.02	206	9.95
11.00 – 12.98	248	3.3	12.40	244	12.42
13.00 – 16.32	642	9.2	14.84	46	15.17
\$ 7.50 – \$16.32	1,498	7.3	\$ 12.00	644	\$ 10.75

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(12) Accumulated Other Comprehensive Income

The accumulated other comprehensive income as of December 31, 2002 consists of the following (In thousands):

	December 31, 2002		
	Gross Item	Tax Effect	Net of Tax
Cumulative translation adjustment	\$ 1,335	\$ –	\$1,335
Additional minimum pension liability	(1,604)	608	(996)
Unrealized net gains-marketable securities	27	(10)	17
	\$ (242)	\$ 598	\$ 356

Accumulated other comprehensive income at December 31, 2001 consisted of the accumulated translation adjustment of \$4.1 million.

(13) Employee Benefit Plans

We sponsor several defined benefit pension plans covering substantially all of our U.S. non-union employees. Benefits are based primarily on years of service and employees' compensation. Our funding policy for these plans is to contribute annually the maximum amount that can be deducted for federal income tax purposes.

Additionally, substantially all of our U.S. employees are eligible to participate in a 401(k) savings plan. Under this plan, we match a specified percentage of employee contributions, subject to certain limitations.

The components of net benefit expense are as follows (In thousands):

	Year Ended December 31,		
	2002	2001	2000
Service cost-benefits earned	\$1,396	\$1,210	\$1,071
Interest cost on benefits obligation	811	733	643
Estimated return on assets	(680)	(815)	(793)
	1,527	1,128	921
Net periodic cost of defined benefits plans	1,527	1,128	921
Cost of 401(k) plan contributions	335	368	345
	\$1,862	\$1,496	\$1,266

The weighted average assumptions used in determining the obligations of pension benefit plans are shown below:

	Year Ended December 31,		
	2002	2001	2000
Discount rate	6.75%	7.50%	8.00%
Expected return on plan assets	9.00%	9.00%	9.00%
Rate of compensation increase	4.00%	4.00%	5.00%

A 25 basis point increase or decrease in the expected return of plan assets would increase or decrease the pension expense by approximately \$25,000. We have assumed an 8.75% expected rate of return of plan assets for 2003. A 25 basis point increase or decrease in the assumed discount rate assumption would increase or decrease our interest expense by approximately \$100,000.

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The funded status of the defined benefit plan and amounts recognized in the balance sheet are as follows (In thousands):

	December 31,	
	2002	2001
Change in projected benefit obligation		
Balance at beginning of year	\$ 11,316	\$ 9,187
Service cost	1,396	1,210
Interest cost	811	733
Actuarial (gain) loss	1,491	(272)
Benefits paid	(157)	(120)
Administrative expenses	(209)	(173)
Liabilities acquired	2,673	—
Amendments	—	751
	<u> </u>	<u> </u>
Balance at end of year	\$ 17,321	\$ 11,316
	<u> </u>	<u> </u>
Change in fair value of plan assets		
Balance at beginning of year	\$ 6,691	\$ 8,623
Actual return on assets	(1,108)	(1,708)
Benefits paid	(157)	(120)
Administrative expenses	(209)	(173)
Assets acquired	1,562	—
Employer contributions	5,717	69
	<u> </u>	<u> </u>
Fair value of plan assets at end of year	\$ 12,496	\$ 6,691
	<u> </u>	<u> </u>
Funded status		
Plan assets less than projected benefit obligation	\$ (3,715)	\$ (4,625)
Unrecognized transition asset	(72)	(136)
Unrecognized prior service cost	857	955
Unrecognized acquired prior service cost	1,111	—
Unrecognized actuarial loss	4,566	1,253
	<u> </u>	<u> </u>
Net prepaid (accrued) benefit cost	\$ 2,747	\$ (2,553)
	<u> </u>	<u> </u>

During the year ended December 31, 2002, a \$2.3 million adjustment was made to record the minimum pension liability required to the extent the accumulated benefit obligations exceeded plan assets as of September 30, 2002, the plan measurement date. In conjunction with the adjustment to the liability account, a \$0.7 million intangible asset was recorded up to the amount of unrecognized prior service cost for those plans. A \$1.0 million corresponding charge, net of tax, was recorded to other accumulated comprehensive income.

(14) Contingencies, Guarantees and Environmental Remediation

We, like other worldwide manufacturing companies, are subject to a variety of potential liabilities connected with our business operations, including potential liabilities and expenses associated with possible product defects or failures and compliance with environmental laws. We maintain \$5.0 million in aggregate product liability insurance and \$75.0 million under an excess umbrella liability insurance policy. We also maintain a separate product liability policy with aggregate limits of \$200.0 million for the aviation products produced by our worldwide operations.

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

We believe this coverage to be consistent with industry practices. Nonetheless, such insurance coverage may not be adequate to protect us fully against substantial damage claims, which may arise from product defects and failures or from environmental liability.

Contingencies

Like many other manufacturers of fluid control products, we have been named as defendants in a growing number of product liability actions brought on behalf of individuals who seek compensation for their alleged exposure to airborne asbestos fibers. In particular, Leslie, Spence, and Hoke, all subsidiaries of CIRCOR, collectively have been named as defendants or third-party defendants in asbestos related claims brought on behalf of approximately 14,000 plaintiffs against anywhere from 50 to 400 defendants. In some instances, CIRCOR also has been named as successor in interest to one or more of these subsidiaries. These cases have been brought in state courts in California, Connecticut, Maryland, Michigan, Mississippi, New Jersey and New York, with the vast majority of claimants having brought their claims in Mississippi. The cases brought on behalf of the vast majority of claimants seek unspecified compensatory and punitive damages against all defendants in the aggregate. However, with respect to the complaints filed on behalf of approximately 121 plaintiffs in New York, each plaintiff seeks \$5.0 million compensatory damages and \$5.0 million punitive damages against the aggregate of defendants under each of six causes of action. Similarly, with respect to the complaints filed in California on behalf of eleven claimants, each plaintiff seeks approximately \$400,000 compensatory damages and \$2.5 million punitive damages against the aggregate of defendants. And, with respect to approximately 1,384 claimants in Mississippi, each such claimant seeks approximately \$5.0 million compensatory damages and \$50.0 million punitive damages against the aggregate of defendants.

Any components containing asbestos formerly used in Leslie, Spence and Hoke products were entirely internal to the product and, we believe, would not give rise to ambient asbestos dust during normal operation. As such, we believe that we have minimal, if any, liability with respect to the vast majority of these cases and that these cases, in the aggregate, will not have a material adverse effect on our financial condition, results of operations or cash flows. However, due to the nature and number of variables associated with asbestos related claims, such as the rate at which new claims may be filed; the availability of insurance policies to continue to recover certain of our costs relating to the defense and payment of these claims; the impact of bankruptcies of other companies currently or historically defending asbestos claims including our co-defendants; the uncertainties surrounding the litigation process from jurisdiction to jurisdiction and from case to case; the impact of potential changes in legislative or judicial standards; the type and severity of the disease alleged to be suffered by each claimant; and increases in the expense of medical treatment, we are unable to reliably estimate the ultimate costs to us of these claims.

As we previously have disclosed, we learned on July 12, 2000 that the United States Customs Service ("Customs") had commenced an investigation to determine whether our subsidiary KF was then in compliance with country of origin marking requirements on those valves that KF imports from sources in the People's Republic of China including our joint venture there. We believe that Customs is concluding its investigation and are hopeful that we will be able to achieve resolution of this matter in the near future. In this regard, although we continue to believe that any such resolution will not result in any material financial impact, we cannot provide any assurances regarding the timing or nature of such a resolution. Moreover, if the investigation were to prove that violations of the Customs laws occurred, KF could be subjected to civil fines, forfeitures and (if such violations were determined to be intentional) criminal penalties, which could be material.

Guarantees

We execute stand-by letters of credit, bid bonds, performance bonds and other guarantees in the normal course of business that ensure our performance or payments to third parties. The aggregate notional value of these instruments was \$6.1 million at December 31, 2002. These instruments have expiration dates ranging from less than one month to

CIRCOR INTERNATIONAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

eight years from December 31, 2002. Sixty-four percent (64%) of the \$6.1 million of the instruments expire within one year from December 31, 2002, with a total of eighty-seven percent (87%) expiring within two years. Our historical experience with these types of guarantees has been good. No claims have been paid in any of the fiscal years presented. We believe that the likelihood of demand for payments relating to the outstanding instruments is minimal.

Environmental Remediation

We are currently a party to or otherwise involved in various administrative or legal proceedings under federal, state or local environmental laws or regulations involving a number of sites, in some cases as a participant in a group of potentially responsible parties, referred to as PRPs. Two of these sites, the Sharkey and Combe Landfills in New Jersey, are listed on the National Priorities List. With respect to the Sharkey Landfill in New Jersey, we have been allocated 0.75% of the remediation costs, an amount that is not material to us. With respect to the Combe Landfill, we have settled both the Federal Government's claim and the State of New Jersey's claim for an amount that is immaterial to us. Moreover, our insurers have covered defense and settlement costs to date with respect to the Sharkey and Combe Landfills. In addition, we have also been named as a PRP with respect to the Solvent Recovery Service of New England site and the Old Southington landfill site, both in Connecticut. These sites are also on the National Priorities List but, with respect to both sites, we have the right to indemnification from the prior owners of the affected subsidiaries. We also have been identified as a PRP with respect to the Lightman Drum Company site in New Jersey and, in this matter, we also have the right to indemnification from the former owners of the affected subsidiary. Based on currently available information, we believe that any share of clean-up costs at these sites attributable to us will not be material, particularly given our indemnification rights against the respective former owners.

We have reviewed all of our pending judicial and legal proceedings, reasonably anticipated costs and expenses in connection with such proceedings, and availability and limits of our insurance coverage, and we have established reserves that we believe are appropriate in light of those outcomes that we believe are probable and estimable at this time.

(15) Financial Instruments

Fair Value

The carrying amounts of cash and cash equivalents, trade receivables and trade payables approximate fair value because of the short maturity of these financial instruments. Marketable securities are marked to market at the balance sheet date. The fair value of the senior unsecured notes, based on the value of comparable instruments brought to market, is \$63.1 million as of December 31, 2002. The fair value of the Company's variable rate debt approximates its carrying value.

As of January 1, 2001, we adopted FASB Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," ("Statement No. 133"), as amended by Statement No. 138. Statement No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and hedging activities. It requires that all derivative instruments be recorded on the balance sheet at fair value as assets or liabilities. The adoption of Statement No. 133 did not have a material effect on assets, liabilities, accumulated comprehensive income or net income.

In the normal course of our business, we manage risk associated with foreign exchange rates through a variety of strategies, including the use of hedging transactions, executed in accordance with our policies. As a matter of policy, we ordinarily do not use derivative instruments unless there is an underlying exposure. Any change in the value of our derivative instruments would be substantially offset by an opposite change in the underlying hedged items. We do not use derivative instruments for speculative trading purposes.

Accounting Policies

Using qualifying criteria defined in Statement No. 133, derivative instruments are designated and accounted for as either a hedge of a recognized asset or liability (fair value hedge) or a hedge of a forecasted transaction (cash flow hedge). For a fair value hedge, both the effective and ineffective portions of the change in fair value of the derivative instrument, along

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

with an adjustment to the carrying amount of the hedged item for fair value changes attributable to the hedged risk, are recognized in earnings. For a cash flow hedge, changes in the fair value of the derivative instrument that are highly effective are deferred in accumulated other comprehensive income or loss until the underlying hedged item is recognized in earnings. If the effective portion of fair value or cash flow hedges were to cease to qualify for hedge accounting, or to be terminated, it would continue to be carried on the balance sheet at fair value until settled; however, hedge accounting would be discontinued prospectively. If forecast transactions were no longer probable of occurring, amounts previously deferred in accumulated other comprehensive income or loss would be recognized immediately in earnings.

Foreign Currency Risk

We use forward contracts to manage the currency risk related to business transactions denominated in foreign currencies. To the extent the underlying transactions hedged are completed, the contracts do not subject us to significant risk from exchange rate movements because they offset gains and losses on the related foreign currency denominated transactions. Our foreign currency forward contracts have not been designated as hedging instruments and, therefore, did not qualify for fair value or cash flow hedge treatment under the criteria of Statement No. 133 for the year ended December 31, 2002. Therefore, the unrealized gains and losses on our contracts have been recognized as a component of other expense in the consolidated statements of operations. Net unrealized gains attributable to foreign currency forward contracts were \$0.1 million at December 31, 2002, and less than \$0.1 million at December 31, 2001. As of December 31, 2002, we had forward contracts to buy currencies with face values of \$1.0 million and fair values of \$1.1 million. These contracts mature on various dates between January and March 2003.

Operating Lease Commitments

Rental expense under operating lease commitments amounted to: \$4.0 million during the year ended December 31, 2002, \$3.4 million during the year ended December 31, 2001, and \$3.2 million during the year ended December 31, 2000. Minimum rental commitments due under non-cancelable operating leases, primarily for office and warehouse facilities, at December 31, 2002 were (In thousands):

Year ending December 31,

2003	\$	3,249
2004		2,847
2005		2,437
2006		2,308
2007		2,066
Thereafter		3,190
	\$	16,097

(16) Segment Information

The following table presents certain reportable segment information (In thousands):

	Instrumentation & Thermal Fluid Controls Products	Petrochemical Products	Corporate Adjustments	Consolidated Total
Year Ended December 31, 2002				
Net trade revenues	\$ 190,524	\$ 140,924	\$ —	\$ 331,448
Operating income (loss)	28,614	9,480	(7,720)	30,374
Income (loss) before income taxes	28,934	9,769	(14,364)	24,339
Identifiable assets	390,067	165,291	(164,624)	390,734
Capital expenditures	2,134	2,097	187	4,418
Depreciation and amortization	6,057	4,246	347	10,650

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	Instrumentation & Thermal Fluid Controls Products	Petrochemical Products	Corporate Adjustments	Consolidated Total
Year Ended December 31, 2001				
Net trade revenues	\$ 193,297	\$ 149,786	\$ —	\$ 343,083
Operating income (loss)	32,158	9,194	(7,735)	33,617
Income (loss) before income taxes	31,296	8,922	(14,224)	25,994
Identifiable assets	268,315	157,672	(39,866)	386,121
Capital expenditures	2,934	1,959	57	4,950
Depreciation and amortization	8,067	4,652	327	13,046
Year Ended December 31, 2000				
Net trade revenues	\$ 183,524	\$ 133,339	\$ —	\$ 316,863
Operating income (loss)	31,211	3,137	(6,712)	27,636
Income (loss) before income taxes	30,209	5,618	(18,227)	17,600
Identifiable assets	245,100	144,405	(42,443)	347,062
Capital expenditures	2,063	1,499	181	3,743
Depreciation and amortization	7,981	4,764	260	13,005

Each reporting segment is individually managed and has separate financial results that are reviewed by the Company's chief operating decision-maker. Each segment contains closely related products that are unique to the particular segment. Refer to note 1 for further discussion of the products included in each segment.

In calculating profit from operations for individual reporting segments, substantial administrative expenses incurred at the operating level that were common to more than one segment were allocated based upon specific identification of costs, employment related information or net revenues. Certain headquarters expenses of an operational nature also were allocated to segments and geographic areas.

All intercompany transactions have been eliminated, and inter-segment revenues are not significant.

(a) Net revenues by geographic area (In thousands):

	Year Ended December 31,		
	2002	2001	2000
United States	\$182,058	\$226,069	\$220,568
Canada	25,857	32,500	18,020
Germany	17,220	11,706	1,820
France	10,649	9,397	7,495
Netherlands	11,928	5,726	3,566
Other	83,736	57,685	65,394
Total revenues	\$331,448	\$343,083	\$316,863

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(b) Long-lived assets by geographic area (In thousands):

	December 31,		
	2002	2001	2000
United States	\$48,852	\$50,001	\$55,040
Germany	7,087	6,218	49
France	1,125	1,039	—
Italy	2,965	2,651	3,107
Canada	2,165	2,382	2,262
Other	2,171	4,682	4,336
Total long-lived assets	\$64,365	\$66,973	\$64,794

In March 2002, we transferred SSI from the Petrochemical Products segment to the Instrumentation and Thermal Fluid Controls Products segment. We believe that this change better reflects the products and markets that SSI serves. Prior periods have been restated and net revenues, operating income, and identifiable assets are not materially different with this reclassification. During October 2002, we acquired Tomco and U.S. Para Plate. On a combined basis, the long-lived assets of these two operations totaled \$2.1 million at December 31, 2002.

(17) Quarterly Financial Information (Unaudited, in thousands, except per share information)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year ended December 31, 2002				
Net revenues	\$79,462	\$82,541	\$83,092	\$86,353
Gross profit	24,542	24,623	24,040	25,080
Net income	3,685	3,839	3,770	4,283
Earnings per common share:				
Basic	\$ 0.25	\$ 0.26	\$ 0.25	\$ 0.28
Diluted	0.24	0.24	0.24	0.28
Dividends per common share	\$0.0375	\$0.0375	\$0.0375	\$0.0375
Stock Price range:				
High	\$ 22.38	\$ 22.25	\$ 18.05	\$ 16.58
Low	16.95	16.85	13.25	11.75
Year ended December 31, 2001				
Net revenues	\$87,946	\$83,390	\$84,287	\$87,460
Gross profit	26,071	26,150	25,152	26,104
Net income	3,723	3,829	3,502	4,542
Earnings per common share:				
Basic	\$ 0.28	\$ 0.26	\$ 0.24	\$ 0.31
Diluted	0.27	0.25	0.23	0.29
Dividends per common share	\$0.0375	\$0.0375	\$0.0375	\$0.0375
Stock Price range:				
High	\$ 15.20	\$ 24.10	\$ 19.40	\$ 19.69
Low	10.00	13.10	13.65	15.05

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Year ended December 31, 2000				
Net revenues	\$82,305	\$80,269	\$75,988	\$78,301
Gross profit	26,219	23,640	23,008	22,924
Net income	3,186	2,426	2,287	2,661
Earnings per common share:				
Basic	\$ 0.24	\$ 0.18	\$ 0.17	\$ 0.20
Diluted	0.24	0.18	0.17	0.20
Dividends per common share	\$ —	\$0.0375	\$0.0375	\$0.0375
Stock Price range:				
High	\$ 15.25	\$ 13.88	\$ 10.50	\$ 11.88
Low	9.94	7.50	7.00	9.25

(18) Special Charges

During the years ended December 31, 2002, 2001 and 2000, we incurred costs associated with the closure, consolidation and reorganization of certain manufacturing operations as follows (In thousands):

	Severance Benefits	Facility/Exit Costs	Total
Balance as of December 31, 1999	\$ —	\$ —	\$ —
Charges	1,066	843	1,909
Less: cash payments	1,066	843	1,909
Balance as of December 31, 2000	—	—	—
Charges	79	125	204
Less: cash payments	33	57	90
Balance as of December 31, 2001	46	68	114
Charges	206	539	745
Less: cash payments	186	589	775
Balance as of December 31, 2002	\$ 66	\$ 18	\$ 84

Costs incurred during 2002 and 2001 were related to the Petrochemical Products segment. Costs in 2000 were related to actions taken in both the Instrumentation and Thermal Fluid Controls Products and Petrochemical Products segments of \$1.6 million and \$0.3 million, respectively. A write-down of fixed assets of \$0.3 million is included in the facility and exit special charges incurred for the year ended December 31, 2002. As a result of these actions taken there were 16 employee positions terminated during 2002, 36 during 2001 and 88 during 2000. Special charges have been recognized as incurred. The remaining costs at December 31, 2002 are expected to be paid within the first half of 2003.

(19) Capital Structure

We have adopted a shareholder rights plan providing for the issuance of rights that will cause substantial dilution to a person or group of persons that acquires 15% or more of our shares of common stock, unless the rights are redeemed. These rights allow shareholders of our common stock to purchase a unit consisting of one ten thousandth of a share of our series A junior participating cumulative preferred stock, par value \$0.01 per share, at a cash exercise price per unit of \$48.00, subject to adjustments.

CIRCOR INTERNATIONAL, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(20) Relationship with our Former Parent

At the spin-off date of October 18, 1999, all of our common shares were distributed on a pro rata basis to the record date holders of Watts common shares at a ratio of one share for each two outstanding Watts shares. After the spin-off, Watts had no ownership in us, however, certain of our shares were held by the Watts pension trust on behalf of Watts' employees. We entered into separation and other related agreements (the "Distribution Agreement"), outlined below, governing the spin-off transaction and our subsequent relationship with Watts. Such agreements provided certain indemnities to the parties, and provided for the allocation of tax and other assets, liabilities and obligations arising from periods prior to the spin-off.

Until the spin-off, we were a member of Watts' consolidated group for federal income tax purposes. Each member of the consolidated group is liable for the federal income tax liability of the other members of the group, as well as for pension and benefit funding liabilities of the other group members. Under federal law we continue to be contingently liable for these Watts consolidated group liabilities for periods beginning before the spin-off.

We entered into a distribution agreement with Watts that allocates tax, pension and benefit funding liabilities between Watts and us. Under this agreement, Watts maintains full control and absolute discretion with regard to any combined or consolidated United States federal and state tax filings for periods through the spin-off date. Watts also maintains full control and absolute discretion regarding common tax audit issues of such entities. These arrangements may result in conflicts of interest with Watts. In addition, if Watts is ultimately unable to satisfy its liabilities, we could be responsible for satisfying them, despite the distribution agreement.

At the time of the spin-off, Watts received a ruling from the IRS to the effect that, for United States federal income tax purposes, the spin-off would be tax-free to Watts and its shareholders. If the undertakings made to the IRS regarding the spin-off were not complied with or if representations made to the IRS regarding the spin-off were inaccurate, we could lose the benefit of the IRS tax ruling and the IRS could assert that the spin-off was a taxable distribution. In that case, under United States federal income tax law, we would be jointly and severally liable with Watts for a material amount of federal income tax. In our distribution agreement with Watts, we agreed that we would be wholly responsible for that tax if it results from our act or omission, and Watts will be wholly responsible for that tax if it results from Watts' act or omission. Under federal income tax law, however, we would be required to pay that tax if Watts was unable to, regardless of the distribution agreement.

Prior and subsequent to the spin-off transaction, we conducted business with various other subsidiaries of Watts, under various contracts and agreements. The table below summarizes transactions with these related parties for the years ended December 31, 2002, 2001 and 2000 (In thousands):

	Year Ended December 31,		
	2002	2001	2000
Purchases of inventory	\$ 2,322	\$ 3,234	\$ 4,277
Sale of goods	393	521	835

CIRCOR INTERNATIONAL, INC.
SCHEDULE I—VALUATION AND QUALIFYING ACCOUNTS

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions</u>		<u>Deductions(1)</u>	<u>Balance at End of Period</u>
		<u>Charged to Costs and Expenses</u>	<u>Charged to Other Accounts</u>		
<i>(In thousands)</i>					
Fiscal Year ended December 31, 2002					
Deducted from asset account:					
Allowance for doubtful accounts	\$ 2,637	\$ 17	\$ 4(2)	\$ 617	\$ 2,041
Fiscal Year ended December 31, 2001					
Deducted from asset account:					
Allowance for doubtful accounts	\$ 2,831	\$ 754	\$ 230(3)	\$ 1,178	\$ 2,637
Fiscal Year ended December 31, 2000					
Deducted from asset account:					
Allowance for doubtful accounts	\$ 2,683	\$ 77	—	\$ (71)	\$ 2,831

- (1) Uncollectable accounts written off, net of recoveries.
(2) Acquired in connection with the acquisition of Tomco and U.S. Para Plate.
(3) Includes \$223 acquired in connection with the acquisition of RTK and SART.

EXHIBIT 4.2
AGREEMENT OF SUBSTITUTION AND AMENDMENT OF
SHAREHOLDER RIGHTS AGREEMENT

This Agreement of Substitution and Amendment is entered into effective as of November 1, 2002, by and between CIRCOR International, Inc., a Delaware corporation (the "Company") and American Stock Transfer and Trust Company, a New York banking corporation ("AST").

RECITALS

- A. On or about September 16, 1999, the Company entered into a Shareholder Rights Agreement (the "Rights Agreement") with BankBoston, N.A. (the "Predecessor Agent") as rights agent.
- B. The Company wishes to remove the Predecessor Agent and substitute AST as rights agent pursuant to Section 21 of the Rights Agreement.
- C. The Company has given the Predecessor Agent notice of removal of the Predecessor Agent as rights agent.

AGREEMENT

NOW THEREFORE, in consideration of the foregoing and of other consideration, the sufficiency of which is hereby acknowledged, the parties agree as follows:

- 1. Section 21 of the Rights Agreement is hereby amended to provide that any successor rights agent shall, at the time of its appointment as rights agent, have a combined capital and surplus of at least \$10 million, rather than \$100 million.
- 2. The Company hereby appoints AST as rights agent pursuant to Section 21 of the Rights Agreement, to serve in that capacity for the consideration and subject to all of the terms and conditions of the Rights Agreement.
- 3. AST hereby accepts the appointment as rights agent pursuant to Section 21 of the Rights Agreement and agrees to serve in that capacity for the consideration and subject to all of the terms and conditions of the Rights Agreement.

4. From and after the effective date hereof, each and every reference in the Rights Agreement to a "Rights Agent" shall be deemed to be a reference to AST.

Section 26 of the Rights Agreement is amended to provide that notices or demands to the Rights Agent shall be addressed as follows (until another address is filed):

American Stock Transfer & Trust Company
59 Maiden Lane
New York, NY 10038
Attention: Corporate Trust Department

5. Except as expressly modified herein, the Rights Agreement shall remain in full force and effect.

7. This Agreement of Substitution and Amendment may be executed in one or more counterparts, each of which shall together constitute one and the same document.

IN WITNESS WHEREOF, the parties have caused this Agreement to be duly executed as of the dated indicated above.

CIRCOR International, Inc.

By: /S/ ALAN J. GLASS

Alan J. Glass, Corporate Counsel
and Assistant Secretary

AMERICAN STOCK TRANSFER &
TRUST COMPANY

By: /S/ HERBERT J. LEMMER

Name: Herbert J. Lemmer
Vice-President

EXHIBIT 10.9

TRUST INDENTURE

VILLAGE OF WALDEN INDUSTRIAL DEVELOPMENT AGENCY

and

THE FIRST NATIONAL BANK OF BOSTON,
as Trustee

securing the

\$7,500,000

Village of Walden Industrial Development Agency
Industrial Development Revenue Refunding Bonds
(Spence Engineering Company Project), Series 1994

DATED AS OF JUNE 1, 1994

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TRUST INDENTURE

This TRUST INDENTURE, dated as of June 1, 1994, between Village of Walden Industrial Development Agency (the "Issuer"), a body corporate and politic of the State of New York, and The First National Bank of Boston, a national banking association, having its principal office in Boston, Massachusetts (in its capacity as trustee to be hereinafter referred to as the "Trustee").

W I T N E S S E T H:

WHEREAS, the Issuer intends to (a) issue and sell its variable rate industrial revenue refunding bonds in the aggregate principal amount of \$7,500,000 (the "Bonds"); (b) pursuant to a Sale Agreement (the "Sale Agreement") of even date herewith, use the proceeds of the Bonds to refund the Issuer's \$7,500,000 Village of Walden Industrial Development Agency (Spence Engineering Company Project), Series 1984 Bonds (the "Prior Bonds"); (c) to sell the Project (as defined in the Sale Agreement) to the Company; and (d) secure the repayment of the Bonds by (1) the assignment contained herein from the Issuer to the Trustee, pursuant to which the Issuer assigns to the Trustee for the benefit of the Bondholders (hereinafter defined) certain of its rights under the Sale Agreement, endorses without recourse to the order of, and pledges and assigns to, the Trustee, the Note of even date herewith issued by the Company pursuant to the Sale Agreement (the "Note"), and (2) the delivery to the Trustee of an irrevocable direct pay letter of credit dated the date of issuance of the Bonds in the amount of \$7,875,000, issued by First Union National Bank of North Carolina;

WHEREAS, as security for the payment of the Bonds, the Issuer has agreed to assign and pledge to the Trustee all right, title and interest of the Issuer in (a) the Sale Agreement (except certain rights reserved by the Issuer under the terms of this Indenture), (b) the "Pledged Revenues" (hereinafter defined), and (c) all amounts on deposit from time to time in the "Bond Fund" (hereinafter defined), but excluding any amounts on deposit in the "Rebate Account" (hereinafter defined); and

WHEREAS, the Company and First Union National Bank of North Carolina, a national banking association (the "Bank") have entered into a Letter of Credit and Reimbursement and Guaranty Agreement, dated as of June 1, 1994 (the "Reimbursement Agreement") pursuant to which the Bank has agreed to issue its irrevocable direct-pay letter of credit, dated the date of the delivery of the Bonds (the "Letter of Credit"), in favor of the Trustee, for the account of the Company obligating the Bank to pay the Trustee upon draws made by the Trustee in accordance with the terms thereof, up to (i) an amount equal to the aggregate principal amount of the Bonds then Outstanding (as hereinafter defined) to be used by the Trustee (a) to pay the principal of such Bonds whether at maturity, upon redemption,

acceleration or otherwise, and (b) to pay the portion of the purchase price equal to the principal amount of any such Bonds delivered to the Tender Agent (hereinafter defined) for purchase, plus (ii) an amount equal to up to one hundred twenty (120) days' accrued interest on the Bonds at the maximum interest rate of fifteen percent (15%) per annum, to be used by the Trustee to pay accrued interest on the Bonds and to pay the portion of the purchase price of tendered Bonds equal to the accrued interest, if any, on any such Bonds; and

WHEREAS, all things necessary to make the Bonds, when authenticated by the Trustee and issued and delivered as provided in this Indenture, the legal, valid, binding and enforceable limited obligations of the Issuer, according to the import thereof, and to create a valid assignment and pledge of the Pledged Revenues to the payment of the principal of, and the redemption premium (if any) and the interest on, the Bonds and a valid assignment of certain of the rights, title and interest of the Issuer in the Sale Agreement and the Note, have been done and performed, and the execution, issuance and delivery of the Bonds, subject to the terms hereof, have in all respects been authorized; and

WHEREAS, the Trustee has accepted the trusts created by this Indenture and in evidence thereof has joined in the execution hereof; and

WHEREAS, the Issuer has determined that the Bonds to be issued hereunder shall be substantially in the following form, with such variations, omissions and insertions as are required or permitted by this Indenture:

[Form of Bond]

CUSIP _____

THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, AND INTEREST ON THIS BOND ARE SPECIAL OBLIGATIONS OF THE ISSUER PAYABLE SOLELY FROM THE SOURCES AND SPECIAL FUNDS PLEDGED FOR THEIR BENEFIT PURSUANT TO THE INDENTURE. THIS BOND SHALL NOT CONSTITUTE A DEBT OF THE STATE OF NEW YORK OR ANY POLITICAL SUBDIVISION THEREOF OR THE ISSUER WITHIN THE MEANING OF ANY PROVISION OF THE CONSTITUTION OR LAWS OF THE STATE AND SHALL NOT CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF OR THE ISSUER OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF ANY OF THEM.

THIS BOND MAY BE TENDERED FOR PURCHASE AS DESCRIBED HEREIN. DELIVERY OF AN OPTIONAL TENDER NOTICE WITH RESPECT TO THIS BOND CONSTITUTES AN IRREVOCABLE OFFER TO SELL THIS BOND ON THE DATE SPECIFIED THEREIN AND IS BINDING ON SUBSEQUENT OWNERS OF THIS BOND. IN THE EVENT THE OWNER OF THIS BOND FAILS TO DELIVER THIS BOND TO THE TENDER AGENT ON THE SPECIFIED DATE, THE OWNER HEREOF SHALL THEREAFTER BE ENTITLED ONLY TO PAYMENT OF THE PURCHASE PRICE AND NOT TO THE BENEFITS OF THE INDENTURE. THIS BOND ALSO IS SUBJECT TO MANDATORY TENDER AND PURCHASE AS DESCRIBED HEREIN.

VILLAGE OF WALDEN INDUSTRIAL DEVELOPMENT AGENCY
INDUSTRIAL DEVELOPMENT REVENUE REFUNDING BOND
(SPENCE ENGINEERING COMPANY PROJECT), SERIES 1994

No. R-_____

Registered Owner: _____

Principal Amount: _____

Maturity Date: First Business Day of December, 2006

Initial Interest Rate: 2.75%

Interest Payment Dates: The first Business Day of each March, June, September and December, commencing the first Business Day of September, 1994, the Conversion Date (hereinafter defined) and the Maturity Date.

Original Delivery Date: _____

VILLAGE OF WALDEN INDUSTRIAL DEVELOPMENT AGENCY (herein called the "Issuer"), a corporate governmental agency, constituting a public benefit corporation created and existing under the constitution and laws of the State of New York (herein called the "State"), for value received, hereby promises to pay (but only from the sources hereinafter mentioned) to the Registered Owner set forth above, or registered assigns, the Principal Amount set forth above on the Maturity Date set forth above and to pay (but only from the sources hereinafter mentioned) interest thereon from the Interest Payment Date immediately preceding the Date of Authentication endorsed hereon, unless this Bond is authenticated on an Interest Payment Date in which event it will bear interest from such date or unless it is authenticated prior to the first Business Day of September, 1994, in which event it will bear interest from the Date of Authentication, payable on each Interest Payment Date, until payment of said principal sum has been made or provided for, at the rate or rates per annum set forth below. Principal and interest and premium, if any, will be paid in any coin or currency of the United States of America which, at the time of payment, is legal tender for the payment of public and private debts. Interest will be paid by check mailed on the Interest Payment Date to the person in whose name this Bond is registered at the close of business on the Regular Record Date (as hereinafter defined) immediately preceding such Interest Payment Date; provided, however, that while the Bonds (as hereinafter defined) bear interest at the Variable Rate (as hereinafter defined) interest will also be payable by wire transfer to the account at a member bank of the Federal Reserve System of any registered owner of Bonds in the aggregate principal amount of One Million Dollars (\$1,000,000) or more at the written request (identifying such account by number) of such owner received by the Trustee (as hereinafter defined) on or before the Regular Record Date. While the Bonds bear interest at the Variable Rate (as hereinafter defined), the Regular Record Date will be the close of business on the Business Day immediately preceding each Interest Payment Date. While the Bonds bear interest at the Fixed Rate (as hereinafter defined), the Regular Record Date will be the fifteenth (15th) day of the calendar month immediately preceding each Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the owner on such Regular Record Date, and may be paid to the person in whose name this Bond is registered at the close of business on a Special Record Date (as defined in the Indenture (hereinafter defined)) for the payment of such defaulted interest to be fixed by the Trustee, or may be paid at any time in any other lawful manner, all as more fully provided in the Indenture. Principal and redemption price will be paid upon surrender of this Bond at the principal corporate trust office of The First National Bank of Boston,

as Trustee (said banking institution and any successor trustee or co-trustee under the Indenture being herein called the "Trustee"), in the Town of Canton, Massachusetts. Payment of the purchase price of Bonds purchased as described herein will be paid, upon surrender of such Bonds, at the office of The First National Bank of Boston, in the Town of Canton, Massachusetts (in such capacity, herein called the "Tender Agent").

This Bond is issued under and pursuant to the Constitution and laws of the State of New York (the "State"), particularly an act of the Village of Walden of the State of New York, including without limitation Chapter 1030 of the Laws of 1969 of the State, constituting Title 1 of Article 18-A of the General Municipal Law of the State, as amended from time to time, together with Chapter 632 of the Laws of 1977 of the State, constituting Section 925-a of the General Municipal Law of the State, as amended from time to time, as amended (the "Act"), and under and pursuant to a resolution duly adopted by the Issuer on June 13, 1994. This Bond and the issue of which it is a part and the purchase price thereof, the premium, if any, and interest thereon are limited obligations of the Issuer payable by the Issuer solely from the revenues and receipts derived from the Sale Agreement (as hereinafter defined), including payments received under the Note (as hereinafter defined), which revenues and receipts have been pledged and assigned to the Trustee to secure payment thereof and from amounts received pursuant to the Credit Facility (as hereinafter defined). This Bond and the interest hereon will not constitute an indebtedness or a charge against the general credit or taxing powers of the Issuer within the meaning of any constitutional provision or statutory limitation and shall never constitute nor give rise to any pecuniary liability of the Issuer, but will be a limited obligation of the Issuer payable solely from the revenues and other funds pledged therefor and will not be payable from any assets or funds of the Issuer other than the revenues and other funds pledged therefor, and neither the faith and credit nor the taxing power of the State or any political subdivision or any agency thereof is pledged to the payment of the principal of or the interest on this Bond.

This Bond is one of the Bonds of a duly authorized issue of variable rate industrial revenue bonds of the Issuer in the aggregate original principal amount of \$7,500,000 and designated "Village of Walden Industrial Development Agency Industrial Development Revenue Refunding Bonds (Spence Engineering Company Project), Series 1994" (the "Bonds").

The Bonds are being issued for the purpose of refunding in whole the outstanding principal amount of the Village of Walden Industrial Development Agency Industrial Development Revenue Bonds (Spence Engineering Company Project) Series 1984 in the original aggregate principal amount of \$7,500,000 (the "Prior Bonds"), the proceeds of which were used to finance, in whole or in part, the cost of acquiring, constructing and installing a certain project in Walden, New York owned and operated by the Company (the "Project").

This Bond is issued under and pursuant to a Trust Indenture dated as of June 1, 1994 (said Trust Indenture, together with all such supplements and amendments thereto as therein permitted, being herein called the "Indenture"), by and between the Issuer and The First National Bank of Boston, as trustee (said banking institution and any successor trustee or co-trustee under the Indenture being herein called the "Trustee"). An executed counterpart of the Indenture is on file at the principal corporate trust office of the Trustee. Reference is hereby made to the Indenture for

the provisions, among others, with respect to the custody and application of the proceeds of the Bonds; the collection and disposition of revenues; a description of the funds charged with and pledged to the payment of the principal of and interest on and any other amounts payable under the Bonds; the nature and extent of the security; the terms and conditions under which the Bonds are or may be issued; and the rights, duties and obligations of the Issuer and of the Trustee and the rights of the owners of the Bonds, and, by the acceptance of this Bond, the owner hereof assents to all of the provisions of the Indenture.

The Issuer has entered into a Sale Agreement dated as of June 1, 1994 (herein called the "Sale Agreement"), with Spence Engineering Company, Inc., a Delaware corporation (herein called the "Company"), under which the Issuer has agreed to sell Company the project as described in the Sale Agreement, and in consideration and as evidence of the sale, the Company has agreed to issue its promissory note (herein called the "Note") in the principal amount, payable in installments, bearing interest at a rate or rates and payable at times corresponding to the principal amount of, installments of principal of, interest rates on and due dates of the Bonds. The Sale Agreement also provides for the payment by the Company of certain fees and expenses of the Issuer and the Trustee, and the Sale Agreement further obligates the Company (a) to pay the cost of maintaining the Project in good repair in all material respects and keeping the same properly insured and (b) to maintain a Credit Facility (as hereinafter defined) during the period of time the Bonds bear interest at the Variable Rate (herein called the "Variable Rate Period").

As security for the payment of the Bonds, all right, title and interest of the Issuer in (a) the Sale Agreement (except certain rights reserved by the Issuer under the terms of the Indenture), together with the Sale Agreement, (b) the Pledged Revenues, and (c) all amounts on deposit from time to time in the Bond Fund (defined in the Indenture), but excluding any amounts on deposit in the "Rebate Account" (defined in the Indenture), have been assigned to the Trustee under the Indenture and pledged to the payment of the principal of, and the redemption premium (if any) and the interest on, the Bonds. The Issuer shall not be vested with any interest in the Project by virtue of the issuance of the Bonds, and the Project shall not otherwise constitute any part of the security for the payment of the Bonds.

Reference to the Indenture is hereby made for a description of the aforesaid Bond Fund which is charged with, and pledged to, the payment of the principal of, and the redemption premium (if any) and the interest on, the Bonds, the nature and extent of the security, the rights, duties and obligations of the Issuer, the Company and the Trustee, the rights of the owners of the Bonds, the terms and conditions under and upon the occurrence of which the Indenture and the Sale Agreement may be modified and the terms and conditions under and upon the occurrence of which the lien of the Indenture may be defeased as to this Bond prior to the maturity or redemption date hereof, to all of the provisions of which the owner hereof, by the acceptance of this Bond, assents.

Credit Facility. The Company has entered into a Letter of Credit, Reimbursement and Guaranty Agreement dated as of June 1, 1994 (herein called the "Reimbursement Agreement") by and among the Company, Watts Industries, Inc, as guarantor and First Union National Bank of North Carolina (in such capacity, herein called the "Bank").

Pursuant to the Reimbursement Agreement, the Company has caused a Letter of Credit issued by the Bank (herein called the "Letter of Credit"; such Letter of Credit and any extensions or renewals thereof or any amendment thereto and any Alternate Credit Facility (as hereinafter defined) referred to herein as the "Credit Facility"), to be delivered to the Trustee. The Trustee will be entitled under the Letter of Credit to draw up to an amount of \$7,875,000, of which (a) \$7,500,000 will be available for the payment of principal or that portion of the purchase price corresponding to principal of the Bonds and (b) 375,000 will support the payment of up to one hundred twenty (120) days' interest or that portion of the purchase price corresponding to interest on the Bonds at a maximum rate of fifteen percent (15%) per annum. Subject to the provisions of the Indenture, the Company is required during the Variable Rate Period to provide an alternate credit facility with terms and provisions substantially the same as those of the Letter of Credit (an "Alternate Credit Facility") prior to the termination of Letter of Credit. During the Variable Rate Period unless the Letter of Credit or the then current Alternate Credit Facility is replaced prior to its expiration in accordance with the terms of the Indenture, this Bond will become subject to mandatory redemption as provided in the Indenture.

Source of Funds. The principal of, premium, if any, and interest on the Bonds are payable solely from payments on the Note, under the Sale Agreement and from any other moneys held by the Trustee under the Indenture for such purpose, including, with respect to principal and interest only, moneys drawn by the Trustee under the Letter of Credit or Alternate Credit Facility for the benefit of the Bondholders (the Bank as the issuer of the Letter of Credit and the institution issuing any Alternate Credit Facility are herein called the "Credit Facility Issuer"). Except as otherwise specified in the Indenture, this Bond is entitled to the benefits of the Indenture equally and ratably both as to principal (and redemption and purchase price) and interest with all other Bonds issued under the Indenture.

INTEREST RATES

Initial Interest Rate.

The Bonds will bear interest from the Original Delivery Date to June 22, 1994 at the Initial Interest Rate.

Variable Rate.

After June 22, 1994, prior to (and including) the Conversion Date (hereinafter defined), the Bonds will bear interest at a rate equal to a floating rate established as hereinafter provided (herein called the "Variable Rate"). The Variable Rate will be equal to the rate of interest certified to the Trustee by First Union National Bank of North Carolina as remarketing agent for the Bonds (herein, with its successors in such capacity, called the "Remarketing Agent") on and as of each Wednesday (or the next succeeding Business Day (as defined in the Indenture) if such Wednesday is not a Business Day) (herein called the "Determination Date") as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account market conditions prevailing on the Determination Date, to enable the Remarketing Agent to arrange for the sale of all of the Bonds on the Determination Date in the secondary market at a

price equal to the principal amount thereof (plus interest accrued to the date of settlement). If the Remarketing Agent fails to certify such rate, the Variable Rate for the next Calculation Period or Periods (hereinafter defined) until thereafter certified by the Remarketing Agent will remain the same as that most recently established and certified by the Remarketing Agent. In the event the Remarketing Agent fails to certify such rate for four (4) consecutive Calculation Periods, the rate for each Calculation Period thereafter (if none is certified by the Remarketing Agent) will be ninety percent (90%) of the yield for United States Treasury bills maturing approximately thirty (30) days after the Determination Date as published by The Wall Street Journal on such Determination Date (or, if The Wall Street Journal is no longer published, then any reasonably equivalent financial publication selected by the Remarketing Agent) (or the next preceding Business Day on which The Wall Street Journal is published if not published on the Determination Date). For purposes hereof, "Calculation Period" shall mean the period from and including the day following the Determination Date of each week (even if not a Business Day) to and including the following Determination Date; provided that if during the Variable Period the Determination Date at the end of such Calculation Period is a Regular Record Date, such Calculation Period will extend until the Business Day following such Determination Date. If, for any reason, the Variable Rate is not determined as described above or is held to be invalid or unenforceable by a court of competent jurisdiction for any period, the interest rate for each such period will be equal to eight percent (8.00%) per annum. Notwithstanding anything to the contrary contained herein or in the Indenture, the Variable Rate will not be a rate of interest in excess of fifteen percent (15.00%) per annum. Interest prior to the Conversion Date (hereinafter defined) will be computed on the basis of a three hundred sixty-five (365) or three hundred sixty-six (366) day year, as applicable, for the number of days actually elapsed, and will be payable on each Interest Payment Date.

Fixed Rate.

(a) The interest rate on this Bond will be converted to the Fixed Rate upon an election by the Company pursuant to the Indenture to convert the rate of interest on all Bonds then outstanding from the Variable Rate to the Fixed Rate upon satisfaction of certain conditions and notice given by the Company and by the Trustee in accordance with the requirements of the Indenture, and the Bonds shall be subject to mandatory tender for purchase by the owners thereof on the Conversion Date, which shall be an Interest Payment Date. On and after the Conversion Date the owners of the Bonds will not be entitled to tender Bonds for purchase. On or before the Conversion Date, the Placement Agent will determine the Fixed Rate in the manner described in subsection (c) below, and will promptly notify the Company and the Trustee of the Fixed Rate.

(b) At least twenty (20) but not more than thirty (30) days prior to the Conversion Date, a notice will be mailed by the Trustee to each registered owner of Bonds stating, among other things, (1) the Conversion Date, (2) the name and address of the placement agent which has agreed to use its best efforts to arrange for the sale of any Bonds to be tendered or deemed tendered for purchase on the Conversion Date (herein called the "Placement Agent"), (3) that after the seventeenth (17th) day preceding the Conversion Date, the owner will not be entitled to deliver an Optional Tender Notice and that after the tenth (10th) day preceding the Conversion Date, the owner will not be entitled to tender this Bond for purchase as

described below, (4) that this Bond will be deemed tendered for purchase on the Conversion Date, (5) that in order to receive payment of the purchase price of any Bond which is deemed to have been tendered, the registered owner of such Bond must deliver such Bond to the office of the Tender Agent before 10 a.m. Eastern time on the Conversion Date, and (6) that interest on any Bond will be payable only to (but not including) the Conversion Date.

Any Bonds not so tendered on the Conversion Date ("Undelivered Bonds"), for which there has been irrevocably deposited in trust with the Trustee an amount of moneys sufficient to pay the purchase price of the Undelivered Bonds, shall be deemed to have been tendered and purchased at the purchase price. IN THE EVENT OF A FAILURE BY AN OWNER OF BONDS TO TENDER ITS BONDS ON OR PRIOR TO THE CONVERSION DATE, SAID OWNER SHALL NOT BE ENTITLED TO ANY PAYMENT (INCLUDING ANY INTEREST TO ACCRUE SUBSEQUENT TO THE CONVERSION DATE) OTHER THAN THE PURCHASE PRICE FOR SUCH UNTENDERED BONDS, AND ANY UNTENDERED BONDS SHALL NO LONGER BE ENTITLED TO THE BENEFITS OF THE INDENTURE, EXCEPT FOR THE PURPOSE OF PAYMENT OF THE PURCHASE PRICE THEREFOR.

(c) Upon the Conversion Date stated in such notice, the Fixed Rate to be borne by the Bonds for the period beginning on the Conversion Date and ending on the Maturity Date or prior redemption of the Bonds (the "Fixed Rate"), will be the interest rate per annum which, in the sole judgment of the Placement Agent, taking into account prevailing financial market conditions, would be the minimum interest rate required to sell such Bonds on the Conversion Date at a price equal to 100% of the principal amount thereof. The Fixed Rate shall be determined by the Placement Agent on or before the Conversion Date, and the Placement Agent shall notify the Trustee and the Company thereof by telephone or such other manner as may be appropriate by not later than 2:00 p.m., Eastern time on such date, which notice shall be promptly confirmed in writing.

(d) If, for any reason, the Fixed Rate is held to be invalid or unenforceable by a court of competent jurisdiction, the Fixed Rate will be eight percent (8.00%) per annum. Notwithstanding anything to the contrary contained herein or in the Indenture, the Fixed Rate will not be a rate of interest in excess of fifteen percent (15.00%) per annum.

(e) The Fixed Rate will be computed on the basis of a three hundred sixty (360)-day year, computed for the actual number of days elapsed, and will be payable on each Interest Payment Date after the Conversion Date until the principal of, and premium, if any, and interest on the Bonds shall have been paid in full.

Interest Rate Determination Binding.

The determination of the interest rate on the Bonds by the Remarketing Agent or Placement Agent, as appropriate, in accordance with the terms of the Indenture will be conclusive and binding upon the registered owners of the Bonds, the Issuer, the Company, the Trustee, the Remarketing Agent, the Placement Agent, the Tender Agent and the Credit Facility Issuer.

REDEMPTION OF BONDS

Optional Redemption.

(a) While the Bonds bear interest at the Variable Rate, the Bonds will be subject to redemption upon the written direction of the Issuer, given at the request of the Company, on any Interest Payment Date and on the Conversion Date, in whole or in part, at a redemption price equal to one hundred percent (100%) of the principal amount thereof without premium plus interest accrued to the redemption date.

(b) While the Bonds bear interest at the Fixed Rate, the Bonds will be subject to redemption upon the written direction of the Issuer, given at the request of the Company, in whole or in part, on any Interest Payment Date occurring on or after the dates set forth below, at the redemption prices (with a premium expressed as a percentage of principal amount to be redeemed) set forth below plus interest accrued to the redemption date as follows:

Commencement of Redemption Period	Redemption Price
The Business Day four (4) years from the Conversion Date	103%, declining by 1/2% on each succeeding anniversary of the first day of the redemption period until reaching 100% and thereafter at 100%

(c) The Bonds will be subject to redemption upon the written direction of the Issuer, given at the request of the Company, at any time in whole or in part at a redemption price equal to one hundred percent (100%) of the principal amount thereof plus interest accrued to the redemption date in the event of damage, destruction or condemnation of the Project, all as more fully described in Section 701(b) of the Indenture.

Mandatory Redemption.

(a) The Bonds will be subject to mandatory redemption in whole on any date at a redemption price equal to one hundred percent (100%) of the principal amount thereof plus accrued interest to the redemption date within one hundred eighty (180) days after receipt by the Trustee of a written notice of a Determination of Taxability (as defined in the Sale Agreement).

(b) During the Variable Rate Period, the Bonds will be subject to mandatory redemption in whole on the Interest Payment Date occurring closest to but not after fifteen (15) days prior to the date of expiration of the then current Credit Facility unless prior to such date an Alternate Credit Facility has been provided in accordance with the Indenture, at a redemption price or purchase price equal to one hundred percent (100%) of the principal amount thereof, without premium, plus interest accrued to the redemption date.

Notice of Redemption and Selection of Bonds.

Any notice of redemption, identifying the Bonds or portions thereof to be redeemed, will be given not more than sixty (60) days and not less than twenty (20) days prior to the redemption date, by mailing a copy of the redemption notice by first class mail to the owner of each Bond to be redeemed in whole or in part at the address shown on the Bond Register maintained by the Bond Registrar. Notice of optional redemption may be conditioned upon the deposit of moneys with the Trustee before the date

fixed for redemption and such notice will be of no effect unless such moneys are so deposited. All Bonds so called for redemption, including Bonds purchased by the Company as provided in the Indenture but not yet surrendered for payment of the purchase price, will cease to bear interest on the specified redemption date provided funds for their redemption price and any accrued interest payable on the specified redemption date are on deposit at the principal place of payment at that time. If less than all the Bonds are to be redeemed, the particular Bonds to be called for redemption will be selected in the following order of priority: first, Bonds pledged to the Credit Facility Issuer; second, Bonds owned by the Company and third, Bonds selected by any random or other method determined by the Trustee in its sole discretion.

Mandatory Purchase Upon Conversion to Fixed Rate.

The Bonds will be subject to mandatory purchase in whole (and not in part) on the Conversion Date at a purchase price equal to one hundred percent (100%) of the principal amount thereof plus interest accrued thereon to the date of purchase.

THE OWNER OF THIS BOND, BY ACCEPTANCE HEREOF, AGREES TO THE MANDATORY PURCHASE OF THIS BOND AS PROVIDED IN THE INDENTURE, AND AGREES THAT THIS BOND WILL BE PURCHASED ON THE DATE SPECIFIED UPON DEPOSIT WITH THE TRUSTEE OF AN AMOUNT SUFFICIENT TO PAY THE PURCHASE PRICE HEREOF. THE OWNER OF THIS BOND ALSO UNDERSTANDS AND AGREES THAT IN THE EVENT THE OWNER FAILS TO DELIVER THIS BOND, PROPERLY ENDORSED FOR TRANSFER, TO THE TRUSTEE ON THE DATE SPECIFIED, INTEREST WILL CEASE TO ACCRUE HEREON ON SUCH SPECIFIED DATE AND THE OWNER HEREOF WILL THEREAFTER BE ENTITLED ONLY TO PAYMENT OF THE PURCHASE PRICE AND NOT TO THE BENEFIT OF THE INDENTURE.

Purchase at Option of the Owner During Variable Rate Period.

While the Bonds bear interest at the Variable Rate, any Bond or portion thereof in an authorized denomination will be purchased on the demand of the owner thereof, on any Business Day at a purchase price equal to one hundred percent (100%) of the principal amount thereof plus interest accrued to the date of purchase upon delivery to the Tender Agent of an Optional Tender Notice in the form attached hereto as Exhibit A (herein called the "Optional Tender Notice") specifying the date on which such Bond will be purchased, which date will be a Business Day not prior to the seventh (7th) day after the date of delivery of the Optional Tender Notice. To receive payment of the purchase price, the owner will be required to deliver such Bond to the Tender Agent, accompanied by an executed form of assignment and any other instruments of transfer satisfactory to the Trustee, not less than five (5) days prior to the purchase date specified in such notice as provided in the Indenture; provided, however, that any owner which is an investment company registered pursuant to the Investment Company Act of 1940 may deliver such Bond to the Tender Agent at or prior to 10:00 a.m. on the date of purchase. No purchase of Bonds at the option of the owner thereof or on the Conversion Date will be deemed to be a payment or redemption of the Bonds or any portion thereof. Notwithstanding the foregoing, no owner will have a right to tender its Bond(s) for purchase as described in this paragraph following acceleration of the payment of the Bonds pursuant to the terms of the Indenture or after the Conversion Date.

THE OWNER OF THIS BOND, BY ACCEPTANCE HEREOF, AGREES THAT DELIVERY OF THE

WRITTEN NOTICE DESCRIBED IN THE PRECEDING PARAGRAPH BY THE OWNER CONSTITUTES AN IRREVOCABLE OFFER TO SELL THIS BOND ON THE DATE SPECIFIED, AND THAT THIS BOND WILL BE PURCHASED ON SUCH DATE UPON DEPOSIT WITH THE TENDER AGENT OF AN AMOUNT SUFFICIENT TO PAY THE PURCHASE PRICE HEREOF. THE OWNER OF THIS BOND ALSO UNDERSTANDS AND AGREES THAT IN THE EVENT THE OWNER FAILS TO DELIVER THIS BOND, PROPERLY ENDORSED FOR TRANSFER, TO THE TENDER AGENT ON THE DATE SPECIFIED IN THE NOTICE, THIS BOND WILL BE HELD BY THE OWNER AS AGENT FOR THE COMPANY, INTEREST WILL CEASE TO ACCRUE HEREON AS OF THE DATE SPECIFIED IN THE NOTICE AND THE OWNER HEREOF WILL THEREAFTER BE ENTITLED ONLY TO PAYMENT OF THE PURCHASE PRICE AND NOT TO THE BENEFITS OF THE INDENTURE AND THE ISSUER WILL, TO THE EXTENT PERMITTED BY LAW, EXECUTE AND THE TRUSTEE WILL AUTHENTICATE AND DELIVER A SUBSTITUTE BOND IN LIEU OF THE UNDELIVERED BOND.

Tender Agent.

The Issuer has appointed The First National Bank of Boston as Tender Agent. The Tender Agent may be changed at any time by the Company with the consent of the Trustee.

Authorized Denominations.

Subject to the provisions of the Indenture, the Bonds are issuable as registered Bonds in the denomination of One Hundred Thousand Dollars (\$100,000) or any integral multiple of \$5,000 in excess thereof; provided that if less than \$100,000 in principal amount of Bonds is Outstanding, one Bond shall be issued in such smaller denomination; and provided further, that subsequent to the initial issuance of the Bonds, replacement or substitution Bonds or Bonds issued in exchange in accordance with the provisions of Section 205 of the Indenture may be issued in denominations of \$5,000 or integral multiples thereof. Subject to the limitations provided in the Indenture and upon payment of any tax or governmental charge, if any, Bonds may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations.

Transfer.

This Bond is transferable by the registered owner hereof or his duly authorized attorney at the principal corporate trust office of The First National Bank of Boston, as Bond Registrar, in Canton, Massachusetts, in compliance with the terms and conditions set forth in the Indenture and upon surrender of this Bond, provided that transfers in connection with the remarketing hereof will be made at the corporate trust office of the Trustee in Canton, Massachusetts, accompanied by a duly executed instrument of transfer in form satisfactory to the Bond Registrar, subject to such reasonable regulations as the Issuer, the Bond Registrar or the Trustee may prescribe and upon payment of any tax or other governmental charge incident to such transfer, PROVIDED THAT IF MONEYS FOR THE PURCHASE OF THIS BOND HAVE BEEN PROVIDED PURSUANT TO A DRAW UNDER THE CREDIT FACILITY, THIS BOND IS NOT TRANSFERABLE TO ANYONE OTHER THAN THE COMPANY OR ITS ASSIGNEE OR PLEDGEE. Upon any such transfer, the Trustee shall cause a new Bond or Bonds registered in the name of the transferee or transferees in denominations authorized by the Indenture and in the same aggregate principal amount as the principal amount of this Bond (and of the same maturity and bearing interest at the same rate) will be issued to the transferee. Except as set forth in this Bond and as otherwise provided in the Indenture, the person in whose name this Bond is registered will be

deemed the owner hereof for all purposes, and the Issuer, the Bond Registrar and the Trustee will not be affected by any notice to the contrary.

The owner of this Bond will have no right to enforce the provisions of the Indenture or to institute action to enforce the covenants therein, or to take any action with respect to any Event of Default under the Indenture or to institute, appear in or defend any suit or other proceeding with respect thereto, except as provided in the Indenture.

In certain events, on the conditions, in the manner and with the effect set forth in the Indenture, the principal of this Bond may become or may be declared due and payable before the stated maturity hereof, together with the interest accrued hereon.

Modifications or alterations of the Sale Agreement and the Indenture and any supplement or amendment thereto may be made only to the extent and in the circumstances permitted by the Indenture and may be made in certain cases without the consent of the owners of the Bonds.

Anything herein or in the Indenture to the contrary notwithstanding, the obligations of the Issuer hereunder will be subject to the limitation that payment of interest to the owner of this Bond will not be required to the extent that receipt of any such payment by the owner of this Bond would be contrary to the provisions of law applicable to such Bond which limits the maximum rate of interest which may be charged or collected by such owner.

In any case where the date of maturity of interest on or principal of the Bonds or the date fixed for redemption of the Bonds shall be in the city of payment a day other than a Business Day, then payment of interest or principal need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date of maturity or the date fixed for redemption, provided that interest will accrue for the period of any such extension.

This Bond will be governed by and construed in accordance with the laws of the State of New York.

All acts, conditions and things required to happen, exist and be performed precedent to and in the issuance of this Bond and the execution of the Indenture have happened, exist and have been performed as so required.

IN WITNESS WHEREOF, the Issuer has caused this Bond to be executed with the manual or facsimile signature of the Chairman or Vice Chairman of the Issuer, its official seal to be impressed or imprinted hereon and the same to be attested by the manual or facsimile signature of the Secretary or Assistant Secretary of the Issuer, all as of _____, 1994.

Village of Walden Industrial Development
Agency

By:
Chairman

(Seal)

Attest:

By:
Secretary

* * * * *

CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds of the series designated therein and issued under the provisions of the within-mentioned Indenture.

The First National Bank of Boston, as
Trustee

By:
Its: Authorized Signatory

Date of Authentication: _____, 1994

* * * * *

[FORM OF ASSIGNMENT
TO APPEAR ON REVERSE OF BOND]

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

the within bond of the _____ and does hereby
constitute and appoint _____ attorney to transfer the
said bond on the books of the within named Issuer, with full power of
substitution in the premises.

Dated:

In the presence of:

Bondholder

Signature Guaranteed:

[End of Form of Bond]

; and

NOW, THEREFORE, in consideration of the premises, of the acceptance by the Trustee of the trusts hereby created, and of the purchase and acceptance of the Bonds by the Bondholders, and also for and in consideration of the sum of One Dollar to the Issuer in hand paid by the Trustee at or before the execution and delivery of this Indenture, the receipt of which is hereby acknowledged, and for the purpose of fixing and declaring the terms and conditions upon which the Bonds are to be issued, delivered, secured and accepted by the Bondholders and any and all other persons who shall from time to time be or become owners thereof, and in order to secure the payment of the Bonds at any time issued and outstanding hereunder and the interest thereon according to their tenor, purport and effect, and in order to secure the performance and observance of all the covenants, agreements and conditions therein and herein contained;

THE ISSUER DOES HEREBY PLEDGE AND ASSIGN, and grant a security interest unto the Trustee and its successors and assigns for the benefit of the owners of the Bonds all right, title and interest of the Issuer presently owned or hereafter acquired in and to the following (collectively, the "Trust Estate"):

(a) The Sale Agreement (as the same may from time to time be supplemented or amended), including, but not limited to, all payments or installment purchase obligations due and to become due under the Note and the Sale Agreement whether made at their respective due dates or as prepayments permitted or required by the Sale Agreement together with full power and authority, in the name of the Issuer or otherwise, to demand, receive, enforce, collect or receipt for any or all of the foregoing, to endorse or execute any checks or other instruments or orders, to file any claims and to take any action which the Trustee may deem necessary or advisable in connection therewith, and the Issuer hereby irrevocably appoints the Trustee attorney-in-fact of the Issuer for such purposes, which appointment is coupled with an interest and is irrevocable; provided, however, that the Issuer shall continue to have all the rights, together with the Trustee, contained in the following sections of the Sale Agreement:

(i) Section 7.1 (pertaining to the Issuer's right of access to the Project (as defined in the Sale Agreement));

(ii) Section 7.3 (pertaining to the Issuer's right to receive payment for certain costs and expenses);

(iii) Section 7.6 (pertaining to the Issuer's right to

certain indemnities);

(iv) Section 7.7 (pertaining to the Issuer's right to release and indemnification);

(v) Section 7.8 (pertaining to the Issuer's right to receive certain information);

(vi) Section 8.1 (pertaining to the Issuer's right to consent or withhold consent to assignment of rights of the Company under the Sale Agreement or lease or sale of the Project);

(vii) Sections 9.3 and 9.5 (pertaining to the Issuer's right to reimbursement of expenses incurred upon a default);

(viii) Sections 10.1(c), 10.2 and 10.3 (pertaining to the Issuer's right to notice of prepayments and rights upon the occurrence of certain events);

(ix) Section 12.5 (pertaining to the Issuer's right to receive notices); and

(x) Sections 12.12, 12.13 and 12.14 (pertaining to the limitations on the liability of the Issuer).

(b) The Note of even date herewith of the Company to the Issuer in the original principal amount of \$7,500,000 evidencing the Company's obligation to pay the purchase price pursuant to the Sale Agreement, together with interest thereon and other amounts with respect thereto, as provided for in the Sale Agreement, the Issuer having on this date endorsed, pledged and assigned the Note without recourse to the order of, and delivered the same to, the Trustee as security for the obligations of the Issuer to the Trustee hereinafter referred to.

(c) All money or securities at any time on deposit in, in transit to or credited to any account or Fund created hereunder, including without limitation the Bond Fund but excluding the Rebate Fund;

(d) Revenues (as hereinafter defined);

and it is so mutually agreed and covenanted by and between the parties hereto for the equal and proportionate benefit and security of the Bondholders without preference, priority or distinction as to lien or otherwise, except as hereinafter provided, of any one Bond over any other Bond, by reason of priority in the issue, sale or negotiation thereof or otherwise, for the benefit of the Bondholders and as security for the fulfillment of the obligations of the Issuer hereunder;

TO HAVE AND TO HOLD the same forever, subject, however, to the exceptions, reservations and matters therein and herein recited but IN TRUST, nevertheless, for the benefit and security of the owners from time to time of the Bonds delivered hereunder and issued by the Issuer and outstanding or, to the extent set forth herein, for the benefit of the

Credit Facility Issuer, so long as a Credit Facility is in place in respect of the Bonds;

PROVIDED, HOWEVER, that if, after the right, title and interest of the Trustee in and to the Trust Estate pledged and assigned to it under this Indenture shall have ceased, terminated and become void in accordance with Article XIV hereof, the principal of and interest on the Bonds and any other obligations arising hereunder shall have been paid to the Bondholders or shall have been paid by the Company pursuant to Article XIV hereof, then, this Indenture and all covenants, agreements and other obligations of the Issuer hereunder shall cease, terminate and be void, and thereupon the Trustee shall cancel and discharge this Indenture and execute and deliver to the Issuer and the Company such instruments in writing as shall be required to evidence the discharge hereof; otherwise, this Indenture shall be and remain in full force and effect.

THIS INDENTURE FURTHER WITNESSETH, and it is expressly declared, that the Bonds issued and secured hereunder are to be issued and delivered and the trust estate and other revenues and funds herein pledged and assigned are to be dealt with and disposed of under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes as hereinafter expressed, and the Issuer has agreed and covenanted, and does hereby agree and covenant, with the Trustee and with the owners of said Bonds, as follows, that is to say:

ARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION

Section 101. Definitions.

All words and terms defined in Article I of the Sale Agreement shall have the same meanings in this Indenture, unless otherwise specifically defined herein. In addition, the following words and terms as used in this Indenture shall have the following meanings unless some other meaning is plainly intended:

"Act" shall mean all applicable provisions of the Constitution and laws of the State of New York, including without limitation Chapter 1030 of the Laws of 1969 of the State, constituting Title 1 of Article 18-A of the General Municipal Law of the State, as amended from time to time, together with Chapter 632 of the Laws of 1977 of the State, constituting Section 925-a of the General Municipal Law of the State, as amended from time to time.

"Alternate Credit Facility" shall mean an 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 Bondholders, be the same (except for the term of such Alternate Credit Facility) as the Credit Facility that is replaced by such Alternate Credit Facility as set forth in Section 603 hereof.

"Authenticating Agent" shall mean the Trustee and any agent so appointed pursuant to Section 207 hereof.

"Available Moneys" shall mean:

(a) any moneys which have been paid to the Trustee by the Company and which have been on deposit with the Trustee for at least three hundred sixty-seven (367) days during and prior to which no Event of Bankruptcy shall have occurred, and the proceeds from the investment of such moneys after such moneys have become Available Moneys, and

(b) moneys on deposit with the Trustee representing proceeds from the resale by the Remarketing Agent of Bonds to persons other than the Issuer or the Company as described in Article III hereof, which, in each case, were at all times since their deposit with the Trustee held in a separate and segregated account or accounts or sub-account or sub-accounts in which no moneys were which were not Available Moneys were at any time held, and the proceeds from the investment thereof, and

(c) moneys drawn under a Credit Facility which in each case were at all times since their deposit with the Trustee held in a separate and segregated account or accounts or sub-account or sub-accounts in which no moneys (other than those drawn under a Credit Facility) were at any time held.

"Bank" shall mean First Union National Bank of North Carolina as the issuer of the Letter of Credit, and its successors and assigns.

"Bank Account" shall mean the account of that name established in the Bond Purchase Fund pursuant to Section 302 hereof.

"Bond" or "Bonds" shall mean any bond or bonds authenticated and delivered under this Indenture.

"Bond Counsel" shall mean an attorney-at-law or a firm of attorneys of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America and approved by the Issuer.

"Bond Fund" shall mean the trust fund so designated which is established pursuant to Section 502(a) hereof.

"Bond Purchase Fund" shall mean the trust fund so designated which is established pursuant to Section 302 hereof.

"Bond Register" shall have the meaning provided in Section 204 hereof.

"Bond Registrar" shall mean the Bond Registrar as designated in Section 204 hereof.

"Bondholder" or "Bondholders" or "owner" or "owners" shall mean the initial owner or owners and any future owner or owners of the Bond or Bonds as registered on the books and records of the Bond Registrar pursuant to Section 204 hereof.

"Business Day" shall mean a day upon which banks in the State and in the States of Massachusetts and North Carolina are open for the transaction

of business of the nature required pursuant to the Sale Agreement and this Indenture.

"Calculation Period" shall mean the period from and including the day following the Determination Date of each week (even if not a Business Day) to and including the following Determination Date; provided, that if the Determination Date at the end of a Calculation Period is a Regular Record Date, such Calculation Period will extend until the Business Day following such Determination Date.

"Company" shall mean Spence Engineering Company, Inc., a Delaware corporation, and its successor or assigns and any surviving, resulting or transferee corporation or other entity.

"Conversion Date" shall mean that Business Day elected by the Company in accordance with Section 202(e) of the Indenture as the effective date of conversion of the interest rate on the Bonds from the Variable Rate to the Fixed Rate, which date shall be an Interest Payment Date.

"Counsel" shall mean an attorney or firm of attorneys acceptable to the Trustee (who may, but need not be, counsel to the Issuer or the Company).

"Credit Facility" shall mean the Letter of Credit or any Alternate Credit Facility delivered to the Trustee pursuant to Article VI hereof.

"Credit Facility Account" shall mean the account of that name established in the Bond Fund pursuant to Section 502 hereof.

"Credit Facility Issuer" shall mean the Bank with respect to the Letter of Credit and the institution issuing any Alternate Credit Facility.

"Defaulted Interest" has the meaning provided in Section 208 hereof.

"Determination Date" shall mean Wednesday of each week or if Wednesday is not a Business Day then the next succeeding Business Day.

"Event of Bankruptcy" shall mean a petition by or against the Company or the Issuer under any bankruptcy act or under any similar act which may be enacted which shall have been filed (other than bankruptcy proceedings instituted by the Company or the Issuer against third parties) unless such petition shall have been dismissed and such dismissal shall be final and not subject to appeal.

"Event of Default" shall mean any of the events specified in Section 901 hereof to be an Event of Default.

"Fixed Rate" shall mean the fixed annual rate of interest on the bonds determined by the Placement Agent pursuant to Section 202(e) hereof. If, for any reason, the Fixed Rate is held to be invalid or unenforceable by a court of competent jurisdiction, the Fixed Rate shall be equal to eight percent (8.00%) per annum. The Fixed Rate shall in no event exceed fifteen percent (15.00%).

"Fixed Rate Period" shall mean the period during which the Fixed Rate is in effect, which shall be the period beginning on the Conversion Date and ending on the Maturity Date.

"Governmental Obligations" shall mean:

(i) direct obligations of the United States of America for the full and timely payment of which the full faith and credit of the United States of America is pledged,

(ii) obligations issued by a Person controlled or supervised by and acting as an instrumentality of the United States of America, the full and timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States of America, and

(iii) securities or receipts evidencing ownership interests in obligations or specified portions (such as principal or interest) of obligations described in clause (i) or (ii) above the full and timely payment of which securities, receipts or obligations is unconditionally guaranteed by the United States of America, which obligations, securities or receipts are not subject to redemption prior to maturity at less than par at the option of anyone other than the holder thereof.

"Indenture" shall mean this Indenture as amended or supplemented at the time in question.

"Initial Interest Rate" shall mean the initial rate of interest of 2.75% per annum on the Bonds.

"Initial Rate Period" shall mean from and including the Original Delivery Date to and including June 22, 1994.

"Interest Payment Date" shall mean the first Business Day of each March, June, September and December commencing on the first Business Day of September, 1994, and ending on the Maturity Date of the Bonds.

"Investment Obligations" shall mean:

(a) any Government Obligations;

(b) any bonds or other obligations of the United States of America which as to principal and interest constitute direct obligations of the United States of America, or any obligations of subsidiary corporations of the United States of America fully guaranteed as to payment by the United States of America;

(c) obligations of the Federal Land Bank;

(d) obligations of the Federal Home Loan Bank;

(e) obligations of the Federal Intermediate Credit Bank;

(f) bonds or obligations issued by any public housing agency or municipal corporation in the United States of America, which such bonds or obligations are fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States government, or project notes issued by any public housing agency, urban renewal agency, or municipal corporation in the United States of America which are fully secured as to payment of both principal and

interest by a requisition, loan, or payment agreement with the United States government;

(g) interest-bearing savings accounts (including that of the Trustee), interest-bearing certificates of deposit or interest-bearing time deposits or any other investments constituting direct obligations of any bank which has deposits insured by the Federal Deposit Insurance Corporation; provided that such accounts, certificates of deposits, time deposits, or investments are either (a) insured by the Federal Deposit Insurance Corporation, or (b) secured by the deposit with any national or state bank located within the State of any Government Obligation;

(h) short term obligations of corporations organized under the laws of any state with assets exceeding \$500,000,000 if (i) such obligations are rated within the two (2) highest categories established by Moody's and S&P and which mature no later than one hundred eighty (180) days from the date of purchase and (ii) the purchases do not exceed ten (10%) percent of such corporation's outstanding obligations;

(i) money market mutual funds registered under the Investment Company Act of 1940, as amended, provided that the portfolio of any such money market fund is limited to Government Obligations and to agreements to purchase Government Obligations; and

(j) repurchase agreements with respect to obligations included in subsections (a) through (i) above and any other investments to the extent at the time permitted by then applicable law for the investment of public funds.

"Issuer" shall mean the Village of Walden Industrial Development Agency, a corporate governmental agency, constituting a public benefit corporation and existing pursuant to the constitution and laws of the State including the Act.

"Letter of Credit" shall mean the irrevocable direct pay letter of credit dated June 17, 1994, in the amount of \$7,875,000, issued by the Bank, including any extensions thereof.

"Sale Agreement" shall mean the Sale Agreement of even date herewith between the Issuer and the Company and any amendments or supplements thereof permitted by this Indenture.

"Majority of the Bondholders" shall mean the owners of a majority of the aggregate principal amount of the Outstanding Bonds.

"Maturity Date" shall mean the first Business Day of December, 2006.

"Moody's" shall mean Moody's Investors Service, Inc. a Delaware corporation, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee, with the consent of the Company and the Credit Facility Issuer.

"Note" shall mean the promissory note given by the Company pursuant

the provisions of the Sale Agreement, substantially in the form attached thereto.

"Optional Tender Notice" shall mean a notice from the owner of a Bond to the Tender Agent in the form attached to the Bond as Exhibit A.

"Original Delivery Date" shall mean June 17, 1994.

"Outstanding" in connection with Bonds shall mean, as of the time in question, all Bonds authenticated and delivered under the Indenture, except:

(i) Bonds theretofore canceled or required to be cancelled under Section 212 hereof;

(ii) Bonds which are deemed to have been paid in accordance with Article XIV hereof; and

(iii) Bonds in substitution for which other Bonds have been authenticated and delivered pursuant to Article II hereof.

In determining whether the owners of a requisite aggregate principal amount of Bonds Outstanding have concurred in any request, demand, authorization, direction, notice, consent or waiver under the provisions hereof, Bonds which are held by or on behalf of the Company (unless all of the outstanding Bonds are then owned by the Company) or an Affiliate of the Company (as defined below) shall be disregarded for the purpose of any such determination. For the purpose of this paragraph, an "Affiliate" of any specified entity shall mean any other entity directly or indirectly controlling or controlled by or under direct or indirect common control with such specified entity and "control", when used with respect to any specific entity, shall mean the power to direct the management and policies of such entity, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Payments Account" shall mean the account of that name established in the Bond Fund pursuant to Section 502 hereof.

"Placement Agent" shall mean the securities dealer, bank or trust company which is designated by the Company with the consent of the Credit Facility Issuer and which will agree to establish the Preliminary Fixed Rate and to use its best efforts to arrange for the sale of Tendered Bonds on the Conversion Date, all as more particularly described in Section 202(e) hereof.

"Pledge Agreement" shall mean the Pledge Agreement of even date herewith by the Company to the Bank, and any amendments or supplements thereof.

"Pledged Revenues" means and shall include the payments required to be made by the Company under the Sale Agreement except payments to be made to the Trustee for services rendered as Trustee under the Indenture and as Bond Registrar and paying agent for the Bonds and except for expenses, indemnification and other payments required to be made pursuant to Sections 7.5 and 7.6 of the Sale Agreement.

"Principal Office" of the Trustee or Bond Registrar shall mean the office at which, at the time in question, its corporate trust business is principally conducted.

"Prior Bonds" means the \$7,500,000 Village of Walden Industrial Development Agency (Spence Engineering Company Project), Series 1984 bonds.

"Prior Trustee" means First Union National Bank, as trustee under a Trust Indenture dated as of December 1, 1984 between Village of Walden Industrial Development Agency and First Union National Bank.

"Private Placement Memorandum" shall mean the Private Placement Memorandum dated June 17, 1994, relating to the Bonds.

"Regular Record Date" shall mean:

(i) in respect of any Interest Payment Date during the Variable Rate Period, the close of business on the Business Day immediately preceding each such Interest Payment Date, and

(ii) in respect of any Interest Payment Date during the Fixed Rate Period, the fifteenth (15th) day (whether or not a Business Day) of the calendar month immediately preceding each such Interest Payment Date.

"Reimbursement Agreement" shall mean the Letter of Credit, Reimbursement and Guaranty Agreement of even date herewith by and among the Company, Watts Industries, Inc., as guarantor, the Company, and the Bank, as the same may be amended from time to time and filed with the Trustee, and any agreement of the Company with a Credit Facility Issuer setting forth the obligations of the Company to such Credit Facility Issuer arising out of any payments under a Credit Facility and which provides that it shall be deemed to be a Reimbursement Agreement for the purpose of this Indenture.

"Remarketing Account" shall mean the account of that name established in the Bond Purchase Fund pursuant to Section 302 hereof.

"Remarketing Agent" shall mean First Union National Bank of North Carolina and its successors as provided in Section 1201 hereof.

"Remarketing Agreement" shall mean the Remarketing Agreement of even date herewith between the Company and the Remarketing Agent and any amendments and supplements thereof.

"Requisite Bondholders" shall mean the owners of more than two-thirds (2/3rds) in aggregate principal amount of the Outstanding Bonds.

"Responsible Officer" when used with respect to the Trustee shall mean the chairman or vice-chairman of the board of directors, the chairman or vice-chairman of the executive committee of the board of directors, the president, any vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, the cashier, any assistant cashier, any trust officer or assistant trust officer, the controller and any assistant controller or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers of banking institutions with trust powers and also shall mean,

with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Revenues" shall mean:

(i) all amounts payable to the Trustee with respect to the principal or redemption price of, or interest on the Bonds (a) by the Company under the Note, and (b) by the Credit Facility Issuer under a Credit Facility, and

(ii) investment income with respect to any moneys held by the Trustee in the Bond Fund.

"Security interest" or security interests" refers to the security interests created herein and in the Security Instruments and shall have the meaning set forth in the Uniform Commercial Code.

"S&P" shall mean Standard & Poor's Corporation, a New York corporation, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee, with the consent of the Company and the Credit Facility Issuer.

"Special Record Date" shall mean for purpose of payment of Defaulted Interest on the Bonds, the date fixed by the Trustee pursuant to Section 208 hereof.

"State" shall mean the State of New York.

"Subsidiary" shall mean any corporation, association or other business entity of which more than fifty percent (50%) of the issued and outstanding stock or equivalent thereof having ordinary voting power is, at the time at which any determination is being made, owned or controlled by the Company or by one or more Subsidiaries or other affiliates of the Company.

"Tender Agent" shall mean The First National Bank of Boston and its successors as provided in Section 1202 hereof.

"Tender Agency Agreement" shall mean the Tender Agency Agreement of even date herewith among the Company, the Trustee and the Tender Agent.

"Tendered Bonds" shall mean those Bonds tendered or deemed tendered by the owners for purchase pursuant to an Optional Tender Notice or on the Conversion Date.

"Trustee" shall mean The First National Bank of Boston and its successor in the trust hereunder.

"Undelivered Bond" shall mean:

(i) any Bond for which an Optional Tender Notice has been given pursuant to Section 203 hereof and which has not been delivered to the Tender Agent on the date specified for purchase and

(ii) any Bond which has not been delivered to the Trustee for

redemption or purchase on any mandatory redemption or purchase date or the Conversion Date; provided that in either case the Trustee has on hand and available on such date funds sufficient to purchase or redeem said Bond.

"Variable Rate" shall mean a variable interest rate established after the Initial Rate Period as the rate of interest determined by the Remarketing Agent on and as of each Determination Date as the minimum rate of interest necessary, in the judgment of the Remarketing Agent, taking into account market conditions prevailing on the Determination Date, to enable the Remarketing Agent to arrange for the sale of all of the Bonds on the Determination Date in the secondary market at a price equal to the principal amount thereof (plus interest accrued to the date of settlement). If the Remarketing Agent fails to certify such rate, the Variable Rate for the next succeeding Calculation Period or Periods until thereafter certified by the Remarketing Agent shall remain the same as that most recently established and certified by the Remarketing Agent until thereafter certified by the Remarketing Agent or adjusted as set forth in the next succeeding sentence. In the event the Remarketing Agent fails to certify such rate for four (4) consecutive Calculation Periods, such rate for each Calculation Period thereafter (if none is certified by the Remarketing Agent) shall be ninety percent (90%) of the yield for United States Treasury bills maturing approximately thirty (30) days after the Determination Date for such Calculation Period as published by The Wall Street Journal on such Determination Date (or the next Business Day on which The Wall Street Journal is published if not published on the Determination Date) (or, if The Wall Street Journal is no longer published, then any reasonably equivalent financial publication selected by the Remarketing Agent); provided that if during the Variable Period the Determination Date at the end of each such Calculation Period is a Regular Record Date, such Calculation Period will extend until the Business Day following such Determination Date. A Bondholder may request the Variable Rate in effect from time to time with respect to the Bonds from the Trustee or the Remarketing Agent. If, for any reason, the Variable Rate is not determined as described above or is held to be invalid or unenforceable by a court of competent jurisdiction for any period, the interest rate for each such period shall be equal to eight percent (8.00%) per annum. The Variable Rate shall not be a rate in excess of fifteen percent (15.00%) per annum.

"Variable Rate Period" shall mean that period during which a Variable Rate is in effect on the Bonds.

"Variable Rate Purchase Date" shall mean while the Bonds bear interest at the Variable Rate, any Business Day (prior to and including the date which is the tenth day preceding the Conversion Date) on which the Bonds may be tendered for purchase at the option of the owner thereof in accordance with Section 203 hereof.

Section 102. Rules of Construction.

(a) Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Unless the context shall otherwise indicate, the words "Bond", "owner", "Bondholder", "Bondholder of Record" and "person" shall include the plural as well as the singular number; the word "person" shall include any individual, corporation, partnership, joint venture, association, joint-stock company,

trust, unincorporated organization or government or any agency or political subdivision thereof; and the word "Bondholder" when used herein with respect to the Bonds shall mean the registered owner of any of the Bonds.

(b) Words importing the redemption or calling for redemption of the Bonds shall not be deemed to refer to or connote payment of Bonds at their stated maturity.

(c) The Table of Contents, captions and headings in this Indenture are for convenience only and in no way limit the scope or intent of any provision or section of this Indenture.

(d) All references herein to particular articles or sections are references to articles or sections of this Indenture unless some other reference is indicated.

(e) All references herein to the Code or the 1954 Code or any particular provision or section thereof shall be deemed to refer to any successor, or successor provision or section, thereof, as the case may be.

(f) All references herein to time shall be Charlotte, North Carolina time.

ARTICLE II

THE BONDS

Section 201. Amount, Terms, and Issuance of the Bonds.

(a) The Bonds shall be limited to \$7,500,000 in aggregate principal amount and shall contain substantially the terms recited in the form of Bond above and as set forth in this Indenture. No Bonds may be issued under this Indenture except in accordance with this Article II. No additional bonds shall be issued under this Indenture.

(b) The Issuer may cause a copy of the text of the opinion of Bond Counsel delivered in connection with the issuance of the Bonds to be printed on any of the Bonds. The Bonds may bear such endorsement or legend satisfactory to the Trustee as may be required to conform to usage or law with respect thereto, including the imposition of CUSIP or other identifying numbers.

(c) Upon satisfaction of the conditions set forth in Section 213 hereof, the Issuer shall issue the Bonds, and the Trustee shall, at the Issuer's request, authenticate the Bonds and deliver them as specified in the request.

Section 202. Designation, Denominations, Maturity Date and Interest Rates of the Bonds.

(a) Designation, Denominations, Maturity Date. The Bonds shall be designated "\$7,500,000 Village of Walden Industrial Development Agency Industrial Development Revenue Refunding Bonds (Spence Engineering Company Project), Series 1994." The Bonds shall be issuable as fully registered Bonds in the denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof; provided that if less than One Hundred Thousand Dollars

(\$100,000) principal amount of Bonds is outstanding one Bond shall be issued in such smaller denomination; and provided further, that subsequent to the initial issuance of the Bonds, replacement or substitution Bonds or Bonds issued in exchange in accordance with the provisions of Section 205 hereof may be issued in denominations of \$5,000 and integral multiples thereof. All Bonds shall bear the date of their authentication, shall bear interest from the most recent date to which interest has been paid or duly provided for, or, if authenticated on an Interest Payment Date, from that date, or, if no interest has been paid or duly provided for, from the date of authentication, and shall mature, subject to prior redemption as provided in Article VII hereof, on the first Business Day of December, 2006. The Bonds shall be numbered from "1" consecutively upwards prefixed by the letter "R".

(b) Interest Rates. The Bonds shall bear interest at the applicable rate provided below. On each Interest Payment Date, interest accrued through the day immediately preceding such Interest Payment Date shall be payable. While the Bonds bear interest at a Variable Rate interest on the Bonds shall be computed on the basis of a year of three hundred sixty-five (365) or three hundred sixty-six (366) days, as applicable, for the number of days actually elapsed. From and including the Conversion Date, and thereafter, interest on the Bonds shall be computed on the basis of a three hundred sixty (360) day year for the number of days actually elapsed.

(c) Initial Interest Rate. For the Initial Rate Period, the Bonds shall bear interest at the Initial Interest Rate.

(d) Variable Rate. Following the Initial Rate Period and until the Conversion Date, the Bonds shall bear interest at the Variable Rate. During the Variable Rate Period, the Remarketing Agent shall determine the interest rate for the Bonds on each Determination Date. The Remarketing Agent shall give notice by telephone, telecopier, telex, telegram or other telecommunication device, and upon request shall confirm in writing, on the Determination Date to the Trustee and the Company of the interest rate to be in effect for the following Calculation Period. The determination of the Variable Rate by the Remarketing Agent shall be conclusive and binding upon the Bondholders, the Issuer, the Company, the Trustee, the Tender Agent and the Remarketing Agent. Any owner may request the Variable Rate in effect from time to time with respect to the Bonds from the Trustee or the Remarketing Agent.

(e) Fixed Rate; Conversion to Fixed Rate.

(1) The Company has a one-time option to convert the interest rate payable on the Bonds from the Variable Rate to the Fixed Rate effective on an Interest Payment Date following compliance by the Company with the provisions of this Section 202(e). The Bonds shall be subject to mandatory tender for purchase by the Owners thereof on the Conversion Date. To exercise the option to convert, the Company shall deliver or mail by first class mail (i) a notice to the Trustee and the Credit Facility Issuer with respect to the determination of the Company to convert the interest rate on the Bonds from the Variable Rate to the Fixed Rate, which notice shall be delivered to the Trustee at least thirty (30) but not more than forty-five (45) days prior to the Conversion Date, and (ii) the opinion of Bonds Counsel described in Section 202(f) hereof. The Trustee shall then deliver or mail by first class mail a notice in substantially the form

attached hereto as Exhibit B at least twenty (20) days but not more than thirty (30) days prior to the Conversion Date to the Owner of each Bond at the address shown on the registration books of the Issuer. Any notice given by the Trustee as provided in this Section shall be conclusively presumed to have been duly given, whether or not the Owner receives the notice. Failure to mail any such notice, or the mailing of defective notice, to any Owner, shall not affect the proceeding for purchase as to any Owner to whom proper notice is mailed. Said notice shall state, among other things, (1) the Conversion Date, (2) the name and address of the placement agent which has agreed to use its best efforts to arrange for the sale of any bonds to be tendered or deemed tendered for purchase on the Conversion Date (herein called the "Placement Agent"), (3) that after the seventeenth (17th) day preceeding the Conversion Date, the owner will not be entitled to deliver an Optional Tender Notice and that after tenth (10th) day preceding the Conversion Date, the owner will not be entitled to tender this Bond for purchase as described below, (4) that this Bond will be deemed tendered for purchase on the Conversion Date, (5) that in order to receive payment of the purchase price of any Bond which is deemed to have been tendered, the registered owner of such Bond must deliver such Bond to the office of the Tender Agent before 10 a.m. Eastern time on the Conversion Date specifying such address, and (6) that interest on any Bond will be payable only to (but not including) the Conversion Date.

As described above, Owners of Bonds shall be required to tender their Bonds on the Conversion Date to the Tender Agent for purchase at the purchase price, and any such Bonds not so tendered on the Conversion Date ("Undelivered Bonds"), for which there has been irrevocably deposited in trust with the Trustee an amount of moneys sufficient to pay the Purchase Price of the Untendered Bonds, shall be deemed to have been tendered and purchased pursuant to this Section 202(e). IN THE EVENT OF A FAILURE BY AN OWNER OF BONDS TO TENDER ITS BONDS ON OR PRIOR TO THE CONVERSION DATE, SAID OWNER SHALL NOT BE ENTITLED TO ANY PAYMENT (INCLUDING ANY INTEREST TO ACCRUE SUBSEQUENT TO THE CONVERSION DATE) OTHER THAN THE PURCHASE PRICE FOR SUCH UNTENDERED BONDS, AND ANY UNTENDERED BONDS SHALL NO LONGER BE ENTITLED TO THE BENEFITS OF THIS INDENTURE, EXCEPT FOR THE PURPOSE OF PAYMENT OF THE PURCHASE PRICE THEREFOR.

(2) On or before the proposed Conversion Date, the Placement Agent shall determine the Fixed Rate as of such date in the manner described in subsection (4) below and shall notify the Trustee and the Company of the Fixed Rate by telephone, telecopier, telex, telegram or other telecommunication device and upon request, shall confirm such notice in writing.

(3) Any owner of Bonds to be converted to a Fixed Rate shall be deemed to have tendered its Bonds to the Tender Agent. Said owner shall not be entitled to any payment (including any interest to accrue subsequently to the Conversion Date) other than the purchase price for such Bonds which shall be equal to the unpaid principal amount of such Bonds, and any such Bonds shall no longer be entitled to the benefits of this Indenture, except for the purpose of payment of the purchase price therefor and interest payable on the Conversion Date. Payment of the purchase price of any such Bonds shall be made only upon the presentment and surrender of such Bonds to the Tender Agent. Upon

request, the Trustee shall provide the Tender Agent with the address set forth on the Bond Register for such owner. The Trustee shall notify the Bond Registrar of all Bonds with respect to which the Trustee has not received Optional Retention Notices, which Bonds shall be deemed to be tendered for purchase on the Conversion Date. In the case of any Bond deemed tendered, the Issuer shall cause to be executed, and the Trustee shall authenticate and deliver to the new owner as provided in Section 301 hereof a new Bond of like date and tenor in lieu of and in substitution for such Bond deemed to be tendered.

(4) On or before the Conversion Date, the Fixed Rate shall be the interest rate per annum which, in the sole judgment of the Placement Agent, taking into account prevailing financial market conditions, would be the minimum interest rate required to sell such Bonds on the Conversion Date at a price equal to the 100% of the principal amount thereof. The Fixed Rate shall be determined by the Placement Agent on or before the Conversion Date, and the Placement Agent shall notify the Trustee and the Company thereof by telephone or such other manner as may be appropriate by not later than 2:00 p.m., Eastern time, on the Conversion Date, which notice shall be promptly confirmed in writing.

(f) Condition to Conversion; Additional Notices.

(1) As a condition to the giving of notice as provided in Section 202(e) above, the Company shall provide the Trustee with an opinion of Bond Counsel to the effect that the proposed conversion of the interest rate on the Bonds will not cause the interest on the Bonds to be includable in the gross income of the owners thereof for federal income tax purposes.

(2) The delivery by the Company to the Trustee of a letter from Bond Counsel confirming the opinion required prior to the notification described above on such Conversion Date is a condition precedent to any such Conversion. In the event that the Company fails to deliver to the Trustee the letter of Bond Counsel referred to in the preceding sentence, such Conversion shall not take effect, and the Bonds shall continue to bear interest at the Variable Rate.

(3) The Trustee shall provide the Tender Agent with a copy of any notice delivered to the owners of the Bonds pursuant to Section 202 hereof.

Section 203. Optional Tender Provisions of the Bonds.

(a) While the Bonds bear interest at the Variable Rate, any Bond or portion thereof in an authorized denomination (other than a Bond registered in the name of the Company) shall be purchased on the demand of the owner thereof, on any Business Day at a purchase price equal to one hundred percent (100%) of the principal amount thereof plus interest accrued to the date of purchase, if the owner of such Bond delivers to the Tender Agent at its address filed with the Trustee an Optional Tender Notice at least seven (7) days prior to the Variable Rate Purchase Date specified in such Notice.

(b) Any Optional Tender Notice delivered pursuant to the preceding subsection shall automatically constitute: (1) an irrevocable offer to

sell such bond on the Variable Rate Purchase Date at a price equal to one hundred percent (100%) of the principal amount of such Bond plus interest accrued to the Variable Rate Purchase Date; and (2) an irrevocable authorization and instruction to the Bond Registrar to effect transfer of such Bond to the purchaser thereof on the Variable Rate Purchase Date. No purchase of Bonds pursuant to the provisions of this Section 203 shall be deemed a redemption thereof.

(c) Any owner who delivers an Optional Tender Notice pursuant to this Section 203 shall deliver such Bond to the Tender Agent, at its address filed with the Trustee, not less than five (5) days prior to the Variable Rate Purchase Date specified in the aforesaid Optional Tender Notice; provided, however, that any Bond owner which is an investment company registered under the Investment Company Act of 1940 may deliver Bonds owned by it to the Tender Agent at its address filed with the Trustee, at or prior to 10:00 a.m. on the Variable Rate Purchase Date. All Bonds delivered to the Tender Agent pursuant to this Section 203 must be duly endorsed for transfer in blank in form satisfactory to the Trustee.

(d) If a Bondholder who gives the Optional Tender Notice shall fail to deliver the Bond or Bonds identified in the Optional Tender Notice to the Tender Agent at or prior to 10:00 a.m. on the Variable Rate Purchase Date, such Undelivered Bond shall be purchased and shall cease to accrue interest on such Variable Rate Purchase Date and the owner thereof shall thereafter be entitled only to payment of the purchase price therefor and not to the benefits of this Indenture, and the Issuer, to the extent permitted by law, shall execute and the Trustee or the Authenticating Agent shall authenticate and deliver a substitute Bond or Bonds in lieu of the Undelivered Bond and the Bond Registrar shall register such Bond in the name of the purchaser or purchasers thereof pursuant to Section 205 hereof. The Tender Agent shall notify the Trustee and the Bond Registrar of any Undelivered Bonds. The Trustee shall (1) notify the Remarketing Agent of such Undelivered Bond and (2) place a stop transfer against such Undelivered Bonds until the Undelivered Bonds are properly delivered to the Tender Agent. Payment of the purchase price of any such Undelivered Bonds shall be made only upon the presentment and surrender of such Bonds to the Tender Agent. Upon notice of such delivery, the Bond Registrar shall make any necessary adjustment to the Bond Register.

(e) Notwithstanding anything to the contrary contained herein, the rights of the owners to tender Bonds pursuant to this Section 203 shall cease immediately and without further notice from and including the date payment of the Bonds is accelerated following an Event of Default pursuant to Article IX hereof.

Section 204. Registered Bonds Required; Bond Registrar and Bond Register.

(a) All Bonds shall be issued in fully registered form. The Bonds shall be registered upon original issuance and upon subsequent transfer or exchange as provided in this Indenture.

(b) The Issuer shall designate one or more persons to act as "Bond Registrar" for the Bonds, provided that the Bond Registrar appointed for the Bonds shall be either the Trustee or a person which would meet the requirements for qualification as a successor trustee imposed by Section 1014 hereof. The Issuer hereby appoints The First National Bank of Boston

as its Bond Registrar in respect of the Bonds. Any person other than the Trustee undertaking to act as Bond Registrar shall first execute a written agreement, in form satisfactory to the Trustee, to perform the duties of a Bond Registrar under this Indenture, which agreement shall be filed with the Trustee and the Tender Agent.

(c) The Bond Registrar shall act as registrar and transfer agent for the Bonds. There shall be kept at an office of the Bond Registrar a register (herein sometimes referred to as the "Bond Register") in which, subject to such reasonable regulations as the Issuer, the Trustee or the Bond Registrar may prescribe, there shall be provisions for the registration of the Bonds and for the registration of transfers of the Bonds. The Issuer shall cause the Bond Registrar to designate, by a written notification to the Trustee, a specific office location (which may be changed from time to time, upon similar notification) at which the Bond Register is kept. In the absence of a specific designation by the Bond Registrar, the principal corporate trust office of the Trustee in Canton, Massachusetts shall be deemed such office in respect of the Bonds for which the Trustee is acting as Bond Registrar.

Section 205. Transfer and Exchange.

(a) Upon surrender for transfer of any Bond at the office of the Bond Registrar, the Issuer shall execute and the Trustee or its Authenticating Agent shall authenticate and deliver in the name of the transferee or transferees, one or more new fully registered Bonds of authorized denomination for the aggregate principal amount which the new owner is entitled to receive; provided that if moneys for the purchase of such Bond have been provided pursuant to a draw under the Credit Facility, such Bond shall not be transferable to any one other than the Company or its assignee or pledgee. Except for transfers in connection with the purchase of Bonds pursuant to Section 203 hereof and the remarketing thereof pursuant to Article III, which shall be effected at the office of the Tender Agent in Canton, Massachusetts, Bonds shall be surrendered for transfer at the principal corporate trust office of the Trustee in Canton, Massachusetts. Also, the Issuer shall execute and the Trustee or its Authenticating Agent shall authenticate and deliver Bonds in lieu of Undelivered Bonds.

(b) Bonds may be exchanged for other Bonds of any other authorized denomination, of a like aggregate principal amount, upon surrender of the Bonds to be exchanged at the principal corporate trust office of the Bond Registrar or Trustee; provided, however, that in connection with the purchase of Bonds tendered for purchase and the remarketing thereof pursuant to Article III hereof, Bonds may be exchanged at the principal office of the Tender Agent, or any office of any agent designated by, the Trustee. Whenever any Bonds are so surrendered for exchange, the Issuer shall execute, and the Trustee or its Authenticating Agent shall authenticate and deliver, the Bonds which the Bondholder making the exchange is entitled to receive.

(c) All Bonds presented for transfer, exchange, redemption or payment (if so required by the Issuer, the Bond Registrar or the Trustee) shall be accompanied by a written instrument or instruments of transfer or authorization for exchange, in form satisfactory to the Bond Registrar, which may include a signature guarantee, duly executed by the owner or by his attorney duly authorized in writing.

(d) No service charge shall be made to a Bondholder for any exchange or transfer of Bonds, but the Issuer or the Bond Registrar may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto.

(e) Except in connection with the purchase of Bonds pursuant to Section 203 hereof and the remarketing thereof pursuant to Article III hereof, neither the Issuer nor any Bond Registrar on behalf of the Issuer shall be required to issue, transfer or exchange any Bond selected for redemption in whole or in part.

(f) New Bonds delivered upon transfer or exchange shall be valid obligations of the Issuer, evidencing the same debt as the Bond surrendered, shall be secured by this Indenture and shall be entitled to all of the security and benefits hereof to the same extent as the Bonds surrendered;

Section 206. Execution.

(a) The Bonds shall be executed by the manual or facsimile signature of the Chairman, the seal of the Issuer shall be affixed, imprinted, lithographed or reproduced thereon and the same shall be attested by the manual or facsimile signature of the Clerk.

(b) Bonds executed as above provided may be issued and shall, upon request of the Issuer, be authenticated by the Trustee or the Authenticating Agent, notwithstanding that any officer signing such Bonds or whose facsimile signature appears thereon shall have ceased to hold office at the time of issuance or authentication or shall not have held office at the date of the Bond.

Section 207. Authentication; Authenticating Agent.

(a) No Bond shall be valid for any purpose until the Trustee's Certificate of Authentication thereon shall have been duly executed as provided in this Indenture, and such authentication shall be conclusive proof that such Bond has been duly authenticated and delivered under this Indenture and that the owner thereof is entitled to the benefit of the trust hereby created subject to the provisions of Section 203(d) and Article XIV hereof.

(b) If the Bond Registrar is other than the Trustee, the Trustee may appoint the Bond Registrar as an Authenticating Agent with the power to act on the Trustee's behalf and subject to its direction in the authentication and delivery of Bonds in connection with transfers and exchanges under Section 205 hereof, and the authentication and delivery of Bonds by an Authenticating Agent pursuant to this Section shall, for all purposes of this Indenture, be deemed to be the authentication and delivery "by the Trustee". The Trustee shall, however, itself authenticate all Bonds upon their initial issuance. The Authenticating Agent may authenticate Bonds in substitution for Undelivered Bonds. The Authenticating Agent shall be entitled to reasonable compensation from the Company for its services.

(c) Any corporation into which any Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, consolidation or conversion to which any Authenticating Agent shall be a party, or any corporation succeeding to the

corporate trust business of any Authenticating Agent, shall be the successor of the Authenticating Agent hereunder, if such successor corporation is otherwise eligible as a Bond Registrar under Section 204 hereof, without the execution or filing of any further document on the part of the parties hereto or the Authenticating Agent or such successor corporation.

(d) Any Authenticating Agent may at any time resign by giving written notice of resignation to the Trustee, the Issuer, the Remarketing Agent and the Company. The Trustee may at any time terminate the agency of any Authenticating Agent by giving written notice of termination to such Authenticating Agent, the Issuer and the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any Authenticating Agent shall cease to be eligible under this Section, the Trustee shall promptly appoint a successor Authenticating Agent, shall give written notice of such appointment to the Issuer and the Company, and shall mail notice of such appointment to all owners of Bonds as the names and addresses of such owners appear on the Bond Register.

Section 208. Payment of Principal and Interest; Interest Rights Preserved.

(a) The principal and redemption price of any Bond shall be payable, upon surrender of such Bond, at the office of the Trustee or other paying agent appointed pursuant to this Indenture. Interest on each Interest Payment Date shall be payable by check, mailed on the Interest Payment Date to the address of the person entitled thereto on the Regular Record Date or, if applicable, the Special Record Date, as such address shall appear in the Bond Register. While the Bonds bear interest at a Variable Rate, Interest shall also be payable by wire transfer to the account of a member bank of the Federal Reserve System of any owner of Bonds in the aggregate principal amount of \$1,000,000 or more at the written request (identifying such account by number) of such owner received by the Trustee on or prior to the Regular Record Date or Special Record Date.

(b) Interest on any Bond which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the person in whose name that Bond is registered at the close of business on the Regular Record Date for such interest.

(c) Any interest on any Bond which is payable, and is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the owner of such Bonds on the relevant Regular Record Date solely by virtue of such registered owner having been such record owner on the Regular Record Date, and such Defaulted Interest shall be paid, pursuant to Section 911 hereof, to the person in whose name the Bond is registered at the close of business on a Special Record Date to be fixed by the Trustee, such date to be not more than fifteen (15) nor less than ten (10) days prior to the date of proposed payment. The Trustee shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first class postage prepaid, to each Bondholder, at its address as it appears in the Bond Register, not less than ten (10) days prior to such Special Record Date.

(d) Subject to the foregoing provisions of this Section 208, each Bond delivered under this Indenture, upon transfer of or exchange for or in

lieu of any other Bond shall carry the rights to interest accrued and unpaid, and to accrue, as such other Bond.

All payments of principal and redemption price of and interest on the Bonds, whether upon redemption, acceleration, maturity or otherwise, shall be made first, pursuant to draws under the Credit Facility in accordance with its terms on the dates when due; second, from other Available Moneys on deposit with the Trustee and not held in trust for the benefit of the owners of the Bonds pursuant to the provisions of Article XIV hereof; and then from other collected funds available to the Trustee hereunder for such payments.

Section 209. Persons Deemed Owners.

The Issuer, the Trustee, the Bond Registrar and the Authenticating Agent may deem and treat the person in whose name any Bond is registered as the absolute owner thereof (whether or not such Bond shall be overdue and notwithstanding any notation of ownership or other writing thereon made by anyone other than the Issuer, the Trustee, the Bond Registrar or the Authenticating Agent) for the purpose of receiving payment of or on account of the principal of (and premium, if any, on), and (subject to Section 208 hereof) interest on such Bond, and for all other purposes, and neither the Issuer, the Trustee, the Bond Registrar, nor the Authenticating Agent shall be affected by any notice to the contrary. All such payments so made to any such registered owner, or upon his order, shall be valid and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for moneys payable upon any such Bond.

Section 210. Mutilated, Destroyed, Lost, Stolen or Undelivered Bonds.

(a) If any Bond shall become mutilated, the Issuer shall execute, and the Trustee or its Authenticating Agent shall thereupon authenticate and deliver, a new Bond of like tenor and denomination in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of such mutilated Bond for cancellation, and the Issuer and the Trustee may require reasonable indemnity therefor. If any Bond shall be reported lost, stolen or destroyed, evidence as to the loss, theft or destruction thereof shall be submitted to the Issuer and the Trustee; and if such evidence shall be satisfactory to both and indemnity satisfactory to both shall be given, the Issuer shall execute, and thereupon the Trustee or its Authenticating Agent shall authenticate and deliver, a new Bond of like tenor and denomination. The cost of providing any substitute Bond under the provisions of this Section shall be borne by the Bondholder for whose benefit such substitute Bond is provided. If any such mutilated, lost, stolen or destroyed Bond shall have matured or be about to mature, the Issuer may, with the consent of the Trustee, pay to the owner the principal amount of such Bond upon the maturity thereof and the compliance with the aforesaid conditions by such owner, without the issuance of a substitute Bond therefor.

(b) The Issuer shall execute and the Trustee or its Authenticating Agent shall authenticate and deliver a substitute Bond in lieu of each Undelivered Bond.

(c) Every substituted Bond issued pursuant to this Section 210 shall constitute an additional contractual obligation of the Issuer, whether or

not the Bond alleged to have been destroyed, lost or stolen shall be at any time enforceable by anyone, and shall be entitled to all of the benefits of this Indenture equally and proportionately with any and all other Bonds duly issued hereunder.

(d) All Bonds shall be held and owned upon the express condition that the foregoing provisions are, to the extent permitted by law, exclusive with respect to the replacement or payment of mutilated, destroyed, lost, stolen or Undelivered Bonds and shall preclude any and all other rights or remedies.

Section 211. Temporary Bonds.

Pending preparation of definitive Bonds, or by agreement with the purchasers of all Bonds, the Issuer may issue, and, upon its request, the Trustee shall authenticate, in lieu of definitive Bonds one or more temporary printed or typewritten Bonds of substantially the tenor recited above in any denomination authorized under Section 202 hereof. Upon request of the Issuer, the Trustee shall authenticate definitive Bonds in exchange for and upon surrender of an equal principal amount of temporary Bonds. Until so exchanged, temporary Bonds shall have the same rights, remedies and security hereunder as definitive Bonds.

Section 212. Cancellation of Surrendered Bonds.

Bonds surrendered for payment, redemption, transfer or exchange and Bonds surrendered to the Trustee by the Issuer or by the Company for cancellation shall be cancelled by the Trustee and a certificate evidencing such cancellation shall be furnished by the Trustee to the Issuer and the Company. Bonds purchased pursuant to Section 203 hereof shall not be surrendered Bonds and, unless otherwise specifically provided in this Indenture, shall be Outstanding Bonds.

Section 213. Conditions of Issuance.

(a) Prior to or simultaneously with the authentication and delivery of the Bonds by the Trustee, the Trustee shall have received notice that the conditions for the issuance of the Letter of Credit as set forth in Article VII of the original Reimbursement Agreement have been satisfied and there shall be filed with the Trustee such documents, certificates and opinions as Trustee may require, including, the following:

(1) A copy, certified by the Secretary, of the resolution of the Issuer authorizing the issuance of the Bonds, awarding the Bonds and directing the authentication and delivery of the Bonds to or upon the order of the purchaser(s) therein named upon payment of the purchase price therein set forth.

(2) Executed counterparts of this Indenture, the Sale Agreement, the Note (endorsed without recourse by the Issuer to the Trustee), the Letter of Credit, the Reimbursement Agreement, the Tender Agency Agreement and the Remarketing Agreement.

(3) An opinion of Counsel to the Issuer, to the effect that the execution and delivery of the Sale Agreement and this Indenture have been duly authorized by the Issuer, the Sale Agreement and this Indenture have been duly executed by the Issuer and that, assuming

proper authorization and execution of this Indenture by the Trustee and of the Sale Agreement by the Company, the Sale Agreement and this Indenture are the valid and binding agreements of the Issuer enforceable in accordance with their respective terms, subject to the qualification that enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting enforcement of creditors' rights generally and by the exercise of judicial discretion in accordance with general equitable principles.

(4) An opinion of Counsel to the Company to the effect that the execution and delivery of the Sale Agreement, the Note, the Reimbursement Agreement, the Remarketing Agreement and the Tender Agency Agreement have been duly authorized by the Company, that the Sale Agreement, the Note, the Reimbursement Agreement, the Remarketing Agreement and the Tender Agency Agreement have been duly executed and delivered by the Company, and that the Sale Agreement, the Note, the Reimbursement Agreement, the Remarketing Agreement and the Tender Agency Agreement, assuming due authorization, execution and delivery thereof by the other parties thereto, if any, are valid, binding and enforceable against the Company in accordance with their terms, subject to the qualification that enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting enforcement of creditors' rights generally and by the exercise of judicial discretion in accordance with general equitable principles.

(5) An opinion of Counsel to the Company to the effect that copies of such instruments and financing statements (described in such opinion) as are necessary have been recorded and filed in the manner and places required by State law with the effect that (i) the lien on this Indenture has been perfected and creates, as to the rights of the Issuer under the Sale Agreement assigned under this Indenture, a valid security interest; and (ii) that the Issuer's endorsement and pledge of the Note to the Trustee and the Trustee's possession thereof creates a valid, perfected, first priority security interest in the Note, subject to no equal or prior liens.

(6) An opinion of Counsel to the Issuer, to the effect that the issuance of the Bonds and the execution of this Indenture have been duly and validly authorized by the Issuer, that all conditions precedent to the delivery of the Bonds have been fulfilled and that the Bonds and this Indenture are valid and binding agreements of the Issuer enforceable in accordance with their terms, subject to the qualification that enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting enforcement of creditors' rights generally and by the exercise of judicial discretion in accordance with general equitable principles.

(7) A written request and authorization of the Issuer addressed to the Trustee directing the Trustee to authenticate and deliver the Bonds.

(8) Such other documents as the Trustee may reasonably require.

(9) A favorable opinion of Bond Counsel as to the tax-exempt

status of interest on the Bonds.

(b) When the documents mentioned in paragraphs (1) through (9) of subsection (a) of this Section shall have been filed with the Trustee and when the Bonds shall have been executed as required by this Indenture, the Trustee shall authenticate the Bonds and deliver them to or upon the order of the purchaser(s) named in the resolution mentioned in paragraph (1) thereof, but only upon payment to the Trustee for the account of the Issuer of the purchase price of the Bonds. The Trustee shall be entitled to rely conclusively upon such resolution or resolutions, or document approved thereby, as to the name of the purchasers and the amount of such purchase price.

(c) Simultaneously with the delivery of the Bonds, the Trustee shall apply the proceeds of the Bonds in accordance with Article IV of this Indenture.

ARTICLE III

PURCHASE AND REMARKETING OF TENDERED BONDS

Section 301. Remarketing of Tendered Bonds.

(a) Not later than the close of business on the date the Tender Agent receives an Optional Tender Notice, the Tender Agent shall notify the Remarketing Agent and the Company by telephone, telex or telecopier, confirmed in writing if requested, specifying the Variable Rate Purchase Date.

(b) Not later than the close of business on the ninth (9th) day prior to the Conversion Date, the Trustee shall notify the Placement Agent and the Company by telephone, telex or telecopier, confirmed in writing if requested, specifying the aggregate principal amount of Bonds deemed tendered for mandatory purchase on the Conversion Date.

(c) Except as provided in subsection (d) below and Section 305 hereof, upon receipt by the Remarketing Agent of notice from the Tender Agent pursuant to Section 301(a) hereof and by the Placement Agent of notice from the Trustee pursuant to Section 301(b) hereof, the Remarketing Agent or the Placement Agent, as the case may be, shall use its best efforts to arrange for the sale, at par plus accrued interest, if any, of such Bonds tendered or deemed tendered for settlement on the Variable Rate Purchase Date or the Conversion Date, respectively. At or before 4:00 p.m. on the Business Day immediately preceding the Variable Rate Purchase Date or the Conversion Date, the Remarketing Agent or the Placement Agent, respectively, shall give notice by telephone, telecopier or telex, promptly confirmed in writing if requested, to the Trustee and the Tender Agent specifying the principal amount of such Bonds, if any, placed by it and to the Trustee the names, addresses and social security numbers or other tax identification numbers of the proposed purchasers thereof.

(d) Notwithstanding the provisions of subsection (c) above, any Bond purchased pursuant to the terms of this Indenture from the date notice of redemption or conversion is given shall not be remarketed except to a buyer who agrees at the time of such purchase to tender such Bond for redemption or purchase on the redemption or purchase date.

(e) During the Variable Rate Period, the Remarketing Agent shall continue to use its best efforts to arrange for the sale, at the best price available, but not less than the principal amount thereof plus accrued interest, of any Bonds purchased with moneys advanced under the Credit Facility pursuant to Section 302(a)(2) hereof; provided that Bonds purchased with moneys advanced under the Credit Facility shall not be released for delivery to the purchasers unless the Credit Facility has been reinstated by the sum of (a) the amount drawn thereunder to pay the purchase price for such Bonds and (b) interest on such portion for 120 days at a maximum rate of 15%, and the Trustee has received the executed reinstatement certificate required to be delivered by such Credit Facility Issuer. The Trustee agrees to advise the Tender Agent immediately upon receipt of such reinstatement certificate.

Section 302. Purchase of Bonds Delivered to the Tender Agent.

(a) There is hereby established with the Tender Agent a Bond Purchase Fund out of which the purchase price for Bonds tendered for purchase on a Variable Rate Purchase Date, the Conversion Date or on such other date on which Bonds are remarketed shall be paid. There are hereby established in the Bond Purchase Fund two separate and segregated accounts, to be designated the "Remarketing Account" and the "Bank Account". Funds received from purchasers of Tendered Bonds (other than the Company or the Credit Facility Issuer) shall be deposited by the Remarketing Agent or the Placement Agent, as the case may be, in the Remarketing Account. At or prior to 10:00 a.m. on each Variable Rate Purchase Date or the Conversion Date, the Remarketing Agent or the Placement Agent, as the case may be, shall deliver to the Tender Agent for deposit in the Remarketing Account of the Bond Purchase Fund immediately available funds, payable to the order of the Tender Agent, in an amount equal to the purchase price of the Bonds to be delivered to the Tender Agent that have been remarketed by the Remarketing Agent or placed by the Placement Agent as specified in the notice delivered pursuant to Section 301(c) hereof. Funds, if any, drawn by the Trustee under the Credit Facility pursuant to Section 302(b) below in an amount equal to the aggregate purchase price of Bonds tendered for purchase less the amount available in the Remarketing Account shall, at the direction of the Trustee, be delivered by the Credit Facility Issuer to the Tender Agent for deposit in the Bank Account of the Bond Purchase Fund. On each Variable Rate Purchase Date and on the Conversion Date, the Tender Agent shall effect the purchase, but only from the funds listed below, of such Bonds from the owners thereof at a purchase price equal to the principal amount thereof, plus interest accrued, if any, to the date of purchase and such payment shall be made in immediately available funds. Funds from the payment of such purchase price shall be derived from the following sources in the order of priority indicated:

(1) proceeds of the remarketing of such Bonds pursuant to Section 301(c) hereof which constitute Available Moneys.

(2) moneys furnished by the Trustee to the Tender Agent representing proceeds of a drawing by the Trustee under the Credit Facility; and

(3) any other moneys available for such purposes.

(b) The Tender Agent shall advise the Trustee by telex or telecopier

and shall advise the Credit Facility Issuer and the Company by telephone, in each case, no later than 10:30 a.m. on each Variable Rate Purchase Date or the Conversion Date, as the case may be, of the amount of any drawing under the Credit Facility necessary to make timely payments hereunder. The Trustee shall promptly (and in no event later than 11:00 a.m.) take all action necessary to draw on the Credit Facility the specified amount. All amounts received by the Trustee from a drawing under the Credit Facility shall be transferred to the Tender Agent and held by the Tender Agent in the Bank Account pending application of such moneys as provided in this Article III. The Trustee shall provide to the Tender Agent the funds referred to in paragraph (2) of Section 302(a) prior to the time the Tender Agent is required to apply such funds to effect the purchase of Bonds and shall notify the Tender Agent promptly after receipt of notice from the Credit Facility Issuer reinstating the Credit Facility. The Remarketing Agent shall deliver funds from the sale of Bonds held by the Credit Facility Issuer as pledgee of the Company pursuant to Section 301(e) hereof to the Tender Agent for deposit in the Remarketing Account, which funds shall be promptly paid by the Tender Agent on behalf of the Company to the Credit Facility Issuer as reimbursement under the Reimbursement Agreement. The Tender Agent shall notify the Trustee of any such reimbursement, and the Trustee shall promptly deliver to the Credit Facility Issuer any reinstatement certificate and the form of transfer certificate required by the Credit Facility.

Section 303. Delivery of Purchased Bonds.

(a) Bonds purchased shall be delivered as follows:

(1) Bonds placed by the Remarketing Agent or the Placement Agent pursuant to Section 301 hereof shall be delivered by the Tender Agent to the Remarketing Agent or the Placement Agent, as the case may be, on behalf of the purchasers thereof.

(2) Bonds purchased with moneys described in Section 302(a)(2) shall be delivered to the Credit Facility Issuer as pledgee of the Company pursuant to the terms of the Reimbursement Agreement and the Pledge Agreement or the Credit Facility Issuer designee.

(b) Except as otherwise set forth herein, Bonds delivered as provided in this Section 303 shall be registered by the Bond Registrar in the manner directed by the recipient thereof.

(c) In the event that any Bond to be delivered to the Tender Agent is not delivered by the owner thereof properly endorsed for transfer on or prior to the Variable Rate Purchase Date or the Conversion Date, as the case may be, and there has been irrevocably deposited with the Tender Agent an amount sufficient to pay the purchase price thereof, which amount may be held by the Tender Agent in a non-interest bearing account, the Issuer shall execute and the Trustee or its Authenticating Agent shall authenticate and deliver a substitute Bond in lieu of the Undelivered Bond and the Bond Registrar shall register such Bond in the name of the purchaser thereof. Thereafter, interest on such Undelivered Bond shall cease to accrue, and the holder thereof shall be entitled only to payment of the purchase price therefor and not to the benefits of the Indenture.

(d) Notwithstanding the foregoing, Bonds purchased with funds identified in Section 302(a)(2) hereof shall be held by the Credit Facility

Issuer or the Tender Agent and shall not be delivered to subsequent purchasers thereof or any other person until the Trustee has notified the Tender Agent that the Credit Facility has been reinstated to the extent of the purchase price of such Bonds and interest thereon.

Section 304. Delivery of the Proceeds of the Sale of Remarketed Bonds.

The proceeds of the placement of the Bonds by the Remarketing Agent of any Bonds delivered to the Tender Agent or by the Placement Agent of Bonds on the Conversion Date shall be paid first, to the tendering Bondholders of such Bonds; second, to the Credit Facility Issuer, to the extent of any amounts drawn under the Credit Facility in connection with the payment of the purchase price for such Bonds and not reimbursed to the Credit Facility Issuer as of the time of sale of such Bonds; and third, to the Company.

Section 305. No Remarketing After Certain Events.

Anything in this Indenture to the contrary notwithstanding, there shall be no remarketing of Bonds pursuant to this Article III after the Conversion Date or the principal of the Bonds shall have been accelerated pursuant to Section 902 hereof.

ARTICLE IV

REFUNDING OF PRIOR BONDS

Section 401. Refunding of Prior Bonds.

The proceeds of the sale of the Bonds shall be held in trust by the Trustee and paid by the Trustee immediately to the holders of the Prior Bonds to pay in full the outstanding principal amount of the Prior Bonds. Simultaneously with such payment by the Trustee, the Company shall pay all additional amounts sufficient to pay interest on the Prior Bonds to the date of redemption thereof and to pay directly all fees, charges and expenses of the holders, the Paying Agent and Registrar for the Prior Bonds and the Prior Trustee on the date of delivery of the Bonds. Following such payments, the Trustee shall receive from the Prior Trustee a certificate to the effect that the Prior Bonds have been redeemed and paid in full and evidence that the Prior Bonds have been cancelled.

ARTICLE V

REVENUES AND APPLICATION THEREOF

Section 501. Revenues to be Paid Over to Trustee.

The Issuer has caused the Revenues to be paid directly to the Trustee. If, notwithstanding these arrangements, the Issuer receives any payments on account of the Note or a Credit Facility with respect to the principal or redemption price of or interest on the Bonds, the Issuer shall immediately pay over the same to the Trustee to be held as Revenues.

Section 502. The Bond Fund.

(a) There is hereby established with the Trustee a special fund to be designated "Village of Walden Industrial Development Agency Industrial Development Revenue Refunding Bonds (Spence Engineering Company Project), Series 1994 Bond Fund" (the "Bond Fund"), the moneys in which, in accordance with Section 502(c) hereof, the Trustee shall apply to (1) the principal or redemption price of Bonds as they mature or become due, upon surrender thereof, and (2) the interest on Bonds as it becomes payable. There are hereby established with the Trustee within the Bond Fund two separate and segregated accounts, to be designated the "Payments Account" and the "Credit Facility Account".

(b) There shall be deposited into the various accounts of the Bond Fund from time to time the following:

(1) into the Payments Account, (A) all payments of principal or redemption price (including premium) of or interest on the Note, and (B) all other moneys received by the Trustee under and pursuant to the provisions of this Indenture or any of the provisions of the Note or the Sale Agreement, when accompanied by written directions from the person depositing such moneys that such moneys are to be paid into such account of the Bond Fund. All amounts deposited in the Payments Account shall be segregated and held, with the earnings thereon, separate and apart from other funds in the Bond Fund until such amounts become Available Moneys. At such time as funds deposited in the Payments Account become Available Moneys, they may be commingled with other Available Moneys in the Payments Account; and

(2) into the Credit Facility Account, all moneys drawn by the Trustee under the Credit Facility to pay principal or redemption price (excluding any premium) of the Bonds and interest on the Bonds.

(c) Except as provided in Section 911 hereof, moneys in the Bond Fund shall be used solely for the payment of the principal or redemption price of the Bonds and interest on the Bonds from the following sources but only in the following order of priority;

(1) moneys held in the Credit Facility Account, provided that in no event shall moneys held in the Credit Facility Account be used to pay any amounts due on Bonds which are held by or for the Company, including without limitation, Bonds pledged to the Credit Facility Issuer, or to pay any portion of the redemption premiums required pursuant to Section 701(a)(2) hereof; and

(2) moneys held in the Payments Account to the extent such amounts qualify as Available Moneys (except with respect to moneys paid on Bonds that are held by or for the Company, including without limitation, Bonds pledged to the Credit Facility Issuer, which moneys need not qualify as Available Moneys).

(d) Not later than 10:00 a.m. on the third (3rd) Business Day preceding the date on which principal or redemption price of or interest on the Bonds is due and payable (the "Payment Date"), the Trustee shall have notified the Company and the Credit Facility Issuer of the amounts of principal and interest due on the Bonds on the Payment Date. Not later than 11:00 a.m. on each Payment Date, the Trustee shall present a draft or drafts under the Credit Facility in the amounts due and payable on the Bonds. Such funds shall be wired by the Bank to be deposited in the Credit

Facility Account and payments due under the Bonds shall be made by the Trustee in accordance with Section 208 and Section 502(c) hereof. Following such payment to the Bondholders, the Trustee shall, on behalf of the Company, promptly pay moneys on deposit in the Payments Account in an amount equal to the amounts of such drawing or drawings to the Bank as reimbursement to the Bank under the terms of the Reimbursement Agreement. If no amounts are owed by the Company to the Credit Facility Issuer under the Reimbursement Agreement, any amounts remaining in the Payments Account on the Business Day immediately following a Payment Date shall be paid to the Company upon request with the consent of the Credit Facility Issuer.

(e) Except as provided in the following sentence, the Bond Fund shall be depleted at least once each year, except for a reasonable carryover amount (not to exceed the greater of one year's earnings on the Bond Fund or one-twelfth (1/12th) of annual debt service). Any money deposited in the Bond Fund shall be spent within a thirteen (13) month period beginning on the date of deposit, and any amount received from investment of money held in the Bond Fund shall be spent within a one (1) year period beginning on the date of receipt. Any amounts remaining in the Bond Fund after payment in full of the principal or redemption price of and interest on the Bonds (or provisions for payment thereof) shall be paid to the Company at the written request of the Company therefor or as otherwise required by law; provided, that if any payments have been received by the Trustee from the Credit Facility in connection with such payment of the Bonds, any remaining amounts shall be paid to the Credit Facility Issuer to the extent of such payments.

Section 503. Revenues to Be Held for All Bondholders; Certain Exceptions.

Revenues shall, until applied as provided in this Indenture, be held by the Trustee in trust for the benefit of the owners of all Outstanding Bonds, except that any portion of the Revenues representing principal or redemption price of any Bonds, and interest on any Bonds previously matured or called for redemption in accordance with Article VII of this Indenture, shall be held for the benefit of the owners of such Bonds only.

Section 504. Rebate Fund.

In the event that the Company provides for the deposit of amounts from time to time for rebate to the United States of America pursuant to the Sale Agreement, the Trustee is hereby authorized to create a special fund to be designated as the Rebate Fund. The Rebate Fund shall be held separate and apart from all other funds under this Indenture and shall not be subject to the lien and pledge granted hereunder for the benefit of Bondholders. The Trustee shall remit money deposited in the Rebate Fund to the United States of America or otherwise as directed in writing by the Company. All moneys deposited in the Rebate Fund shall be held and invested at the sole direction of the Company. In making investments hereunder, or in selling or disposing of investments as required hereby, the Trustee shall have no duty or responsibility to independently verify compliance with Sections 148(d) and 148(f) of the Code and the regulations promulgated thereunder and the Trustee shall be fully protected in relying solely upon the written directions of the Company as aforesaid. Under no circumstances whatsoever shall the Trustee be liable to the Issuer, the Company or any holder for any loss of tax-exempt status of the Bonds, or any claims, demands, damages, liabilities, losses, costs or expenses

resulting therefrom or in any way connected therewith, so long as the Trustee acts only in accordance with the written directions of the Company as provided hereunder. The Trustee shall not be responsible for any losses in the investment of money in the Rebate Fund made at the direction of the Company.

ARTICLE VI

DEPOSITARIES OF MONEYS, SECURITY FOR DEPOSITS AND INVESTMENT OF FUNDS; THE CREDIT FACILITY

Section 601. Security for Deposits.

All moneys deposited with the Trustee under the provisions of this Indenture or the Sale Agreement shall be held in trust and applied only in accordance with the provisions of this Indenture and the Sale Agreement and shall not be subject to lien (other than the lien created hereby) or attachment by any creditor of the Trustee, the Issuer or the Company.

Section 602. Investment of Moneys.

(a) At the request and the direction of the Company (confirmed in writing), moneys held for the credit of the Bond Fund (including any amount therein) shall be invested and reinvested by the Trustee in Investment Obligations which shall mature not later than the respective dates when the moneys held for the credit of said funds will be required for the purposes intended, provided that moneys held in the Credit Facility Account of the Bond Fund shall be invested and reinvested by the Trustee only in Governmental Obligations which shall mature not later than the date on which such moneys will be required to be paid; provided further that such investment shall only be made at the direction of the Company. The Trustee shall be entitled to rely on instruction from the Company. In making investments hereunder, or in selling or disposing of investments as required hereby, the Trustee shall have no duty or responsibility to independently verify compliance with Sections 148(d) and 148(f) of the Code and the regulations promulgated thereunder and the Trustee shall be fully protected in relying solely upon the written directions of the Company as aforesaid. Under no circumstances whatsoever shall the Trustee be liable to the Issuer, the Company or any holder for any loss of tax-exempt status of the Bonds, or any claims, demands, damages, liabilities, losses, costs or expenses resulting therefrom or in any way connected therewith, so long as the Trustee acts only in accordance with the written directions of the Company as provided hereunder.

(b) Obligations so purchased as an investment of moneys in any such fund or account shall be deemed at all times to be a part of such fund or account, and the interest accruing thereon and any profit realized from such investment shall be credited to such fund or account, and any loss resulting from such investment shall be charged to such fund or account. The Trustee shall sell at market price or present for redemption any obligation so purchased whenever it shall be necessary so to do in order to provide cash to meet any payment or transfer from any such fund or account. Neither the Trustee nor the Issuer shall be liable or responsible for loss resulting from any such investment or the sale of any such investment made pursuant to the terms of this Section.

(c) For the purpose of the Trustee's determination of the amount on deposit to the credit of any such fund or account, obligations in which moneys in such fund or account have been invested shall be valued at the lower of cost or market.

(d) The Trustee may make any and all investments permitted by this Section through its own bond or investment department, unless otherwise directed in writing by the Company Representative.

Section 603. The Credit Facility.

(a) Initial Letter of Credit.

(1) The Letter of Credit shall be a direct pay letter of credit and shall provide for direct payments to or upon the order of the Trustee as hereinafter set forth and shall be the irrevocable obligation of the Bank to pay to or upon the order of the Trustee, upon request and in accordance with the terms thereof, an amount of up to \$7,875,000 of which (A) \$7,500,000 shall support the payment of principal of the Bonds when due and that portion of the purchase price corresponding to principal of Tendered Bonds not remarketed on any Variable Rate Purchase Date or sold on the Conversion Date, and (B) \$375,000 shall support the payment of up to one hundred twenty (120) days' interest at a maximum rate of fifteen percent (15%) per annum on the Bonds when due and that portion of the purchase price corresponding to interest on Tendered Bonds not remarketed on any Variable Rate Purchase Date or sold on the Conversion Date.

(2) The Letter of Credit shall terminate automatically on the earliest of (A) the date on which a drawing under the Letter of Credit has been honored upon the maturity or acceleration of the Bonds or redemption of all the Bonds, (B) the day on which the Credit Facility Issuer receives the notice of the conversion following the Conversion Date, (C) the date on which the Bank receives notice from the Trustee that an Alternate Credit Facility is substituted for the Letter of Credit and is in effect, (D) the date on which the Bank receives notice from the Trustee that there are no longer any Bonds Outstanding and (E) the Stated Termination Date described in the Letter of Credit as it may be extended pursuant to the terms thereof.

(3) The Bank's obligation under the Letter of Credit may be reduced to the extent of any drawing thereunder, subject to reinstatement as provided therein. The Letter of Credit shall provide that, with respect to a drawing by the Trustee solely to pay interest on the Bonds on any Interest Payment Date, if the Trustee shall not have received from the Bank within ten (10) days from the date of such drawing a notice by telecopier, by telex or in writing that the Bank has not been reimbursed, the Trustee's right to draw under the Letter of Credit with respect to the payment of interest shall be reinstated on or before the eleventh (11th) day following such drawing in an amount equal to such drawing. With respect to any other drawing by the Trustee, the amount available under the Letter of Credit for payment of the purchase price of the Bonds and interest on the Bonds shall be reinstated in an amount equal to any such drawing but only to the extent that the Bank is reimbursed in accordance with the terms of the Reimbursement Agreement for the amounts so drawn.

(4) The Letter of Credit shall provide that if, in accordance with the terms of the Indenture, the Bonds shall become or be declared immediately due and payable pursuant to any provision of the Indenture, the Trustee shall be entitled to draw on the Letter of Credit to the extent that the amounts are available thereunder to pay the aggregate principal amount of the Bonds then Outstanding plus an amount of interest not to exceed one hundred twenty (120) days.

(5) Upon the termination of the Letter of Credit, the Trustee shall return the Letter of Credit to the Bank.

(b) Expiration. Unless an Alternate Credit Facility has been provided in accordance with Section 603(c) hereof at least thirty (30) days before the Interest Payment Date immediately preceding the fourteenth (14th) day prior to the expiration date of a Credit Facility, the Trustee shall call the Bonds for redemption in accordance with the Section 701(c)(2) hereof. If at any time there shall cease to be any Bonds Outstanding hereunder, the Trustee shall promptly surrender the then current Credit Facility to the Credit Facility Issuer for cancellation. The Trustee shall comply with the procedures set forth in the Credit Facility relating to the termination thereof.

(c) Alternate Credit Facilities. While the Bonds bear interest at the Variable Rate, the Company may, at its option, provide for the delivery to the Trustee of an Alternate Credit Facility. The Alternate Credit Facility shall have terms in all respects material to the owners of the Bonds the same as the Credit Facility being replaced and shall be in form acceptable to the Trustee and the Tender Agent. On or prior to the date of delivery of an Alternate Credit Facility to the Trustee, the Company shall furnish to the Trustee:

(1) an opinion of Counsel stating that the delivery of such Alternate Credit Facility to the Trustee is authorized under this Indenture and complies with the terms hereof and that such Alternate Credit Facility is enforceable against the Credit Facility Issuer thereof in accordance with its terms, and

(2) if the Bonds are rated by Moody's or S&P, written evidence (or such other evidence satisfactory to the Trustee) from Moody's, if the Bonds are rated by Moody's, and from S&P, if the Bonds are rated by S&P, in each case to the effect that such rating agency has reviewed the proposed Alternate Credit Facility and that the substitution of the proposed Alternate Credit Facility for the then current Credit Facility will not, by itself, result in:

- (A) a permanent withdrawal of its rating of the Bonds, or
- (B) a reduction of the then current rating of the Bonds,

or if the Bonds are not rated by Moody's or S&P, written evidence (or such other evidence satisfactory to the Trustee in its sole discretion) that obligations substantially equivalent in term to the term of the proposed Alternate Letter of Credit of the bank or institution issuing the proposed Alternate Credit Facility are rated by Moody's or S&P in the same category as the obligations of substantially equivalent term of the bank or institution which issued the Credit Facility being replaced; provided, however, if the Company

provides the Trustee with an opinion of Bond Counsel that a change in the then current rating on the Bonds or a change in the Credit Facility Issuer to a bank or institution the obligations of which are rated in a different category than those obligations of equivalent term of the issuer of the Credit Facility being replaced will not adversely affect the exclusion of the interest on the Bonds from gross income from federal tax purposes, then such evidence need not be provided, but the Company shall instead provide the Trustee with written evidence (or such other evidence as shall be satisfactory to the Trustee) that the commercial paper of the bank or institution issuing the proposed Alternate Credit Facility is rated P-3 or higher by Moody's or A-3 or higher by S&P.

The Trustee shall then accept such Alternate Credit Facility and surrender the previously held Credit Facility to the previous Credit Facility Issuer for cancellation promptly on or before the fifteenth (15th) day after the Alternate Credit Facility becomes effective, but not later than the fifteenth (15th) day following the last Interest Payment Date covered by the Credit Facility to be cancelled.

(d) Notices of Substitution or Replacement of Credit Facility.

(1) The Trustee shall, at least twenty (20) days prior to the proposed replacement of a Credit Facility with an Alternate Credit Facility, give notice thereof by mail to the owners of the Bonds, which notice shall include the identity of the issuer thereof and the rating, if any, to be assigned to the Bonds by Moody's or S&P following the effective date of such Alternate Credit Facility or, if the Bonds are not then rated by Moody's or S&P, then the rating assigned by Moody's or S&P to the obligations substantially equivalent in term to the term of the proposed Alternate Credit Facility of the Issuer of such Alternate Credit Facility.

(2) The Trustee shall promptly give notice of any replacement of the Credit Facility to the Issuer, the Tender Agent and the Remarketing Agent.

ARTICLE VII

REDEMPTION OR PURCHASE OF THE BONDS

Section 701. Redemption or Purchase Dates and Prices.

The Bonds shall be subject to redemption, and, in certain instances, to purchase, prior to maturity in the amounts, at the times and in the manner provided in this Article VII. Payments of the redemption price or the purchase price of any Bond shall be made only upon the surrender to the Trustee or its agent, as directed, of any Bond so redeemed or purchased.

(a) Optional Redemption

(1) Optional Redemption During Variable Rate Period. While the Bonds bear interest at the Variable Rate, the Bonds shall be subject to redemption, upon the written direction of the Issuer, given at the request of the Company, on any Interest Payment Date and on the Conversion Date in whole or in part, at a redemption price of one

hundred percent (100%) of the principal amount thereof, without premium, plus interest accrued to the redemption date.

(2) Optional Redemption With Premium During Fixed Rate Period. While the Bonds bear interest at the Fixed Rate, the Bonds shall be subject to redemption upon the written direction of the Issuer, given at the request of the Company, in whole or in part, on any Interest Payment Date occurring on or after the dates set forth below, at the redemption prices (expressed as percentages of principal amount to be redeemed) set forth below plus interest accrued to the redemption date as follows:

Commencement of Redemption Period	Redemption Price
The Business Day four (4) years from the Conversion Date	103% declining by 1/2% on each succeeding anniversary of the first day of the redemption period until reaching 100% and thereafter at 100%

(b) Extraordinary Optional Redemption Due to Casualty or Eminent Domain.

(1) The Bonds may be redeemed as a whole or in part by the Issuer at any time at the written direction of the Company, at a redemption price equal to one hundred percent (100%) of the principal amount thereof plus interest accrued thereon to the redemption date, without premium, under any of the following conditions, the existence of which shall be certified to the Trustee by the Company Representative:

(A) The Project shall have been damaged or destroyed to such extent that the amount of Net Proceeds of insurance exceeds \$500,000 and the Company elects not to rebuild the Project or fails to so elect within ninety (90) days of receipt by the Trustee of such Net Proceeds; or

(B) Title to, or the temporary use of, all of the Project or any substantial portion thereof shall have been taken by Eminent Domain and the amount of Net Proceeds from such taking exceeds \$500,000 and the Company elects not to replace the property so taken or fails so to elect within ninety (90) days of receipt by the Trustee of such Net Proceeds.

(2) Such redemption shall occur on the next Interest Payment Date occurring not less than thirty (30) days following the expiration of such 90-day period referred to in paragraph (1) of this Section 701(b).

(c) Mandatory Redemption.

(1) Determination of Taxability. The Bonds shall be subject to mandatory redemption in whole on any date at a redemption price equal to one hundred percent (100%) of the principal amount thereof plus accrued interest to the redemption date which shall not be more than one hundred eighty (180) days following the receipt by the Trustee of

a written notice of a Determination of Taxability.

(2) Failure to Provide Alternate Credit Facility. The Bonds shall be subject to mandatory redemption during the Variable Rate Period at one hundred percent (100%) of the principal amount thereof, without premium, plus interest accrued, if any, thereon to the date of redemption, on the Interest Payment Date occurring closest to but not after fifteen (15) days prior to the date of expiration of the then current Credit Facility, unless an Alternate Credit Facility has been provided in accordance with Article VI hereof.

(d) Mandatory Purchase on Conversion Date. The Bonds shall be subject to mandatory purchase in whole on the Conversion Date at a purchase price equal to one hundred percent (100%) of the principal amount thereof, without premium, plus interest accrued, if any, thereon to the date of purchase, on the Conversion Date.

Section 702. Company to Direct Optional Redemption.

The Issuer shall direct the Trustee in writing to call Bonds for optional redemption when and only when it shall have been notified by the Company to do so and the Company has notified the Trustee in writing that the Company has made or intends to make a corresponding prepayment under the Note. Such direction from the Issuer to the Trustee shall be given at least forty-five (45) days but not more than sixty (60) days prior to the redemption date or such shorter period as shall be acceptable to the Trustee. So long as a Credit Facility is then held by the Trustee, the Trustee shall only call Bonds for optional redemption if it has Available Moneys in the Payments Account of the Bond Fund or has been notified by the Credit Facility Issuer that it will receive moneys pursuant to the Credit Facility, in the aggregate, sufficient to pay the redemption price of the Bonds to be called for redemption, plus accrued interest thereon.

Section 703. Selection of Bonds to be Called for Redemption.

Except as otherwise provided herein or in the Bonds, if less than all the Bonds are to be redeemed, the particular Bonds to be called for redemption shall be selected in the following order of priority: first, Bonds pledged to the Bank pursuant to the Pledge Agreement, second, Bonds owned by the Company and third, Bonds selected by any random or other method determined by the Trustee in its sole discretion to be fair and reasonable. The Trustee shall treat any Bond of a denomination greater than One Hundred Thousand Dollars (\$100,000) as representing that number of separate Bonds each of the denomination of the minimum denomination of One Hundred Thousand Dollars (\$100,000) or any integral multiple of Five Thousand Dollars (\$5,000) in excess thereof as the Trustee shall so determine.

Section 704. Notice of Redemption or Purchase.

(a) When required to redeem or purchase Bonds under any provision of this Article VII, or when directed to do so by the Issuer, the Trustee shall cause notice of the redemption or purchase to be given not more than sixty (60) days and not less than twenty (20) days prior to the redemption or purchase date by mailing a copy of all notices of redemption or purchase by first class mail, postage prepaid, to all registered owners of Bonds to be redeemed or purchased at their addresses shown on the Bond Register.

Failure to mail any such notice or defect in the mailing thereof in respect of any Bond shall not affect the validity of the redemption or purchase of any other Bond. Notices of redemption or purchases shall also be mailed to the Remarketing Agency and the Credit Facility Issuer, if any. Any such notice shall be given in the name of the Issuer, shall identify the Bonds to be redeemed or purchased (and, in the case of partial redemption or purchase of any Bonds, the respective principal amounts thereof to be redeemed or purchased), shall specify the redemption or purchase date, and shall state that on the redemption or purchase date, the redemption or purchase price of the Bonds called for redemption or purchase will be payable at the principal corporate trust office of the Trustee, or in the case of mandatory redemptions or purchases pursuant to Section 701(c)(2) or 701(d) hereof at the office of the Trustee's Paying Agent, if any, and that from that date interest will cease to accrue. The Trustee may use "CUSIP" numbers in notices of redemption or purchase as a convenience to Bondholders, provided that any such notice shall state that no representation is made as to the correctness of such numbers either as printed on the Bonds or as contained in any notice of redemption or purchase and that reliance may be placed only on the identification numbers containing the prefix established under the Indenture.

(b) With respect to any notice of redemption or purchase of Bonds in accordance with Section 701(c)(2) hereof, such notice shall also specify the date of the expiration of the term of the Credit Facility.

(c) After the Conversion Date, if at the time of mailing of notice of any optional redemption the Issuer shall not have deposited with the Trustee moneys sufficient to redeem all the Bonds called for redemption, such notice may state that it is conditional on the deposit of Available Moneys with the Trustee not later than the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

(d) Upon redemption of less than all of the Bonds, the Trustee shall furnish to the Credit Facility Issuer a notice in the form specified by the Credit Facility Issuer to reduce the coverage provided by the Credit Facility and upon redemption of all of the Bonds, the Trustee shall surrender the Credit Facility to the Credit Facility Issuer for cancellation.

(e) Purchases under Section 701(d) hereof shall be in accordance with Section 202(e) hereof.

Section 705. Bonds Redeemed or Purchased in Part.

Any Bond which is to be redeemed or purchased only in part shall be surrendered at a place stated in the notice provided for in Section 704 hereof (with due endorsement by, or a written instrument of transfer in form satisfactory to the Trustee duly executed by, the owner thereof or his attorney duly authorized in writing) and the Issuer shall execute and the Trustee or its Authenticating Agent shall authenticate and deliver to the owner of such Bond without service charge, a new Bond or Bonds, of any authorized denomination as requested by such owner in an aggregate principal amount equal to and in exchange for the unredeemed and unpurchased portion of the principal of the Bond so surrendered.

ARTICLE VIII

PARTICULAR COVENANTS AND PROVISIONS

Section 801. Covenant to Pay the Bonds; Bonds Limited Obligations of the Issuer.

(a) The Issuer covenants that it will promptly pay the principal of and interest on and other amounts payable under the Bonds at the places, on the dates and in the manner provided herein and in the Bonds according to the true intent and meaning thereof. Such principal and interest and other amounts are payable solely from the payments made by the Company on the Note and other Revenues.

(b) The Issuer shall not in any event be liable for the payment of the principal of or interest on the Bonds, or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever which may be undertaken by the Issuer, and neither the Bonds nor any of the agreements or obligations of the Issuer shall be construed to constitute an indebtedness of the Issuer within the meaning of any constitutional or statutory provision whatsoever. The Bonds and the interest thereon shall never constitute an indebtedness or a charge against the general credit of the Issuer within the meaning of any constitutional provision or statutory limitation and shall never constitute nor give rise to any pecuniary liability of the Issuer, but shall be limited obligations of the Issuer payable solely from the revenues and other funds pledged therefor and shall not be payable from any other assets or funds of the Issuer, and neither the faith and credit nor the taxing power of the State or any political subdivision or any agency thereof is pledged to the payment of the principal of or the interest on the Bonds.

Section 802. Covenants to Perform Obligations Under this Indenture.

The Issuer covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Indenture, in the Bonds executed and delivered hereunder and in all proceedings of the Issuer pertaining thereto and will faithfully observe and perform at all times any and all covenants, undertakings, stipulations and provisions of the Sale Agreement on its part to be observed or performed. The Issuer covenants that it is duly authorized under the Constitution and laws of the State, including particularly and without limitation the Act, to issue the Bonds authorized hereby and to enter into this Indenture, to endorse the Note to the Trustee, to pledge the payments on the Note and other Revenues in the manner and to the extent herein set forth, and to assign its interest in the Note and the Sale Agreement to the Trustee; and that all action on its part for the issuance of the Bonds issued hereunder and the execution and delivery of this Indenture has been duly and effectively taken; and that the Bonds in the hands of the owners thereof are and will be the valid and binding obligations of the Issuer according to the tenor and import thereof.

Section 803. Covenant to Perform Obligations Under the Sale Agreement.

Subject to the provisions of Section 804 of this Article, the Issuer covenants and agrees that it will not suffer, permit or take any action or do anything or fail to take any action or fail to do anything which may result in the termination or cancellation of the Sale Agreement so long as

any Bond is Outstanding; that it will punctually fulfill its obligations and will require the Company to perform punctually its duties and obligations under the Sale Agreement; that it will not execute or agree to any change, amendment or modification of or supplement to the Sale Agreement or this Indenture except by a supplement or an amendment duly executed by the Issuer and the Company with the approval of the Trustee and upon the further terms and conditions set forth in Article XIII of this Indenture; that it will not agree to any abatement, reduction, abrogation, waiver, diminution or other modification in any manner or to any extent whatsoever of the obligation of the Company to pay the Note and to meet its other obligations as provided in the Sale Agreement; and that it will promptly notify the Trustee in writing of any actual or alleged Event of Default under the Sale Agreement, whether by the Company or the Issuer, and will further notify the Trustee at least thirty (30) days before the proposed date of effectiveness of any proposed termination or cancellation of the Sale Agreement.

Section 804. Trustee May Enforce the Issuer's Rights Under the Sale Agreement.

The Sale Agreement, a duly executed counterpart of which has been filed with the Trustee, sets forth the covenants and obligations of the Issuer and the Company, including a provision in Section 12.9 thereof that subsequent to the issuance of the Bonds and prior to Payment of the Bonds (as defined in the Sale Agreement) the Sale Agreement and the Note may not be effectively amended, changed, modified, altered or terminated except as provided in Article XIII of this Indenture, and reference is hereby made to the Sale Agreement for a detailed statement of said covenants and obligations of the Company under the Sale Agreement, and the Issuer agrees that the Trustee, subject to the provisions of the Sale Agreement and this Indenture reserving certain rights to the Issuer and respecting actions by the Trustee in its name or in the name of the Issuer, may enforce all rights of the Issuer and all obligations of the Company under and pursuant to the Sale Agreement for and on behalf of the Bondholders whether or not the Issuer is in default hereunder.

Section 805. Covenant Against Arbitrage.

The Issuer covenants and agrees that it will not make or authorize any use, and directs the Trustee not to make or permit any use, of the proceeds of the Bonds which would cause any Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code and the applicable regulations promulgated from time to time thereunder, and further covenants that it will observe and not violate the requirements of Section 148 of the Code and any such applicable regulations to the extent necessary so that the interest on the Bonds will not cease to be excluded from the gross income of the recipients thereof for federal income tax purposes by reason of such use of proceeds; provided that neither the Issuer nor the Trustee shall be liable for any investment of moneys under this Indenture made at the direction of the Company Representative.

Section 806. Inspection of the Bond Register.

At reasonable times and upon reasonable regulations established by the Bond Registrar, the Bond Register may be inspected and copied by and at the expense of the Company or any Bondholder.

Section 807. Priority of Pledge and Security Interest.

The pledge herein made of the Trust Estate and the security interest created herein with respect thereto constitutes a first and prior pledge of, and a security interest in, the Trust Estate. Said pledge and security interest shall at no time be impaired directly or indirectly by the Issuer or the Trustee, and the Trust Estate shall not otherwise be pledged and, except as provided herein and in the Sale Agreement, no persons shall have any rights with respect thereto.

Section 808. Insurance and Condemnation Proceeds.

Reference is hereby made to Sections 6.4 and 6.5 of the Sale Agreement whereunder it is provided that under certain circumstances the respective Net Proceeds of insurance and condemnation awards (or Net Proceeds from a sale in lieu of condemnation) are to be paid to the Trustee and deposited in separate trust accounts (but not in the Bond Fund) and to be disbursed and paid out as therein provided. The Trustee hereby accepts and agrees to perform the duties and obligations as therein specified.

ARTICLE IX

DEFAULT AND REMEDIES

Section 901. Defaults.

Each of the following events is hereby declared to be an "Event of Default":

(a) Payment of interest on any of the Bonds shall not be made when the same shall become due; or

(b) Payment of the principal or redemption price of any of the Bonds shall not be made when the same shall become due, whether at maturity or upon call for redemption or otherwise; or

(c) An "Event of Default" under the Sale Agreement shall have occurred and not have been waived; or

(d) The Trustee receives written notice from the Credit Facility Issuer that an Event of Default under the Reimbursement Agreement has occurred and has not been waived; or

(e) The Trustee receives notice by telecopier, by telex or in writing from the Credit Facility Issuer that the Credit Facility Issuer has not been reimbursed for a drawing thereon on or before the close of business on the tenth (10th) calendar day following a drawing under such Credit Facility to pay interest on the Bonds and that the interest portion of the Letter of Credit will not be reinstated for the amount so drawn; or

(f) Payment of the purchase price of any Bond tendered pursuant to Section 203 hereof is not made when payment is due; or

(g) The Issuer shall fail to duly and punctually perform any of the covenants, conditions, agreements and provisions contained in the Bonds or in this Indenture on the part of the Issuer to be performed other than as

referred to in the preceding subsections of this Section;

provided, however, that no failure specified in subsections (c) or (g) of this Section 901 shall constitute an Event of Default until written notice specifying such failure and requiring the same to be remedied shall have been given to the Company and the Issuer by the Trustee, which may give notice in its discretion and shall give such notice at the written direction of the owners of not less than twenty-five percent (25%) in aggregate principal amount of Bonds Outstanding, and the Company and the Issuer shall have had thirty (30) days after receipt of such notice to correct said failure and shall not have corrected said failure within the applicable period.

Section 902. Acceleration and Annulment Thereof.

(a) Subject to the requirement that the consent of the Credit Facility Issuer to any acceleration must be obtained in the case of an Event of Default described in subsections (c) or (g) of Section 901 hereof, upon the occurrence of an Event of Default, the Trustee may, and upon (1) the written request of the Credit Facility Issuer, or (2) the occurrence of an Event of Default described in subsection (a), (b), (d), (e) or (f) of Section 901 hereof, the Trustee shall, by notice to the Issuer, declare the entire unpaid principal of and interest on the Bonds due and payable; and upon such declaration, the said principal, together with interest accrued thereon, shall become payable immediately, without penalty or premium, at the place of payment provided therein, anything in the Indenture or in the Bonds to the contrary notwithstanding. The Trustee shall not be permitted to request receipt of indemnity to its satisfaction prior to such declaration of acceleration. Upon the occurrence of any acceleration hereunder, the Trustee shall immediately exercise such rights as it may have as the owner of the Note to declare all payments thereunder to be due and payable immediately, and to the extent it has not already done so, shall immediately draw upon the Credit Facility to the extent permitted by the terms thereof. Interest on the Bonds shall cease to accrue upon receipt by the Trustee of funds drawn under the Credit Facility.

(b) Immediately after any acceleration because of the occurrence of an Event of Default under Sections 901(a), (b), (d), (e), (f) or (g), the Trustee shall (immediately, and in no event within two Business Days thereafter) notify in writing the Issuer, the Company and the Credit Facility Issuer of the occurrence of such acceleration. Within five (5) days of the occurrence of any acceleration hereunder, the Trustee shall notify by first class mail, postage prepaid, the owners of all Bonds Outstanding of the occurrence of such acceleration.

(c) If, after the principal of the Bonds has become due and payable, all arrears of interest upon the Bonds are paid by the Issuer, and the Issuer also performs all other things in respect to which it may have been in default hereunder and pays the reasonable charges of the Trustee and the Bondholders, including reasonable attorneys' fees, then, and in every such case, the Credit Facility Issuer or a Majority of the Bondholders by written notice to the Issuer and to the Trustee, may annul such acceleration and its consequences, and such annulment shall be binding upon the Trustee and upon all owners of Bonds issued hereunder; provided, however, that the Trustee shall not annul any declaration without the written consent of the Credit Facility Issuer unless such acceleration has resulted from the failure of the Credit Facility Issuer to honor a proper

draw for payment under the Credit Facility. Notwithstanding the foregoing, the Trustee shall not annul any acceleration which has resulted from an Event of Default which has resulted in a drawing under the Credit Facility under Section 901(e) hereof unless the Credit Facility has been reinstated in accordance with its terms to an amount equal to the principal amount of the Bonds Outstanding plus one hundred twenty (120) days' interest accrued thereon, and the Trustee has received written notice of such reinstatement from the Credit Facility Issuer. The Trustee shall forward a copy of any notice from Bondholders received by it pursuant to this paragraph to the Company. Immediately upon such annulment, the Trustee shall cancel, by notice to the Company, any demand for payment of the Note made by the Trustee pursuant to this Section 902.

Section 903. Other Remedies.

If any Event of Default occurs and is continuing, the Trustee, before or after the principal of the Bonds becomes immediately due and payable, may enforce each and every right granted to it as the owner of the Note and under the Sale Agreement and any supplements or amendments thereto. In exercising such rights and the rights given the Trustee under this Article IX, the Trustee shall take such action as, in the judgment of the Trustee applying the standards described in Section 1001 hereof, would best serve the interests of the Bondholders.

Section 904. Legal Proceedings by the Trustee.

(a) If any Event of Default has occurred and is continuing, the Trustee in its discretion may, and upon the written request of the Credit Facility Issuer or the owners of not less than twenty-five percent (25%) in aggregate principal amount of the Outstanding Bonds and receipt of indemnity to its satisfaction shall, in its own name:

(1) By mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders hereunder;

(2) Bring suit upon the Bonds, the Credit Facility (but only to the extent the Credit Facility Issuer shall have wrongfully dishonored drawings made in strict conformity with the terms hereof) and the Note; and

(3) By action or suit in equity seek to enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

(b) If an Event of Default under Section 901(c) occurs and is continuing, the Trustee in its discretion may, and upon the written request of the owners of not less than twenty-five percent (25%) in aggregate principal amount of the Outstanding Bonds and receipt of indemnity to its satisfaction shall, enforce each and every right granted to it under the Sale Agreement or as owner of the Note.

Section 905. Discontinuance of Proceedings by the Trustee.

If any proceeding commenced by the Trustee on account of any Event of Default is discontinued or is determined adversely to the Trustee, then the Company, the Credit Facility Issuer, the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights

hereunder as though no proceedings had been commenced.

Section 906. Credit Facility Issuer or Bondholders May Direct Proceedings.

Anything to the contrary in this Indenture notwithstanding, either the Credit Facility Issuer if a Credit Facility is in effect (and no default has occurred and is continuing under the Credit Facility), or a Majority of the Bondholders, if there is no Credit Facility in effect, shall have the right, after furnishing indemnity satisfactory to the Trustee, to direct the method and place of conducting all remedial proceedings by the Trustee hereunder, provided that such direction shall not be in conflict with any rule of law or with this Indenture or unduly prejudice the rights of minority Bondholders.

Section 907. Limitations on Actions by the Bondholders.

(a) No Bondholder shall have any right to bring suit on the Credit Facility. No Bondholder shall have any right to pursue any other remedy hereunder unless:

(1) the Trustee shall have been given written notice of an Event of Default;

(2) the owners of not less than twenty-five percent (25%) in aggregate principal amount of the Outstanding Bonds shall have requested the Trustee, in writing, to exercise the powers hereinabove granted or to pursue such remedy in its or their name or names;

(3) the Trustee shall have been offered indemnity satisfactory to it against costs, expenses and liabilities, except that no offer of indemnification shall be required for a declaration of acceleration under Section 902 hereof or for a drawing under the Credit Facility;

(4) the Trustee shall have failed to comply with such request within a reasonable time; and

(5) prior to the Conversion Date, the Credit Facility Issuer has failed to honor a proper draw request under the Credit Facility.

(b) Notwithstanding the foregoing provisions of subsection (a) of this Section 907 or any other provision of this Indenture, the obligation of the Issuer shall be absolute and unconditional to pay hereunder, but solely from the Revenues and other funds pledged under this Indenture, the principal or redemption price of, and interest on, the Bonds to the respective owners thereof on the respective due dates thereof, and nothing herein shall affect or impair the right of action, which is absolute and unconditional, of such owners to enforce such payment.

Section 908. Trustee May Enforce Rights Without Possession of the Bonds.

All rights under this Indenture and the Bonds may be enforced by the Trustee without the possession of any Bonds or the production thereof at the trial or other proceedings relative thereto, and any proceedings instituted by the Trustee shall be brought in its name for the ratable benefit of the owners of the Bonds.

Section 909. Remedies Not Exclusive.

No remedy herein conferred is intended to be exclusive of any other remedy or remedies, and each remedy is in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 910. Delays and Omissions Not to Impair Rights.

No delays or omission in respect of exercising any right or power accruing upon any default shall impair such right or power or be a waiver of such default, and every remedy given by this Article IX may be exercised from time to time and as often as may be deemed expedient.

Section 911. Application of Moneys in the Event of Default.

(a) Any moneys received by the Trustee under this Article IX shall be applied in the following order; provided that any moneys received by the Trustee from a drawing under the Credit Facility shall be applied to the extent permitted by the terms thereof only as provided in paragraph (3) below with respect to the principal of, and interest accrued on, Bonds other than Bonds held by or for the Company:

(1) To the payment of the reasonable costs of the Trustee, including counsel fees and any disbursements of the Trustee with interest thereon at the per annum rate equal to the "Prime" or "Base" rate of the Credit Facility Issuer; and

(2) To the payment of reasonable costs and expenses of the Issuer, including counsel fees, incurred in connection with the Event of Default; and

(3) To the payment of principal or redemption price (as the case may be) and interest on the Bonds, and in case such moneys shall be insufficient to pay the same in full, then to payment of principal or redemption price and interest ratably, without preference or priority of one over another or of any installment of interest over any other installment of interest.

(b) The surplus, if any, shall be paid to the Company or the person lawfully entitled to receive the same as a court of competent jurisdiction may direct; provided that, if the Trustee has received payments on the Credit Facility following the Event of Default, the surplus shall be paid to the Credit Facility Issuer to the extent of such payments to the extent the Credit Facility Issuer has not been reimbursed for such payments and its fees and expenses related thereto.

Section 912. Trustee and Bondholders Entitled to All Remedies Under the Act.

It is the purpose of this Article IX to provide such remedies to the Trustee and the Bondholders as may be lawfully granted under the provisions of the Act, but should any remedy herein granted be held unlawful, the Trustee and the Bondholders shall nevertheless be entitled to every remedy provided by the Act. It is further intended that, insofar as lawfully possible, the provisions of this Article shall apply to and be binding upon

any trustee or receiver appointed under applicable law.

Section 913. Trustee May File Claim in Bankruptcy.

(a) In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other similar judicial proceeding relating to the Issuer, the Company or any other obligor upon the Sale Agreement or the Bonds or to property of the Issuer, the Company, or such other obligor or the creditors of any of them, the Trustee (irrespective of whether the principal of the Bonds shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment on the Note of an amount equal to overdue principal or interest or additional interest) shall be entitled and empowered, by intervention in such proceedings or otherwise;

(1) to file and prove a claim for the whole amount of principal and interest owing and unpaid in respect of the Bonds and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Bondholders allowed in such judicial proceeding; and

(2) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any receiver, assignee, trustee, liquidator, sequestrator (or other similar official) in any such judicial proceeding is hereby authorized by the Bondholders to make such payments to the Trustee, and in the event that the Trustee shall consent to the making of such payments directly to the Bondholders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 911 hereof.

(b) Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept, or adopt on behalf of the Bondholders, any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Bondholder thereof, or to authorize the Trustee to vote in respect of the claim of the Bondholders in any such proceeding.

(c) All moneys received by the Trustee pursuant to any right given or action taken under this Indenture shall, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and the fees and expenses of the Trustee, be deposited in the Bond Fund and applied to the payment of the principal of, redemption premium, if any, and interest then due and unpaid on the Bonds in accordance with the provisions of this Indenture.

Section 914. Receiver.

Upon the occurrence of an Event of Default and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bondholders under this Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or

receivers of the amounts payable on the Note or otherwise under the Sale Agreement and assigned to the Trustee under this Indenture pending such proceedings, with such powers as the court making such appointment shall confer, whether or not any such amounts payable shall be deemed sufficient ultimately to satisfy the Bonds.

ARTICLE X

CONCERNING THE TRUSTEE

Section 1001. Acceptance of the Trusts.

The Trustee hereby represents and warrants to the Issuer (for the benefit of the Company and the Bondholders as well as the Issuer) that it is a national banking association and that it is duly authorized under the laws of the United States of America to accept and execute trusts of the character herein set out.

The Trustee accepts and agrees to execute the trusts imposed upon it by this Indenture, but only upon the terms and conditions set forth in this Article and subject to the provisions of this Indenture including the following express terms and conditions, to all of which the parties hereto and the Bondholders agree:

(a) Except during the continuance of an Event of Default, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee.

(b) In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(c) The Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, agents, receivers or employees and it shall not be responsible for any misconduct or negligence of any such attorney, agent or receiver appointed by it upon due care, and shall be entitled to act upon the opinion or advice of its counsel concerning all matters of trust hereof and the duties hereunder, and may in all cases be reimbursed hereunder for reasonable compensation paid to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trust hereof. The Trustee may conclusively rely upon an opinion of counsel and shall not be responsible for any loss or damage resulting from any action or non-action by it taken or omitted to be taken in good faith in reliance upon such opinion of counsel.

(d) Except as is specifically provided in Section 1019 with respect to the filing of continuation statements, the Trustee shall not be responsible for any recital herein, or in the Bonds (except in respect to the authentication certificate of the Trustee endorsed on the Bonds), or for insuring the Trust Estate or any part of the Project or collecting any insurance moneys, or for the validity of the execution hereof by the Issuer or of any supplements hereto or instruments of further assurance, or for the sufficiency of the security for the Bonds; and the Trustee shall not be

bound to ascertain or inquire as to the performance or observance of any agreements or conditions on the part of the Issuer or on the part of the Company under the Sale Agreement, except as hereinafter set forth; but the Trustee may require of the Issuer or the Company full information and advice as to the performance of the agreements and conditions aforesaid and as to the condition of the Trust Estate.

(e) The Trustee shall not be liable in connection with the performance or non-performance of its duties under this Indenture except for its own grossly negligent action, its own grossly negligent failure to act, or its own willful misconduct, except that:

(1) this subsection shall not be construed to limit the effect of subsection (a) of this Section 1001;

(2) The Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or Officers of the Trustee unless it shall be proved that the Trustee was grossly negligent in ascertaining the pertinent facts; and

(3) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of a Majority of the Bondholders relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

(f) Whether or not therein expressly so provided, every provision of this Indenture that in any way relates to the Trustee, including without limitation Sections 1003 and 1004 hereof, shall be subject to the provisions of this Section 1001.

Section 1002. Trustee to Give Notice.

(a) The Trustee shall not be required to take notice or be deemed to have notice of any default hereunder, except failure by the Issuer to cause to be made any of the payments to the Trustee required to be made by Article V or failure by the Issuer or the Company to file with the Trustee any document required by this Indenture or the Sale Agreement to be so filed, unless the Trustee shall be notified of such default by the Issuer or by the holders of 25% in aggregate principal amount of Bonds then Outstanding or unless a responsible corporate trust officer of the Trustee charged with the responsibility for the management of the trusts conferred by this Indenture shall have actual knowledge of such default.

(b) If a responsible trust officer of the Trustee charged with the responsibility for the management of the trusts conferred by this Indenture shall have actual knowledge of any Event of Default continuing hereunder, the Trustee shall give to all Bondholders and to the Credit Facility Issuer written notice of all such defaults within thirty (30) days after receipt of such information.

(c) Promptly upon receipt of notice of the occurrence of a Determination of Taxability, the Trustee shall give notice thereof to the Company, the Issuer, the Bondholders and former Bondholders and to the Credit Facility Issuer.

Section 1003. Trustee Entitled to Indemnity.

(a) The Company shall indemnify the Trustee its officers, directors and employees against any loss, liability or expense incurred by it arising out of or in connection with the acceptance or administration of its duties under this Indenture, except as set forth in subsection (b) below. The Trustee shall notify the Company promptly of any claim for which it may seek indemnity. Except where the Company is the claimant, the Company shall have full and sole right to defend the claim, and the Trustee shall cooperate in the defense. If the Trustee engages separate counsel, the Trustee shall pay all fees and expenses of such counsel and the Company shall no longer have the obligation to indemnify the Trustee; provided, however that the Trustee shall have the right to retain separate counsel, with the fees and expenses to be paid by the Company, if representation of the Trustee would be inappropriate due to an actual conflict of interest, as reasonably determined by either party, between the Trustee and the Company. The Company shall not be responsible for any settlement reached without the Company's consent.

(b) The Company shall not be obligated to reimburse any expense or to indemnify against any loss or liability incurred by the Trustee through its gross negligence, willful misconduct or bad faith.

(c) To secure the Company's payment obligations in this Section, the Trustee shall have a lien prior to the lien of the Trustee for the benefit of the owners of the Bonds on all money or property held or collected by the Trustee, except for amounts drawn under the Credit Facility [and money and property held in the Rebate Fund], as to which the Trustee shall have no such lien. Such obligations shall survive the satisfaction and discharge of this Indenture.

(d) When the Trustee incurs expenses or renders services after an Event of Default, the expenses and compensation for the services are intended to constitute expenses of administration under any applicable bankruptcy law.

(e) The Trustee may begin suit, or appear in and defend suit, or do anything else in its judgment proper to be done by it as such Trustee, without indemnity under paragraph (a) above, and in such case the Issuer shall reimburse the Trustee from funds available therefor under the Sale Agreement for all costs and expenses, outlays and counsel fees and other reasonable disbursements properly incurred in connection therewith; provided, however, that the Trustee shall:

(1) make all payments hereunder of principal and redemption price of and interest on the Bonds and of the purchase price of Bonds tendered at the option of the owners thereof or purchased by the Company in lieu of redemption,

(2) accelerate the Bonds when required to do so hereunder other than at the direction of the Bondholders, and

(3) draw on the Credit Facility when required to do so hereunder,

each without the necessity of the Bondholders providing security or indemnity to the Trustee. If the Issuer shall fail to make reimbursement,

the Trustee may reimburse itself from any moneys in its possession under the provisions of this Indenture other than moneys drawn under the Credit Facility and shall be entitled with respect thereto to a preference over the Bonds.

Section 1004. Trustee Not Responsible for Insurance, Taxes, Execution of this Indenture, Acts of the Issuer or Application of the Moneys Applied in Accordance with this Indenture.

(a) The Trustee shall not be under any obligation to effect or maintain insurance or to renew any policies of insurance or to inquire as to the sufficiency of any policies of insurance carried by the Company, or to report, or make or file claims or proof of loss for, any loss or damage insured against or which may occur, or to keep itself informed or advised as to the payment of any taxes or assessments, or to require any such payment to be made. The Trustee shall have no responsibility in respect of the validity, sufficiency, due execution or acknowledgment of this Indenture or any supplements thereto or instruments of further assurance or the validity or sufficiency of the security provided hereunder or in respect of the validity of the Bonds or the due execution or issuance thereof. The Trustee shall not be under any obligation to see that any duties herein imposed upon any party other than itself, or any covenants herein contained on the part of any party other than itself to be performed, shall be done or performed, and the Trustee shall be under no liability for failure to see that any such duties or covenants are so done or performed.

(b) The Trustee shall not be liable or responsible because of the failure of the Issuer or of any of its employees or agents to make any collections or deposits or to perform any act herein required of the Issuer or because of the loss of any moneys arising through the insolvency or the act or default or omission of any other depository in which such moneys shall have been deposited under the provisions of this Indenture. The Trustee shall not be responsible for the application of any of the proceeds of the Bonds or any other moneys deposited with it and paid out, withdrawn or transferred hereunder if such application, payment, withdrawal or transfer shall be made in accordance with the provisions of this Indenture. The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with Section 602.

(c) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty, and the Trustee shall not be answerable for other than its gross negligence or willful misconduct. The immunities and exemptions from liability of the Trustee hereunder shall extend to its directors, officers, employees and agents.

Section 1005. Compensation.

Subject to the provisions of any agreement relating to the compensation of the Trustee, the Issuer shall cause the Company to pay to the Trustee as Administrative Expenses its reasonable fees, charges and out-of-pocket expenses in accordance with Section 7.5 of the Sale Agreement. In computing the Trustee's compensation, the parties shall not be limited by any law on the compensation of an express trust. If the Company shall fail to make any payment required by this Section 1005, the Trustee may, but shall be under no obligation to, make such payment from

any moneys in its possession under the provisions of this Indenture and shall be entitled to a preference therefor over the Bonds hereunder; provided that no payments under this Section 1005 shall be made with moneys drawn under the Credit Facility.

Section 1006. Trustee to Preserve Records.

All records and files pertaining to the Project in the custody of the Trustee shall be open at all reasonable times to the inspection of the Issuer, the Credit Facility Issuer and the Company and their agents and representatives.

Section 1007. Trustee May Be a Bondholder.

The institution acting as Trustee under this Indenture, and its directors, officers, employees or agents, may in good faith buy, sell, own, hold and deal in the Bonds issued under and secured by this Indenture, and may join in the capacity of a Bondholder in any action which any Bondholder may be entitled to take with like effect as if such institution were not the Trustee under this Indenture. To the extent permitted by law, such institution may also receive tenders and purchase in good faith Bonds from itself, including any department, affiliate or subsidiary, with like effect as if it were not the Trustee.

Section 1008. Trustee Not Responsible for Recitals.

The recitals, statements and representations contained herein and in the Bonds shall be taken and construed as made by and on the part of the Issuer and not by the Trustee, and the Trustee shall not be under any responsibility for the correctness of the same.

Section 1009. No Trustee Responsibility for Recording or Filing.

The Trustee shall not be under any obligation to see to the recording or filing of this Indenture, the Sale Agreement, any financing statements or any other instrument or otherwise to the giving to any person of notice of the provisions hereof or thereof.

Section 1010. Trustee May Require Information.

Except for the obligations of the Trustee under Section 902 and the obligations of the Trustee to make payments on the Bonds when due and to draw under the Credit Facility as required hereunder, anything contained in this Indenture to the contrary notwithstanding, the Trustee shall have the right, but shall not be required, to demand, as a condition of any action by the Trustee in respect of the authentication of any Bonds, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of this Indenture, any showings, certificates, opinions, appraisals or other information, or evidence of corporate authority, in addition to that required by the terms hereof.

Section 1011. Trustee May Rely on Certificates.

The Trustee shall be protected and shall incur no liability in acting or proceeding, or in not acting or not proceeding, in good faith and in accordance with the terms of this Indenture, upon any ordinance, resolution, order, notice, request, consent, waiver, certificate,

statement, instrument, opinion, affidavit, requisition, bond or other paper or document which it shall in good faith believe to be genuine and to have been adopted or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of the Sale Agreement or this Indenture, or upon the written opinion of any attorney, engineer, accountant or other expert believed by it to be qualified in relation to the subject matter, and the Trustee shall not be under any duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument. Any action taken by the Trustee pursuant to this Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the owner of any Bond shall be conclusive and binding upon all future owners of the same Bond and upon Bonds issued in exchange therefor or in place thereof.

Section 1012. Trustee Bond.

The Trustee shall not be required to give any bond or surety in respect to the execution of its rights and obligations hereunder.

Section 1013. Segregation of Funds; Interests:

All moneys received by the Trustee shall, until used or applied or invested as herein provided, be held in trust in the manner and for the purposes for which they were received but need not be segregated from other funds except to the extent required by this Indenture or law. The Trustee shall not be under any liability for interest on any moneys received hereunder.

Section 1014. Qualification of the Trustee.

There shall at all times be a Trustee hereunder which shall be an association or a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws and the applicable laws of the State to exercise corporate trust powers and act as Bond Registrar hereunder, having a combined capital and surplus of at least One Hundred Million Dollars (\$100,000,000), and subject to supervision or examination by federal or state authority. If such association or corporation is not a commercial bank or trust company, it shall also have a rating by Moody's (if the Bonds are then rated by Moody's) of BAA 3/P3 or higher, or by S&P (if the Bonds are then rated by S&P) of Baa/A3 or higher or shall otherwise be approved in writing by Moody's or S&P, as the case may be. If such association or corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section 1014, the combined capital and surplus of such association or corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 1014, it shall resign immediately in the manner and with the effect specified in Section 1015 hereof.

Section 1015. Resignation and Removal of the Trustee.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee under Section 1016

hereof.

(b) The Trustee may resign at any time by giving written notice thereof to the Issuer and the Company. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within thirty (30) days after the giving of such notice of resignation, the retiring Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(c) The Trustee may be removed at any time by an instrument or instruments in writing to the Trustee, with copies to the Issuer and the Company, signed by a Majority of the Bondholders or by their attorneys, legal representatives or agents and delivered to the Trustee, the Issuer and the Company (such instruments to be effective only when received by the Trustee).

(d) If at any time:

(1) the Trustee shall cease to be eligible under Section 1014 hereof, and shall fail to resign after written request therefor by the Company or by a Majority of the Bondholders, or

(2) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the Issuer or the Company may remove the Trustee, or any Bondholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Issuer with the approval of the Company shall promptly appoint a successor. If no successor Trustee shall have been so appointed by the Issuer and approved by the Company or a Majority of the Bondholders and accepted appointment in the manner hereinafter provided, any Bondholder, if he has been a bona fide owner of a Bond for at least six (6) months, may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(f) The Issuer shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee by mailing written notice of such event by first-class mail, postage prepaid, to each Bondholder. Each notice shall include the name and address of the principal corporate trust office of the successor Trustee.

Section 1016. Successor Trustee.

(a) Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor, and also to the Issuer and the Company, an instrument in writing accepting such appointment hereunder, and thereupon and upon transfer of the Credit Facility to the successor Trustee such successor Trustee without any further act, shall become fully vested with all the rights, immunities, powers and trusts, and subject to all the duties and obligations, of its predecessors; but such predecessor shall,

nevertheless, on the written request of its successor or of the Issuer and upon payment of the expenses, charges and other disbursements of such predecessor which are payable pursuant to the provisions of Section 1005 hereof, execute and deliver an instrument transferring to such successor Trustee all the rights, immunities, powers and trusts of such predecessor hereunder; and every predecessor Trustee shall deliver all property and moneys held by it hereunder to its successor, subject, nevertheless, to its preference, if any, provided for in Sections 1003 and 1005 hereof. Should any instrument in writing from the Issuer be required by any successor Trustee for more fully and certainly vesting in such Trustee the rights, immunities, powers and trusts hereby vested or intended to be vested in the predecessor Trustee, any such instrument in writing shall and will, on request, be executed, acknowledged and delivered by the Issuer. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor hereunder, together with all other instruments provided for in this Article, shall be filed and/or recorded by the successor Trustee in each recording office where this Indenture and the Financing Statements have been filed and/or recorded.

(b) Notwithstanding any of the foregoing provisions of this Article, any bank or trust company having power to perform the duties and execute the trusts of this Indenture and otherwise qualified to act as Trustee hereunder with or into which the bank or trust company acting as Trustee may be merged or consolidated, or to which the assets and business of such bank or trust company may be sold, shall be deemed the successor of the Trustee.

Section 1017. Co-Trustee.

It is the purpose of this Indenture that there shall be no violation of any law of any jurisdiction denying or restricting the right of certain banking corporations or associations to transact business as trustee as contemplated herein in such jurisdiction. It is recognized that in case of litigation under this Indenture and in particular in case of the enforcement of the security interest contained in this Indenture upon the occurrence of an Event of Default, it may be necessary that the Trustee appoint an additional individual or institution as a separate Trustee or Co-Trustee, which shall be satisfactory to the Company. The following provisions of this Section 1017 are adapted to these ends:

(a) In the event of the incapacity or lack of authority of the Trustee by reason of any present or future law of any jurisdiction to exercise any of the rights, powers and trusts herein granted to the Trustee or to hold title to or a security interest in the Trust Estate or to take any other action which may be necessary or desirable in connection therewith, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by and vest in such separate Trustee or Co-Trustee but only to the extent necessary to enable the separate Trustee or Co-Trustee to exercise such rights, powers and trusts, and every covenant and obligation necessary to the exercise thereof shall run to and be enforceable by such separate Trustee or Co-Trustee.

(b) Should any deed, conveyance or instrument in writing from the Issuer be required by the separate Trustee or Co-Trustee so appointed by the Trustee in order to more fully and certainly vest in and confirm to it

such properties, rights, powers, trusts, duties and obligations any and all such deeds, conveyances and instruments shall, on request, be executed, acknowledged and delivered by the Issuer. In case any separate Trustee or Co-Trustee or a successor to either, shall die, be dissolved, become incapable of action, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate Trustee or Co-Trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new Trustee or successor to such separate Trustee or Co-Trustee.

Section 1018. Notice to Moody's or S&P.

At any time during which the Bonds are rated by Moody's or S&P, the Trustee shall notify Moody's or S&P, as applicable, promptly of:

(a) any change in the Trustee,

(b) the expiration or termination of the Credit Facility during the Variable Rate Period unless an Alternate Credit Facility is provided to the Trustee in accordance with the terms of this Indenture,

(c) a change in the interest rate borne by the Bonds from a Variable Rate to a Fixed Rate,

(d) the payment of all of the Bonds, or

(e) any material change to this Indenture, the Sale Agreement, the Reimbursement Agreement, the Credit Facility or the Remarketing Agreement.

Section 1019. Filing of Certain Continuation Statements.

From time to time, the Trustee shall file or cause to be filed continuation statements for the purpose of continuing without lapse the effectiveness of (i) those Financing Statements which shall have been filed at or prior to the issuance of the Bonds in connection with the Issuer's assignment to the Trustee of the Trust Estate pursuant to the authority of the Uniform Commercial Code of the State of New York, and (ii) any previously filed continuation statements which shall have been filed as herein required. The Issuer and the Company shall sign and deliver to the Trustee or its designee such continuation statements as may be requested of it from time to time by the Trustee. Upon the filing of any such continuation statement the Trustee shall immediately notify the Issuer that the same has been accomplished.

ARTICLE XI

EXECUTION OF INSTRUMENTS BY THE BONDHOLDERS AND PROOF OF OWNERSHIP OF THE BONDS

Section 1101. Execution of Instruments by the Bondholders and Proof of Ownership of the Bonds.

(a) Any request, direction, consent or other instrument in writing required or permitted by this Indenture to be signed or executed by a Bondholder may be signed or executed by the Bondholder or its attorneys or legal representatives. Proof of the execution of any such instrument and

of the ownership of the Bonds shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee with regard to any action taken by it under such instrument if made in the following manner:

The fact and date of the execution by any person of any such instrument may be proved by the verification of any officer in any jurisdiction who, by the laws thereof, has power to take affidavits within such jurisdiction, to the effect that such instrument was subscribed and sworn to before him, or by an affidavit of a witness to such execution, and where such execution is by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such verification or affidavit shall also constitute sufficient proof of his authority.

(b) Nothing contained in this Section 1101 shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of the matters herein stated which may be sufficient. Any request or consent of a Bondholder shall bind every future owner of the Bond(s) to which such request or consent pertains or any Bond(s) issued in lieu thereof in respect of anything done by the Trustee pursuant to such request or consent.

(c) Notwithstanding any of the foregoing provisions of this Section 1101, the Trustee shall not be required to recognize any person as an owner of Bonds or to take any action at its request unless the Bonds shall be deposited with it.

Section 1102. Preservation of Information.

The Trustee shall preserve in the Bond Register, in as current a form as is reasonably practicable, the name and address of each Bondholder received by the Trustee in its capacity as Bond Registrar.

ARTICLE XII

THE REMARKETING AGENT; THE TENDER AGENT; THE PLACEMENT AGENT

Section 1201. The Remarketing Agent.

(a) The Issuer hereby appoints First Union National Bank of North Carolina, with its corporate office in Charlotte, North Carolina, as Remarketing Agent under this Indenture. The Remarketing Agent and any successor Remarketing Agent, by written instrument delivered to the Issuer, the Trustee and the Company, shall accept the duties and obligations imposed on it under this Indenture and the Remarketing Agreement.

(b) In addition to the other obligations imposed on the Remarketing Agent hereunder, the Remarketing Agent shall agree to keep such books and records in connection with its activities as Remarketing Agent hereunder as shall be consistent with prudent industry practice and make such books and records available for inspection by the Issuer, the Trustee, the Credit Facility Issuer and the Company at all reasonable times.

(c) The Remarketing Agent shall at all times be a member of the

National Association of Securities Dealers, Inc. and registered as a Municipal Securities Dealer under the Securities Exchange Act of 1934, as amended, or a national banking association or a bank or a trust company, in each case authorized by law to perform its obligations hereunder.

(d) If at any time the Remarketing Agent is unable or unwilling to act as Remarketing Agent, the Remarketing Agent, upon thirty (30) Business Days' prior written notice to the Issuer, the Trustee, the Tender Agent and the Company, may resign. The Remarketing Agent may be removed at any time by the Company with the consent of the Issuer, by written notice signed by the Company delivered to the Trustee, the Remarketing Agent, the Credit Facility Issuer and the Tender Agent. Upon resignation or removal of the Remarketing Agent, the Company, with the consent of the Issuer, shall appoint a substitute Remarketing Agent meeting the qualifications of Section 1201(c) above.

(e) In the event that the Company shall fail to appoint a successor Remarketing Agent, upon the resignation or removal of the Remarketing Agent or upon its dissolution, insolvency or bankruptcy, the Trustee may, but is not required to, appoint a Remarketing Agent or itself act as Remarketing Agent until the appointment of a successor Remarketing Agent in accordance with this Section 1201; provided, however, that the Trustee, in its capacity as Remarketing Agent, shall not be required to sell Bonds or determine the interest rate on the Bonds pursuant to Section 202 hereof.

Section 1202. The Tender Agent.

(a) The Issuer hereby appoints as Tender Agent under this Indenture The First National Bank of Boston, which agent has a corporate trust office at Canton, Massachusetts. The Tender Agent and any successor Tender Agent, by written instrument delivered to the Issuer, the Trustee and the Company, shall accept the duties and obligations imposed on it under this Indenture.

(b) The Tender Agent shall at all times be a member of the National Association of Securities Dealers, Inc. having a capitalization of at least Fifteen Million Dollars (\$15,000,000) and a rating by Moody's (if the Bonds are then rated by Moody's) of BAA 3/P3 or higher, or a national banking association or a bank or a trust company having capital and surplus of at least \$50,000,000, in each case authorized by law to perform its obligations hereunder.

(c) If at any time the Tender Agent is unable or unwilling to act as Tender Agent, the Tender Agent, upon sixty (60) days' prior written notice to the Issuer, the Trustee, the Remarketing Agent and the Company, may resign; provided, however, that in no case shall such resignation become effective until the appointment of a successor Tender Agent. The Tender Agent may be removed at any time by the Company with the consent of the Issuer, by written notice signed by the Company delivered to the Trustee, the Remarketing Agent, the Credit Facility Issuer and the Tender Agent; provided, however, that in no case shall such removal become effective until the appointment of a successor Tender Agent. Upon resignation or removal of the Tender Agent, the Company, with the consent of the Issuer, shall appoint a substitute Tender Agent meeting the qualifications of Section 1202(b) above.

(d) In the event that the Company shall fail to appoint a successor Tender Agent, upon the resignation or removal of the Tender Agent or upon

its dissolution, insolvency or bankruptcy, the Trustee may at its discretion, but is not required to, act as Tender Agent until the appointment of a successor Tender Agent in accordance with this Section 1202.

Section 1203. The Placement Agent.

The Placement Agent shall be a member of the National Association of Securities Dealers, Inc. and registered as a Municipal Securities Dealer under the Securities Exchange Act of 1934, as amended, or a national banking association or a bank or trust company, in each case authorized by law to perform its obligations described in Section 202(e) hereof.

Section 1204. Notices.

The Trustee shall, within thirty (30) days of the resignation or removal of the Remarketing Agent or the Tender Agent or the appointment of the Placement Agent or a successor Remarketing Agent or Tender Agent, give notice thereof by first class mail, postage prepaid, to the owners of the Bonds.

ARTICLE XIII

AMENDMENTS AND SUPPLEMENTS

Section 1301. Amendments and Supplements Without the Bondholders' Consent.

This Indenture may be amended or supplemented at any time and from time to time, without the consent of the Bondholders, but with the consent of the Credit Facility Issuer, if a Credit Facility is in effect (and no default has occurred and is continuing under the Credit Facility), by a supplemental indenture authorized by the Issuer filed with the Trustee, for one or more of the following purposes:

(a) to add additional covenants of the Issuer or to surrender any right or power herein conferred upon the Issuer;

(b) for any purpose not inconsistent with the terms of this Indenture or to cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indenture which may be defective or inconsistent with any other provision contained herein or in any supplemental indenture, or to make such other provisions in regard to matters or questions arising under this Indenture which shall not adversely affect the interests of the owners of the Bonds or the Company;

(c) to permit the Bonds to be converted during the Variable Rate Period to certificateless securities or securities represented by a master certificate held in trust, ownership of which, in either case, is evidenced by book entries on the books of the Bond Registrar, for any period of time;

(d) to permit the appointment of a Co-Trustee under this Indenture;

(e) to modify, eliminate or add to the provisions of this Indenture to such extent as shall be necessary to effect the qualification of this Indenture under the Trust Indenture Act of 1939, or under any similar

federal statute hereafter enacted, and to add to this Indenture such other provisions as may be expressly permitted by the Trust Indenture Act of 1939;

(e) except as otherwise provided in Section 1302 hereof, to modify, eliminate or add to the provisions of this Indenture to such extent as shall be necessary to obtain a rating of the Bonds from Moody's or S&P ;

(f) to amend the administrative provisions hereof to accommodate the provisions of an Alternate Credit Facility; and

(g) to amend the provisions hereof to reflect the obligation of the Trustee, the Issuer or the Company to disclose information regarding the Bonds, the Project, the Issuer, the Company or the issuer of the Letter of Credit as shall be required or recommended to be disclosed in accordance with applicable regulations or guidelines established by, among others, the American Bankers Association Corporate Trust Committee.

Section 1302. Amendments With the Bondholders' and the Credit Facility Issuer's Consent.

(a) This Indenture may be amended from time to time, except with respect to:

(1) the principal, redemption price, purchase price, or interest payable upon any Bonds,

(2) the Interest Payment Dates, the dates of maturity or the redemption or purchase provisions of any Bonds, and

(3) this Article XIII,

by a supplemental indenture consented to by the Credit Facility Issuer if a Credit Facility is in effect (and no default has occurred and is continuing under the Credit Facility) and by the Company and approved by a Majority of the Bondholders which would be affected by the action proposed to be taken.

(b) This Indenture may be amended with respect to the matters enumerated in paragraphs (1) through (3) of subsection (a) of this Section with the unanimous consent of all Bondholders, the Credit Facility Issuer if a Credit Facility is in effect (and there is no default has occurred and is continuing under the Credit Facility), the Company and the Issuer.

Notwithstanding the foregoing, the Issuer and the Trustee and, during the Variable Rate Period, the Credit Facility Issuer if the Credit Facility is in effect (and no default has occurred and is continuing under the Credit Facility), may amend the Indenture to such extent as may be necessary to obtain a rating of the Bonds from Moody's or S&P without providing the opinion of Bond Counsel specified in paragraph (2) above.

Section 1303. Supplemental Indentures Affecting the Rights of the Credit Facility Issuer.

Anything herein to the contrary notwithstanding, a supplemental indenture under this Article XIII which in the judgment of the Credit Facility Issuer if a Credit Facility is in effect (and no default has

occurred and is continuing under the Credit Facility) adversely affects the rights of the Credit Facility Issuer shall not become effective unless or until the Credit Facility Issuer shall have consented to the execution and delivery thereof.

Section 1304. Amendment of the Sale Agreement.

(a) The Company, the Trustee and, during the Variable Rate Period, the Credit Facility Issuer if a Credit Facility is in effect (and no default has occurred and is continuing under the Credit Facility), may amend the Sale Agreement; provided that prior to making any amendment, the Company shall provide the Trustee and the Credit Facility Issuer with:

(1) a copy of the proposed amendment and

(2) an opinion of Bond Counsel to the effect that such amendment or supplement will not adversely affect the exclusion of the interest on the Bonds from the gross income of the recipients thereof for federal income tax purposes and unless the Trustee shall have otherwise given its consent to such amendment or supplement, to the further effect that such amendment or supplement will not otherwise adversely affect the interests of the Bondholders.

Notwithstanding the foregoing, the Issuer, the Company, the Trustee, and, during the Variable Rate Period, the Credit Facility Issuer if a Credit Facility is in effect (and no default has occurred and is continuing under the Credit Facility), may amend the Sale Agreement to such extent as may be necessary to obtain a rating of the Bonds from Moody's or S&P without providing the opinion of Bond Counsel specified in paragraph (2) above.

(b) If the Company proposes to amend the Sale Agreement in such a manner as would adversely affect the interests of the Bondholders, the Trustee shall notify Bondholders of the proposed amendment and may consent thereto with the consent of at least a Majority of the Bondholders which would be affected by the action proposed to be taken; provided, that the Trustee shall not, without the unanimous consent of the owners of all Bonds then Outstanding, consent to any amendment which would:

(1) decrease the amounts payable on the Note,

(2) change the due date of principal of or interest on the Note or change any of the prepayment provisions of the Note, or

(3) change Section 5.6 of the Sale Agreement.

Section 1305. Amendment of the Sale Agreement Requiring the Consent of the Credit Facility Issuer.

Anything herein to the contrary notwithstanding, any amendment, change or modification of the Sale Agreement which in the judgment of the Credit Facility Issuer affects the rights of the Credit Facility Issuer shall not become effective unless or until the Credit Facility Issuer shall have consented to the execution and deliver of such amendment, change or modification.

Section 1306. Amendment of the Credit Facility.

The initial Credit Facility may be amended to such extent as shall be necessary to obtain a rating of the Bonds from Moody's or S&P provided that such amendment or supplement will not adversely affect the interests of the Bondholders. The Trustee shall notify the Bondholders and the Issuer of any proposed amendment of the Credit Facility which would adversely affect the interests of the Bondholders and may consent thereto with the consent of the Issuer, which consent shall not be unreasonably withheld, and at least a Majority of the Bondholders which would be affected by the action proposed to be taken; provided, that the Trustee shall not, without the unanimous consent of the owners of all Bonds then Outstanding, consent to any amendment which would decrease the amount payable under the Credit Facility or reduce the term of the Credit Facility.

Section 1307. Trustee Authorized to Join in Amendments and Supplements; Reliance on Counsel.

The Trustee is authorized to join with the Issuer in the execution and delivery of any supplemental indenture or amendment permitted by this Article XIII and in so doing shall be fully protected by an opinion of Counsel that such supplemental indenture or amendment is so permitted and has been duly authorized by the Issuer and that all things necessary to make it a valid and binding agreement have been done; provided that certain amendments may, by agreement between the Trustee and the Credit Facility Issuer, require the prior consent of the Credit Facility Issuer.

ARTICLE XIV

DEFEASANCE; OTHER PAYMENTS

Section 1401. Defeasance.

(a) When the principal or redemption price (as the case may be) of, and interest on all Bonds issued hereunder have been paid, including without limitation the purchase price for Bonds tendered under Section 202 hereof, or provision has been made for payment of the same, together with the compensation of the Trustee and all other sums payable hereunder by the Issuer, the right, title and interest of the Trustee in and to the Trust Estate and the security interests shall thereupon cease, and the Trustee, on written demand of the Issuer, shall release this Indenture and the security interests and shall execute such documents to evidence such release as may be reasonably required by the Issuer and shall turn over to the Company or to such person, body or authority as may be entitled to receive the same all balances then held by it hereunder; provided, that, if any payments have been received by the Trustee from the Credit Facility in connection with such release, such balances shall be paid to the Credit Facility Issuer to the extent of such payments. If payment or provision therefor is made with respect to less than all of the Bonds, the particular Bonds (or portion thereof) for which provision for payment shall have been considered made shall be selected by lot by the Trustee and thereupon the Trustee shall take similar action for the release of this Indenture with respect to such Bonds. Notwithstanding anything to the contrary contained herein, Bonds purchased at the option of the owners thereof with moneys held by the Trustee pursuant to this Article XIV shall not be remarketed but shall be cancelled by the Trustee.

(b) Provision for the payment of Bonds shall be deemed to have been

made when the Trustee holds in the Bond Fund, in trust and irrevocably set aside exclusively for such payment, (1) moneys sufficient to make such payment provided that if a Credit Facility is then held by the Trustee, such moneys shall constitute Available Moneys or (2) noncallable Governmental Obligations maturing as to principal and interest in such amounts and at such times as will provide sufficient moneys without reinvestment to make such payment; provided that the Trustee shall have received an opinion of Bond Counsel to the effect that such deposit will not affect the exclusion of the interest on any of the Bonds from the gross income of the recipients thereof for federal income tax purposes (e.g. by causing any of the Bonds to be classified as an "arbitrage bond" within the meaning of Section 148 of the Code), and provided further, that if a Credit Facility is then held by the Trustee, such Governmental Obligations shall have been on deposit with the Trustee in a separate and segregated account for a period of three hundred sixty-seven (367) days during and prior to which no Event of Bankruptcy has occurred or which Governmental Obligations were purchased with Available Moneys.

(c) No Bonds in respect of which a deposit under subsection (b) above has been made shall be deemed paid within the meaning of this Article unless the Trustee is satisfied that the amounts deposited are sufficient to make all payments that might become due on the Bonds, including purchase price payments for Bonds tendered at the option of the owners or purchased by the Company in lieu of redemption, if any. Notwithstanding the foregoing, no delivery to the Trustee under this subsection (c) shall be deemed a payment of any Bonds which are to be redeemed prior to their stated maturity until such Bonds shall have been irrevocably called or designated for redemption on a date thereafter on which such Bonds may be redeemed in accordance with the provisions of this Indenture or the Issuer shall have given the Trustee, in form satisfactory to the Trustee, irrevocable instructions to give notice of redemption. Neither the obligations nor moneys deposited with the Trustee pursuant to this Section shall be withdrawn or used for any purpose other than, and shall be segregated and held in trust for, the payment of the principal of, redemption price of, purchase price if applicable of, and interest on the Bonds with respect to which such deposit has been made. In the event that such moneys or obligations are to be applied to the payment of principal or redemption price of any Bonds more than sixty (60) days following the deposit thereof with the Trustee, the Trustee shall mail a notice stating that such moneys or obligations have been deposited and identifying the Bonds for the payment of which such moneys or obligations are being held to all owners of such Bonds at their addresses shown on the Bond Register.

(d) Anything in Article XIV to the contrary notwithstanding, if moneys or Governmental Obligations have been deposited or set aside with the Trustee pursuant to this Article for the payment of the principal or redemption price, including purchase price if applicable, of the Bonds and the interest thereon and the principal or redemption price, including purchase price if applicable, of such Bonds and such moneys or Governmental Obligations do not constitute Available Moneys, no amendment to the provisions of this Article shall be made without the consent of the owner of each of the Bonds affected thereby.

(e) Notwithstanding the foregoing, those provisions relating to the purchase of Bonds upon the demand of any Bondholders, the maturity of Bonds, interest payments and dates thereof, and the dates, premiums and notice requirements for optional and mandatory redemption or purchase and

the Trustee's remedies with respect thereto, and provisions relating to exchange, transfer and registration of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, non-presentment of Bonds, the holding of moneys in trust and repayments to the Company or the Credit Facility Issuer from the Bond Fund and the duties of the Trustee in connection with all of the foregoing and the fees, expenses and indemnities of the Trustee, shall remain in effect and shall be binding upon the Trustee, the Issuer, the Company and the Bondholders notwithstanding the release and discharge of the lien of this Indenture until payment in full of all outstanding Bonds.

Section 1402. Deposit of Funds for Payment of the Bonds.

If the principal or redemption price of any Bonds become due, either at maturity or by call for redemption or otherwise, together with all interest accruing thereon to the due date, has been paid or provision therefor made in accordance with Section 1401 hereof, all interest on such Bonds shall cease to accrue on the due date and all liability of the Issuer with respect to such Bonds shall likewise cease, except as hereinafter provided. Thereafter the owners of such Bonds shall be restricted exclusively to the funds so deposited for any claim of whatsoever nature with respect to such Bonds, and the Trustee shall hold such funds in trust for such owners.

Section 1403. Effect of Purchase of the Bonds.

No purchase of Bonds pursuant to Section 303 hereof shall be deemed to be a payment or redemption of such Bonds or any portion thereof and such purchase will not operate to extinguish or discharge the indebtedness evidenced by such Bonds.

ARTICLE XV

MISCELLANEOUS PROVISIONS

Section 1501. Covenants of the Issuer to Bind its Successors.

In the event of the dissolution of the Issuer, all of the covenants, stipulations, obligations and agreements contained in this Indenture by or in behalf of or for the benefit of the Issuer shall bind or inure to the benefit of the successor or successors of the Issuer from time to time and any officer, board, commission, authority, agency or instrumentality to whom or to which any power or duty affecting such covenants, stipulations, obligations and agreements shall be transferred by or in accordance with law, and the term "Issuer" as used in this Indenture shall include such successor or successors.

Section 1502. Notices.

(a) Any notice, demand, direction, request or other instrument authorized or required by this Indenture to be given or filed with the Issuer, the Trustee, the Company or the Credit Facility Issuer shall be in writing and shall be deemed given or filed for all purposes of this Indenture when delivered by hand delivery or mailed by first class mail, postage prepaid, registered or certified mail, addressed as follows:

(1) If to the Issuer, to: Village of Walden
Industrial Development Agency
8 Scofield Street
Walden, NY 12586
(Attention Chairman)

with a copy to: Richard J. Drake
Drake, Sommers, Loeb, Tarshis & Catania,
P.C.
One Corwin Court
P.O. Box 1479
Newburgh, NY 12550

(2) If to the Company, to: Spence Engineering
Company, Inc. c/o Watts Regulator Co.
815 Chestnut Street
North Andover, MA 01845
(Attention: William C. McCartney,
Corporate Controller); and

with a copy to: John R. LeClaire, P.C.
Goodwin, Procter & Hoar
Exchange Place
Boston, MA 02109

(3) If to the Trustee, to: The First National Bank of Boston
150 Royall Street, Mail Stop 45-02-15
Canton, MA 02021
Attn: Corporate Trust Division

(4) If to the Credit Facility
Issuer, to: First Union National Bank of North
Carolina
301 South College Street
T-7
Charlotte, NC 28288
Attention: International Operations
CORP-10.

and if sent by telegraph, telegram or telecopy, addressed as above, at the time and date appearing on the report of delivery. Notwithstanding the foregoing, the delivery of Bonds or Optional Tender Notices to the Trustee or Tender Agent if made by telegraph, telegram or telecopy, must be made by delivery of the hard copy by overnight delivery on the date of delivery of such telegraph, telegram or telecopy and shall not be effective until actual receipt thereof by the Trustee or the Tender Agent, as the case may be.

(b) A duplicate copy of each notice or other communication given hereunder by either the Issuer or Trustee to the other shall also be given to the Company.

(c) All documents received by the Trustee under the provisions of this Indenture, or photographic copies thereof, shall be retained in its possession until this Indenture shall be released in accordance with the provisions of the Indenture, subject at all reasonable times to the inspection of the Issuer and the Bondholders and the agents and

representatives thereof.

(d) The Issuer, the Trustee, the Company and the Credit Facility Issuer may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

Section 1503. Trustee as the Paying Agent and the Bond Registrar.

The Trustee is hereby designated and agrees to act as payment agent and Bond Registrar for and in respect of the Bonds and any amounts received under the Credit Facility or the Sale Agreement.

Section 1504. Rights Under this Indenture.

Except as herein otherwise expressly provided, nothing in this Indenture expressed or implied is intended or shall be construed to confer upon any person, firm or corporation other than the parties hereto, the Company and the owners of the Bonds issued under and secured by this Indenture, any rights under this Indenture or any provisions hereof, this Indenture and all its provisions being intended to be and being for the sole and exclusive benefit of the parties hereto, the Company and the owners from time to time of the Bonds issued hereunder.

Section 1505. Form of Certificates and Opinions.

Except as otherwise provided in this Indenture, any request, notice, certificate or other instrument from the Issuer or the Company to the Trustee shall be deemed to have been signed by the proper party or parties if signed by the Issuer Representative or the Company Representative, respectively, and the Trustee may accept and rely upon a certificate signed by the Issuer Representative as to any action taken by the Issuer and by the Company Representative as to any action taken by the Company.

Section 1506. Severability.

In case any one or more of the provisions of this Indenture or of the Bonds issued hereunder shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provisions of this Indenture or of the bonds, but this Indenture and the Bonds shall be construed and enforced as if such illegal or invalid provision had not been contained therein. In case any covenant, stipulation, obligation or agreement of the Issuer contained in this Indenture or in the Bonds shall for any reason be held to be in violation of law, then such covenant, stipulation, obligation or agreement of the Issuer shall be enforced to the full extent permitted by law.

Section 1507. Covenants of the Issuer Not Covenants of Officials Individually.

All covenants, stipulations, obligations and agreements of the Issuer contained in this Indenture shall be deemed to be covenants, stipulations, obligations and agreements of the Issuer to the full extent permitted by the Constitution and laws of the State. No covenant, stipulation, obligation or agreement contained herein shall be deemed to be a covenant, stipulation, obligation or agreement of any present or future officer, member, agent or employee of the Issuer in his individual capacity, and no

officer of the Issuer executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof. No officer, agent or employee of the Issuer shall incur any personal liability in acting or proceeding or in not acting or not proceeding in accordance with the terms of this Indenture.

Section 1508. State Law Governs.

This Indenture shall be governed by and construed in accordance with the laws of the State.

Section 1509. Payments Due on Days Other Than Business Days.

In any case where the date of maturity of interest on or principal of the Bonds or the date fixed for redemption of the Bonds shall be in the city of payment a day other than a Business Day, then payment of interest or principal need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date of maturity or the date fixed for redemption, provided that interest shall accrue for the period of any such extension.

Section 1510. Execution in Counterparts.

This Indenture may be executed in multiple counterparts, each of which shall be regarded for all purposes as an original, and such counterparts shall constitute but one and the same instrument, and no one counterpart of which need be executed by all parties.

IN WITNESS WHEREOF, the VILLAGE OF WALDEN INDUSTRIAL DEVELOPMENT AGENCY has caused this Indenture to be executed in its name and on its behalf by the Chairman or Vice Chairman of the Issuer, the official seal of the Issuer to be impressed hereon and the same to be attested by the Secretary or Assistant Secretary of the Issuer; and the Trustee has caused this Indenture to be executed in its name and on its behalf by an authorized officer, its corporate seal to be impressed hereon and the same to be attested by a responsible officer, all as of the date and year first above written.

VILLAGE OF WALDEN INDUSTRIAL DEVELOPMENT
AGENCY

By: /s/ Mathew R. Steichen
Chairman, Mathew R. Steichen

Attest:

By: /s/ John Bruce Seguin
Secretary, John Bruce Seguin

THE FIRST NATIONAL BANK OF BOSTON, as
Trustee

By: /s/ James E. Schultz
Its: Senior Account Administrator

Attest:

By: /s/ (Signature)
Assistant Cashier

EXHIBIT 10.10

LOAN AGREEMENT

between

HILLSBOROUGH COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY

and

LESLIE CONTROLS, INC.

relating to the

\$4,765,000

Hillsborough County Industrial Development Authority
Industrial Development Revenue Refunding Bonds
(Leslie Controls, Inc. Project), Series 1994

NOTE:

CERTAIN RIGHTS OF THE HILLSBOROUGH COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY UNDER THIS LOAN AGREEMENT HAVE BEEN ASSIGNED TO, AND ARE SUBJECT TO A SECURITY INTEREST IN FAVOR OF, THE FIRST NATIONAL BANK OF BOSTON, TRUSTEE FOR THE OWNERS OF THE BONDS UNDER A TRUST INDENTURE OF EVEN DATE HERewith, AS AMENDED OR SUPPLEMENTED FROM TIME TO TIME. INFORMATION CONCERNING SUCH SECURITY INTEREST MAY BE OBTAINED FROM THE TRUSTEE AT 150 ROYALL STREET, CANTON, MASSACHUSETTS.

DATED AS OF July 1, 1994

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LOAN AGREEMENT

This LOAN AGREEMENT, dated as of July 1, 1994, between the HILLSBOROUGH COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY (the "Issuer"), a public body corporate and politic and a public instrumentality created pursuant to the laws of the State of Florida (the "State"), and LESLIE CONTROLS, INC. (the "Company"), a corporation organized and existing under the laws of the State of New Jersey.

W I T N E S S E T H:

WHEREAS, the Act (as hereinafter defined) authorizes the creation of industrial development agencies to facilitate the financing of capital projects comprising an industrial and manufacturing plant; and

WHEREAS, the Act further authorizes each agency to issue its bonds for the purpose of carrying out any of its corporate purposes; and

WHEREAS, pursuant to and in accordance with the provisions of the Act, the County Commissioners of Hillsborough County, Florida created the Issuer; and

WHEREAS, the Issuer is authorized and empowered to enter into this Loan Agreement by the provisions of the Act; and

WHEREAS, the Issuer has heretofore indicated its willingness to issue industrial revenue bonds under the Act for the purpose of refunding in whole the outstanding principal amount of the Issuer's Industrial Development Revenue Bonds (Leslie Controls, Inc. Project), Series 1986 in the original aggregate principal amount of \$7,200,000 (the "Prior Bonds"), the proceeds of which were used to finance, in whole or in part, the cost of acquiring, constructing and installing a certain project in Hillsborough County, Florida (the "Project") owned and operated by the Company; and

WHEREAS, to obtain funds for such purposes the Issuer will issue and sell its Industrial Development Revenue Refunding Bonds (Leslie Controls, Inc. Project), Series 1994 in the aggregate principal amount of \$4,765,000 dated as of July 1, 1994 (the "Bonds"), under and pursuant to the Act, to be secured by and contain such terms and provisions as are set forth in that certain Trust Indenture (the "Indenture") dated as of July 1, 1994 between the Issuer and The First National Bank of Boston, Boston, Massachusetts, as Trustee (the "Trustee"), and the proceeds from the sale of the Bonds shall be deposited with the Trustee and disbursed in the manner and for the purposes set forth herein and in the Indenture, all as more fully provided herein and therein; and

WHEREAS, in undertaking the issuance of the Bonds the Issuer has observed the criteria and requirements established by the Act.

NOW, THEREFORE, in consideration of the respective representations and agreements contained herein, the parties hereto, recognizing that in the performance of the agreements of the Issuer herein contained, any obligation it may thereby incur for the payment of money shall not be deemed to constitute a debt, liability or obligation of the Issuer or of the State of Florida or any political subdivision thereof, except to the extent that the Bonds hereinafter mentioned shall be a limited obligation of the Issuer, payable solely from revenues provided therefor under the provisions of this Loan Agreement, the Note and from the Credit Facility Issuer under a Credit Facility (each as hereinafter defined) or derived from the exercise of the rights of the Issuer thereunder, agree as follows:

ARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION

Section 1.1. Definitions.

In addition to words and terms elsewhere defined in this Loan Agreement or in the Indenture, the following words and terms shall have the following meanings:

"Act" shall mean all applicable provisions of the Constitution and laws of the State of Florida, including without limitation the Florida Industrial Development Financing Act, Parts II and III of Chapter 159, Florida Statutes, as amended from time to time and the resolution of the Board of County Commissioners of Hillsborough County, Florida adopted on October 27, 1971 organizing the Issuer.

"Administrative Expenses" shall mean the amounts payable pursuant to Section 7.5 hereof by the Company to or for the account of the Issuer to provide for payment of reasonable costs and expenses incurred by the Issuer.

"Affiliate" shall mean, with respect to any Person, any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such Person. For the purposes of this definition, "control", when used with respect to a Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise, and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Bond" or "Bonds" shall mean the Hillsborough County Industrial Development Authority Industrial Development Revenue Refunding Bonds (Leslie Controls, Inc. Project), Series 1994, authorized to be issued pursuant to the Bond Resolution in accordance with the Indenture in the aggregate principal amount of \$4,765,000, including such Bonds issued in replacement for mutilated, destroyed, lost or stolen Bonds pursuant to Section 210 of the Indenture.

"Bond Documents" shall mean collectively the Indenture, the Bonds, this Loan Agreement, the Note, the Letter of Credit Documents, the Tender Agency Agreement and the Remarketing Agreement.

"Bond Resolution" shall mean the resolution adopted by the Issuer on July 25, 1994 authorizing the execution and delivery of the Issuer Documents and the issuance of the Bonds by the Issuer.

"Closing Date" means the date of the issuance and delivery of the Bonds.

"Code" means the Internal Revenue Code of 1986, as amended, including, when appropriate, the statutory predecessor of the Code, and all applicable regulations (whether proposed, temporary or final) under that Code and the statutory predecessor of the Code, and any official rulings and judicial determinations under the foregoing applicable to the Bonds.

"Company" shall mean Leslie Controls, Inc., a New Jersey corporation, and its successors or assigns and any surviving, resulting or transferee corporation or other entity.

"Company Representative" shall mean any one of the persons at the time designated to act on behalf of the Company by written certificate furnished to the Issuer and the Trustee containing the specimen signatures of such persons and signed on behalf of the Company by the President or any duly authorized officer of the Company.

"Consistent Basis" shall mean, in reference to the application of Generally Accepted Accounting Principles, 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 Credit Facility Issuer.

"Counsel" shall mean an attorney or firm of attorneys acceptable to the Trustee, and may, but need not, be counsel to the Issuer or the Company.

"Credit Facility" shall mean the Letter of Credit or any Alternate Credit Facility delivered to the Trustee pursuant to Article VI of the Indenture.

"Credit Facility Issuer" shall mean the Bank with respect to the Letter of Credit and if applicable the institution issuing any Alternate Credit Facility.

"Determination of Taxability" shall be defined as and shall be deemed to have occurred on the first to occur of the following:

(i) on the date when the Company files any statement, supplemental statement or other tax schedule, return or document (whether pursuant to Treasury Regulations Section 1.103-10(b)(2)(vi), as the same may be amended or supplemented, or otherwise) which discloses that an Event of Taxability shall have in fact occurred;

(ii) on the date when any Bondholder or former Bondholder notifies the Company or the Trustee that it has received an approving written opinion of Bond Counsel to the effect that an Event of Taxability shall have occurred unless, within one hundred eighty (180) days after receipt by the Company of such notification from the Trustee, any Bondholder or any former Bondholder, the Company shall obtain and deliver to the Trustee a favorable ruling or determination letter issued to or on behalf of the Company by the Commissioner or any District Director of Internal Revenue (or any other government official exercising the same or a substantially similar function from time to time) to the effect that, after taking into consideration such facts as form the basis for the opinion that an Event of Taxability has occurred, an Event of Taxability shall not have occurred;

(iii) on the date when the Company shall be advised in writing by the Commissioner or any District Director of Internal Revenue (or any other government official or agent exercising the same or a substantially similar function from time to time) that, based upon filings of the Company, or

upon any review or audit of the Company, or upon any other ground whatsoever, an Event of Taxability shall have occurred;

(iv) on the date when the Company shall receive notice in writing from any Bondholder or former Bondholder, or from the Trustee, that the Internal Revenue Service (or any other government agency exercising the same or a substantially similar function from time to time) has assessed as includable in the gross income of any Bondholder or former Bondholder the interest on such Bondholder's or former Bondholder's Bond due to the occurrence of an Event of Taxability;

provided, however, no Determination of Taxability shall be deemed to have occurred under subparagraph (iii) or (iv) hereof unless the Company has been afforded the opportunity, at its expense, to contest any such assessment or unfavorable ruling and, further, no Determination of Taxability shall be deemed to have occurred until such contest, if made, has been finally determined.

"Eminent Domain" shall mean the taking of title to, or the temporary use of, the Project or any part thereof pursuant to eminent domain or condemnation proceedings, or any voluntary conveyance of any part of the Project during the pendency of, or as a result of a threat of, such proceedings.

"Event of Default" or "Default" shall have the meaning set forth in Section 9.1 hereof.

"Event of Taxability" shall mean a change in law or fact or the interpretation thereof, or the occurrence or existence of any fact, event or circumstance (including, without limitation, the issuance of obligations or the incurring of capital expenditures in excess of those permitted by Section 103(b)(6)(D) of the 1954 Code, or the taking of any action by the Company, or the failure to take any action by the Company, or the making by the Company of misrepresentation herein or in any certificate required to be given in connection with the issuance, sale or delivery of the Bonds) which has the effect of causing the interest paid or payable on any Bond to become includable in the gross income of any Bondholder or former Bondholder of any Bond other than a Bondholder or former Bondholder who is or was a "substantial user" or "related person" as such terms are used in Section 147(a) of the Code.

"Financing Statements" means any and all financing statements (including continuation statements) filed for record from time to time to perfect the security interests created or assigned hereby or by the Indenture.

"Generally Accepted Accounting Principles" shall mean 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 and amended.

"Indenture" shall mean the Trust Indenture of even date herewith by and between the Issuer and the Trustee, together with any amendments or supplements thereof permitted thereby.

"Issuer" shall mean Hillsborough County Industrial Development Authority and its successors and assigns.

"Issuer Documents" shall mean collectively the Indenture and this Loan Agreement.

"Issuer Representative" shall mean any one of the persons at the time designated to act on behalf of the Issuer by written certificate furnished to the Company and the Trustee containing the specimen signatures of such persons and signed on behalf of the Issuer by the Chairman.

"Letter of Credit Documents" shall mean the Letter of Credit, the Reimbursement Agreement and the Pledge Agreement.

"Loan Agreement" shall mean this Loan Agreement and any amendments and supplements thereto permitted by the Indenture.

"Net Proceeds" means the proceeds received by the Issuer from the sale of the Bonds including all earnings and profits thereon but excluding any proceeds deposited in a reasonably required reserve or replacement fund. When used with respect to any insurance proceeds or award resulting from, or other amount received in connection with, Eminent Domain, the term "Net Proceeds" shall mean the gross proceeds from such proceeds, award or other amount, less all expenses (including attorneys' fees) incurred in the realization thereof.

"1954 Code" shall mean the Internal Revenue Code of 1954, as amended through August 15, 1986, and all applicable regulations (whether proposed, temporary or final) thereunder and any official rulings and determinations under the foregoing applicable to the Bonds or the Prior Bonds.

"Note" shall mean the promissory note given by the Company pursuant to Section 5.4 of this Loan Agreement, substantially in the form of Exhibit "A" attached hereto.

"Overdue Rate" shall mean the Prime Rate plus two percent, or the maximum contract rate permitted by law, whichever is lower.

"Payment of the Bonds" shall mean payment of (i) the principal of and interest on the Bonds in accordance with their terms whether through payment at maturity, upon acceleration or prepayment, (ii) all amounts due as Administrative Expenses or otherwise, and (iii) any and all other liabilities and obligations arising under the Indenture and this Loan Agreement, in any case, in such a manner that all such amounts due and owing with respect to the Bonds shall have been paid.

"Permitted Encumbrances" shall mean, as of any particular time, liens for ad valorem and special assessments, if any, which are not then delinquent or which are being contested in good faith.

"Person" shall mean an individual, partnership, corporation, trust, unincorporated organization, association, joint venture, joint-stock company, or a government or agency or political subdivision thereof.

"Prime Rate" shall mean that rate of interest per annum announced by First Union National Bank of North Carolina at its principal office in

Charlotte, North Carolina, from time to time to be its prime rate.

"Project" shall mean the land or buildings and other improvements thereon, and all machinery, equipment, apparatus, office furnishings and other property financed in whole or in part with the proceeds of the Prior Bonds, including any substitutions therefor and any repairs, renewals and replacements thereof from time to time, including the real property described in Exhibit "B" attached hereto and by this reference made a part hereof.

"Rebate Fund" means the Fund of that name created pursuant to Section 504 of the Indenture and described in Section 11.1 hereof.

"Regulations" shall mean the applicable Treasury Regulations under Sections 103 and 141 through 150 of the Code whether at the time proposed, temporary, final or otherwise.

"Reimbursement Agreement" shall mean the Letter of Credit, Reimbursement and Guaranty Agreement of even date herewith by and among the Company, Watts Industries, Inc. as guarantor, and the Bank, and any supplements or amendments thereto.

"Related Person" means "related person" within the meaning of Section 103(b)(6)(C) of the 1954 Code by reference to Sections 267, 707(b) and 1563(a) of the 1954 Code, except that fifty percent is substituted for eighty percent in Section 1563(a).

"Security interest" or "security interests" shall refer to the security interests created in the Indenture and shall have the meaning set forth in the U.C.C.

"State" shall mean the State of Florida.

"Tax Regulatory Certificate" shall mean the certificate of the Company, dated the date of delivery of the Bonds, setting forth certain facts, estimates and circumstances with respect to the Bonds.

"Trustee" shall mean the banking institution at the time serving as Trustee under the Indenture.

Section 1.2. Rules of Construction.

(a) Words of masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders, and words of the neuter gender shall be deemed and construed to include correlative words of the masculine and feminine genders.

(b) The table of contents, captions and headings in this Loan Agreement are for convenience only and in no way define, limit or describe the scope or intent of any provisions or Sections of this Loan Agreement.

(c) All references herein to particular Articles or Sections are references to Articles or Sections of this Loan Agreement unless some other reference is established.

(d) All accounting terms not specifically defined herein shall be construed in accordance with Generally Accepted Accounting Principles

applied on a Consistent Basis.

(e) All references herein to the Company shall be deemed to refer to each of the Persons if more than one are described by such term and any agreement, obligation, duty or liability of the Company shall be a joint and several agreement, obligation, duty or liability of each of the Persons so described by such term.

(f) Any terms not defined herein but defined in any of the other Bond Documents shall have the same meaning herein.

ARTICLE II

REPRESENTATIONS

Section 2.1. Representations by the Issuer.

The Issuer makes the following representations as the basis for the undertakings on its part herein contained:

(a) Organization and Authority. The Issuer is a public body corporate and politic and a public instrumentality created pursuant to the laws of the State of Florida. The Issuer has all requisite power and authority under the Act to (i) adopt the Bond Resolution, (ii) issue the Bonds, (iii) use the proceeds thereof to refund the Prior Bonds, and (iv) enter into, and perform its obligations under the Issuer Documents.

(b) Pending Litigation. There are no actions, suits, proceedings, inquiries or investigations pending, or to the knowledge of the Issuer threatened, against or affecting the Issuer in any court or before any governmental authority or arbitration board or tribunal, which involve the possibility of materially and adversely affecting the transactions contemplated by the Issuer Documents or which, in any way, would adversely affect the validity or enforceability of the Bonds, the Issuer Documents or any agreement or instrument to which the Issuer is a party and which is used or contemplated for use in the consummation of the transactions contemplated hereby or thereby or the ability of the Issuer to perform its respective obligations hereunder and thereunder.

(c) Agreements Are Legal and Authorized. The adoption of the Bond Resolution, the issuance and sale of the Bonds and the execution and delivery by the Issuer of the Issuer Documents and the compliance by the Issuer with all of the provisions of each thereof and of the Bonds (i) are within the purposes, powers and authority of the Issuer, (ii) have been done in full compliance with the provisions of the Act, are legal and will not conflict with or constitute on the part of the Issuer a violation of or a breach of or default under, or result in the creation of any lien, charge or encumbrance upon any property of the Issuer (other than as contemplated by this Loan Agreement and the Indenture) under the provisions of, any charter instrument, by-law, indenture, mortgage, deed of trust, note agreement or other agreement or instrument to which the Issuer is a party or by which the Issuer is bound, or any license, judgment, decree, law, statute, order, rule or regulation of any court or governmental agency or body having jurisdiction over the Issuer or any of its activities or properties, and (iii) have been duly authorized by all necessary corporate action on the part of the Issuer.

(d) Governmental Consents. Neither the nature of the Issuer nor any of its activities or properties, nor any relationship between the Issuer and any other person, nor any circumstance in connection with the offer, issue, sale or delivery of any of the Bonds is such as to require the consent, approval or authorization of, or the filing, registration or qualification with, any governmental authority on the part of the Issuer in connection with the execution, delivery and performance of the Issuer Documents or the offer, issue, sale or delivery of the Bonds, other than those already obtained, which include (i) the approval of the Board of County Commissioners, (ii) the compliance with the information reporting requirements contained in Section 149(e) of the Code, (iii) the public approval of the issuance of the Bonds contained in Section 147(f) of the Code, and (iv) the filing of Financing Statements perfecting the security interests created under the Indenture; provided, however, no representation is made herein as to compliance with the securities or "blue sky" laws of any jurisdiction.

(e) No Defaults. No event has occurred and no condition exists with respect to the Issuer which would constitute an Event of Default as defined in this Loan Agreement or the Indenture or which, with the lapse of time or with the giving of notice or both, would become an Event of Default under this Loan Agreement or the Indenture. The Issuer is not in default under the Act or under any charter instrument or by-law.

(f) No Prior Pledge. Neither this Loan Agreement nor any of the revenues pledged under the Indenture have been pledged or hypothecated in any manner or for any purpose other than as provided in the Indenture as security for the payment of the Bonds.

(g) Nature and Location of Project. The refinancing of the costs of the Project is in furtherance of the public purpose intended to be served by the Act and is specifically authorized by the Act. The Project is located wholly within the geographic limits of the Issuer.

(h) Public Hearing and Approval. A public hearing was duly held by the Hillsborough County Industrial Development Authority on June 15, 1994, upon reasonable public notice, at which hearing members of the public were afforded reasonable opportunity to be heard on all matters pertaining to the location and nature of the Project and the refinancing thereof and to the issuance of the Bonds. On July 13, 1994, after the above mentioned public hearing, the issuance of the Bonds was approved by the Hillsborough County Board of County Commissioners, which is the applicable elected representative of the Issuer.

(i) Due Authorization. By the Bond Resolution the Issuer has authorized the issuance and sale of the Bonds to provide funds for refunding, by payment and redemption, the Prior Bonds, and authorized and approved the Issuer's execution, delivery and performance of the Issuer Documents, the endorsement of the Note and the other instruments contemplated hereby to be executed and delivered by the Issuer, which Bond Resolution has not been amended, modified or rescinded and continues to be in full force and effect.

(j) Limited Obligations. Notwithstanding anything herein contained to the contrary, any obligation the Issuer may hereby incur for the payment of money shall not be deemed to constitute a debt, liability or obligation

of the Issuer, Hillsborough County or of the State of Florida or any political subdivision thereof, except to the extent that the Bonds shall be a limited obligation of the Issuer payable solely from (i) the revenues hereunder and under the Note, (ii) revenues derived from the sale of the Bonds, and (iii) amounts on deposit from time to time in the Bond Fund, subject to the provisions of this Loan Agreement and the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth herein and therein.

(k) Issuance of Bonds. To accomplish the foregoing, the Issuer proposes to issue \$4,765,000 in aggregate principal amount of its Bonds immediately following the execution and delivery of this Loan Agreement. The date, denominations, interest rate, maturity date, redemption provisions and other pertinent provisions with respect to the Bonds are set forth in the Indenture (particularly Articles II and III thereof).

(l) Validity of Issuer Documents. When duly executed and delivered on behalf of the Issuer, and assuming the due authorization, execution and delivery by the Company of this Loan Agreement, and the due authorization, execution and delivery by the Trustee of the Indenture, each of the Issuer Documents shall constitute a valid and binding obligation of the Issuer enforceable in accordance with its terms.

(m) Representations and Other Written Statements. Neither the representations of the Issuer contained in this Loan Agreement or the Indenture nor any written statement relating to the Issuer furnished by the Issuer in connection with the transactions contemplated hereby, contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained herein and therein not misleading.

Section 2.2. Representations, Warranties and Covenants by the Company.

The Company makes the following representations as the basis for the undertakings on its part herein contained:

(a) Corporate Organization and Power. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of New Jersey and is qualified to do business and is in good standing under the laws of the State.

(b) Pending Litigation. There are no proceedings pending, or to the knowledge of the Company threatened against or affecting the Company in any court or before any governmental authority or arbitration board or tribunal which are likely to have a material adverse effect on the ability of the Company to perform its obligations under this Loan Agreement and the Bond Documents to which it is a party.

(c) Agreements Are Legal and Authorized. The execution and delivery by the Company of this Loan Agreement, the Note and the Bond Documents to which it is a party and the compliance by the Company with all of the provisions hereof (and thereof) (i) are within the corporate power of the Company, (ii) after giving effect to the redemption of the Prior Bonds will not conflict with or result in any breach of any of the provisions of, or constitute a default under any agreement, charter document, by-law or other instrument to which the Company is a party or by which it may be bound, and

(iii) have been duly authorized by all necessary corporate action on the part of the Company.

(d) No Defaults. No event has occurred and no condition exists with respect to the Company that would constitute an Event of Default under this Loan Agreement, the Note, the Bond Documents to which it is a party or the Indenture or which, with the lapse of time or with the giving of notice or both, would become an Event of Default under this Loan Agreement, the Note, the Indenture or the Bond Documents to which it is a party.

(e) Nature and Location of Project. The Project has been completed in accordance with the Project Summary (described in Exhibit "B" attached hereto and made a part hereof), constitutes a "project" within the meaning of the Act and is located wholly within the geographic limits of the Issuer.

(f) Ownership and Operation of Project. The Company presently intends to operate the Project as a manufacturing facility from the date hereof to the expiration or sooner termination of this Agreement as provided herein, and as a "project" within the meaning of the Act.

(g) Disclosure Documents. Except as reflected or referenced in the Private Placement Memorandum dated August 4, 1994 relating to the Bonds, including the documents incorporated therein by reference (the "Private Placement Memorandum"), there have been no changes in the assets or liabilities or financial condition of the Company, other than changes in the ordinary course of business, which in the aggregate are materially adverse with respect to the Company's ability to perform its obligations under this Loan Agreement or the Bond Documents to which it is a party. There were no material liabilities, contingent or otherwise, of the Company which were not reflected or referenced in the Private Placement Memorandum, and the Company has not entered into any commitments or contracts since the date of the Private Placement Memorandum which are not reflected or referenced in the Private Placement Memorandum, other than in the ordinary and normal course of its business, which might, in light of any fact or condition presently known to the Company, have a materially adverse effect upon the financial condition, operations or business of the Company or its ability to perform its obligations hereunder or thereunder.

(h) Issuance of Private Activity Bonds. The Company has not caused or will not cause the issuance of "private activity" bonds (as defined in the Code) or of "industrial development bonds" (as defined in the 1954 Code) on its behalf in any jurisdiction of the United States during the 30-day period commencing 15 days prior to the issuance of the Bonds.

(i) Use of Proceeds of Bonds. The Company shall not permit the proceeds of the Bonds to be used in any manner, nor shall it make any expenditures with respect to the Project or perform or permit any act, which would cause the Bonds to fail to meet the requirements of Section 147(b) of the Code.

(j) No Further Approval. No authorization, approval, consent, permit or license of any regulatory body or authority, not already obtained, is required on the part of the Company for the valid and lawful execution and delivery of this Loan Agreement and the Note.

(k) Other Events. To the best knowledge of the Company, no event has

occurred which, with the lapse of time or the giving of notice or both, would give any creditor of the Company the right to accelerate the maturity of any of such party's outstanding indebtedness for money borrowed.

(l) Certificates and Documents. The certificates and all other documents delivered and to be delivered by the Company in connection with the transactions contemplated by this Loan Agreement and the Note and the other Bond Documents to which it is a party as of their respective dates, taken as a whole, do not and will not include any untrue statement of a material fact or omit to state a material fact necessary to make the statements herein and therein, in the light of the circumstances under which they are or will be made, not misleading. The certificates and all other documents delivered and to be delivered by the Company or its representatives in connection with the transactions contemplated by this Loan Agreement and the Note and the Bond Documents to which it is a party are or will be on the dates on which they are or will be delivered true and complete in all material respects.

(m) Use of Proceeds. All of the proceeds of the sale of the Bonds will be applied to redeem the principal of the Prior Bonds on the redemption date thereof. None of the proceeds of the sale of the Bonds will be applied to pay issuance costs of the Bonds or to pay costs of the refunding.

(n) Matters Relating to Tax Exemption. The Company will not take or omit to take any action which would impair the exclusion of the interest on the Bonds from the gross income of the recipients thereof for federal income tax purposes, and will comply with all of its covenants and agreements contained in the Tax Regulatory Certificate.

(o) Certain Arbitrage Matters. After the expiration of any applicable temporary period under Section 148(d)(3) of the Code, at no time during any bond year will the aggregate amount of gross proceeds of the Bonds invested in higher yielding investments (within the meaning of Section 148(b) of the Code) exceed one hundred fifty percent (150%) of the debt service on the Bonds for such bond year and the aggregate amount of gross proceeds of the Bonds invested in higher yielding investments, if any, will be promptly and appropriately reduced as the amount of outstanding Bonds are reduced, provided however that the foregoing shall not require the sale or disposition of any investments in higher yielding investments if such sale or disposition would result in a loss which exceeds the amount which would be paid to the United States pursuant to Section 504 of the Indenture (but for such sale or disposition) at the time of such sale or disposition if a payment under Section 504 of the Indenture were due at such time. At no time will any funds constituting gross proceeds of the Bonds be used in a manner as to constitute failure of compliance with Section 148 of the Code. The terms "bond year", "gross proceeds", "higher yielding investments", "yield", and "debt service" have the meanings assigned to them for purposes of Section 148 of the Code.

(p) Tax Regulatory Certificate. The Company's Tax Regulatory Certificate executed and delivered by the Company concurrently with the issuance and delivery of the Bonds is true, accurate and complete in all material respects as of the date on which executed and delivered.

ARTICLE III

CONSENT TO ASSIGNMENT

Section 3.1. Company Consent to Assignment of Agreement and Execution of Indenture.

The Company understands that the Issuer, as security for the payment of the principal of, and the interest on, the Bonds, will assign and pledge to, and create a security interest in favor of, the Trustee pursuant to the Indenture in certain of its rights, title and interest in and to this Loan Agreement including all Pledged Revenues, reserving, however, its rights (a) pursuant to this Loan Agreement providing that notices, approvals, consents, requests and other communications be given to the Issuer, (b) to reimbursement and payment of costs and expenses under this Loan Agreement, and (c) to indemnification and to exemption from liability, both individual and corporate, as provided under this Loan Agreement, and the Company hereby agrees and consents to such assignment and pledge. The Company acknowledges that it has received a copy of the Indenture and consents to the execution of the same by the Issuer.

ARTICLE IV

ISSUANCE OF THE BONDS

Section 4.1. Agreement to Issue the Bonds.

To provide funds for redemption of the Prior Bonds, the Issuer agrees that it will authorize, sell, issue and deliver the Bonds in the aggregate principal amount of \$4,765,000 in the manner set forth in the Indenture and cause the proceeds of the Bonds to be applied as provided in the Indenture.

Section 4.2. No Third Party Beneficiary.

It is specifically agreed between the parties executing this Loan Agreement that it is not intended by any of the provisions of any part of this Loan Agreement to create in the public or any member thereof, other than as may be expressly provided herein or as contemplated in the Indenture, a third party beneficiary hereunder, or to authorize anyone not a party to this Loan Agreement to maintain a suit for personal injuries or property damage pursuant to the terms or provisions of this Loan Agreement. The duties, obligations, and responsibilities of the parties to this Loan Agreement with respect to third parties shall remain as imposed by law.

ARTICLE V

LOAN BY THE ISSUER TO THE COMPANY; REPAYMENT

Section 5.1. Loan by the Issuer; Repayment.

(a) Upon the terms and conditions of this Loan Agreement, the Issuer shall lend to the Company the proceeds of the sale of the Bonds. The loan shall be evidenced by and repayable as set forth in the Note.

(b) As consideration for the issuance of the Bonds and the making of the loan to the Company by the Issuer, the Company will execute and deliver

this Loan Agreement and the Note, in the form attached as Exhibit "A" hereto, and the Issuer will endorse the Note without recourse to the order of, and pledge the Note and assign this Loan Agreement and the Note to, the Trustee, as the assignee of the Issuer under the Indenture, contemporaneously with the issuance of the Bonds. The Company shall repay the loan in accordance with the provisions of the Note and of this Loan Agreement.

Section 5.2. No Set-Off.

The obligation of the Company to make the payments required by the Note shall be absolute and unconditional. The Company will pay without abatement, diminution or deduction (whether for taxes or otherwise) all such amounts regardless of any cause or circumstance whatsoever including, without limitation, any defense, set-off, recoupment or counterclaim that the Company may have or assert against the Issuer, the Trustee, any Bondholder or any other person.

Section 5.3. Prepayments.

The Company may prepay all or any part of the amounts the Note obligates it to pay as provided in Section 701 of the Indenture with respect to prepayment of the Bonds. Except as provided in this Section 5.3 and in Sections 10.1, 10.2 and 10.3 hereof, the Company shall not be entitled to prepay the Note or cause the Bonds to be prepaid. The Company shall prepay all of the amounts it is required to prepay as provided in Sections 10.2 and 10.3 hereof.

Section 5.4. Credits Against the Note.

To the extent that principal of or interest on the Bonds shall be paid, there shall be credited against the unpaid principal of or interest on the Note, as the case may be, an amount equal to the principal of or interest on the Bonds so paid. If the principal of and interest on and other amounts payable under the Bonds shall have been paid sufficiently that Payment of the Bonds shall have occurred, then the Note, ipso facto, shall be deemed to have been paid in full, the Company's obligations thereon shall be discharged (with the exception of the obligation of the Company to make certain payments which may subsequently arise as a result of a Determination of Taxability which shall survive notwithstanding Payment of the Bonds), and the Note shall be cancelled and surrendered to the Company.

Section 5.5. Letter of Credit and Reimbursement Agreement.

As a further condition to the Issuer's making the loan hereunder, the Company shall:

(a) cause the Letter of Credit to be issued and delivered to the Trustee as security for the Bonds. Until the Conversion Date, the Company shall cause a Credit Facility meeting the requirements of Section 603 of the Indenture to be maintained with the Trustee; and

(b) enter into the Reimbursement Agreement with the Bank in form and substance satisfactory to the Bank and execute and deliver the other Letter of Credit Documents required by the Bank.

ARTICLE VI

OPERATION; TAXES AND UTILITY
CHARGES; INSURANCE AND EMINENT DOMAIN

Section 6.1. Operation of the Project by the Company.

(a) The Company shall pay or cause to be paid all costs and expenses of operation and maintenance of the Project.

(b) The Company may, at its own expense, make from time to time any additions, modifications or improvements to the Project that it may deem desirable for its business purposes.

Section 6.2. Taxes and Utility Charges.

(a) The Company shall pay as the same respectively become due, (1) all taxes, assessments, levies, claims and charges of any kind whatsoever that may at any time be lawfully assessed or levied against or with respect to the Project (including, without limiting the generality of the foregoing, any tax upon or with respect to the income or profits of the Issuer from the Project and that, if not paid, would become a charge on the payments to be made under this Loan Agreement or the Note prior to or on a parity with the charge thereon created by the Indenture and including ad valorem, sales and excise taxes, assessments and charges upon the Company's interest in the Project), (2) all utility and other charges incurred in the operation, maintenance, use, occupancy and upkeep of the Project and (3) all assessments and charges lawfully made by any governmental body for public improvements that may be secured by a lien on any portion of the Project.

(b) The Company may, at its expense, contest in good faith any such levy, tax, assessment, claim or other charge. The Issuer and the Trustee, at the expense of the Company, will cooperate fully in any such permitted contest.

(c) The Company shall furnish the Issuer and the Trustee, upon request, with proof of payment of any taxes, governmental charges, utility charges, insurance premiums or other charges required to be paid by the Company under this Loan Agreement.

Section 6.3. Insurance.

Until Payment of the Bonds shall be made, the Company will keep the Project properly and continuously insured against such risks as are customarily insured against by businesses of like size and type engaged in the same or similar manufacturing operations (other than business interruption insurance).

Section 6.4. Eminent Domain.

Unless the Company shall have prepaid the Note pursuant to the provisions of Article X hereof, in the event that title to, or the temporary use of, the Project, or any part thereof shall be taken by Eminent Domain, the Company shall be obligated to continue to make the payments required to be made pursuant to the Note and the Net Proceeds

received as a result of such Eminent Domain shall be applied as provided in Section 6.5(b) hereof.

Section 6.5. Application of Net Proceeds of Insurance and Eminent Domain.

(a) The Net Proceeds of the insurance carried with respect to the Project shall be applied by the Company toward extinguishment of the defect or claim or satisfaction of the liability with respect to which such insurance proceeds may be paid.

(b) The Net Proceeds of the insurance carried with respect to the Project (excluding the Net Proceeds of any business interruption insurance, which shall be paid to the Company), and the Net Proceeds resulting from Eminent Domain, except as hereinafter provided, shall be paid to the Trustee and applied as follows:

(1) If the amount of the Net Proceeds does not exceed \$500,000, the Net Proceeds shall be paid to the Company and shall be applied to the repair, replacement, renewal or improvement of the Project or at the Company's election paid to the Trustee and applied as provided in (2)(B) below.

(2) If the amount of the Net Proceeds exceeds \$500,000, the Net Proceeds shall be paid to and held by the Trustee as a special trust fund and invested in accordance with Section 602 of the Indenture and the provisions of Article XI hereof pending receipt of written instructions from the Company. At the option of the Company, to be exercised within the period of ninety (90) days from the receipt by the Trustee of such Net Proceeds, the Company shall advise the Trustee that (A) the Company will use the Net Proceeds for the repair, replacement, renewal or improvement of the Project (such funds to be delivered by the Trustee to the Company), or (B) the Net Proceeds shall be applied to the prepayment of the Bonds as provided in Article X hereof. If the Company does not advise the Trustee within said period of ninety (90) days that it elects to proceed under clause (A) to use such Net Proceeds for the repair, replacement, renewal or improvement of the Project, such Net Proceeds shall be applied to the repayment of the Bonds pursuant to Article X hereof. Any prepayment pursuant to the preceding sentence shall be effected on the next Interest Payment Date not less than thirty (30) days after the expiration of said period of ninety (90) days without an election by the Company.

Notwithstanding the foregoing, so long as a Credit Facility is in effect, in the event of any inconsistency between the terms contained in this Agreement and those contained in the Reimbursement Agreement, the provisions of the Reimbursement Agreement should be deemed to control in accordance with its terms.

(c) The Company agrees that if it shall elect to use the moneys paid to the Trustee pursuant to subsection (b)(2) of this Section 6.5 for the repair, replacement, renewal or improvement of the Project, it will restore the Project, or cause the same to be done, to a condition substantially equivalent to its condition prior to the occurrence of the event to which the Net Proceeds were attributable. To the extent that the Net Proceeds are not sufficient to restore or replace the Project, the Company shall use

its own funds to restore or replace the Project. Any balance remaining after any such application of such Net Proceeds shall be paid to the Company. The Company shall be entitled to the Net Proceeds of any insurance or resulting from Eminent Domain relating to property of the Company not included in the Project and not providing security for the Note or this Loan Agreement.

Section 6.6. Parties to Give Notice.

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

ARTICLE VII

SPECIAL COVENANTS

Section 7.1. Access to the Project and Inspection.

The Trustee and the Issuer shall have the right, at all reasonable times upon the furnishing of reasonable notice to the Company under the circumstances, to enter upon the Project Site and to examine and inspect the Project.

Section 7.2. Further Assurances and Corrective Instruments.

Subject to the provisions of the Indenture, the Issuer and the Company agree that they will, from time to time, execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered, such supplements and amendments hereto and such further instruments as may reasonably be required for correcting any inadequate or incorrect description of the Project, and for carrying out the intention or facilitating the performance of this Loan Agreement.

Section 7.3. Tax and Arbitrage Covenants; Notice of Event of Taxability.

(a) Notwithstanding any other provision hereof, the Company covenants and agrees that it shall at all times do and perform all acts and things necessary or desirable and within its reasonable control in order to assure that interest paid on the Bonds shall, for the purpose of federal income taxation, not be included in gross income of the recipients thereof, except in the event that such recipient is a "substantial user" or "related person" within the meaning of Section 103(b) of the 1954 Code or Section 147(a) of the Code.

(b) Neither the Company nor the Issuer shall take any action or fail to take any action, and the Company covenants that it will not approve the Trustee's taking any action or failing to take any action or making any investment or use of the proceeds of the Bonds, if such action, use or failure would adversely affect the tax-exempt status of the interest on the

Bonds under Section 103 of the Code or cause any of the Bonds to be an "arbitrage bond" within the meaning of Section 148 of the Code and the Treasury Regulations as the same may be applicable to the Bonds at the time of such action, investment or use.

(c) The Company shall give prompt written notice to the Issuer and the Trustee of the filing by the Company of any statement, tax schedule, return or document with the Internal Revenue Service which discloses that an Event of Taxability shall have occurred and its receipt of any written advice from the Internal Revenue Service that an Event of Taxability shall have occurred.

(d) The Company acknowledges that it has examined, executed and delivered the Tax Regulatory Certificate and its terms relating to compliance with the Code and shall comply with the covenants, instructions and guidelines contained in the Tax Regulatory Certificate. The Company's obligation to make any payments of Rebate Amounts (as defined in the Tax Regulatory Certificate) required by the Tax Regulatory Certificate and to prepare and furnish to the Issuer and the Trustee the statements and forms described therein shall survive payment in full of the Bonds notwithstanding any provision of this Loan Agreement to the contrary.

(e) The Company and the Issuer will furnish accurate information necessary to enable Bond Counsel to make any certifications which might be required under the Regulations.

(f) Whenever the Issuer shall be required to file, deliver or execute, or produce any reports, notices or other documents under the Code or the Regulations while the Bonds are outstanding, the Company shall furnish or cause the proper person to furnish in due time to the Issuer, through the attorney for the Issuer, the completed form of such report, notice or other required document together with (a) a certification by the Company or other proper person required to provide information that such document is accurate, and (b) if requested by the Issuer or if otherwise required herein or in the Indenture, an opinion of Bond Counsel addressed to the Issuer that the report or other document is not in violation of any provision of law or of the Issuer Documents or other documents constituting a part of the transcript of proceedings relating to the issuance of the Bonds and that such report, notice or other required document meets the legal requirements for such filing, delivery or execution. In the event of the failure or refusal of the Company or other proper person to comply with this provision, the Company agrees to pay the statement for attorney's fees and administrative time presented by the Issuer for filing, delivering or executing such report or documents, such statement to be paid within thirty (30) days after written notice to the Company by the Issuer.

In order to insure that interest on the Bonds is not and will not become subject to federal income taxes as a result of failure of the Bonds to satisfy the requirement of Section 149(e) of the Code, the Company covenants with the Issuer and the Trustee that it will, on or before the date of issuance of the Bonds supply to the Issuer and the Trustee all information required under Internal Revenue Service Form 8038, Information Return for Private Activity Bond Issues (Form 8038), including without limitation the following:

(a) the date of issue, the amount of lendable proceeds of the issue, and the stated interest rate, term and face amount of each obligation which

is part of the issue;

(b) the name of the applicable elected representative who approved the issue, or a description of the voter referendum by which the issue was approved; and

(c) a description of any property to be financed from the proceeds of the issue.

The Company further covenants that on or before the due date thereof, it will cause Form 8038 to be completed, executed and filed with the appropriate office of the Internal Revenue Service.

Section 7.4. Recording and Filing; Other Instruments.

(a) The Company covenants that it will, at its expense, cause Counsel in the State to take all steps as are reasonably necessary to render an opinion to the Issuer and the Trustee not earlier than sixty (60) nor later than thirty (30) days prior to each anniversary date occurring at five-year intervals after the issuance of the Bonds to the effect that all financing statements, continuation statements, notices and other instruments required by applicable law have been recorded or filed or re-recorded or re-filed in such manner and in such places required by law in order fully to preserve and protect the rights of the Trustee in the granting by the Issuer of certain rights of the Issuer, pursuant to the Indenture, under this Loan Agreement and the Note.

(b) The Company and the Issuer shall execute and deliver all instruments and shall furnish all information and evidence deemed necessary or advisable by such Counsel to enable him to render the opinion referred to in subsection (a) of this Section. The Company shall file and re-file and record and re-record or cause to be filed and re-filed and recorded and re-recorded all instruments required to be filed and re-filed and recorded or re-recorded pursuant to the opinion of such Counsel and shall continue or cause to be continued the liens of such instruments for so long as the Bonds shall be outstanding, except as otherwise required by this Loan Agreement.

Section 7.5. Administrative Expenses.

The Company shall pay to or for the account of the Issuer within thirty (30) days after notice thereof all reasonable costs and expenses incurred by the Issuer in connection with the financing and administration of the Project, including, without limitation, the costs of administering this Loan Agreement and the fees and expenses of the Trustee, attorneys, consultants and others.

Section 7.6. Indemnity Against Claims.

(a) The Company will pay and discharge and will indemnify and hold harmless the Issuer and the Trustee from (1) any lien or charge upon amounts payable hereunder by the Company to the Issuer, (2) any taxes, assessments, impositions and other charges in respect of the Project, and (3) any claim of any kind or character whatsoever arising from, connected with or in any way related to the Bonds or the Project except such claims that result from the gross negligence or willful misconduct of the Issuer or the Trustee.

(b) If any claim of any such lien or charge upon payments, or any such taxes, assessments, impositions or other charges, are sought to be imposed, the Issuer or the Trustee, as the case may be, will give prompt notice to the Company, and the Company shall have the sole right and duty to assume, and shall assume, the defense thereof, with full power to litigate, compromise or settle the same in its sole discretion.

Section 7.7. Release and Indemnification.

The Company shall at all times protect and hold the Issuer and its members, officers, employees and agents harmless against any claims or liability resulting from any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the Bonds, the Project or the use thereof, including without limitation any lease thereof or assignment of its interest in this Agreement, such indemnification to include reasonable expenses and attorneys' fees incurred by the Issuer and its members, officers, employees, attorneys and agents in connection therewith, provided that such indemnity shall be effective only to the extent of any loss that may be sustained by the Issuer, its members, officers, employees, attorneys and agents in excess of the Net Proceeds received by it or them from any insurance carrier with respect to such loss and provided further that the benefits of this Section 7.7 shall not inure to any person other than the Issuer and its members, officers, employees, attorneys and agents. In case any action or proceeding is brought against the Issuer or any of its members, officers, employees or agents by reason of any such claim, the affected party shall notify the Company and the Company shall resist or defend such action or proceeding and control the conduct thereof; provided, however, that the Issuer shall have the right to retain separate counsel, with the fees and expenses to be paid by the Company, if representation of the Issuer would be inappropriate due to an actual conflict of interest, as reasonably determined by the Issuer or the Company, between the Issuer and the Company. The Issuer and its members, officers, employees and agents shall cooperate and join with the Company at the expense of the Company as may be required in connection with any such action or proceeding. The Company shall not be responsible for any settlement reached without the Company's consent.

Section 7.8. Additional Information.

The Issuer and the Trustee are authorized to provide information concerning the outstanding principal amount and payment history of, and other information pertaining to, the Bonds or the Note to any agency or regulatory authority of the State requesting such information.

Section 7.9. Default Certificates.

The Company shall deliver to the Trustee forthwith, upon obtaining knowledge of any Event of Default hereunder or under the Note, the Indenture, or the Reimbursement Agreement, a certificate of the Company specifying the nature and period of existence thereof and what action the Company proposes to take with respect thereto.

Section 7.10. Observe Laws.

The Company shall observe all applicable laws, regulations and other

valid requirements of any regulatory authority with respect to its operations at the Project.

Section 7.11. Election.

The Issuer hereby elects to have the provisions of Sections 144(a)(4) of the Code apply to the Bonds. In support of this election, the Issuer states as follows:

(a) The name of the Issuer is:

Hillsborough County Industrial Development Authority

and its address is:

c/o Thomas K. Morrison, Esq., Morrison, Morrison & Mills, P.A.,
Suite 100, 1200 West Platt Street, Tampa, FL 33606.

(b) The principal user of the Project will be:

Leslie Controls, Inc.

Employer Identification Number: 221063780

(c) The Bonds are in the principal amount of \$4,765,000, and are to be issued on August 4, 1994. Except for the Prior Bonds (which will be paid in full and redeemed within 90 (ninety) days of the date of issuance of the Bonds), there are no outstanding prior issues the proceeds of which have been or are to be used primarily with respect to facilities located or to be located in the County, the principal users of which is or will be the Company or any Related Persons.

(d) There were no "Section 103(b)(6)(d) capital expenditures by the Issuer," as that term is defined in the Regulations, which were paid or incurred during the three (3) years preceding the date of issuance of the Prior Bonds to facilities located in Hillsborough County the principal user of which is or will be the Company or any Related Person, except as described in the Tax Regulatory Certificate of the Company.

(e) Except for the Bonds and the Prior Bonds, there is no outstanding issue of qualified small issue bonds (as that term is used in Section 141(e)(1)(D) of the Code) issued on behalf of the Company, the proceeds of which have been or will be issued primarily with respect to:

(1) Any facility located in whole or in part in the County; or

(2) Any "contiguous or integrated facility" (within the meaning of Section 1.103-10(b)(2)(ii)(e) of the Regulations) with respect to any facility located in whole or in part in the County.

Section 7.12. No Warranty of Condition of Suitability by the Issuer.

THE ISSUER MAKES NO WARRANTY, EITHER EXPRESS OR IMPLIED, AS TO THE CONDITION, TITLE, DESIGN, OPERATION, MERCHANTABILITY OR FITNESS OF THE PROJECT OR THAT IT IS OR WILL BE SUITABLE FOR THE COMPANY'S PURPOSES OR NEEDS.

Section 7.13. Redemption of Prior Bonds.

The Company hereby undertakes to refund the Prior Bonds on or before November 1, 1994 pursuant to Section 401 of the Indenture. In connection with such refunding, the Company or Watts Industries, Inc. shall pay all additional amounts sufficient to pay the principal of and interest on the Prior Bonds to the date of redemption thereof and to pay directly all fees, charges and expenses of the holders of the Prior Bonds and of the Prior Trustee in connection with the redemption of the Prior Bonds.

ARTICLE VIII

ASSIGNMENT, LEASING AND SELLING

Section 8.1. Assignment of this Loan Agreement or Lease or Sale of the Project by the Company.

With the prior written consent of the Credit Facility Issuer, the rights of the Company under this Loan Agreement may be assigned, and the Project may be leased or sold as a whole or in part, without the necessity of obtaining the consent of the Issuer or the Trustee, subject, however, to the following conditions:

(a) without the prior written consent of the Credit Facility Issuer and the Issuer, no assignment, transfer, sale or lease shall relieve the Company from primary liability for any of its obligations hereunder, and if any such assignment, transfer, sale or lease occurs, the Company shall continue to remain primarily liable for the payments specified herein and in the Note and for performance and observance of the other agreements on its part herein provided to be performed and observed by it; and the Company shall also provide the Trustee with an approving opinion of Bond Counsel to the effect that such assignment, transfer, sale or lease will not adversely affect the status of interest on the Bonds for federal tax purposes.

(b) the assignee, lessee or purchaser shall assume the obligations of the Company hereunder to the extent of the interest assigned, leased or sold; and

(c) the Company shall, within thirty (30) days after the delivery thereof, furnish or cause to be furnished to the Issuer and to the Trustee a true and complete copy of each such assignment, instrument of transfer, lease or sale agreement, as the case may be, together with any instrument of assumption.

Section 8.2. Restrictions on Transfer of the Issuer's Rights.

Except for the assignment made pursuant to the Indenture of certain of its rights under this Loan Agreement and its pledge of the Note, endorsed without recourse to the order of the Trustee, to the Trustee as security pursuant to the Indenture, the Issuer will not during the term of this Loan Agreement sell, assign, transfer or convey any of its interests in this Loan Agreement or the Note.

Section 8.3. Assignment by the Issuer.

It is understood, agreed and acknowledged that the Issuer, as security for payment of the principal of and interest on the Bonds, will grant to the Trustee pursuant to the Indenture, inter alia, certain of its right, title and interest in and to this Loan Agreement (reserving certain of its rights, as more particularly described in the Indenture) and will pledge the Note, endorsed as aforesaid, to the Trustee as security, and the Company hereby assents to such assignment and pledge.

Section 8.4. Merger of Issuer.

(a) Nothing contained in this Loan Agreement shall prevent the consolidation of the Issuer with, or merger of the Issuer into, or transfer of title to the Project to, any other political subdivision, provided that:

(1) the tax-exempt status of the interest on the Bonds shall not be adversely affected thereby, and

(2) upon such consolidation, merger or transfer, the due and punctual performance and observance of all the agreements and conditions of this Loan Agreement to be kept and performed by the Issuer shall be expressly assumed in writing by the political subdivision resulting from such consolidation or surviving such merger or to which such merger was made.

(b) Within thirty (30) days after the consummation of any such consolidation, merger or transfer of title, the Issuer shall give notice thereof, in reasonable detail to the Company and the Trustee. The Issuer promptly shall furnish such additional information with respect to any such transaction as the Company or the Trustee reasonably may request.

ARTICLE IX

EVENTS OF DEFAULT AND REMEDIES

Section 9.1. Events of Default Defined.

The term "Event of Default" or "Default" shall mean any one or more of the following events:

(a) the failure by the Company to pay or cause to be paid when due any payment of principal of or interest on or other amount payable under the Note.

(b) the failure of the Issuer to pay or cause to be paid when due any payment of principal of or interest on or other amount payable under the Bonds.

(c) the failure of the Company to perform any of its obligations under Section 7.3 hereof.

(d) the occurrence of an "Event of Default" or "event of default" under any of the other Bond Documents.

(e) any representation or warranty of the Company contained in Section 2.2 hereof or in any document, instrument or certificate delivered pursuant hereto or to the Indenture or in connection with the issuance and

sale of the Bonds shall be false, misleading or incomplete in any material respect on the date as of which made.

(f) failure by the Company to observe or perform any covenant, condition or agreement on the part of the Company under the Note or this Loan Agreement, other than as referred to in the preceding paragraphs of this Section 9.1, for a period of thirty (30) days after written notice, specifying such failure and requesting that it be remedied, is given to the Company by the Issuer or the Trustee.

(g) the commencement against the Company of an involuntary case under the federal bankruptcy laws, as now constituted or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or other similar law, or of any action or proceeding for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of the Company or for any substantial part of its property, or for the winding-up or liquidation of its affairs and the continuance of any such case, action, or proceeding unstayed and in effect for a period of thirty (30) consecutive days.

(h) the commencement by the Company of a voluntary case under the federal bankruptcy laws, as now constituted or hereafter amended, or any other applicable federal or state bankruptcy, insolvency or other similar law, or the consent by it to, or its acquiescence in the appointment of or taking possession by a receiver, liquidator, assignee, trustee, custodian, sequestrator (or other similar official) of the Company or of any substantial part of its property, or the making by it of or the consent by it to any assignment for the benefit of creditors, or the failure of the Company generally to pay its debts as such debts become due, or the taking of any action by the Company in furtherance of any of the foregoing.

Section 9.2. Remedies on Default.

(a) If Payment of the Bonds shall not have been made, whenever any Event of Default referred to in Section 9.1 hereof shall have happened and shall not have been waived:

(1) The Issuer may, by written notice, declare all installments of principal repayable pursuant to the Note for the remainder of the term thereof to be immediately due and payable, whereupon the same, together with accrued interest thereon as provided for in the Note, shall become immediately due and payable without presentment, demand, protest or any other notice whatsoever, all of which are hereby expressly waived by the Company; provided, however, all such amounts shall automatically be and become immediately due and payable without notice upon the occurrence of any event described in Section 9.1(g) or 9.1(h) hereof, which notice the Company hereby expressly waives.

(2) The Issuer may take whatever other action at law or in equity may appear necessary or desirable to collect the amounts payable pursuant to the Note then due and thereafter to become due, or to enforce the performance and observance of any obligation, agreement or covenant of the Company under this Loan Agreement or under any of the other Bond Documents.

(b) In the enforcement of the remedies provided in this Section 9.2, the Issuer may treat all reasonable expenses of enforcement including,

without limitation, legal, accounting and advertising fees and expenses, as additional amounts payable by the Company then due and owing and the Company agrees to pay such additional amounts upon demand.

Section 9.3. Application of Amounts Realized in Enforcement of Remedies.

Any amounts collected pursuant to action taken under Section 9.2 hereof shall be paid to the Trustee and applied to the payment of, first, any costs, expenses and fees incurred by the Issuer and the Trustee as a result of taking such action; second, to the extent permitted by law, any interest which shall have accrued on any overdue interest and any accrued interest on any overdue principal of the Bonds at the rate set forth in the Bonds; third, any overdue interest on the Bonds; fourth, any overdue principal of the Bonds; fifth, the outstanding principal balance of the Bonds. If Payment of the Bonds shall have been made, any remaining moneys shall be applied in accordance with Section 911(b) of the Indenture.

Section 9.4. No Remedy Exclusive.

No remedy herein conferred upon or reserved to the Issuer 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 under this Loan Agreement or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon the occurrence of an Event of Default 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.

Section 9.5. Agreement to Pay Attorneys' Fees and Expenses.

In connection with any Event of Default, if the Issuer or the Trustee employs attorneys or incurs other expenses for the collection of amounts payable hereunder or for the enforcement of the performance or observance of any covenants or agreements on the part of the Company herein contained, the Company agrees that it will on demand therefor pay to the Issuer or the Trustee the reasonable fees of such attorneys and such other reasonable expenses so incurred by the Issuer or the Trustee.

Section 9.6. Correlative Waivers.

If an event of default under Section 901 of the Indenture shall be cured or waived and any remedial action by the Trustee rescinded, any correlative default under this Loan Agreement shall be deemed to have been cured or waived.

ARTICLE X

PREPAYMENTS

Section 10.1. Optional Prepayments.

(a) The Company is hereby granted, and shall have, the option to prepay the unpaid principal of the Note in whole or in part in accordance with and as set forth in Section 701 of the Indenture with respect to the

prepayment of the Bonds; provided, all prepayments shall be made in immediately available funds and with interest accrued to the date of prepayment and that any prepayment of the Note in part shall be applied to unpaid installments of principal in inverse order of maturity. Any prepayment pursuant to this subsection (a) shall be made by the Company taking, or causing the Issuer to take, the actions required (1) for Payment of the Bonds, in the case of prepayment of the Note in whole, or (2) to effect prepayment of less than all of the Bonds according to their terms in the case of a partial prepayment of the Note.

(b) In the event of damage, destruction or condemnation of the Project or any part thereof, the Company may, at its option, pursuant to Section 6.5 hereof and without penalty or premium, prepay the Note in whole or in part; provided that any such prepayment shall be made in immediately available funds with the interest accrued to the date of whole or partial prepayment. Any prepayment pursuant to this subsection (b) shall be made by the Company taking, or causing the Issuer to take, the actions required for the full or partial prepayment of the Bond as provided for in subsection (a) hereof.

(c) To exercise the option granted in subsection (a) or (b) of this Section 10.1, the Company shall give written notice to the Issuer and the Trustee which shall specify therein (1) the date of the intended prepayment of the Note, which shall not be less than thirty (30) nor more than sixty (60) days from the date the notice is mailed and (2) the principal amount of the Note to be prepaid. When given, such notice shall be irrevocable by the Company.

Section 10.2. Mandatory Prepayments.

(a) In the event of a Determination of Taxability, the Company shall, (1) on a date selected by the Company not more than one hundred eighty (180) days following the date of the Determination of Taxability, prepay the entire unpaid principal balance of the Note in full and interest thereon, without premium, as provided therein. Immediately upon the occurrence of a Determination of Taxability, the Company shall notify the Issuer and the Trustee of the date selected for payment pursuant to this Section 10.2.

(b) In the event any Credit Facility is not renewed and an Alternate Credit Facility has not been provided in accordance with Section 603 of the Indenture, the Company shall on or before the Interest Payment Date occurring closest to but not after fifteen (15) days prior to the expiration date of the then current Credit Facility, prepay the entire unpaid principal balance of the Note in full. The Company shall promptly notify the Issuer and the Trustee of the date selected for such payment.

Section 10.3. Other Mandatory Prepayments.

The amounts required to be applied to the prepayment of the Note by Sections 5.3 and 6.5 hereof shall be applied by the Company to prepay, together with accrued interest, all or a portion of the unpaid principal of the Note. Such prepayment shall be made by the Company taking, or causing the Issuer to take, the actions required (a) for payment of the Bonds, whether by redemption prior to the maturity or by payment at maturity, or (b) to effect the purchase, redemption or payment at maturity of less than all of the installments of principal of the Bonds in inverse order of their

maturities.

ARTICLE XI

REBATE PROVISIONS

Section 11.1. Creation of the Rebate Fund.

(a) The Issuer shall create and establish with the Trustee a special trust fund in the name of the Issuer to be designated by the Trustee and which is referred to herein as the Rebate Fund (the "Rebate Fund"), which shall be held, invested, expended and accounted for in accordance with this Loan Agreement.

(b) Moneys in the Rebate Fund shall be held in trust by the Trustee and, subject to Section 7.3 hereof, shall be held for the benefit of the United States as contemplated under the provisions of this Loan Agreement and shall not be considered to be held for the benefit of the Issuer, the Company, the Trustee or the owners of the Bonds.

ARTICLE XII

MISCELLANEOUS

Section 12.1. References to the Bonds Ineffective After Bonds Paid.

Upon Payment of the Bonds, all references in this Loan Agreement to the Bonds shall be ineffective and the Issuer and any owner of the Bonds shall not thereafter have any rights hereunder, excepting reporting and payment of rebate payments under Section 7.3 hereof and rights of the Issuer to indemnification and payment of expenses contained, without limitation, in Sections 7.5, 7.6 and 7.7 hereof.

Section 12.2. No Implied Waiver.

In the event any agreement contained in the Note or this Loan Agreement should be breached by either party and thereafter waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach thereunder or hereunder. Neither any failure nor any delay on the part of the Trustee to exercise any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or privilege preclude any other or further exercise thereof, or the exercise of any other right, power or privilege.

Section 12.3. Issuer Representative.

Whenever under the provisions of this Loan Agreement the approval of the Issuer is required or the Issuer is required to take some action at the request of the Company, such approval shall be made or such action shall be taken by the Issuer Representative; and the Company, the Trustee and the Bondholders shall be authorized to rely on any such approval or action.

Section 12.4. Company Representative.

Whenever under the provisions of this Loan Agreement the approval of the Company is required or the Company is required to take some action at the request of the Issuer, such approval shall be made or such action shall be taken by the Company Representative; and the Issuer, the Trustee and the Bondholders shall be authorized to act on any such approval or action.

Section 12.5. Notices.

(a) All notices, certificates or other communications hereunder shall be sufficiently given and shall be deemed given when delivered by hand delivery or mailed by first class, postage prepaid, registered or certified mail, or sent by nationally-recognized overnight courier addressed as follows:

- (1) if to the Issuer: Hillsborough County Industrial
Development
Authority
c/o Thomas K. Morrison
Morrison, Morrison & Mills, P.A.
Suite 100
1200 West Platt Street
Tampa, FL 33606;
- (2) if to the Company: Leslie Controls, Inc.
c/o Watts Industries, Inc.
815 Chestnut Street
North Andover, MA 01845
(Attention: William C. McCartney, Corporate
Controller)

with a copy to: John R. LeClaire, P.C.
Goodwin, Procter & Hoar
Exchange Place
Boston, MA 02109

- (3) if to the Trustee: The First National Bank of Boston
150 Royall Street, Mail Stop 45-02-15
Canton, MA 02021
Attention: Corporate Trust Division

(b) The Issuer, the Company or the Trustee may, by notice given hereunder, designate from time to time any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

Section 12.6. If Payment or Performance Date Is Other Than a Business Day.

If the specified or last date for the making of any payment, the performance of any act or the exercising of any right, as provided in this Loan Agreement, shall be a day other than a Business Day, such payment may be made or act performed or right exercised on the next succeeding Business Day; provided that interest shall accrue during any such period during which payment shall not occur.

Section 12.7. Binding Effect.

This Loan Agreement shall inure to the benefit of and shall be binding upon the Issuer, the Company and their respective successors and assigns, subject to the provisions of Section 8.3 hereof.

Section 12.8. Severability.

In the event any provision of this Loan Agreement or the Note shall be held invalid or unenforceable by any court of competent jurisdiction, such holding shall not invalidate or render unenforceable any other provision hereof or thereof.

Section 12.9. Amendments, Changes and Modifications.

Subsequent to the issuance of the Bonds and prior to Payment of the Bonds, this Loan Agreement and the other Bond Documents, may not be effectively amended, changed, modified, altered or terminated except in accordance with the Indenture.

Section 12.10. Execution in Counterparts.

This Loan Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument, and no one counterpart of which need be executed by all parties.

Section 12.11. Applicable Law.

This Loan Agreement shall be governed by and construed in accordance with the laws of the State.

Section 12.12. No Charge Against Issuer Credit.

No provision hereof shall be construed to impose a charge against the general credit of the Issuer or any personal or pecuniary liability upon any member, official, employee or agent of the Issuer.

Section 12.13. Issuer Not Liable.

Notwithstanding any other provision of this Loan Agreement (a) the Issuer shall not be liable to the Company, the Trustee, any Bondholder or any other Person for any failure of the Issuer to take action under this Loan Agreement, and (b) except with respect to any action for specific performance or any action in the nature of a prohibitory or mandatory injunction, neither the Issuer nor any officer or member of the Issuer nor any other official, employee, attorney or agent of the Issuer shall be liable to the Company, the Trustee, any Bondholder or any other Person for any action taken by the Issuer or by any of its officers, servants, agents or employees or for any failure to take action under this Loan Agreement or the Indenture except for the Issuer's willful misconduct. In acting under this Loan Agreement, or in refraining from acting under this Loan Agreement, the Issuer may conclusively rely on the advice of its counsel.

Section 12.14. Expenses.

The Company agrees to pay all reasonable fees and expenses incurred in connection with the preparation, execution, delivery, modification, waiver, and amendment of this Loan Agreement, the other Bond Documents and related documents, and the fees and expenses of bond counsel, counsel for the Issuer and counsel for the Trustee in connection therewith or in connection with any transactions contemplated thereby. The Company also agrees to pay to the Trustee, as and when the same become due, its reasonable fees for services rendered and its expenses incurred as Trustee, including the reasonable fees of its counsel, and such other amounts as the Company herein assumes or agrees to pay, including costs or expenses necessary to cancel and discharge the Indenture. The Company also agrees to pay all expenses incurred by the Trustee or the Issuer in collection of any indebtedness incurred hereunder in the event of default by the Company, including reasonable attorneys fees.

Section 12.15. Amounts Remaining with the Trustee.

Any amounts remaining in the Bond Fund or otherwise in trust with the Trustee under the Indenture or this Loan Agreement shall, after Payment of the Bonds and all Administrative Expenses in accordance with this Loan Agreement, be disbursed by the Trustee in accordance with the provisions of the Indenture or otherwise as may be required by law.

IN WITNESS WHEREOF, the Issuer and the Company have caused this Loan Agreement to be executed in their respective legal names by their duly authorized representatives all as of the date first above written.

LESLIE CONTROLS, INC.

By /s/ (Signature)
Its: Assistant Treasurer

HILLSBOROUGH COUNTY INDUSTRIAL DEVELOPMENT
AUTHORITY

By /s/ (Signature)
Its: Chairman

EXHIBIT 10.11
TRUST INDENTURE

HILLSBOROUGH COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY

and

THE FIRST NATIONAL BANK OF BOSTON,
as Trustee

securing the

\$4,765,000

Hillsborough County Industrial Development Authority
Industrial Development Revenue Refunding Bonds
(Leslie Controls, Inc. Project), Series 1994

DATED AS OF July 1, 1994

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TRUST INDENTURE

This TRUST INDENTURE, dated as of July 1, 1994, between Hillsborough County Industrial Development Authority (the "Issuer"), a public body corporate and politic and a public instrumentality created pursuant to the laws of the State of Florida, and The First National Bank of Boston, a national banking association, having its principal office in Boston, Massachusetts (in its capacity as trustee to be hereinafter referred to as the "Trustee").

W I T N E S S E T H:

WHEREAS, the Issuer intends to (a) issue and sell its variable rate industrial revenue refunding bonds in the aggregate principal amount of \$4,765,000 (the "Bonds"); (b) pursuant to a Loan Agreement (the "Loan Agreement") of even date herewith, loan the proceeds of the Bonds to Leslie Controls, Inc. (the "Company") to be used to refund the outstanding principal amount of Issuer's \$7,200,000 Hillsborough County Industrial Development Authority Industrial Development Revenue Bonds (Leslie Controls, Inc. Project), Series 1986 Bonds (the "Prior Bonds"); and (c) to secure the repayment of the Bonds by (1) the assignment contained herein from the Issuer to the Trustee, pursuant to which the Issuer assigns to the Trustee for the benefit of the Bondholders (hereinafter defined) certain of its rights under the Loan Agreement, endorses without recourse to the order of, and pledges and assigns to, the Trustee, the Note of even date herewith issued by the Company pursuant to the Loan Agreement (the "Note"), and (2) the delivery to the Trustee of an irrevocable direct pay letter of credit dated the date of issuance of the Bonds in the amount of \$5,003,250 issued by First Union National Bank of North Carolina;

WHEREAS, as security for the payment of the Bonds, the Issuer has agreed to assign and pledge to the Trustee all right, title and interest of the Issuer in (a) the Loan Agreement (except certain rights reserved by the Issuer under the terms of this Indenture), (b) the "Pledged Revenues" (hereinafter defined), (c) all amounts on deposit from time to time in the "Bond Fund" (hereinafter defined), but excluding any amounts on deposit in the "Rebate Account" (hereinafter defined) and (d) all amounts or deposit from time to time in the "Redemption Fund" (hereinafter defined); and

WHEREAS, the Company and First Union National Bank of North Carolina, a national banking association (the "Bank") have entered into a Letter of Credit and Reimbursement and Guaranty Agreement, dated as of July 1, 1994 (the "Reimbursement Agreement") pursuant to which the Bank has agreed to issue its irrevocable direct-pay letter of credit, dated the date of the delivery of the Bonds (the "Letter of Credit"), in favor of the Trustee, for the account of the Company obligating the Bank to pay the Trustee upon draws made by the Trustee in accordance with the terms thereof, up to (i) an amount equal to the aggregate principal amount of the Bonds then Outstanding (as hereinafter defined) to be used by the Trustee (a) to pay the principal of such Bonds whether at maturity, upon redemption, acceleration or otherwise, and (b) to pay the portion of the purchase price equal to the principal amount of any such Bonds delivered to the Tender Agent (hereinafter defined) for purchase, plus (ii) an amount equal to up to one hundred twenty (120) days' accrued interest on the Bonds at the maximum interest rate of fifteen percent (15%) per annum, to be used by the

Trustee to pay accrued interest on the Bonds and to pay the portion of the purchase price of tendered Bonds equal to the accrued interest, if any, on any such Bonds; and

WHEREAS, all things necessary to make the Bonds, when authenticated by the Trustee and issued and delivered as provided in this Indenture, the legal, valid, binding and enforceable limited obligations of the Issuer, according to the import thereof, and to create a valid assignment and pledge of the Pledged Revenues to the payment of the principal of, and the redemption premium (if any) and the interest on, the Bonds and a valid assignment of certain of the rights, title and interest of the Issuer in the Loan Agreement and the Note, have been done and performed, and the execution, issuance and delivery of the Bonds, subject to the terms hereof, have in all respects been authorized; and

WHEREAS, the Trustee has accepted the trusts created by this Indenture and in evidence thereof has joined in the execution hereof; and

WHEREAS, the Issuer has determined that the Bonds to be issued hereunder shall be substantially in the following form, with such variations, omissions and insertions as are required or permitted by this Indenture:

[Form of Bond]

CUSIP 432321-DF1

THE ISSUER IS NOT OBLIGATED TO PAY THE PRINCIPAL OF, REDEMPTION PREMIUM, IF ANY, OR INTEREST ON THIS BOND EXCEPT FROM THE REVENUES AND PROCEEDS PLEDGED THEREFOR PURSUANT TO THE INDENTURE, AND NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE ISSUER OR OF THE STATE OF FLORIDA OR OF ANY POLITICAL SUBDIVISION THEREOF IS PLEDGED TO THE PAYMENT THEREOF. THIS BOND SHALL NOT BE DEEMED TO CONSTITUTE A DEBT, LIABILITY OR OBLIGATION OF THE ISSUER, HILLSBOROUGH COUNTY OR OF THE STATE OF FLORIDA OR ANY POLITICAL SUBDIVISION THEREOF WITHIN THE MEANING OF ANY PROVISION OF THE CONSTITUTION OR LAWS OF THE STATE AND SHALL NOT CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY OF THE ISSUER OR OF THE STATE OR ANY POLITICAL SUBDIVISION THEREOF.

THIS BOND MAY BE TENDERED FOR PURCHASE AS DESCRIBED HEREIN. DELIVERY OF AN OPTIONAL TENDER NOTICE WITH RESPECT TO THIS BOND CONSTITUTES AN IRREVOCABLE OFFER TO SELL THIS BOND ON THE DATE SPECIFIED THEREIN AND IS BINDING ON SUBSEQUENT OWNERS OF THIS BOND. IN THE EVENT THE OWNER OF THIS BOND FAILS TO DELIVER THIS BOND TO THE TENDER AGENT ON THE SPECIFIED DATE, THE OWNER HEREOF SHALL THEREAFTER BE ENTITLED ONLY TO PAYMENT OF THE PURCHASE PRICE AND NOT TO THE BENEFITS OF THE INDENTURE. THIS BOND ALSO IS SUBJECT TO MANDATORY TENDER AND PURCHASE AS DESCRIBED HEREIN.

HILLSBOROUGH COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY
INDUSTRIAL DEVELOPMENT REVENUE REFUNDING BOND
(LESLIE CONTROLS, INC. PROJECT), SERIES 1994

No. R-_____

Registered Owner: _____

Principal Amount: _____

Maturity Date: First Business Day of August, 2019

Initial Interest Rate: 3.15 %

Interest Payment Dates: The first Business Day of each March, June, September and December, commencing the first Business Day of September, 1994, the Conversion Date (hereinafter defined) and the Maturity Date.

Original Delivery Date: August 4, 1994

HILLSBOROUGH COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY (herein called the "Issuer"), a public body corporate and politic and a public instrumentality created pursuant to the laws of the State of Florida (herein called the "State"), for value received, hereby promises to pay (but only from the sources hereinafter mentioned) to the Registered Owner set forth above, or registered assigns, the Principal Amount set forth above on the Maturity Date set forth above and to pay (but only from the sources hereinafter mentioned) interest thereon from the Interest Payment Date immediately preceding the Date of Authentication endorsed hereon, unless this Bond is authenticated on an Interest Payment Date in which event it will bear interest from such date or unless it is authenticated prior to the first Business Day of September, 1994, in which event it will bear interest from the Date of Authentication, payable on each Interest Payment Date, until payment of said principal sum has been made or provided for, at the rate or rates per annum set forth below. Principal and interest and premium, if any, will be paid in any coin or currency of the United States of America which, at the time of payment, is legal tender for the payment of public and private debts. Interest will be paid by check mailed on the Interest Payment Date to the person in whose name this Bond is registered at the close of business on the Regular Record Date (as hereinafter defined) immediately preceding such Interest Payment Date; provided, however, that while the Bonds (as hereinafter defined) bear interest at the Variable Rate (as hereinafter defined) interest will also be payable by wire transfer to the account at a member bank of the Federal Reserve System of any registered owner of Bonds in the aggregate principal amount of One Million Dollars (\$1,000,000) or more at the written request (identifying such account by number) of such owner received by the Trustee (as hereinafter defined) on or before the Regular Record Date. While the Bonds bear interest at the Variable Rate (as hereinafter defined), the Regular Record Date will be the close of business on the Business Day immediately preceding each Interest Payment Date. While the Bonds bear interest at the Fixed Rate (as hereinafter defined), the Regular Record Date will be the fifteenth (15th) day of the calendar month immediately preceding each Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the owner on such Regular Record Date, and may be paid to the person in whose name this Bond is registered at the close of business on a Special Record Date (as defined in the Indenture (hereinafter defined)) for the payment of such defaulted interest to be fixed by the Trustee, or may be paid at any time in any other lawful manner, all as more fully provided in the Indenture. Principal and redemption price will be paid upon surrender of this Bond at the principal corporate trust office of The First National Bank of Boston, as Trustee (said banking institution and any successor trustee or co-trustee under the Indenture being herein called the "Trustee"), in the Town of Canton, Massachusetts. Payment of the purchase price of Bonds

purchased as described herein will be paid, upon surrender of such Bonds, at the office of The First National Bank of Boston, in the Town of Canton, Massachusetts (in such capacity, herein called the "Tender Agent").

This Bond is issued under and pursuant to the Constitution and laws of the State of Florida (the "State"), particularly the Florida Industrial Development Financing Act, Parts II and III of Chapter 159, Florida Statutes, as amended from time to time, and the resolution of the Board of County Commissioners of Hillsborough County, Florida adopted on October 27, 1971 organizing the Issuer (collectively the "Act"), and under and pursuant to a resolution duly adopted by the Issuer on July 25, 1994. This Bond and the issue of which it is a part and the purchase price thereof, the premium, if any, and interest thereon are limited obligations of the Issuer payable by the Issuer solely from the revenues and receipts derived from the Loan Agreement (as hereinafter defined), including payments received under the Note (as hereinafter defined), which revenues and receipts have been pledged and assigned to the Trustee to secure payment thereof and from amounts received pursuant to the Credit Facility (as hereinafter defined). This Bond and the interest hereon will not constitute an indebtedness or a charge against the general credit or taxing powers of the Issuer, Hillsborough County, the State of Florida or any political subdivision thereof within the meaning of any constitutional provision or statutory limitation and shall never constitute nor give rise to any pecuniary liability of the Issuer, but will be a limited obligation of the Issuer payable solely from the revenues and other funds pledged therefor and will not be payable from any assets or funds of the Issuer other than the revenues and other funds pledged therefor, and neither the faith and credit nor the taxing power of the State or any political subdivision or any agency thereof is pledged to the payment of the principal of or the interest on this Bond.

This Bond is one of the Bonds of a duly authorized issue of variable rate industrial revenue bonds of the Issuer in the aggregate original principal amount of \$4,765,000 and designated "Hillsborough County Industrial Development Authority Industrial Development Revenue Refunding Bonds (Leslie Controls, Inc. Project), Series 1994" (the "Bonds").

The Bonds are being issued for the purpose of refunding in whole the outstanding principal amount of the \$7,200,000 Hillsborough County Industrial Development Authority Industrial Development Revenue Bonds (Leslie Controls, Inc. Project), Series 1986 (the "Prior Bonds"), the proceeds of which were used to finance, in whole or in part, the cost of acquiring, constructing and installing a certain project in Hillsborough County owned and operated by the Company (the "Project").

This Bond is issued under and pursuant to a Trust Indenture dated as of July 1, 1994 (said Trust Indenture, together with all such supplements and amendments thereto as therein permitted, being herein called the "Indenture"), by and between the Issuer and The First National Bank of Boston, as trustee (said banking institution and any successor trustee or co-trustee under the Indenture being herein called the "Trustee"). An executed counterpart of the Indenture is on file at the principal corporate trust office of the Trustee. Reference is hereby made to the Indenture for the provisions, among others, with respect to the custody and application of the proceeds of the Bonds; the collection and disposition of revenues; a description of the funds charged with and pledged to the payment of the principal of and interest on and any other amounts payable under the Bonds;

the nature and extent of the security; the terms and conditions under which the Bonds are or may be issued; and the rights, duties and obligations of the Issuer and of the Trustee and the rights of the owners of the Bonds, and, by the acceptance of this Bond, the owner hereof assents to all of the provisions of the Indenture.

The Issuer has entered into a Loan Agreement dated as of July 1, 1994 (herein called the "Loan Agreement"), with Leslie Controls, Inc., a New Jersey corporation (herein called the "Company"), under which the Issuer has agreed to lend to the Company the proceeds of this bond (the "Loan") and in consideration and as evidence of the Loan, the Company has agreed to issue its promissory note (herein called the "Note") in the principal amount, payable in installments, bearing interest at a rate or rates and payable at times corresponding to the principal amount of, installments of principal of, interest rates on and due dates of the Bonds. The Loan Agreement also provides for the payment by the Company of certain fees and expenses of the Issuer and the Trustee, and the Loan Agreement further obligates the Company (a) to pay the cost of maintaining the Project in good repair in all material respects and keeping the same properly insured and (b) to maintain a Credit Facility (as hereinafter defined) during the period of time the Bonds bear interest at the Variable Rate (herein called the "Variable Rate Period").

As security for the payment of the Bonds, all right, title and interest of the Issuer in (a) the Loan Agreement (except certain rights reserved by the Issuer under the terms of the Indenture), together with the Loan Agreement, (b) the Pledged Revenues, (c) all amounts on deposit from time to time in the Bond Fund (defined in the Indenture), but excluding any amounts on deposit in the "Rebate Account" (defined in the Indenture), and (d) all amounts on deposit from time to time in the Redemption Fund (defined in the Indenture) have been assigned to the Trustee under the Indenture and pledged to the payment of the principal of, and the redemption premium (if any) and the interest on, the Bonds. The Issuer shall not be vested with any interest in the Project by virtue of the issuance of the Bonds, and the Project shall not otherwise constitute any part of the security for the payment of the Bonds.

Reference to the Indenture is hereby made for a description of the aforesaid Bond Fund which is charged with, and pledged to, the payment of the principal of, and the redemption premium (if any) and the interest on, the Bonds, the nature and extent of the security, the rights, duties and obligations of the Issuer, the Company and the Trustee, the rights of the owners of the Bonds, the terms and conditions under and upon the occurrence of which the Indenture and the Loan Agreement may be modified and the terms and conditions under and upon the occurrence of which the lien of the Indenture may be defeased as to this Bond prior to the maturity or redemption date hereof, to all of the provisions of which the owner hereof, by the acceptance of this Bond, assents.

Credit Facility. The Company has entered into a Letter of Credit, Reimbursement and Guaranty Agreement dated as of July 1, 1994 (herein called the "Reimbursement Agreement") by and among the Company, Watts Industries, Inc, as guarantor and First Union National Bank of North Carolina (in such capacity, herein called the "Bank").

Pursuant to the Reimbursement Agreement, the Company has caused a Letter of Credit issued by the Bank (herein called the "Letter of Credit");

such Letter of Credit and any extensions or renewals thereof or any amendment thereto and any Alternate Credit Facility (as hereinafter defined) referred to herein as the "Credit Facility"), to be delivered to the Trustee. The Trustee will be entitled under the Letter of Credit to draw up to an amount of \$5,003,250, of which (a) \$4,765,000 will be available for the payment of principal or that portion of the purchase price corresponding to principal of the Bonds and (b) \$238,250 will support the payment of up to one hundred twenty (120) days' interest or that portion of the purchase price corresponding to interest on the Bonds at a maximum rate of fifteen percent (15%) per annum. Subject to the provisions of the Indenture, the Company is required during the Variable Rate Period to provide an alternate credit facility with terms and provisions substantially the same as those of the Letter of Credit (an "Alternate Credit Facility") prior to the termination of Letter of Credit. During the Variable Rate Period unless the Letter of Credit or the then current Alternate Credit Facility is replaced prior to its expiration in accordance with the terms of the Indenture, this Bond will become subject to mandatory redemption as provided in the Indenture.

Source of Funds. The principal of, premium, if any, and interest on the Bonds are payable solely from payments on the Note, under the Loan Agreement and from any other moneys held by the Trustee under the Indenture for such purpose, including, with respect to principal and interest only, moneys drawn by the Trustee under the Letter of Credit or Alternate Credit Facility for the benefit of the Bondholders (the Bank as the issuer of the Letter of Credit and the institution issuing any Alternate Credit Facility are herein called the "Credit Facility Issuer"). Except as otherwise specified in the Indenture, this Bond is entitled to the benefits of the Indenture equally and ratably both as to principal (and redemption and purchase price) and interest with all other Bonds issued under the Indenture.

INTEREST RATES

Initial Interest Rate.

The Bonds will bear interest from the Original Delivery Date to August 10, 1994 at the Initial Interest Rate.

Variable Rate.

After August 10, 1994, prior to (and including) the Conversion Date (hereinafter defined), the Bonds will bear interest at a rate equal to a floating rate established as hereinafter provided (herein called the "Variable Rate"). The Variable Rate will be equal to the rate of interest certified to the Trustee by First Union National Bank of North Carolina as remarketing agent for the Bonds (herein, with its successors in such capacity, called the "Remarketing Agent") on and as of each Wednesday (or the next succeeding Business Day (as defined in the Indenture) if such Wednesday is not a Business Day) (herein called the "Determination Date") as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account market conditions prevailing on the Determination Date, to enable the Remarketing Agent to arrange for the sale of all of the Bonds on the Determination Date in the secondary market at a price equal to the principal amount thereof (plus interest accrued to the date of settlement). If the Remarketing Agent fails to certify such rate, the Variable Rate for the next Calculation Period or Periods (hereinafter

defined) until thereafter certified by the Remarketing Agent will remain the same as that most recently established and certified by the Remarketing Agent. In the event the Remarketing Agent fails to certify such rate for four (4) consecutive Calculation Periods, the rate for each Calculation Period thereafter (if none is certified by the Remarketing Agent) will be ninety percent (90%) of the yield for United States Treasury bills maturing approximately thirty (30) days after the Determination Date as published by The Wall Street Journal on such Determination Date (or, if The Wall Street Journal is no longer published, then any reasonably equivalent financial publication selected by the Remarketing Agent) (or the next preceding Business Day on which The Wall Street Journal is published if not published on the Determination Date). For purposes hereof, "Calculation Period" shall mean the period from and including the day following the Determination Date of each week (even if not a Business Day) to and including the following Determination Date; provided that if during the Variable Period the Determination Date at the end of such Calculation Period is a Regular Record Date, such Calculation Period will extend until the Business Day following such Determination Date. If, for any reason, the Variable Rate is not determined as described above or is held to be invalid or unenforceable by a court of competent jurisdiction for any period, the interest rate for each such period will be equal to eight percent (8.00%) per annum. Notwithstanding anything to the contrary contained herein or in the Indenture, the Variable Rate will not be a rate of interest in excess of fifteen percent (15.00%) per annum. Interest prior to the Conversion Date (hereinafter defined) will be computed on the basis of a three hundred sixty-five (365) or three hundred sixty-six (366) day year, as applicable, for the number of days actually elapsed, and will be payable on each Interest Payment Date.

Fixed Rate.

(a) The interest rate on this Bond will be converted to the Fixed Rate upon an election by the Company pursuant to the Indenture to convert the rate of interest on all Bonds then outstanding from the Variable Rate to the Fixed Rate upon satisfaction of certain conditions and notice given by the Company and by the Trustee in accordance with the requirements of the Indenture, and the Bonds shall be subject to mandatory tender for purchase by the owners thereof on the Conversion Date, which shall be an Interest Payment Date. On and after the Conversion Date the owners of the Bonds will not be entitled to tender Bonds for purchase. On or before the Conversion Date, the Placement Agent will determine the Fixed Rate in the manner described in subsection (c) below, and will promptly notify the Company and the Trustee of the Fixed Rate.

(b) At least twenty (20) but not more than thirty (30) days prior to the Conversion Date, a notice will be mailed by the Trustee to each registered owner of Bonds stating, among other things, (1) the Conversion Date, (2) the name and address of the placement agent which has agreed to use its best efforts to arrange for the sale of any Bonds to be tendered or deemed tendered for purchase on the Conversion Date (herein called the "Placement Agent"), (3) that after the seventeenth (17th) day preceding the Conversion Date, the owner will not be entitled to deliver an Optional Tender Notice and that after the tenth (10th) day preceding the Conversion Date, the owner will not be entitled to tender this Bond for purchase as described below, (4) that this Bond will be deemed tendered for purchase on the Conversion Date, (5) that in order to receive payment of the purchase price of any Bond which is deemed to have been tendered, the registered

owner of such Bond must deliver such Bond to the office of the Tender Agent before 10 a.m. Eastern time on the Conversion Date, and (6) that interest on any Bond will be payable only to (but not including) the Conversion Date.

Any Bonds not so tendered on the Conversion Date ("Undelivered Bonds"), for which there has been irrevocably deposited in trust with the Trustee an amount of moneys sufficient to pay the purchase price of the Undelivered Bonds, shall be deemed to have been tendered and purchased at the purchase price. IN THE EVENT OF A FAILURE BY AN OWNER OF BONDS TO TENDER ITS BONDS ON OR PRIOR TO THE CONVERSION DATE, SAID OWNER SHALL NOT BE ENTITLED TO ANY PAYMENT (INCLUDING ANY INTEREST TO ACCRUE SUBSEQUENT TO THE CONVERSION DATE) OTHER THAN THE PURCHASE PRICE FOR SUCH UNTENDERED BONDS, AND ANY UNTENDERED BONDS SHALL NO LONGER BE ENTITLED TO THE BENEFITS OF THE INDENTURE, EXCEPT FOR THE PURPOSE OF PAYMENT OF THE PURCHASE PRICE THEREFOR.

(c) Upon the Conversion Date stated in such notice, the Fixed Rate to be borne by the Bonds for the period beginning on the Conversion Date and ending on the Maturity Date or prior redemption of the Bonds (the "Fixed Rate"), will be the interest rate per annum which, in the sole judgment of the Placement Agent, taking into account prevailing financial market conditions, would be the minimum interest rate required to sell such Bonds on the Conversion Date at a price equal to 100% of the principal amount thereof. The Fixed Rate shall be determined by the Placement Agent on or before the Conversion Date, and the Placement Agent shall notify the Trustee and the Company thereof by telephone or such other manner as may be appropriate by not later than 2:00 p.m., Eastern time on such date, which notice shall be promptly confirmed in writing.

(d) If, for any reason, the Fixed Rate is held to be invalid or unenforceable by a court of competent jurisdiction, the Fixed Rate will be eight percent (8.00%) per annum. Notwithstanding anything to the contrary contained herein or in the Indenture, the Fixed Rate will not be a rate of interest in excess of fifteen percent (15.00%) per annum.

(e) The Fixed Rate will be computed on the basis of a three hundred sixty (360)-day year, computed for the actual number of days elapsed, and will be payable on each Interest Payment Date after the Conversion Date until the principal of, and premium, if any, and interest on the Bonds shall have been paid in full.

Interest Rate Determination Binding.

The determination of the interest rate on the Bonds by the Remarketing Agent or Placement Agent, as appropriate, in accordance with the terms of the Indenture will be conclusive and binding upon the registered owners of the Bonds, the Issuer, the Company, the Trustee, the Remarketing Agent, the Placement Agent, the Tender Agent and the Credit Facility Issuer.

REDEMPTION OF BONDS

Optional Redemption.

(a) While the Bonds bear interest at the Variable Rate, the Bonds will be subject to redemption upon the written direction of the Issuer, given at the request of the Company, on any Interest Payment Date and on

the Conversion Date, in whole or in part, at a redemption price equal to one hundred percent (100%) of the principal amount thereof without premium plus interest accrued to the redemption date.

(b) While the Bonds bear interest at the Fixed Rate, the Bonds will be subject to redemption upon the written direction of the Issuer, given at the request of the Company, in whole or in part, on any Interest Payment Date occurring on or after the dates set forth below, at the redemption prices (with a premium expressed as a percentage of principal amount to be redeemed) set forth below plus interest accrued to the redemption date as follows:

Commencement of Redemption Period	Redemption Price
The Business Day four (4) years from the Conversion Date	103%, declining by 1/2% on each succeeding anniversary of the first day of the redemption period until reaching 100% and thereafter at 100%

(c) The Bonds will be subject to redemption upon the written direction of the Issuer, given at the request of the Company, at any time in whole or in part at a redemption price equal to one hundred percent (100%) of the principal amount thereof plus interest accrued to the redemption date in the event of damage, destruction or condemnation of the Project, all as more fully described in Section 701(b) of the Indenture.

Mandatory Redemption.

(a) The Bonds will be subject to mandatory redemption in whole on any date at a redemption price equal to one hundred percent (100%) of the principal amount thereof plus accrued interest to the redemption date within one hundred eighty (180) days after receipt by the Trustee of a written notice of a Determination of Taxability (as defined in the Loan Agreement).

(b) During the Variable Rate Period, the Bonds will be subject to mandatory redemption in whole on the Interest Payment Date occurring closest to but not after fifteen (15) days prior to the date of expiration of the then current Credit Facility unless prior to such date an Alternate Credit Facility has been provided in accordance with the Indenture, at a redemption price or purchase price equal to one hundred percent (100%) of the principal amount thereof, without premium, plus interest accrued to the redemption date.

Notice of Redemption and Selection of Bonds.

Any notice of redemption, identifying the Bonds or portions thereof to be redeemed, will be given not more than sixty (60) days and not less than twenty (20) days prior to the redemption date, by mailing a copy of the redemption notice by first class mail to the owner of each Bond to be redeemed in whole or in part at the address shown on the Bond Register maintained by the Bond Registrar. Notice of optional redemption may be conditioned upon the deposit of moneys with the Trustee before the date fixed for redemption and such notice will be of no effect unless such moneys are so deposited. All Bonds so called for redemption, including Bonds purchased by the Company as provided in the Indenture but not yet

surrendered for payment of the purchase price, will cease to bear interest on the specified redemption date provided funds for their redemption price and any accrued interest payable on the specified redemption date are on deposit at the principal place of payment at that time. If less than all the Bonds are to be redeemed, the particular Bonds to be called for redemption will be selected in the following order of priority: first, Bonds pledged to the Credit Facility Issuer; second, Bonds owned by the Company and third, Bonds selected by any random or other method determined by the Trustee in its sole discretion.

Mandatory Purchase Upon Conversion to Fixed Rate.

The Bonds will be subject to mandatory purchase in whole (and not in part) on the Conversion Date at a purchase price equal to one hundred percent (100%) of the principal amount thereof plus interest accrued thereon to the date of purchase.

THE OWNER OF THIS BOND, BY ACCEPTANCE HEREOF, AGREES TO THE MANDATORY PURCHASE OF THIS BOND AS PROVIDED IN THE INDENTURE, AND AGREES THAT THIS BOND WILL BE PURCHASED ON THE DATE SPECIFIED UPON DEPOSIT WITH THE TRUSTEE OF AN AMOUNT SUFFICIENT TO PAY THE PURCHASE PRICE HEREOF. THE OWNER OF THIS BOND ALSO UNDERSTANDS AND AGREES THAT IN THE EVENT THE OWNER FAILS TO DELIVER THIS BOND, PROPERLY ENDORSED FOR TRANSFER, TO THE TRUSTEE ON THE DATE SPECIFIED, INTEREST WILL CEASE TO ACCRUE HEREON ON SUCH SPECIFIED DATE AND THE OWNER HEREOF WILL THEREAFTER BE ENTITLED ONLY TO PAYMENT OF THE PURCHASE PRICE AND NOT TO THE BENEFIT OF THE INDENTURE.

Purchase at Option of the Owner During Variable Rate Period.

While the Bonds bear interest at the Variable Rate, any Bond or portion thereof in an authorized denomination will be purchased on the demand of the owner thereof, on any Business Day at a purchase price equal to one hundred percent (100%) of the principal amount thereof plus interest accrued to the date of purchase upon delivery to the Tender Agent of an Optional Tender Notice in the form attached hereto as Exhibit A (herein called the "Optional Tender Notice") specifying the date on which such Bond will be purchased, which date will be a Business Day not prior to the seventh (7th) day after the date of delivery of the Optional Tender Notice. To receive payment of the purchase price, the owner will be required to deliver such Bond to the Tender Agent, accompanied by an executed form of assignment and any other instruments of transfer satisfactory to the Trustee, not less than five (5) days prior to the purchase date specified in such notice as provided in the Indenture; provided, however, that any owner which is an investment company registered pursuant to the Investment Company Act of 1940 may deliver such Bond to the Tender Agent at or prior to 10:00 a.m. on the date of purchase. No purchase of Bonds at the option of the owner thereof or on the Conversion Date will be deemed to be a payment or redemption of the Bonds or any portion thereof. Notwithstanding the foregoing, no owner will have a right to tender its Bond(s) for purchase as described in this paragraph following acceleration of the payment of the Bonds pursuant to the terms of the Indenture or after the Conversion Date.

THE OWNER OF THIS BOND, BY ACCEPTANCE HEREOF, AGREES THAT DELIVERY OF THE WRITTEN NOTICE DESCRIBED IN THE PRECEDING PARAGRAPH BY THE OWNER CONSTITUTES AN IRREVOCABLE OFFER TO SELL THIS BOND ON THE DATE SPECIFIED, AND THAT THIS BOND WILL BE PURCHASED ON SUCH DATE UPON DEPOSIT WITH THE

TENDER AGENT OF AN AMOUNT SUFFICIENT TO PAY THE PURCHASE PRICE HEREOF. THE OWNER OF THIS BOND ALSO UNDERSTANDS AND AGREES THAT IN THE EVENT THE OWNER FAILS TO DELIVER THIS BOND, PROPERLY ENDORSED FOR TRANSFER, TO THE TENDER AGENT ON THE DATE SPECIFIED IN THE NOTICE, THIS BOND WILL BE HELD BY THE OWNER AS AGENT FOR THE COMPANY, INTEREST WILL CEASE TO ACCRUE HEREON AS OF THE DATE SPECIFIED IN THE NOTICE AND THE OWNER HEREOF WILL THEREAFTER BE ENTITLED ONLY TO PAYMENT OF THE PURCHASE PRICE AND NOT TO THE BENEFITS OF THE INDENTURE AND THE ISSUER WILL, TO THE EXTENT PERMITTED BY LAW, EXECUTE AND THE TRUSTEE WILL AUTHENTICATE AND DELIVER A SUBSTITUTE BOND IN LIEU OF THE UNDELIVERED BOND.

Tender Agent.

The Issuer has appointed The First National Bank of Boston as Tender Agent. The Tender Agent may be changed at any time by the Company with the consent of the Trustee.

Authorized Denominations.

Subject to the provisions of the Indenture, the Bonds are issuable as registered Bonds in the denomination of One Hundred Thousand Dollars (\$100,000) or any integral multiple of \$5,000 in excess thereof; provided that if less than \$100,000 in principal amount of Bonds is Outstanding, one Bond shall be issued in such smaller denomination; and provided further, that subsequent to the initial issuance of the Bonds, replacement or substitution Bonds or Bonds issued in exchange in accordance with the provisions of Section 205 of the Indenture may be issued in denominations of \$5,000 or integral multiples thereof. Subject to the limitations provided in the Indenture and upon payment of any tax or governmental charge, if any, Bonds may be exchanged for a like aggregate principal amount of Bonds of other authorized denominations.

Transfer.

This Bond is transferable by the registered owner hereof or his duly authorized attorney at the principal corporate trust office of The First National Bank of Boston, as Bond Registrar, in Canton, Massachusetts, in compliance with the terms and conditions set forth in the Indenture and upon surrender of this Bond, provided that transfers in connection with the remarketing hereof will be made at the corporate trust office of the Trustee in Canton, Massachusetts, accompanied by a duly executed instrument of transfer in form satisfactory to the Bond Registrar, subject to such reasonable regulations as the Issuer, the Bond Registrar or the Trustee may prescribe and upon payment of any tax or other governmental charge incident to such transfer, PROVIDED THAT IF MONEYS FOR THE PURCHASE OF THIS BOND HAVE BEEN PROVIDED PURSUANT TO A DRAW UNDER THE CREDIT FACILITY, THIS BOND IS NOT TRANSFERABLE TO ANYONE OTHER THAN THE COMPANY OR ITS ASSIGNEE OR PLEDGEE. Upon any such transfer, the Trustee shall cause a new Bond or Bonds registered in the name of the transferee or transferees in denominations authorized by the Indenture and in the same aggregate principal amount as the principal amount of this Bond (and of the same maturity and bearing interest at the same rate) will be issued to the transferee. Except as set forth in this Bond and as otherwise provided in the Indenture, the person in whose name this Bond is registered will be deemed the owner hereof for all purposes, and the Issuer, the Bond Registrar and the Trustee will not be affected by any notice to the contrary.

The owner of this Bond will have no right to enforce the provisions of the Indenture or to institute action to enforce the covenants therein, or to take any action with respect to any Event of Default under the Indenture or to institute, appear in or defend any suit or other proceeding with respect thereto, except as provided in the Indenture.

In certain events, on the conditions, in the manner and with the effect set forth in the Indenture, the principal of this Bond may become or may be declared due and payable before the stated maturity hereof, together with the interest accrued hereon.

Modifications or alterations of the Loan Agreement and the Indenture and any supplement or amendment thereto may be made only to the extent and in the circumstances permitted by the Indenture and may be made in certain cases without the consent of the owners of the Bonds.

Anything herein or in the Indenture to the contrary notwithstanding, the obligations of the Issuer hereunder will be subject to the limitation that payment of interest to the owner of this Bond will not be required to the extent that receipt of any such payment by the owner of this Bond would be contrary to the provisions of law applicable to such Bond which limits the maximum rate of interest which may be charged or collected by such owner.

In any case where the date of maturity of interest on or principal of the Bonds or the date fixed for redemption of the Bonds shall be in the city of payment a day other than a Business Day, then payment of interest or principal need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date of maturity or the date fixed for redemption, provided that interest will accrue for the period of any such extension.

This Bond will be governed by and construed in accordance with the laws of the State of Florida.

All acts, conditions and things required to happen, exist and be performed precedent to and in the issuance of this Bond and the execution of the Indenture have happened, exist and have been performed as so required.

IN WITNESS WHEREOF, the Issuer has caused this Bond to be executed with the manual or facsimile signature of the Chairman or Vice Chairman of the Issuer, its official seal to be impressed or imprinted hereon and the same to be attested by the manual or facsimile signature of the Secretary or Assistant Secretary of the Issuer, all as of _____, 1994.

HILLSBOROUGH COUNTY INDUSTRIAL
DEVELOPMENT AUTHORITY

By:
Chairman

(Seal)

Attest:

By:
Secretary

* * * * *

CERTIFICATE OF AUTHENTICATION

This Bond is one of the Bonds of the series designated therein and issued under the provisions of the within-mentioned Indenture.

The First National Bank of Boston, as
Trustee

By:
Its: Authorized Signatory

Date of Authentication: _____, 1994

* * * * *

[FORM OF ASSIGNMENT
TO APPEAR ON REVERSE OF BOND]

FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers
unto

PLEASE INSERT SOCIAL SECURITY OR OTHER
IDENTIFYING NUMBER OF ASSIGNEE

the within bond of the _____ and does hereby
constitute and appoint _____ attorney to transfer the
said bond on the books of the within named Issuer, with full power of
substitution in the premises.

Dated:

In the presence of:
Bondholder

Signature Guaranteed:

[End of Form of Bond]

; and

NOW, THEREFORE, in consideration of the premises, of the acceptance by the Trustee of the trusts hereby created, and of the purchase and acceptance of the Bonds by the Bondholders, and also for and in consideration of the sum of One Dollar to the Issuer in hand paid by the Trustee at or before the execution and delivery of this Indenture, the receipt of which is hereby acknowledged, and for the purpose of fixing and declaring the terms and conditions upon which the Bonds are to be issued, delivered, secured and accepted by the Bondholders and any and all other persons who shall from time to time be or become owners thereof, and in order to secure the payment of the Bonds at any time issued and outstanding hereunder and the interest thereon according to their tenor, purport and effect, and in order to secure the performance and observance of all the covenants, agreements and conditions therein and herein contained;

THE ISSUER DOES HEREBY PLEDGE AND ASSIGN, and grant a security interest unto the Trustee and its successors and assigns for the benefit of the owners of the Bonds all right, title and interest of the Issuer presently owned or hereafter acquired in and to the following (collectively, the "Trust Estate"):

(a) The Loan Agreement (as the same may from time to time be supplemented or amended), including, but not limited to, all payments or installment purchase obligations due and to become due under the Note and the Loan Agreement whether made at their respective due dates or as prepayments permitted or required by the Loan Agreement together with full power and authority, in the name of the Issuer or otherwise, to demand, receive, enforce, collect or receipt for any or all of the foregoing, to endorse or execute any checks or other instruments or orders, to file any claims and to take any action which the Trustee may deem necessary or advisable in connection therewith, and the Issuer hereby irrevocably appoints the Trustee attorney-in-fact of the Issuer for such purposes, which appointment is coupled with an interest and is irrevocable; provided, however, that the Issuer shall continue to have all the rights, together with the Trustee, contained in the following sections of the Loan Agreement:

- (i) Section 7.1 (pertaining to the Issuer's right of access to the Project (as defined in the Loan Agreement));
- (ii) Section 7.5 (pertaining to the Issuer's right to receive payment for certain costs and expenses);
- (iii) Section 7.6 (pertaining to the Issuer's right to certain indemnities);
- (iv) Section 7.7 (pertaining to the Issuer's right to

release and indemnification);

(v) Section 7.8 (pertaining to the Issuer's right to receive certain information);

(vi) Section 8.1 (pertaining to the Issuer's right to consent or withhold consent to assignment of rights of the Company under the Loan Agreement or lease or sale of the Project);

(vii) Sections 9.2(b), 9.3 and 9.5 (pertaining to the Issuer's right to reimbursement of expenses incurred upon a default);

(viii) Sections 10.1(c), 10.2 and 10.3 (pertaining to the Issuer's right to notice of prepayments and rights upon the occurrence of certain events);

(ix) Section 12.5 (pertaining to the Issuer's right to receive notices); and

(x) Sections 12.12, 12.13 and 12.14 (pertaining to the limitations on the liability of the Issuer).

(b) The Note of even date herewith of the Company to the Issuer in the original principal amount of \$4,765,000 evidencing the Company's obligation to pay the purchase price pursuant to the Loan Agreement, together with interest thereon and other amounts with respect thereto, as provided for in the Loan Agreement, the Issuer having on this date endorsed, pledged and assigned the Note without recourse to the order of, and delivered the same to, the Trustee as security for the obligations of the Issuer to the Trustee hereinafter referred to.

(c) All money or securities at any time on deposit in, in transit to or credited to any account or Fund created hereunder, including without limitation the Bond Fund and the Redemption Fund but excluding the Rebate Fund;

(d) Revenues (as hereinafter defined);

and it is so mutually agreed and covenanted by and between the parties hereto for the equal and proportionate benefit and security of the Bondholders without preference, priority or distinction as to lien or otherwise, except as hereinafter provided, of any one Bond over any other Bond, by reason of priority in the issue, sale or negotiation thereof or otherwise, for the benefit of the Bondholders and as security for the fulfillment of the obligations of the Issuer hereunder;

TO HAVE AND TO HOLD the same forever, subject, however, to the exceptions, reservations and matters therein and herein recited but IN TRUST, nevertheless, for the benefit and security of the owners from time to time of the Bonds delivered hereunder and issued by the Issuer and outstanding or, to the extent set forth herein, for the benefit of the Credit Facility Issuer, so long as a Credit Facility is in place in respect of the Bonds;

PROVIDED, HOWEVER, that if, after the right, title and interest of the Trustee in and to the Trust Estate pledged and assigned to it under this Indenture shall have ceased, terminated and become void in accordance with Article XIV hereof, the principal of and interest on the Bonds and any other obligations arising hereunder shall have been paid to the Bondholders or shall have been paid by the Company pursuant to Article XIV hereof, then, this Indenture and all covenants, agreements and other obligations of the Issuer hereunder shall cease, terminate and be void, and thereupon the Trustee shall cancel and discharge this Indenture and execute and deliver to the Issuer and the Company such instruments in writing as shall be required to evidence the discharge hereof; otherwise, this Indenture shall be and remain in full force and effect.

THIS INDENTURE FURTHER WITNESSETH, and it is expressly declared, that the Bonds issued and secured hereunder are to be issued and delivered and the trust estate and other revenues and funds herein pledged and assigned are to be dealt with and disposed of under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes as hereinafter expressed, and the Issuer has agreed and covenanted, and does hereby agree and covenant, with the Trustee and with the owners of said Bonds, as follows, that is to say:

ARTICLE I

DEFINITIONS AND RULES OF CONSTRUCTION

Section 101. Definitions.

All words and terms defined in Article I of the Loan Agreement shall have the same meanings in this Indenture, unless otherwise specifically defined herein. In addition, the following words and terms as used in this Indenture shall have the following meanings unless some other meaning is plainly intended:

"Act" shall mean all applicable provisions of the Constitution and laws of the State of Florida, including without limitation the Florida Industrial Development Financing Act, Parts II and III of Chapter 159, Florida Statutes, as amended from time to time, and the resolution of the Board of County Commissioners of Hillsborough County, Florida adopted on October 27, 1971 organizing the Issuer.

"Alternate Credit Facility" shall mean an 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 Bondholders, be the same (except for the term of such Alternate Credit Facility) as the Credit Facility that is replaced by such Alternate Credit Facility as set forth in Section 603 hereof.

"Authenticating Agent" shall mean the Trustee and any agent so appointed pursuant to Section 207 hereof.

"Available Moneys" shall mean:

- (a) any moneys which have been paid to the Trustee by the

Company and which have been on deposit with the Trustee for at least three hundred sixty-seven (367) days during and prior to which no Event of Bankruptcy shall have occurred, and the proceeds from the investment of such moneys after such moneys have become Available Moneys, and

(b) moneys on deposit with the Trustee representing proceeds from the resale by the Remarketing Agent of Bonds to persons other than the Issuer or the Company as described in Article III hereof, which, in each case, were at all times since their deposit with the Trustee held in a separate and segregated account or accounts or sub-account or sub-accounts in which no moneys were which were not Available Moneys were at any time held, and the proceeds from the investment thereof, and

(c) moneys drawn under a Credit Facility which in each case were at all times since their deposit with the Trustee held in a separate and segregated account or accounts or sub-account or sub-accounts in which no moneys (other than those drawn under a Credit Facility) were at any time held.

"Bank" shall mean First Union National Bank of North Carolina as the issuer of the Letter of Credit, and its successors and assigns.

"Bank Account" shall mean the account of that name established in the Bond Purchase Fund pursuant to Section 302 hereof.

"Bond" or "Bonds" shall mean any bond or bonds authenticated and delivered under this Indenture.

"Bond Counsel" shall mean an attorney-at-law or a firm of attorneys of nationally recognized standing in matters pertaining to the tax-exempt nature of interest on bonds issued by states and their political subdivisions, duly admitted to the practice of law before the highest court of any state of the United States of America and approved by the Issuer.

"Bond Fund" shall mean the trust fund so designated which is established pursuant to Section 502(a) hereof.

"Bond Purchase Fund" shall mean the trust fund so designated which is established pursuant to Section 302 hereof.

"Bond Register" shall have the meaning provided in Section 204 hereof.

"Bond Registrar" shall mean the Bond Registrar as designated in Section 204 hereof.

"Bondholder" or "Bondholders" or "owner" or "owners" shall mean the initial owner or owners and any future owner or owners of the Bond or Bonds as registered on the books and records of the Bond Registrar pursuant to Section 204 hereof.

"Business Day" shall mean a day upon which banks in the State and in the States of Massachusetts and North Carolina are open for the transaction of business of the nature required pursuant to the Loan Agreement and this Indenture.

"Calculation Period" shall mean the period from and including the day following the Determination Date of each week (even if not a Business Day) to and including the following Determination Date; provided, that if the Determination Date at the end of a Calculation Period is a Regular Record Date, such Calculation Period will extend until the Business Day following such Determination Date.

"Company" shall mean Leslie Controls, Inc., a New Jersey corporation, and its successor or assigns and any surviving, resulting or transferee corporation or other entity.

"Conversion Date" shall mean that Business Day elected by the Company in accordance with Section 202(e) of the Indenture as the effective date of conversion of the interest rate on the Bonds from the Variable Rate to the Fixed Rate, which date shall be an Interest Payment Date.

"Counsel" shall mean an attorney or firm of attorneys acceptable to the Trustee (who may, but need not be, counsel to the Issuer or the Company).

"Credit Facility" shall mean the Letter of Credit or any Alternate Credit Facility delivered to the Trustee pursuant to Article VI hereof.

"Credit Facility Account" shall mean the account of that name established in the Bond Fund pursuant to Section 502 hereof.

"Credit Facility Issuer" shall mean the Bank with respect to the Letter of Credit and the institution issuing any Alternate Credit Facility.

"Defaulted Interest" has the meaning provided in Section 208 hereof.

"Determination Date" shall mean Wednesday of each week or if Wednesday is not a Business Day then the next succeeding Business Day.

"Event of Bankruptcy" shall mean a petition by or against the Company or the Issuer under any bankruptcy act or under any similar act which may be enacted which shall have been filed (other than bankruptcy proceedings instituted by the Company or the Issuer against third parties) unless such petition shall have been dismissed and such dismissal shall be final and not subject to appeal.

"Event of Default" shall mean any of the events specified in Section 901 hereof to be an Event of Default.

"Fixed Rate" shall mean the fixed annual rate of interest on the bonds determined by the Placement Agent pursuant to Section 202(e) hereof. If, for any reason, the Fixed Rate is held to be invalid or unenforceable by a court of competent jurisdiction, the Fixed Rate shall be equal to eight percent (8.00%) per annum. The Fixed Rate shall in no event exceed fifteen percent (15.00%).

"Fixed Rate Period" shall mean the period during which the Fixed Rate is in effect, which shall be the period beginning on the Conversion Date and ending on the Maturity Date.

"Governmental Obligations" shall mean:

(i) direct obligations of the United States of America for the full and timely payment of which the full faith and credit of the United States of America is pledged,

(ii) obligations issued by a Person controlled or supervised by and acting as an instrumentality of the United States of America, the full and timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States of America, and

(iii) securities or receipts evidencing ownership interests in obligations or specified portions (such as principal or interest) of obligations described in clause (i) or (ii) above the full and timely payment of which securities, receipts or obligations is unconditionally guaranteed by the United States of America, which obligations, securities or receipts are not subject to redemption prior to maturity at less than par at the option of anyone other than the holder thereof.

"Indenture" shall mean this Indenture as amended or supplemented at the time in question.

"Initial Interest Rate" shall mean the initial rate of interest of 3.15 % per annum on the Bonds.

"Initial Rate Period" shall mean from and including the Original Delivery Date to and including August 10, 1994.

"Interest Payment Date" shall mean the first Business Day of each March, June, September and December commencing on the first Business Day of September, 1994, and ending on the Maturity Date of the Bonds.

"Investment Obligations" shall mean:

(a) any Government Obligations;

(b) any bonds or other obligations of the United States of America which as to principal and interest constitute direct obligations of the United States of America, or any obligations of subsidiary corporations of the United States of America fully guaranteed as to payment by the United States of America;

(c) obligations of the Federal Land Bank;

(d) obligations of the Federal Home Loan Bank;

(e) obligations of the Federal Intermediate Credit Bank;

(f) bonds or obligations issued by any public housing agency or municipal corporation in the United States of America, which such bonds or obligations are fully secured as to the payment of both principal and interest by a pledge of annual contributions under an annual contributions contract or contracts with the United States government, or project notes issued by any public housing agency, urban renewal agency, or municipal corporation in the United States of America which are fully secured as to payment of both principal and interest by a requisition, loan, or payment agreement with the United States government;

(g) interest-bearing savings accounts (including that of the Trustee), interest-bearing certificates of deposit or interest-bearing time deposits or any other investments constituting direct obligations of any bank which has deposits insured by the Federal Deposit Insurance Corporation; provided that such accounts, certificates of deposits, time deposits, or investments are either (a) insured by the Federal Deposit Insurance Corporation, or (b) secured by the deposit with any national or state bank located within the State of any Government Obligation;

(h) short term obligations of corporations organized under the laws of any state with assets exceeding \$500,000,000 if (i) such obligations are rated within the two (2) highest categories established by Moody's and S&P and which mature no later than one hundred eighty (180) days from the date of purchase and (ii) the purchases do not exceed ten (10%) percent of such corporation's outstanding obligations;

(i) money market mutual funds registered under the Investment Company Act of 1940, as amended, provided that the portfolio of any such money market fund is limited to Government Obligations and to agreements to purchase Government Obligations; and

(j) repurchase agreements with respect to obligations included in subsections (a) through (i) above and any other investments to the extent at the time permitted by then applicable law for the investment of public funds.

"Issuer" shall mean the Hillsborough County Industrial Development Authority, a corporate governmental agency, constituting a public benefit corporation and existing pursuant to the constitution and laws of the State including the Act.

"Letter of Credit" shall mean the irrevocable direct pay letter of credit dated August 4, 1994, in the amount of \$5,003,250 issued by the Bank, including any extensions thereof.

"Loan Agreement" shall mean the Loan Agreement of even date herewith between the Issuer and the Company and any amendments or supplements thereof permitted by this Indenture.

"Majority of the Bondholders" shall mean the owners of a majority of the aggregate principal amount of the Outstanding Bonds.

"Maturity Date" shall mean the first business day of August, 2019.

"Moody's" shall mean Moody's Investors Service, Inc. a Delaware corporation, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee, with the consent of the Company and the Credit Facility Issuer.

"Note" shall mean the promissory note given by the Company pursuant to the provisions of the Loan Agreement, substantially in the form attached thereto.

"Optional Tender Notice" shall mean a notice from the owner of a Bond to the Tender Agent in the form attached to the Bond as Exhibit A.

"Original Delivery Date" shall mean August 4, 1994.

"Outstanding" in connection with Bonds shall mean, as of the time in question, all Bonds authenticated and delivered under the Indenture, except:

(i) Bonds theretofore canceled or required to be cancelled under Section 212 hereof;

(ii) Bonds which are deemed to have been paid in accordance with Article XIV hereof; and

(iii) Bonds in substitution for which other Bonds have been authenticated and delivered pursuant to Article II hereof.

In determining whether the owners of a requisite aggregate principal amount of Bonds Outstanding have concurred in any request, demand, authorization, direction, notice, consent or waiver under the provisions hereof, Bonds which are held by or on behalf of the Company (unless all of the outstanding Bonds are then owned by the Company) or an Affiliate of the Company (as defined below) shall be disregarded for the purpose of any such determination. For the purpose of this paragraph, an "Affiliate" of any specified entity shall mean any other entity directly or indirectly controlling or controlled by or under direct or indirect common control with such specified entity and "control", when used with respect to any specific entity, shall mean the power to direct the management and policies of such entity, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Payments Account" shall mean the account of that name established in the Bond Fund pursuant to Section 502 hereof.

"Placement Agent" shall mean the securities dealer, bank or trust company which is designated by the Company with the consent of the Credit Facility Issuer and which will agree to establish the Preliminary Fixed Rate and to use its best efforts to arrange for the sale of Tendered Bonds on the Conversion Date, all as more particularly described in Section 202(e) hereof.

"Pledge Agreement" shall mean the Pledge Agreement of even date herewith by the Company to the Bank, and any amendments or supplements thereof.

"Pledged Revenues" means and shall include the payments required to be made by the Company under the Loan Agreement except payments to be made to the Trustee for services rendered as Trustee under the Indenture and as Bond Registrar and paying agent for the Bonds and except for expenses, indemnification and other payments required to be made pursuant to Sections 7.5 and 7.6 of the Loan Agreement.

"Principal Office" of the Trustee or Bond Registrar shall mean the office at which, at the time in question, its corporate trust business is principally conducted.

"Prior Bonds" means the \$7,200,000 Hillsborough County Industrial Development Authority Industrial Development Revenue Bonds (Leslie Controls, Inc. Project), Series 1986.

"Prior Trustee" means First Florida Bank, N.A., as trustee under a Trust Indenture dated as of April 18, 1986 between Hillsborough County Industrial Development Authority and First Florida Bank, N.A.

"Private Placement Memorandum" shall mean the Private Placement Memorandum dated August 4, 1994, relating to the Bonds.

"Regular Record Date" shall mean:

(i) in respect of any Interest Payment Date during the Variable Rate Period, the close of business on the Business Day immediately preceding each such Interest Payment Date, and

(ii) in respect of any Interest Payment Date during the Fixed Rate Period, the fifteenth (15th) day (whether or not a Business Day) of the calendar month immediately preceding each such Interest Payment Date.

"Reimbursement Agreement" shall mean the Letter of Credit, Reimbursement and Guaranty Agreement of even date herewith by and among the Company, Watts Industries, Inc., as guarantor, and the Bank, as the same may be amended from time to time and filed with the Trustee, and any agreement of the Company with a Credit Facility Issuer setting forth the obligations of the Company to such Credit Facility Issuer arising out of any payments under a Credit Facility and which provides that it shall be deemed to be a Reimbursement Agreement for the purpose of this Indenture.

"Remarketing Account" shall mean the account of that name established in the Bond Purchase Fund pursuant to Section 302 hereof.

"Remarketing Agent" shall mean First Union National Bank of North Carolina and its successors as provided in Section 1201 hereof.

"Remarketing Agreement" shall mean the Remarketing Agreement of even date herewith between the Company and the Remarketing Agent and any amendments and supplements thereof.

"Requisite Bondholders" shall mean the owners of more than two-thirds (2/3rds) in aggregate principal amount of the Outstanding Bonds.

"Responsible Officer" when used with respect to the Trustee shall mean the chairman or vice-chairman of the board of directors, the chairman or vice-chairman of the executive committee of the board of directors, the president, any vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, the cashier, any assistant cashier, any trust officer or assistant trust officer, the controller and any assistant controller or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers of banking institutions with trust powers and also shall mean, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Revenues" shall mean:

(i) all amounts payable to the Trustee with respect to the principal or redemption price of, or interest on the Bonds (a) by the Company under the Note, and (b) by the Credit Facility Issuer under a Credit Facility, and

(ii) investment income with respect to any moneys held by the Trustee in the Bond Fund or the Redemption Fund.

"Security interest" or security interests" refers to the security interests created herein and in the Security Instruments and shall have the meaning set forth in the Uniform Commercial Code.

"S&P" shall mean Standard & Poor's Corporation, a New York corporation, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated by the Trustee, with the consent of the Company and the Credit Facility Issuer.

"Special Record Date" shall mean for purpose of payment of Defaulted Interest on the Bonds, the date fixed by the Trustee pursuant to Section 208 hereof.

"State" shall mean the State of Florida.

"Subsidiary" shall mean any corporation, association or other business entity of which more than fifty percent (50%) of the issued and outstanding stock or equivalent thereof having ordinary voting power is, at the time at which any determination is being made, owned or controlled by the Company or by one or more Subsidiaries or other affiliates of the Company.

"Tender Agent" shall mean The First National Bank of Boston and its successors as provided in Section 1202 hereof.

"Tender Agency Agreement" shall mean the Tender Agency Agreement of even date herewith among the Company, the Trustee and the Tender Agent.

"Tendered Bonds" shall mean those Bonds tendered or deemed tendered by the owners for purchase pursuant to an Optional Tender Notice or on the Conversion Date.

"Trustee" shall mean The First National Bank of Boston and its successor in the trust hereunder.

"Undelivered Bond" shall mean:

(i) any Bond for which an Optional Tender Notice has been given pursuant to Section 203 hereof and which has not been delivered to the Tender Agent on the date specified for purchase and

(ii) any Bond which has not been delivered to the Trustee for redemption or purchase on any mandatory redemption or purchase date or the Conversion Date; provided that in either case the Trustee has on hand and available on such date funds sufficient to purchase or redeem

said Bond.

"Variable Rate" shall mean a variable interest rate established after the Initial Rate Period as the rate of interest determined by the Remarketing Agent on and as of each Determination Date as the minimum rate of interest necessary, in the judgment of the Remarketing Agent, taking into account market conditions prevailing on the Determination Date, to enable the Remarketing Agent to arrange for the sale of all of the Bonds on the Determination Date in the secondary market at a price equal to the principal amount thereof (plus interest accrued to the date of settlement). If the Remarketing Agent fails to certify such rate, the Variable Rate for the next succeeding Calculation Period or Periods until thereafter certified by the Remarketing Agent shall remain the same as that most recently established and certified by the Remarketing Agent until thereafter certified by the Remarketing Agent or adjusted as set forth in the next succeeding sentence. In the event the Remarketing Agent fails to certify such rate for four (4) consecutive Calculation Periods, such rate for each Calculation Period thereafter (if none is certified by the Remarketing Agent) shall be ninety percent (90%) of the yield for United States Treasury bills maturing approximately thirty (30) days after the Determination Date for such Calculation Period as published by The Wall Street Journal on such Determination Date (or the next Business Day on which The Wall Street Journal is published if not published on the Determination Date) (or, if The Wall Street Journal is no longer published, then any reasonably equivalent financial publication selected by the Remarketing Agent); provided that if during the Variable Period the Determination Date at the end of each such Calculation Period is a Regular Record Date, such Calculation Period will extend until the Business Day following such Determination Date. A Bondholder may request the Variable Rate in effect from time to time with respect to the Bonds from the Trustee or the Remarketing Agent. If, for any reason, the Variable Rate is not determined as described above or is held to be invalid or unenforceable by a court of competent jurisdiction for any period, the interest rate for each such period shall be equal to eight percent (8.00%) per annum. The Variable Rate shall not be a rate in excess of fifteen percent (15.00%) per annum.

"Variable Rate Period" shall mean that period during which a Variable Rate is in effect on the Bonds.

"Variable Rate Purchase Date" shall mean while the Bonds bear interest at the Variable Rate, any Business Day (prior to and including the date which is the tenth day preceding the Conversion Date) on which the Bonds may be tendered for purchase at the option of the owner thereof in accordance with Section 203 hereof.

Section 102. Rules of Construction.

(a) Words of the masculine gender shall be deemed and construed to include correlative words of the feminine and neuter genders. Unless the context shall otherwise indicate, the words "Bond", "owner", "Bondholder", "Bondholder of Record" and "person" shall include the plural as well as the singular number; the word "person" shall include any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof; and the word "Bondholder" when used herein with respect to the Bonds shall mean the registered owner of any of the Bonds.

(b) Words importing the redemption or calling for redemption of the Bonds shall not be deemed to refer to or connote payment of Bonds at their stated maturity.

(c) The Table of Contents, captions and headings in this Indenture are for convenience only and in no way limit the scope or intent of any provision or section of this Indenture.

(d) All references herein to particular articles or sections are references to articles or sections of this Indenture unless some other reference is indicated.

(e) All references herein to the Code or the 1954 Code or any particular provision or section thereof shall be deemed to refer to any successor, or successor provision or section, thereof, as the case may be.

(f) All references herein to time shall be Charlotte, North Carolina time.

ARTICLE II

THE BONDS

Section 201. Amount, Terms, and Issuance of the Bonds.

(a) The Bonds shall be limited to \$4,765,000 in aggregate principal amount and shall contain substantially the terms recited in the form of Bond above and as set forth in this Indenture. No Bonds may be issued under this Indenture except in accordance with this Article II. No additional bonds shall be issued under this Indenture.

(b) The Issuer may cause a copy of the text of the opinion of Bond Counsel delivered in connection with the issuance of the Bonds to be printed on any of the Bonds. The Bonds may bear such endorsement or legend satisfactory to the Trustee as may be required to conform to usage or law with respect thereto, including the imposition of CUSIP or other identifying numbers.

(c) Upon satisfaction of the conditions set forth in Section 213 hereof, the Issuer shall issue the Bonds, and the Trustee shall, at the Issuer's request, authenticate the Bonds and deliver them as specified in the request.

Section 202. Designation, Denominations, Maturity Date and Interest Rates of the Bonds.

(a) Designation, Denominations, Maturity Date. The Bonds shall be designated "\$4,765,000 Hillsborough County Industrial Development Authority Industrial Development Revenue Refunding Bonds (Leslie Controls, Inc. Project), Series 1994." The Bonds shall be issuable as fully registered Bonds in the denominations of \$100,000 or any integral multiple of \$5,000 in excess thereof; provided that if less than One Hundred Thousand Dollars (\$100,000) principal amount of Bonds is outstanding one Bond shall be issued in such smaller denomination; and provided further, that subsequent to the initial issuance of the Bonds, replacement or substitution Bonds or

Bonds issued in exchange in accordance with the provisions of Section 205 hereof may be issued in denominations of \$5,000 and integral multiples thereof. All Bonds shall bear the date of their authentication, shall bear interest from the most recent date to which interest has been paid or duly provided for, or, if authenticated on an Interest Payment Date, from that date, or, if no interest has been paid or duly provided for, from the date of authentication, and shall mature, subject to prior redemption as provided in Article VII hereof, on the first business day of August, 2019. The Bonds shall be numbered from "1" consecutively upwards prefixed by the letter "R".

(b) Interest Rates. The Bonds shall bear interest at the applicable rate provided below. On each Interest Payment Date, interest accrued through the day immediately preceding such Interest Payment Date shall be payable. While the Bonds bear interest at a Variable Rate interest on the Bonds shall be computed on the basis of a year of three hundred sixty-five (365) or three hundred sixty-six (366) days, as applicable, for the number of days actually elapsed. From and including the Conversion Date, and thereafter, interest on the Bonds shall be computed on the basis of a three hundred sixty (360) day year for the number of days actually elapsed.

(c) Initial Interest Rate. For the Initial Rate Period, the Bonds shall bear interest at the Initial Interest Rate.

(d) Variable Rate. Following the Initial Rate Period and until the Conversion Date, the Bonds shall bear interest at the Variable Rate. During the Variable Rate Period, the Remarketing Agent shall determine the interest rate for the Bonds on each Determination Date. The Remarketing Agent shall give notice by telephone, telecopier, telex, telegram or other telecommunication device, and upon request shall confirm in writing, on the Determination Date to the Trustee and the Company of the interest rate to be in effect for the following Calculation Period. The determination of the Variable Rate by the Remarketing Agent shall be conclusive and binding upon the Bondholders, the Issuer, the Company, the Trustee, the Tender Agent and the Remarketing Agent. Any owner may request the Variable Rate in effect from time to time with respect to the Bonds from the Trustee or the Remarketing Agent.

(e) Fixed Rate; Conversion to Fixed Rate.

(1) The Company has a one-time option to convert the interest rate payable on the Bonds from the Variable Rate to the Fixed Rate effective on an Interest Payment Date following compliance by the Company with the provisions of this Section 202(e). The Bonds shall be subject to mandatory tender for purchase by the Owners thereof on the Conversion Date. To exercise the option to convert, the Company shall deliver or mail by first class mail (i) a notice to the Trustee and the Credit Facility Issuer with respect to the determination of the Company to convert the interest rate on the Bonds from the Variable Rate to the Fixed Rate, which notice shall be delivered to the Trustee at least thirty (30) but not more than forty-five (45) days prior to the Conversion Date, and (ii) the opinion of Bonds Counsel described in Section 202(f) hereof. The Trustee shall then deliver or mail by first class mail a notice in substantially the form attached hereto as Exhibit B at least twenty (20) days but not more than thirty (30) days prior to the Conversion Date to the Owner of each Bond at the address shown on the registration books of the

Issuer. Any notice given by the Trustee as provided in this Section shall be conclusively presumed to have been duly given, whether or not the Owner receives the notice. Failure to mail any such notice, or the mailing of defective notice, to any Owner, shall not affect the proceeding for purchase as to any Owner to whom proper notice is mailed. Said notice shall state, among other things, (1) the Conversion Date, (2) the name and address of the placement agent which has agreed to use its best efforts to arrange for the sale of any bonds to be tendered or deemed tendered for purchase on the Conversion Date (herein called the "Placement Agent"), (3) that after the seventeenth (17th) day preceding the Conversion Date, the owner will not be entitled to deliver an Optional Tender Notice and that after the tenth (10th) day preceding the Conversion Date, the owner will not be entitled to tender this Bond for purchase as described below, (4) that this Bond will be deemed tendered for purchase on the Conversion Date, (5) that in order to receive payment of the purchase price of any Bond which is deemed to have been tendered, the registered owner of such Bond must deliver such Bond to the office of the Tender Agent before 10 a.m. Eastern time on the Conversion Date specifying such address, and (6) that interest on any Bond will be payable only to (but not including) the Conversion Date.

As described above, Owners of Bonds shall be required to tender their Bonds on the Conversion Date to the Tender Agent for purchase at the purchase price, and any such Bonds not so tendered on the Conversion Date ("Undelivered Bonds"), for which there has been irrevocably deposited in trust with the Trustee an amount of moneys sufficient to pay the Purchase Price of the Untendered Bonds, shall be deemed to have been tendered and purchased pursuant to this Section 202(e). IN THE EVENT OF A FAILURE BY AN OWNER OF BONDS TO TENDER ITS BONDS ON OR PRIOR TO THE CONVERSION DATE, SAID OWNER SHALL NOT BE ENTITLED TO ANY PAYMENT (INCLUDING ANY INTEREST TO ACCRUE SUBSEQUENT TO THE CONVERSION DATE) OTHER THAN THE PURCHASE PRICE FOR SUCH UNTENDERED BONDS, AND ANY UNTENDERED BONDS SHALL NO LONGER BE ENTITLED TO THE BENEFITS OF THIS INDENTURE, EXCEPT FOR THE PURPOSE OF PAYMENT OF THE PURCHASE PRICE THEREFOR.

(2) On or before the proposed Conversion Date, the Placement Agent shall determine the Fixed Rate as of such date in the manner described in subsection (4) below and shall notify the Trustee and the Company of the Fixed Rate by telephone, telecopier, telex, telegram or other telecommunication device and upon request, shall confirm such notice in writing.

(3) Any owner of Bonds to be converted to a Fixed Rate shall be deemed to have tendered its Bonds to the Tender Agent. Said owner shall not be entitled to any payment (including any interest to accrue subsequently to the Conversion Date) other than the purchase price for such Bonds which shall be equal to the unpaid principal amount of such Bonds, and any such Bonds shall no longer be entitled to the benefits of this Indenture, except for the purpose of payment of the purchase price therefor and interest payable on the Conversion Date. Payment of the purchase price of any such Bonds shall be made only upon the presentment and surrender of such Bonds to the Tender Agent. Upon request, the Trustee shall provide the Tender Agent with the address set forth on the Bond Register for such owner. In the case of any Bond deemed tendered, the Issuer shall cause to be executed, and the Trustee shall authenticate and deliver to the new owner as provided in

Section 301 hereof a new Bond of like date and tenor in lieu of and in substitution for such Bond deemed to be tendered.

(4) On or before the Conversion Date, the Fixed Rate shall be the interest rate per annum which, in the sole judgment of the Placement Agent, taking into account prevailing financial market conditions, would be the minimum interest rate required to sell such Bonds on the Conversion Date at a price equal to the 100% of the principal amount thereof. The Fixed Rate shall be determined by the Placement Agent on or before the Conversion Date, and the Placement Agent shall notify the Trustee and the Company thereof by telephone or such other manner as may be appropriate by not later than 2:00 p.m., Eastern time, on the Conversion Date, which notice shall be promptly confirmed in writing.

(f) Condition to Conversion; Additional Notices.

(1) As a condition to the giving of notice as provided in Section 202(e) above, the Company shall provide the Trustee with an opinion of Bond Counsel to the effect that the proposed conversion of the interest rate on the Bonds will not cause the interest on the Bonds to be includable in the gross income of the owners thereof for federal income tax purposes.

(2) The delivery by the Company to the Trustee of a letter from Bond Counsel confirming the opinion required prior to the notification described above on such Conversion Date is a condition precedent to any such Conversion. In the event that the Company fails to deliver to the Trustee the letter of Bond Counsel referred to in the preceding sentence, such Conversion shall not take effect, and the Bonds shall continue to bear interest at the Variable Rate.

(3) The Trustee shall provide the Tender Agent with a copy of any notice delivered to the owners of the Bonds pursuant to Section 202 hereof.

Section 203. Optional Tender Provisions of the Bonds.

(a) While the Bonds bear interest at the Variable Rate, any Bond or portion thereof in an authorized denomination (other than a Bond registered in the name of the Company) shall be purchased on the demand of the owner thereof, on any Business Day at a purchase price equal to one hundred percent (100%) of the principal amount thereof plus interest accrued to the date of purchase, if the owner of such Bond delivers to the Tender Agent at its address filed with the Trustee an Optional Tender Notice at least seven (7) days prior to the Variable Rate Purchase Date specified in such Notice.

(b) Any Optional Tender Notice delivered pursuant to the preceding subsection shall automatically constitute: (1) an irrevocable offer to sell such bond on the Variable Rate Purchase Date at a price equal to one hundred percent (100%) of the principal amount of such Bond plus interest accrued to the Variable Rate Purchase Date; and (2) an irrevocable authorization and instruction to the Bond Registrar to effect transfer of such Bond to the purchaser thereof on the Variable Rate Purchase Date. No purchase of Bonds pursuant to the provisions of this Section 203 shall be deemed a redemption thereof.

(c) Any owner who delivers an Optional Tender Notice pursuant to this Section 203 shall deliver such Bond to the Tender Agent, at its address filed with the Trustee, not less than five (5) days prior to the Variable Rate Purchase Date specified in the aforesaid Optional Tender Notice; provided, however, that any Bond owner which is an investment company registered under the Investment Company Act of 1940 may deliver Bonds owned by it to the Tender Agent at its address filed with the Trustee, at or prior to 10:00 a.m. on the Variable Rate Purchase Date. All Bonds delivered to the Tender Agent pursuant to this Section 203 must be duly endorsed for transfer in blank in form satisfactory to the Trustee.

(d) If a Bondholder who gives the Optional Tender Notice shall fail to deliver the Bond or Bonds identified in the Optional Tender Notice to the Tender Agent at or prior to 10:00 a.m. on the Variable Rate Purchase Date, such Undelivered Bond shall be purchased and shall cease to accrue interest on such Variable Rate Purchase Date and the owner thereof shall thereafter be entitled only to payment of the purchase price therefor and not to the benefits of this Indenture, and the Issuer, to the extent permitted by law, shall execute and the Trustee or the Authenticating Agent shall authenticate and deliver a substitute Bond or Bonds in lieu of the Undelivered Bond and the Bond Registrar shall register such Bond in the name of the purchaser or purchasers thereof pursuant to Section 205 hereof. The Tender Agent shall notify the Trustee and the Bond Registrar of any Undelivered Bonds. The Trustee shall (1) notify the Remarketing Agent of such Undelivered Bond and (2) place a stop transfer against such Undelivered Bonds until the Undelivered Bonds are properly delivered to the Tender Agent. Payment of the purchase price of any such Undelivered Bonds shall be made only upon the presentment and surrender of such Bonds to the Tender Agent. Upon notice of such delivery, the Bond Registrar shall make any necessary adjustment to the Bond Register.

(e) Notwithstanding anything to the contrary contained herein, the rights of the owners to tender Bonds pursuant to this Section 203 shall cease immediately and without further notice from and including the date payment of the Bonds is accelerated following an Event of Default pursuant to Article IX hereof.

Section 204. Registered Bonds Required; Bond Registrar and Bond Register.

(a) All Bonds shall be issued in fully registered form. The Bonds shall be registered upon original issuance and upon subsequent transfer or exchange as provided in this Indenture.

(b) The Issuer shall designate one or more persons to act as "Bond Registrar" for the Bonds, provided that the Bond Registrar appointed for the Bonds shall be either the Trustee or a person which would meet the requirements for qualification as a successor trustee imposed by Section 1014 hereof. The Issuer hereby appoints The First National Bank of Boston as its Bond Registrar in respect of the Bonds. Any person other than the Trustee undertaking to act as Bond Registrar shall first execute a written agreement, in form satisfactory to the Trustee, to perform the duties of a Bond Registrar under this Indenture, which agreement shall be filed with the Trustee and the Tender Agent.

(c) The Bond Registrar shall act as registrar and transfer agent for the Bonds. There shall be kept at an office of the Bond Registrar a

register (herein sometimes referred to as the "Bond Register") in which, subject to such reasonable regulations as the Issuer, the Trustee or the Bond Registrar may prescribe, there shall be provisions for the registration of the Bonds and for the registration of transfers of the Bonds. The Issuer shall cause the Bond Registrar to designate, by a written notification to the Trustee, a specific office location (which may be changed from time to time, upon similar notification) at which the Bond Register is kept. In the absence of a specific designation by the Bond Registrar, the principal corporate trust office of the Trustee in Canton, Massachusetts shall be deemed such office in respect of the Bonds for which the Trustee is acting as Bond Registrar.

Section 205. Transfer and Exchange.

(a) Upon surrender for transfer of any Bond at the office of the Bond Registrar, the Issuer shall execute and the Trustee or its Authenticating Agent shall authenticate and deliver in the name of the transferee or transferees, one or more new fully registered Bonds of authorized denomination for the aggregate principal amount which the new owner is entitled to receive; provided that if moneys for the purchase of such Bond have been provided pursuant to a draw under the Credit Facility, such Bond shall not be transferable to any one other than the Company or its assignee or pledgee. Except for transfers in connection with the purchase of Bonds pursuant to Section 203 hereof and the remarketing thereof pursuant to Article III, which shall be effected at the office of the Tender Agent in Canton, Massachusetts, Bonds shall be surrendered for transfer at the principal corporate trust office of the Trustee in Canton, Massachusetts. Also, the Issuer shall execute and the Trustee or its Authenticating Agent shall authenticate and deliver Bonds in lieu of Undelivered Bonds.

(b) Bonds may be exchanged for other Bonds of any other authorized denomination, of a like aggregate principal amount, upon surrender of the Bonds to be exchanged at the principal corporate trust office of the Bond Registrar or Trustee; provided, however, that in connection with the purchase of Bonds tendered for purchase and the remarketing thereof pursuant to Article III hereof, Bonds may be exchanged at the principal office of the Tender Agent, or any office of any agent designated by, the Trustee. Whenever any Bonds are so surrendered for exchange, the Issuer shall execute, and the Trustee or its Authenticating Agent shall authenticate and deliver, the Bonds which the Bondholder making the exchange is entitled to receive.

(c) All Bonds presented for transfer, exchange, redemption or payment (if so required by the Issuer, the Bond Registrar or the Trustee) shall be accompanied by a written instrument or instruments of transfer or authorization for exchange, in form satisfactory to the Bond Registrar, which may include a signature guarantee, duly executed by the owner or by his attorney duly authorized in writing.

(d) No service charge shall be made to a Bondholder for any exchange or transfer of Bonds, but the Issuer or the Bond Registrar may require payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto.

(e) Except in connection with the purchase of Bonds pursuant to Section 203 hereof and the remarketing thereof pursuant to Article III hereof, neither the Issuer nor any Bond Registrar on behalf of the Issuer

shall be required to issue, transfer or exchange any Bond selected for redemption in whole or in part.

(f) New Bonds delivered upon transfer or exchange shall be valid obligations of the Issuer, evidencing the same debt as the Bond surrendered, shall be secured by this Indenture and shall be entitled to all of the security and benefits hereof to the same extent as the Bonds surrendered;

Section 206. Execution.

(a) The Bonds shall be executed by the manual or facsimile signature of the Chairman, the seal of the Issuer shall be affixed, imprinted, lithographed or reproduced thereon and the same shall be attested by the manual or facsimile signature of the Secretary.

(b) Bonds executed as above provided may be issued and shall, upon request of the Issuer, be authenticated by the Trustee or the Authenticating Agent, notwithstanding that any officer signing such Bonds or whose facsimile signature appears thereon shall have ceased to hold office at the time of issuance or authentication or shall not have held office at the date of the Bond.

Section 207. Authentication; Authenticating Agent.

(a) No Bond shall be valid for any purpose until the Trustee's Certificate of Authentication thereon shall have been duly executed as provided in this Indenture, and such authentication shall be conclusive proof that such Bond has been duly authenticated and delivered under this Indenture and that the owner thereof is entitled to the benefit of the trust hereby created subject to the provisions of Section 203(d) and Article XIV hereof.

(b) If the Bond Registrar is other than the Trustee, the Trustee may appoint the Bond Registrar as an Authenticating Agent with the power to act on the Trustee's behalf and subject to its direction in the authentication and delivery of Bonds in connection with transfers and exchanges under Section 205 hereof, and the authentication and delivery of Bonds by an Authenticating Agent pursuant to this Section shall, for all purposes of this Indenture, be deemed to be the authentication and delivery "by the Trustee". The Trustee shall, however, itself authenticate all Bonds upon their initial issuance. The Authenticating Agent may authenticate Bonds in substitution for Undelivered Bonds. The Authenticating Agent shall be entitled to reasonable compensation from the Company for its services.

(c) Any corporation into which any Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, consolidation or conversion to which any Authenticating Agent shall be a party, or any corporation succeeding to the corporate trust business of any Authenticating Agent, shall be the successor of the Authenticating Agent hereunder, if such successor corporation is otherwise eligible as a Bond Registrar under Section 204 hereof, without the execution or filing of any further document on the part of the parties hereto or the Authenticating Agent or such successor corporation.

(d) Any Authenticating Agent may at any time resign by giving written

notice of resignation to the Trustee, the Issuer, the Remarketing Agent and the Company. The Trustee may at any time terminate the agency of any Authenticating Agent by giving written notice of termination to such Authenticating Agent, the Issuer and the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time any Authenticating Agent shall cease to be eligible under this Section, the Trustee shall promptly appoint a successor Authenticating Agent, shall give written notice of such appointment to the Issuer and the Company, and shall mail notice of such appointment to all owners of Bonds as the names and addresses of such owners appear on the Bond Register.

Section 208. Payment of Principal and Interest; Interest Rights Preserved.

(a) The principal and redemption price of any Bond shall be payable, upon surrender of such Bond, at the office of the Trustee or other paying agent appointed pursuant to this Indenture. Interest on each Interest Payment Date shall be payable by check, mailed on the Interest Payment Date to the address of the person entitled thereto on the Regular Record Date or, if applicable, the Special Record Date, as such address shall appear in the Bond Register. While the Bonds bear interest at a Variable Rate, Interest shall also be payable by wire transfer to the account of a member bank of the Federal Reserve System of any owner of Bonds in the aggregate principal amount of \$1,000,000 or more at the written request (identifying such account by number) of such owner received by the Trustee on or prior to the Regular Record Date or Special Record Date.

(b) Interest on any Bond which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the person in whose name that Bond is registered at the close of business on the Regular Record Date for such interest.

(c) Any interest on any Bond which is payable, and is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the owner of such Bonds on the relevant Regular Record Date solely by virtue of such registered owner having been such record owner on the Regular Record Date, and such Defaulted Interest shall be paid, pursuant to Section 911 hereof, to the person in whose name the Bond is registered at the close of business on a Special Record Date to be fixed by the Trustee, such date to be not more than fifteen (15) nor less than ten (10) days prior to the date of proposed payment. The Trustee shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be mailed, first class postage prepaid, to each Bondholder, at its address as it appears in the Bond Register, not less than ten (10) days prior to such Special Record Date.

(d) Subject to the foregoing provisions of this Section 208, each Bond delivered under this Indenture, upon transfer of or exchange for or in lieu of any other Bond shall carry the rights to interest accrued and unpaid, and to accrue, as such other Bond.

All payments of principal and redemption price of and interest on the Bonds, whether upon redemption, acceleration, maturity or otherwise, shall be made first, pursuant to draws under the Credit Facility in accordance with its terms on the dates when due; second, from other Available Moneys on deposit with the Trustee and not held in trust for the benefit of the

owners of the Bonds pursuant to the provisions of Article XIV hereof; and then from other collected funds available to the Trustee hereunder for such payments.

Section 209. Persons Deemed Owners.

The Issuer, the Trustee, the Bond Registrar and the Authenticating Agent may deem and treat the person in whose name any Bond is registered as the absolute owner thereof (whether or not such Bond shall be overdue and notwithstanding any notation of ownership or other writing thereon made by anyone other than the Issuer, the Trustee, the Bond Registrar or the Authenticating Agent) for the purpose of receiving payment of or on account of the principal of (and premium, if any, on), and (subject to Section 208 hereof) interest on such Bond, and for all other purposes, and neither the Issuer, the Trustee, the Bond Registrar, nor the Authenticating Agent shall be affected by any notice to the contrary. All such payments so made to any such registered owner, or upon his order, shall be valid and, to the extent of the sum or sums so paid, effectual to satisfy and discharge the liability for moneys payable upon any such Bond.

Section 210. Mutilated, Destroyed, Lost, Stolen or Undelivered Bonds.

(a) If any Bond shall become mutilated, the Issuer shall execute, and the Trustee or its Authenticating Agent shall thereupon authenticate and deliver, a new Bond of like tenor and denomination in exchange and substitution for the Bond so mutilated, but only upon surrender to the Trustee of such mutilated Bond for cancellation, and the Issuer and the Trustee may require reasonable indemnity therefor. If any Bond shall be reported lost, stolen or destroyed, evidence as to the loss, theft or destruction thereof shall be submitted to the Issuer and the Trustee; and if such evidence shall be satisfactory to both and indemnity satisfactory to both shall be given, the Issuer shall execute, and thereupon the Trustee or its Authenticating Agent shall authenticate and deliver, a new Bond of like tenor and denomination. The cost of providing any substitute Bond under the provisions of this Section shall be borne by the Bondholder for whose benefit such substitute Bond is provided. If any such mutilated, lost, stolen or destroyed Bond shall have matured or be about to mature, the Issuer may, with the consent of the Trustee, pay to the owner the principal amount of such Bond upon the maturity thereof and the compliance with the aforesaid conditions by such owner, without the issuance of a substitute Bond therefor.

(b) The Issuer shall execute and the Trustee or its Authenticating Agent shall authenticate and deliver a substitute Bond in lieu of each Undelivered Bond.

(c) Every substituted Bond issued pursuant to this Section 210 shall constitute an additional contractual obligation of the Issuer, whether or not the Bond alleged to have been destroyed, lost or stolen shall be at any time enforceable by anyone, and shall be entitled to all of the benefits of this Indenture equally and proportionately with any and all other Bonds duly issued hereunder.

(d) All Bonds shall be held and owned upon the express condition that the foregoing provisions are, to the extent permitted by law, exclusive with respect to the replacement or payment of mutilated, destroyed, lost,

stolen or Undelivered Bonds and shall preclude any and all other rights or remedies.

Section 211. Temporary Bonds.

Pending preparation of definitive Bonds, or by agreement with the purchasers of all Bonds, the Issuer may issue, and, upon its request, the Trustee shall authenticate, in lieu of definitive Bonds one or more temporary printed or typewritten Bonds of substantially the tenor recited above in any denomination authorized under Section 202 hereof. Upon request of the Issuer, the Trustee shall authenticate definitive Bonds in exchange for and upon surrender of an equal principal amount of temporary Bonds. Until so exchanged, temporary Bonds shall have the same rights, remedies and security hereunder as definitive Bonds.

Section 212. Cancellation of Surrendered Bonds.

Bonds surrendered for payment, redemption, transfer or exchange and Bonds surrendered to the Trustee by the Issuer or by the Company for cancellation shall be cancelled by the Trustee and a certificate evidencing such cancellation shall be furnished by the Trustee to the Issuer and the Company. Bonds purchased pursuant to Section 203 hereof shall not be surrendered Bonds and, unless otherwise specifically provided in this Indenture, shall be Outstanding Bonds.

Section 213. Conditions of Issuance.

(a) Prior to or simultaneously with the authentication and delivery of the Bonds by the Trustee, the Trustee shall have received notice that the conditions for the issuance of the Letter of Credit as set forth in Article VIII of the original Reimbursement Agreement have been satisfied and there shall be filed with the Trustee such documents, certificates and opinions as Trustee may require, including, the following:

(1) A copy, certified by the Secretary, of the resolution of the Issuer authorizing the issuance of the Bonds, awarding the Bonds and directing the authentication and delivery of the Bonds to or upon the order of the purchaser(s) therein named upon payment of the purchase price therein set forth.

(2) Executed counterparts of this Indenture, the Loan Agreement, the Note (endorsed without recourse by the Issuer to the Trustee), the Letter of Credit, the Reimbursement Agreement, the Tender Agency Agreement and the Remarketing Agreement.

(3) An opinion of Counsel to the Issuer, to the effect that the execution and delivery of the Loan Agreement and this Indenture have been duly authorized by the Issuer, the Loan Agreement and this Indenture have been duly executed by the Issuer and that, assuming proper authorization and execution of this Indenture by the Trustee and of the Loan Agreement by the Company, the Loan Agreement and this Indenture are the valid and binding agreements of the Issuer enforceable in accordance with their respective terms, subject to the qualification that enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting enforcement of creditors' rights generally and by the exercise of judicial discretion in accordance with general equitable

principles.

(4) An opinion of Counsel to the Company to the effect that the execution and delivery of the Loan Agreement, the Note, the Reimbursement Agreement, the Remarketing Agreement and the Tender Agency Agreement have been duly authorized by the Company, that the Loan Agreement, the Note, the Reimbursement Agreement, the Remarketing Agreement and the Tender Agency Agreement have been duly executed and delivered by the Company, and that the Loan Agreement, the Note, the Reimbursement Agreement, the Remarketing Agreement and the Tender Agency Agreement, assuming due authorization, execution and delivery thereof by the other parties thereto, if any, are valid, binding and enforceable against the Company in accordance with their terms, subject to the qualification that enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting enforcement of creditors' rights generally and by the exercise of judicial discretion in accordance with general equitable principles.

(5) An opinion of Counsel to the Company to the effect that copies of such instruments and financing statements (described in such opinion) as are necessary have been recorded and filed in the manner and places required by State law with the effect that (i) the lien on this Indenture has been perfected and creates, as to the rights of the Issuer under the Loan Agreement assigned under this Indenture, a valid security interest; and (ii) that the Issuer's endorsement and pledge of the Note to the Trustee and the Trustee's possession thereof creates a valid, perfected, first priority security interest in the Note, subject to no equal or prior liens.

(6) An opinion of Counsel to the Issuer, to the effect that the issuance of the Bonds and the execution of this Indenture have been duly and validly authorized by the Issuer, that all conditions precedent to the delivery of the Bonds have been fulfilled and that the Bonds and this Indenture are valid and binding agreements of the Issuer enforceable in accordance with their terms, subject to the qualification that enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium or similar laws affecting enforcement of creditors' rights generally and by the exercise of judicial discretion in accordance with general equitable principles.

(7) A written request and authorization of the Issuer addressed to the Trustee directing the Trustee to authenticate and deliver the Bonds.

(8) Such other documents as the Trustee may reasonably require.

(9) A favorable opinion of Bond Counsel as to the tax-exempt status of interest on the Bonds.

(b) When the documents mentioned in paragraphs (1) through (9) of subsection (a) of this Section shall have been filed with the Trustee and when the Bonds shall have been executed as required by this Indenture, the Trustee shall authenticate the Bonds and deliver them to or upon the order of the purchaser(s) named in the resolution mentioned in paragraph (1) thereof, but only upon payment to the Trustee for the account of the Issuer

of the purchase price of the Bonds. The Trustee shall be entitled to rely conclusively upon such resolution or resolutions, or document approved thereby, as to the name of the purchasers and the amount of such purchase price.

(c) Simultaneously with the delivery of the Bonds, the Trustee shall apply the proceeds of the Bonds in accordance with Article IV of this Indenture.

ARTICLE III

PURCHASE AND REMARKETING OF TENDERED BONDS

Section 301. Remarketing of Tendered Bonds.

(a) Not later than the close of business on the date the Tender Agent receives an Optional Tender Notice, the Tender Agent shall notify the Remarketing Agent and the Company by telephone, telex or telecopier, confirmed in writing if requested, specifying the Variable Rate Purchase Date.

(b) Not later than the close of business on the ninth (9th) day prior to the Conversion Date, the Trustee shall notify the Placement Agent and the Company by telephone, telex or telecopier, confirmed in writing if requested, specifying the aggregate principal amount of Bonds deemed tendered for mandatory purchase on the Conversion Date.

(c) Except as provided in subsection (d) below and Section 305 hereof, upon receipt by the Remarketing Agent of notice from the Tender Agent pursuant to Section 301(a) hereof and by the Placement Agent of notice from the Trustee pursuant to Section 301(b) hereof, the Remarketing Agent or the Placement Agent, as the case may be, shall use its best efforts to arrange for the sale, at par plus accrued interest, if any, of such Bonds tendered or deemed tendered for settlement on the Variable Rate Purchase Date or the Conversion Date, respectively. At or before 4:00 p.m. on the Business Day immediately preceding the Variable Rate Purchase Date or the Conversion Date, the Remarketing Agent or the Placement Agent, respectively, shall give notice by telephone, telecopier or telex, promptly confirmed in writing if requested, to the Trustee and the Tender Agent specifying the principal amount of such Bonds, if any, placed by it and to the Trustee the names, addresses and social security numbers or other tax identification numbers of the proposed purchasers thereof.

(d) Notwithstanding the provisions of subsection (c) above, any Bond purchased pursuant to the terms of this Indenture from the date notice of redemption or conversion is given shall not be remarketed except to a buyer who agrees at the time of such purchase to tender such Bond for redemption or purchase on the redemption or purchase date.

(e) During the Variable Rate Period, the Remarketing Agent shall continue to use its best efforts to arrange for the sale, at the best price available, but not less than the principal amount thereof plus accrued interest, of any Bonds purchased with moneys advanced under the Credit Facility pursuant to Section 302(a)(2) hereof; provided that Bonds purchased with moneys advanced under the Credit Facility shall not be released for delivery to the purchasers unless the Credit Facility has been

reinstated by the sum of (a) the amount drawn thereunder to pay the purchase price for such Bonds and (b) interest on such portion for 120 days at a maximum rate of 15%, and the Trustee has received the executed reinstatement certificate required to be delivered by such Credit Facility Issuer. The Trustee agrees to advise the Tender Agent immediately upon receipt of such reinstatement certificate.

Section 302. Purchase of Bonds Delivered to the Tender Agent.

(a) There is hereby established with the Tender Agent a Bond Purchase Fund out of which the purchase price for Bonds tendered for purchase on a Variable Rate Purchase Date, the Conversion Date or on such other date on which Bonds are remarketed shall be paid. There are hereby established in the Bond Purchase Fund two separate and segregated accounts, to be designated the "Remarketing Account" and the "Bank Account". Funds received from purchasers of Tendered Bonds (other than the Company or the Credit Facility Issuer) shall be deposited by the Remarketing Agent or the Placement Agent, as the case may be, in the Remarketing Account. At or prior to 10:00 a.m. on each Variable Rate Purchase Date or the Conversion Date, the Remarketing Agent or the Placement Agent, as the case may be, shall deliver to the Tender Agent for deposit in the Remarketing Account of the Bond Purchase Fund immediately available funds, payable to the order of the Tender Agent, in an amount equal to the purchase price of the Bonds to be delivered to the Tender Agent that have been remarketed by the Remarketing Agent or placed by the Placement Agent as specified in the notice delivered pursuant to Section 301(c) hereof. Funds, if any, drawn by the Trustee under the Credit Facility pursuant to Section 302(b) below in an amount equal to the aggregate purchase price of Bonds tendered for purchase less the amount available in the Remarketing Account shall, at the direction of the Trustee, be delivered by the Credit Facility Issuer to the Tender Agent for deposit in the Bank Account of the Bond Purchase Fund. On each Variable Rate Purchase Date and on the Conversion Date, the Tender Agent shall effect the purchase, but only from the funds listed below, of such Bonds from the owners thereof at a purchase price equal to the principal amount thereof, plus interest accrued, if any, to the date of purchase and such payment shall be made in immediately available funds. Funds from the payment of such purchase price shall be derived from the following sources in the order of priority indicated:

(1) proceeds of the remarketing of such Bonds pursuant to Section 301(c) hereof which constitute Available Moneys.

(2) moneys furnished by the Trustee to the Tender Agent representing proceeds of a drawing by the Trustee under the Credit Facility; and

(3) any other moneys available for such purposes.

(b) The Tender Agent shall advise the Trustee by telex or telecopier and shall advise the Credit Facility Issuer and the Company by telephone, in each case, no later than 10:30 a.m. on each Variable Rate Purchase Date or the Conversion Date, as the case may be, of the amount of any drawing under the Credit Facility necessary to make timely payments hereunder. The Trustee shall promptly (and in no event later than 11:00 a.m.) take all action necessary to draw on the Credit Facility the specified amount. All amounts received by the Trustee from a drawing under the Credit Facility shall be transferred to the Tender Agent and held by the Tender Agent in

the Bank Account pending application of such moneys as provided in this Article III. The Trustee shall provide to the Tender Agent the funds referred to in paragraph (2) of Section 302(a) prior to the time the Tender Agent is required to apply such funds to effect the purchase of Bonds and shall notify the Tender Agent promptly after receipt of notice from the Credit Facility Issuer reinstating the Credit Facility. The Remarketing Agent shall deliver funds from the sale of Bonds held by the Credit Facility Issuer as pledgee of the Company pursuant to Section 301(e) hereof to the Tender Agent for deposit in the Remarketing Account, which funds shall be promptly paid by the Tender Agent on behalf of the Company to the Credit Facility Issuer as reimbursement under the Reimbursement Agreement. The Tender Agent shall notify the Trustee of any such reimbursement, and the Trustee shall promptly deliver to the Credit Facility Issuer any reinstatement certificate and the form of transfer certificate required by the Credit Facility.

Section 303. Delivery of Purchased Bonds.

(a) Bonds purchased shall be delivered as follows:

(1) Bonds placed by the Remarketing Agent or the Placement Agent pursuant to Section 301 hereof shall be delivered by the Tender Agent to the Remarketing Agent or the Placement Agent, as the case may be, on behalf of the purchasers thereof.

(2) Bonds purchased with moneys described in Section 302(a)(2) shall be delivered to the Credit Facility Issuer as pledgee of the Company pursuant to the terms of the Reimbursement Agreement and the Pledge Agreement or the Credit Facility Issuer designee.

(b) Except as otherwise set forth herein, Bonds delivered as provided in this Section 303 shall be registered by the Bond Registrar in the manner directed by the recipient thereof.

(c) In the event that any Bond to be delivered to the Tender Agent is not delivered by the owner thereof properly endorsed for transfer on or prior to the Variable Rate Purchase Date or the Conversion Date, as the case may be, and there has been irrevocably deposited with the Tender Agent an amount sufficient to pay the purchase price thereof, which amount may be held by the Tender Agent in a non-interest bearing account, the Issuer shall execute and the Trustee or its Authenticating Agent shall authenticate and deliver a substitute Bond in lieu of the Undelivered Bond and the Bond Registrar shall register such Bond in the name of the purchaser thereof. Thereafter, interest on such Undelivered Bond shall cease to accrue, and the holder thereof shall be entitled only to payment of the purchase price therefor and not to the benefits of the Indenture.

(d) Notwithstanding the foregoing, Bonds purchased with funds identified in Section 302(a)(2) hereof shall be held by the Credit Facility Issuer or the Tender Agent and shall not be delivered to subsequent purchasers thereof or any other person until the Trustee has notified the Tender Agent that the Credit Facility has been reinstated to the extent of the purchase price of such Bonds and interest thereon.

Section 304. Delivery of the Proceeds of the Sale of Remarketed Bonds.

The proceeds of the placement of the Bonds by the Remarketing Agent of any Bonds delivered to the Tender Agent or by the Placement Agent of Bonds on the Conversion Date shall be paid first, to the tendering Bondholders of such Bonds; second, to the Credit Facility Issuer, to the extent of any amounts drawn under the Credit Facility in connection with the payment of the purchase price for such Bonds and not reimbursed to the Credit Facility Issuer as of the time of sale of such Bonds; and third, to the Company.

Section 305. No Remarketing After Certain Events.

Anything in this Indenture to the contrary notwithstanding, there shall be no remarketing of Bonds pursuant to this Article III after the Conversion Date or the principal of the Bonds shall have been accelerated pursuant to Section 902 hereof.

ARTICLE IV

REFUNDING OF PRIOR BONDS

Section 401. Refunding of Prior Bonds.

(a) A special fund is hereby created and designated the Hillsborough County Industrial Development Authority Industrial Development Revenue Refunding Bonds (Leslie Controls, Inc. Project), Series 1994 Redemption Fund (the "Redemption Fund"). The moneys received by the Issuer from the proceeds of the sale of the Bonds shall be deposited to the Redemption Fund.

(b) Moneys held in the Redemption Fund shall be invested and reinvested by the Trustee, at the written direction of the Company in Investment Obligations which shall mature not later than November 1, 1994. Obligations so purchased as an investment of moneys in the Redemption fund shall be deemed at all times to be part of the Redemption Fund, and the interest accruing thereon and any profit realized from such investment shall be credited to the Redemption Fund, and any loss resulting from such investment shall be charged to the Redemption Fund. The Trustee shall sell at market price or present for redemption any obligation so purchased whenever it shall be necessary so to do in order to provide cash to meet any payment or transfer from the Redemption Fund. Neither the Trustee nor the Issuer shall be liable or responsible for loss resulting from any such investment or the sale of any such investment made pursuant to the terms of this Section. The Trustee may make any and all investments permitted by this Section through its own bond or investment department, unless otherwise directed in writing by the Company.

(c) The moneys in the Redemption Fund shall be held by the Trustee in trust and shall, on November 1, 1994 or such earlier date as directed by the Company, be applied, together with additional funds contributed by the Company or by Watts Industries, Inc., to the payment in full of the outstanding principal amount of the Prior Bonds.

(d) Simultaneously with payment by the Trustee as described in (c) above, the Company shall pay all additional amounts sufficient to pay the principal of and interest on the Prior Bonds to the date of redemption thereof and to pay directly all fees, charges and expenses of the holders of the Prior Bonds and of the Prior Trustee in connection with the

redemption of the Prior Bonds. Following such payments, the Trustee shall receive from the holder of the Prior Bonds or the Prior Trustee a certificate to the effect that the Prior Bonds have been redeemed and paid in full and evidence that the Prior Bonds have been cancelled.

ARTICLE V

REVENUES AND APPLICATION THEREOF

Section 501. Revenues to be Paid Over to Trustee.

The Issuer has caused the Revenues to be paid directly to the Trustee. If, notwithstanding these arrangements, the Issuer receives any payments on account of the Note or a Credit Facility with respect to the principal or redemption price of or interest on the Bonds, the Issuer shall immediately pay over the same to the Trustee to be held as Revenues.

Section 502. The Bond Fund.

(a) There is hereby established with the Trustee a special fund to be designated "Hillsborough County Industrial Development Authority Industrial Development Revenue Refunding Bonds (Leslie Controls, Inc. Project), Series 1994 Bond Fund" (the "Bond Fund"), the moneys in which, in accordance with Section 502(c) hereof, the Trustee shall apply to (1) the principal or redemption price of Bonds as they mature or become due, upon surrender thereof, and (2) the interest on Bonds as it becomes payable. There are hereby established with the Trustee within the Bond Fund two separate and segregated accounts, to be designated the "Payments Account" and the "Credit Facility Account".

(b) There shall be deposited into the various accounts of the Bond Fund from time to time the following:

(1) into the Payments Account, (A) all payments of principal or redemption price (including premium) of or interest on the Note, and (B) all other moneys received by the Trustee under and pursuant to the provisions of this Indenture or any of the provisions of the Note or the Loan Agreement, when accompanied by written directions from the person depositing such moneys that such moneys are to be paid into such account of the Bond Fund. All amounts deposited in the Payments Account shall be segregated and held, with the earnings thereon, separate and apart from other funds in the Bond Fund until such amounts become Available Moneys. At such time as funds deposited in the Payments Account become Available Moneys, they may be commingled with other Available Moneys in the Payments Account; and

(2) into the Credit Facility Account, all moneys drawn by the Trustee under the Credit Facility to pay principal or redemption price (excluding any premium) of the Bonds and interest on the Bonds.

(c) Except as provided in Section 911 hereof, moneys in the Bond Fund shall be used solely for the payment of the principal or redemption price of the Bonds and interest on the Bonds from the following sources but only in the following order of priority;

(1) moneys held in the Credit Facility Account, provided that in

no event shall moneys held in the Credit Facility Account be used to pay any amounts due on Bonds which are held by or for the Company, including without limitation, Bonds pledged to the Credit Facility Issuer, or to pay any portion of the redemption premiums required pursuant to Section 701(a)(2) hereof; and

(2) moneys held in the Payments Account to the extent such amounts qualify as Available Moneys (except with respect to moneys paid on Bonds that are held by or for the Company, including without limitation, Bonds pledged to the Credit Facility Issuer, which moneys need not qualify as Available Moneys).

(d) Not later than 10:00 a.m. on the third (3rd) Business Day preceding the date on which principal or redemption price of or interest on the Bonds is due and payable (the "Payment Date"), the Trustee shall have notified the Company and the Credit Facility Issuer of the amounts of principal and interest due on the Bonds on the Payment Date. Not later than 11:00 a.m. on each Payment Date, the Trustee shall present a draft or drafts under the Credit Facility in the amounts due and payable on the Bonds. Such funds shall be wired by the Bank to be deposited in the Credit Facility Account and payments due under the Bonds shall be made by the Trustee in accordance with Section 208 and Section 502(c) hereof. Following such payment to the Bondholders, the Trustee shall, on behalf of the Company, promptly pay moneys on deposit in the Payments Account in an amount equal to the amounts of such drawing or drawings to the Bank as reimbursement to the Bank under the terms of the Reimbursement Agreement. If no amounts are owed by the Company to the Credit Facility Issuer under the Reimbursement Agreement, any amounts remaining in the Payments Account on the Business Day immediately following a Payment Date shall be paid to the Company upon request with the consent of the Credit Facility Issuer.

(e) Except as provided in the following sentence, the Bond Fund shall be depleted at least once each year, except for a reasonable carryover amount (not to exceed the greater of one year's earnings on the Bond Fund or one-twelfth (1/12th) of annual debt service). Any money deposited in the Bond Fund shall be spent within a thirteen (13) month period beginning on the date of deposit, and any amount received from investment of money held in the Bond Fund shall be spent within a one (1) year period beginning on the date of receipt. Any amounts remaining in the Bond Fund after payment in full of the principal or redemption price of and interest on the Bonds (or provisions for payment thereof) shall be paid to the Company at the written request of the Company therefor or as otherwise required by law; provided, that if any payments have been received by the Trustee from the Credit Facility in connection with such payment of the Bonds, any remaining amounts shall be paid to the Credit Facility Issuer to the extent of such payments.

Section 503. Revenues to Be Held for All Bondholders; Certain Exceptions.

Revenues shall, until applied as provided in this Indenture, be held by the Trustee in trust for the benefit of the owners of all Outstanding Bonds, except that any portion of the Revenues representing principal or redemption price of any Bonds, and interest on any Bonds previously matured or called for redemption in accordance with Article VII of this Indenture, shall be held for the benefit of the owners of such Bonds only.

Section 504. Rebate Fund.

In the event that the Company provides for the deposit of amounts from time to time for rebate to the United States of America pursuant to the Loan Agreement, the Trustee is hereby authorized to create a special fund to be designated as the Rebate Fund. The Rebate Fund shall be held separate and apart from all other funds under this Indenture and shall not be subject to the lien and pledge granted hereunder for the benefit of Bondholders. The Trustee shall remit money deposited in the Rebate Fund to the United States of America or otherwise as directed in writing by the Company. All moneys deposited in the Rebate Fund shall be held and invested at the sole direction of the Company. In making investments hereunder, or in selling or disposing of investments as required hereby, the Trustee shall have no duty or responsibility to independently verify compliance with Sections 148(d) and 148(f) of the Code and the regulations promulgated thereunder and the Trustee shall be fully protected in relying solely upon the written directions of the Company as aforesaid. Under no circumstances whatsoever shall the Trustee be liable to the Issuer, the Company or any holder for any loss of tax-exempt status of the Bonds, or any claims, demands, damages, liabilities, losses, costs or expenses resulting therefrom or in any way connected therewith, so long as the Trustee acts only in accordance with the written directions of the Company as provided hereunder. The Trustee shall not be responsible for any losses in the investment of money in the Rebate Fund made at the direction of the Company.

ARTICLE VI

DEPOSITARIES OF MONEYS, SECURITY FOR
DEPOSITS AND INVESTMENT OF FUNDS; THE CREDIT FACILITY

Section 601. Security for Deposits.

All moneys deposited with the Trustee under the provisions of this Indenture or the Loan Agreement shall be held in trust and applied only in accordance with the provisions of this Indenture and the Loan Agreement and shall not be subject to lien (other than the lien created hereby) or attachment by any creditor of the Trustee, the Issuer or the Company.

Section 602. Investment of Moneys.

(a) At the request and the direction of the Company (confirmed in writing), moneys held for the credit of the Bond Fund (including any amount therein) shall be invested and reinvested by the Trustee in Investment Obligations which shall mature not later than the respective dates when the moneys held for the credit of said funds will be required for the purposes intended, provided that moneys held in the Credit Facility Account of the Bond Fund shall be invested and reinvested by the Trustee only in Governmental Obligations which shall mature not later than the date on which such moneys will be required to be paid; provided further that such investment shall only be made at the direction of the Company. The Trustee shall be entitled to rely on instruction from the Company. In making investments hereunder, or in selling or disposing of investments as required hereby, the Trustee shall have no duty or responsibility to independently verify compliance with Sections 148(d) and 148(f) of the Code and the regulations promulgated thereunder and the Trustee shall be fully

protected in relying solely upon the written directions of the Company as aforesaid. Under no circumstances whatsoever shall the Trustee be liable to the Issuer, the Company or any holder for any loss of tax-exempt status of the Bonds, or any claims, demands, damages, liabilities, losses, costs or expenses resulting therefrom or in any way connected therewith, so long as the Trustee acts only in accordance with the written directions of the Company as provided hereunder.

(b) Obligations so purchased as an investment of moneys in any such fund or account shall be deemed at all times to be a part of such fund or account, and the interest accruing thereon and any profit realized from such investment shall be credited to such fund or account, and any loss resulting from such investment shall be charged to such fund or account. The Trustee shall sell at market price or present for redemption any obligation so purchased whenever it shall be necessary so to do in order to provide cash to meet any payment or transfer from any such fund or account. Neither the Trustee nor the Issuer shall be liable or responsible for loss resulting from any such investment or the sale of any such investment made pursuant to the terms of this Section.

(c) For the purpose of the Trustee's determination of the amount on deposit to the credit of any such fund or account, obligations in which moneys in such fund or account have been invested shall be valued at the lower of cost or market.

(d) The Trustee may make any and all investments permitted by this Section through its own bond or investment department, unless otherwise directed in writing by the Company Representative.

Section 603. The Credit Facility.

(a) Initial Letter of Credit.

(1) The Letter of Credit shall be a direct pay letter of credit and shall provide for direct payments to or upon the order of the Trustee as hereinafter set forth and shall be the irrevocable obligation of the Bank to pay to or upon the order of the Trustee, upon request and in accordance with the terms thereof, an amount of up to \$5,003,250 of which (A) \$4,765,000 shall support the payment of principal of the Bonds when due and that portion of the purchase price corresponding to principal of Tendered Bonds not remarketed on any Variable Rate Purchase Date or sold on the Conversion Date, and (B) \$238,250 shall support the payment of up to one hundred twenty (120) days' interest at a maximum rate of fifteen percent (15%) per annum on the Bonds when due and that portion of the purchase price corresponding to interest on Tendered Bonds not remarketed on any Variable Rate Purchase Date or sold on the Conversion Date.

(2) The Letter of Credit shall terminate automatically on the earliest of (A) the date on which a drawing under the Letter of Credit has been honored upon the maturity or acceleration of the Bonds or redemption of all the Bonds, (B) the day on which the Credit Facility Issuer receives the notice of the conversion following the Conversion Date, (C) the date on which the Bank receives notice from the Trustee that an Alternate Credit Facility is substituted for the Letter of Credit and is in effect, (D) the date on which the Bank receives notice from the Trustee that there are no longer any Bonds Outstanding

and (E) the Stated Termination Date described in the Letter of Credit as it may be extended pursuant to the terms thereof.

(3) The Bank's obligation under the Letter of Credit may be reduced to the extent of any drawing thereunder, subject to reinstatement as provided therein. The Letter of Credit shall provide that, with respect to a drawing by the Trustee solely to pay interest on the Bonds on any Interest Payment Date, if the Trustee shall not have received from the Bank within ten (10) days from the date of such drawing a notice by telecopier, by telex or in writing that the Bank has not been reimbursed, the Trustee's right to draw under the Letter of Credit with respect to the payment of interest shall be reinstated on or before the eleventh (11th) day following such drawing in an amount equal to such drawing. With respect to any other drawing by the Trustee, the amount available under the Letter of Credit for payment of the purchase price of the Bonds and interest on the Bonds shall be reinstated in an amount equal to any such drawing but only to the extent that the Bank is reimbursed in accordance with the terms of the Reimbursement Agreement for the amounts so drawn.

(4) The Letter of Credit shall provide that if, in accordance with the terms of the Indenture, the Bonds shall become or be declared immediately due and payable pursuant to any provision of the Indenture, the Trustee shall be entitled to draw on the Letter of Credit to the extent that the amounts are available thereunder to pay the aggregate principal amount of the Bonds then Outstanding plus an amount of interest not to exceed one hundred twenty (120) days.

(5) Upon the termination of the Letter of Credit, the Trustee shall return the Letter of Credit to the Bank.

(b) Expiration. Unless an Alternate Credit Facility has been provided in accordance with Section 603(c) hereof at least thirty (30) days before the Interest Payment Date immediately preceding the fourteenth (14th) day prior to the expiration date of a Credit Facility, the Trustee shall call the Bonds for redemption in accordance with the Section 701(c)(2) hereof. If at any time there shall cease to be any Bonds Outstanding hereunder, the Trustee shall promptly surrender the then current Credit Facility to the Credit Facility Issuer for cancellation. The Trustee shall comply with the procedures set forth in the Credit Facility relating to the termination thereof.

(c) Alternate Credit Facilities. While the Bonds bear interest at the Variable Rate, the Company may, at its option, provide for the delivery to the Trustee of an Alternate Credit Facility. The Alternate Credit Facility shall have terms in all respects material to the owners of the Bonds the same as the Credit Facility being replaced and shall be in form acceptable to the Trustee and the Tender Agent. On or prior to the date of delivery of an Alternate Credit Facility to the Trustee, the Company shall furnish to the Trustee:

(1) an opinion of Counsel stating that the delivery of such Alternate Credit Facility to the Trustee is authorized under this Indenture and complies with the terms hereof and that such Alternate Credit Facility is enforceable against the Credit Facility Issuer thereof in accordance with its terms, and

(2) if the Bonds are rated by Moody's or S&P, written evidence (or such other evidence satisfactory to the Trustee) from Moody's, if the Bonds are rated by Moody's, and from S&P, if the Bonds are rated by S&P, in each case to the effect that such rating agency has reviewed the proposed Alternate Credit Facility and that the substitution of the proposed Alternate Credit Facility for the then current Credit Facility will not, by itself, result in:

(A) a permanent withdrawal of its rating of the Bonds, or

(B) a reduction of the then current rating of the Bonds,

or if the Bonds are not rated by Moody's or S&P, written evidence (or such other evidence satisfactory to the Trustee in its sole discretion) that obligations substantially equivalent in term to the term of the proposed Alternate Letter of Credit of the bank or institution issuing the proposed Alternate Credit Facility are rated by Moody's or S&P in the same category as the obligations of substantially equivalent term of the bank or institution which issued the Credit Facility being replaced; provided, however, if the Company provides the Trustee with an opinion of Bond Counsel that a change in the then current rating on the Bonds or a change in the Credit Facility Issuer to a bank or institution the obligations of which are rated in a different category than those obligations of equivalent term of the issuer of the Credit Facility being replaced will not adversely affect the exclusion of the interest on the Bonds from gross income from federal tax purposes, then such evidence need not be provided, but the Company shall instead provide the Trustee with written evidence (or such other evidence as shall be satisfactory to the Trustee) that the commercial paper of the bank or institution issuing the proposed Alternate Credit Facility is rated P-3 or higher by Moody's or A-3 or higher by S&P.

The Trustee shall then accept such Alternate Credit Facility and surrender the previously held Credit Facility to the previous Credit Facility Issuer for cancellation promptly on or before the fifteenth (15th) day after the Alternate Credit Facility becomes effective, but not later than the fifteenth (15th) day following the last Interest Payment Date covered by the Credit Facility to be cancelled.

(d) Notices of Substitution or Replacement of Credit Facility.

(1) The Trustee shall, at least twenty (20) days prior to the proposed replacement of a Credit Facility with an Alternate Credit Facility, give notice thereof by mail to the owners of the Bonds, which notice shall include the identity of the issuer thereof and the rating, if any, to be assigned to the Bonds by Moody's or S&P following the effective date of such Alternate Credit Facility or, if the Bonds are not then rated by Moody's or S&P, then the rating assigned by Moody's or S&P to the obligations substantially equivalent in term to the term of the proposed Alternate Credit Facility of the Issuer of such Alternate Credit Facility.

(2) The Trustee shall promptly give notice of any replacement of the Credit Facility to the Issuer, the Tender Agent and the Remarketing Agent.

ARTICLE VII

REDEMPTION OR PURCHASE OF THE BONDS

Section 701. Redemption or Purchase Dates and Prices.

The Bonds shall be subject to redemption, and, in certain instances, to purchase, prior to maturity in the amounts, at the times and in the manner provided in this Article VII. Payments of the redemption price or the purchase price of any Bond shall be made only upon the surrender to the Trustee or its agent, as directed, of any Bond so redeemed or purchased.

(a) Optional Redemption

(1) Optional Redemption During Variable Rate Period. While the Bonds bear interest at the Variable Rate, the Bonds shall be subject to redemption, upon the written direction of the Issuer, given at the request of the Company, on any Interest Payment Date and on the Conversion Date in whole or in part, at a redemption price of one hundred percent (100%) of the principal amount thereof, without premium, plus interest accrued to the redemption date.

(2) Optional Redemption With Premium During Fixed Rate Period. While the Bonds bear interest at the Fixed Rate, the Bonds shall be subject to redemption upon the written direction of the Issuer, given at the request of the Company, in whole or in part, on any Interest Payment Date occurring on or after the dates set forth below, at the redemption prices (expressed as percentages of principal amount to be redeemed) set forth below plus interest accrued to the redemption date as follows:

Commencement of Redemption Period	Redemption Price
The Business Day four (4) years from the Conversion Date	103% declining by 1/2% on each succeeding anniversary of the day of the redemption period until reaching 100% and thereafter at 100%

first

(b) Extraordinary Optional Redemption Due to Casualty or Eminent Domain.

(1) The Bonds may be redeemed as a whole or in part by the Issuer at any time at the written direction of the Company, at a redemption price equal to one hundred percent (100%) of the principal amount thereof plus interest accrued thereon to the redemption date, without premium, under any of the following conditions, the existence of which shall be certified to the Trustee by the Company Representative:

(A) The Project shall have been damaged or destroyed to such extent that the amount of Net Proceeds of insurance exceeds \$500,000 and the Company elects not to rebuild the Project or fails to so elect within ninety (90) days of receipt by the

Trustee of such Net Proceeds; or

(B) Title to, or the temporary use of, all of the Project or any substantial portion thereof shall have been taken by Eminent Domain and the amount of Net Proceeds from such taking exceeds \$500,000 and the Company elects not to replace the property so taken or fails so to elect within ninety (90) days of receipt by the Trustee of such Net Proceeds.

(2) Such redemption shall occur on the next Interest Payment Date occurring not less than thirty (30) days following the expiration of such 90-day period referred to in paragraph (1) of this Section 701(b).

(c) Mandatory Redemption.

(1) Determination of Taxability. The Bonds shall be subject to mandatory redemption in whole on any date at a redemption price equal to one hundred percent (100%) of the principal amount thereof plus accrued interest to the redemption date which shall not be more than one hundred eighty (180) days following the receipt by the Trustee of a written notice of a Determination of Taxability.

(2) Failure to Provide Alternate Credit Facility. The Bonds shall be subject to mandatory redemption during the Variable Rate Period at one hundred percent (100%) of the principal amount thereof, without premium, plus interest accrued, if any, thereon to the date of redemption, on the Interest Payment Date occurring closest to but not after fifteen (15) days prior to the date of expiration of the then current Credit Facility, unless an Alternate Credit Facility has been provided in accordance with Article VI hereof.

(d) Mandatory Purchase on Conversion Date. The Bonds shall be subject to mandatory purchase in whole on the Conversion Date at a purchase price equal to one hundred percent (100%) of the principal amount thereof, without premium, plus interest accrued, if any, thereon to the date of purchase, on the Conversion Date.

Section 702. Company to Direct Optional Redemption.

The Issuer shall direct the Trustee in writing to call Bonds for optional redemption when and only when it shall have been notified by the Company to do so and the Company has notified the Trustee in writing that the Company has made or intends to make a corresponding prepayment under the Note. Such direction from the Issuer to the Trustee shall be given at least forty-five (45) days but not more than sixty (60) days prior to the redemption date or such shorter period as shall be acceptable to the Trustee. So long as a Credit Facility is then held by the Trustee, the Trustee shall only call Bonds for optional redemption if it has Available Moneys in the Payments Account of the Bond Fund or has been notified by the Credit Facility Issuer that it will receive moneys pursuant to the Credit Facility, in the aggregate, sufficient to pay the redemption price of the Bonds to be called for redemption, plus accrued interest thereon.

Section 703. Selection of Bonds to be Called for Redemption.

Except as otherwise provided herein or in the Bonds, if less than all

the Bonds are to be redeemed, the particular Bonds to be called for redemption shall be selected in the following order of priority: first, Bonds pledged to the Bank pursuant to the Pledge Agreement, second, Bonds owned by the Company and third, Bonds selected by any random or other method determined by the Trustee in its sole discretion to be fair and reasonable. The Trustee shall treat any Bond of a denomination greater than One Hundred Thousand Dollars (\$100,000) as representing that number of separate Bonds each of the denomination of the minimum denomination of One Hundred Thousand Dollars (\$100,000) or any integral multiple of Five Thousand Dollars (\$5,000) in excess thereof as the Trustee shall so determine.

Section 704. Notice of Redemption or Purchase.

(a) When required to redeem or purchase Bonds under any provision of this Article VII, or when directed to do so by the Issuer, the Trustee shall cause notice of the redemption or purchase to be given not more than sixty (60) days and not less than twenty (20) days prior to the redemption or purchase date by mailing a copy of all notices of redemption or purchase by first class mail, postage prepaid, to all registered owners of Bonds to be redeemed or purchased at their addresses shown on the Bond Register. Failure to mail any such notice or defect in the mailing thereof in respect of any Bond shall not affect the validity of the redemption or purchase of any other Bond. Notices of redemption or purchases shall also be mailed to the Remarketing Agent and the Credit Facility Issuer, if any. Any such notice shall be given in the name of the Issuer, shall identify the Bonds to be redeemed or purchased (and, in the case of partial redemption or purchase of any Bonds, the respective principal amounts thereof to be redeemed or purchased), shall specify the redemption or purchase date, and shall state that on the redemption or purchase date, the redemption or purchase price of the Bonds called for redemption or purchase will be payable at the principal corporate trust office of the Trustee, or in the case of mandatory redemptions or purchases pursuant to Section 701(c)(2) or 701(d) hereof at the office of the Trustee's Paying Agent, if any, and that from that date interest will cease to accrue. The Trustee may use "CUSIP" numbers in notices of redemption or purchase as a convenience to Bondholders, provided that any such notice shall state that no representation is made as to the correctness of such numbers either as printed on the Bonds or as contained in any notice of redemption or purchase and that reliance may be placed only on the identification numbers containing the prefix established under the Indenture.

(b) With respect to any notice of redemption or purchase of Bonds in accordance with Section 701(c)(2) hereof, such notice shall also specify the date of the expiration of the term of the Credit Facility.

(c) After the Conversion Date, if at the time of mailing of notice of any optional redemption the Issuer shall not have deposited with the Trustee moneys sufficient to redeem all the Bonds called for redemption, such notice may state that it is conditional on the deposit of Available Moneys with the Trustee not later than the redemption date, and such notice shall be of no effect unless such moneys are so deposited.

(d) Upon redemption of less than all of the Bonds, the Trustee shall furnish to the Credit Facility Issuer a notice in the form specified by the Credit Facility Issuer to reduce the coverage provided by the Credit Facility and upon redemption of all of the Bonds, the Trustee shall

surrender the Credit Facility to the Credit Facility Issuer for cancellation.

(e) Purchases under Section 701(d) hereof shall be in accordance with Section 202(e) hereof.

Section 705. Bonds Redeemed or Purchased in Part.

Any Bond which is to be redeemed or purchased only in part shall be surrendered at a place stated in the notice provided for in Section 704 hereof (with due endorsement by, or a written instrument of transfer in form satisfactory to the Trustee duly executed by, the owner thereof or his attorney duly authorized in writing) and the Issuer shall execute and the Trustee or its Authenticating Agent shall authenticate and deliver to the owner of such Bond without service charge, a new Bond or Bonds, of any authorized denomination as requested by such owner in an aggregate principal amount equal to and in exchange for the unredeemed and unpurchased portion of the principal of the Bond so surrendered.

ARTICLE VIII

PARTICULAR COVENANTS AND PROVISIONS

Section 801. Covenant to Pay the Bonds; Bonds Limited Obligations of the Issuer.

(a) The Issuer covenants that it will promptly pay the principal of and interest on and other amounts payable under the Bonds at the places, on the dates and in the manner provided herein and in the Bonds according to the true intent and meaning thereof. Such principal and interest and other amounts are payable solely from the payments made by the Company on the Note and other Revenues.

(b) The Issuer shall not in any event be liable for the payment of the principal of or interest on the Bonds, or for the performance of any pledge, mortgage, obligation or agreement of any kind whatsoever which may be undertaken by the Issuer, and neither the Bonds nor any of the agreements or obligations of the Issuer shall be construed to constitute an indebtedness of the Issuer within the meaning of any constitutional or statutory provision whatsoever. The Bonds and the interest thereon shall never constitute an indebtedness or a charge against the general credit of the Issuer within the meaning of any constitutional provision or statutory limitation and shall never constitute nor give rise to any pecuniary liability of the Issuer, but shall be limited obligations of the Issuer payable solely from the revenues and other funds pledged therefor and shall not be payable from any other assets or funds of the Issuer, and neither the faith and credit nor the taxing power of the State or any political subdivision or any agency thereof is pledged to the payment of the principal of or the interest on the Bonds.

Section 802. Covenants to Perform Obligations Under this Indenture.

The Issuer covenants that it will faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Indenture, in the Bonds executed and delivered hereunder and in all proceedings of the Issuer pertaining thereto and will faithfully observe

and perform at all times any and all covenants, undertakings, stipulations and provisions of the Loan Agreement on its part to be observed or performed. The Issuer covenants that it is duly authorized under the Constitution and laws of the State, including particularly and without limitation the Act, to issue the Bonds authorized hereby and to enter into this Indenture, to endorse the Note to the Trustee, to pledge the payments on the Note and other Revenues in the manner and to the extent herein set forth, and to assign its interest in the Note and the Loan Agreement to the Trustee; and that all action on its part for the issuance of the Bonds issued hereunder and the execution and delivery of this Indenture has been duly and effectively taken; and that the Bonds in the hands of the owners thereof are and will be the valid and binding obligations of the Issuer according to the tenor and import thereof.

Section 803. Covenant to Perform Obligations Under the Loan Agreement.

Subject to the provisions of Section 804 of this Article, the Issuer covenants and agrees that it will not suffer, permit or take any action or do anything or fail to take any action or fail to do anything which may result in the termination or cancellation of the Loan Agreement so long as any Bond is Outstanding; that it will punctually fulfill its obligations and will require the Company to perform punctually its duties and obligations under the Loan Agreement; that it will not execute or agree to any change, amendment or modification of or supplement to the Loan Agreement or this Indenture except by a supplement or an amendment duly executed by the Issuer and the Company with the approval of the Trustee and upon the further terms and conditions set forth in Article XIII of this Indenture; that it will not agree to any abatement, reduction, abrogation, waiver, diminution or other modification in any manner or to any extent whatsoever of the obligation of the Company to pay the Note and to meet its other obligations as provided in the Loan Agreement; and that it will promptly notify the Trustee in writing of any actual or alleged Event of Default under the Loan Agreement, whether by the Company or the Issuer, that comes to the attention of the Issuer, and will further notify the Trustee at least thirty (30) days before the proposed date of effectiveness of any proposed termination or cancellation of the Loan Agreement.

Section 804. Trustee May Enforce the Issuer's Rights Under the Loan Agreement.

The Loan Agreement, a duly executed counterpart of which has been filed with the Trustee, sets forth the covenants and obligations of the Issuer and the Company, including a provision in Section 12.9 thereof that subsequent to the issuance of the Bonds and prior to Payment of the Bonds (as defined in the Loan Agreement) the Loan Agreement and the Note may not be effectively amended, changed, modified, altered or terminated except as provided in Article XIII of this Indenture, and reference is hereby made to the Loan Agreement for a detailed statement of said covenants and obligations of the Company under the Loan Agreement, and the Issuer agrees that the Trustee, subject to the provisions of the Loan Agreement and this Indenture reserving certain rights to the Issuer and respecting actions by the Trustee in its name or in the name of the Issuer, may enforce all rights of the Issuer and all obligations of the Company under and pursuant to the Loan Agreement for and on behalf of the Bondholders whether or not the Issuer is in default hereunder.

Section 805. Covenant Against Arbitrage.

The Issuer covenants and agrees that it will not make or authorize any use, and directs the Trustee not to make or permit any use, of the proceeds of the Bonds which would cause any Bond to be an "arbitrage bond" within the meaning of Section 148 of the Code and the applicable regulations promulgated from time to time thereunder, and further covenants that it will observe and not violate the requirements of Section 148 of the Code and any such applicable regulations to the extent necessary so that the interest on the Bonds will not cease to be excluded from the gross income of the recipients thereof for federal income tax purposes by reason of such use of proceeds; provided that neither the Issuer nor the Trustee shall be liable for any investment of moneys under this Indenture made at the direction of the Company Representative.

Section 806. Inspection of the Bond Register.

At reasonable times and upon reasonable regulations established by the Bond Registrar, the Bond Register may be inspected and copied by and at the expense of the Company or any Bondholder.

Section 807. Priority of Pledge and Security Interest.

The pledge herein made of the Trust Estate and the security interest created herein with respect thereto constitutes a first and prior pledge of, and a security interest in, the Trust Estate. Said pledge and security interest shall at no time be impaired directly or indirectly by the Issuer or the Trustee, and the Trust Estate shall not otherwise be pledged and, except as provided herein and in the Loan Agreement, no persons shall have any rights with respect thereto.

Section 808. Insurance and Condemnation Proceeds.

Reference is hereby made to Sections 6.4 and 6.5 of the Loan Agreement whereunder it is provided that under certain circumstances the respective Net Proceeds of insurance and condemnation awards (or Net Proceeds from a sale in lieu of condemnation) are to be paid to the Trustee and deposited in separate trust accounts (but not in the Bond Fund) and to be disbursed and paid out as therein provided. The Trustee hereby accepts and agrees to perform the duties and obligations as therein specified.

ARTICLE IX

DEFAULT AND REMEDIES

Section 901. Defaults.

Each of the following events is hereby declared to be an "Event of Default":

(a) Payment of interest on any of the Bonds shall not be made when the same shall become due; or

(b) Payment of the principal or redemption price of any of the Bonds shall not be made when the same shall become due, whether at maturity or upon call for redemption or otherwise; or

(c) An "Event of Default" under the Loan Agreement shall have occurred and not have been waived; or

(d) The Trustee receives written notice from the Credit Facility Issuer that an Event of Default under the Reimbursement Agreement has occurred and has not been waived; or

(e) The Trustee receives notice by telecopier, by telex or in writing from the Credit Facility Issuer that the Credit Facility Issuer has not been reimbursed for a drawing thereon on or before the close of business on the tenth (10th) calendar day following a drawing under such Credit Facility to pay interest on the Bonds and that the interest portion of the Letter of Credit will not be reinstated for the amount so drawn; or

(f) Payment of the purchase price of any Bond tendered pursuant to Section 203 hereof is not made when payment is due; or

(g) The Issuer shall fail to duly and punctually perform any of the covenants, conditions, agreements and provisions contained in the Bonds or in this Indenture on the part of the Issuer to be performed other than as referred to in the preceding subsections of this Section;

provided, however, that no failure specified in subsections (c) or (g) of this Section 901 shall constitute an Event of Default until written notice specifying such failure and requiring the same to be remedied shall have been given to the Company and the Issuer by the Trustee, which may give notice in its discretion and shall give such notice at the written direction of the owners of not less than twenty-five percent (25%) in aggregate principal amount of Bonds Outstanding, and the Company and the Issuer shall have had thirty (30) days after receipt of such notice to correct said failure and shall not have corrected said failure within the applicable period.

Section 902. Acceleration and Annulment Thereof.

(a) Subject to the requirement that the consent of the Credit Facility Issuer to any acceleration must be obtained in the case of an Event of Default described in subsections (c) or (g) of Section 901 hereof, upon the occurrence of an Event of Default, the Trustee may, and upon (1) the written request of the Credit Facility Issuer, or (2) the occurrence of an Event of Default described in subsection (a), (b), (d), (e) or (f) of Section 901 hereof, the Trustee shall, by notice to the Issuer, declare the entire unpaid principal of and interest on the Bonds due and payable; and upon such declaration, the said principal, together with interest accrued thereon, shall become payable immediately, without penalty or premium, at the place of payment provided therein, anything in the Indenture or in the Bonds to the contrary notwithstanding. The Trustee shall not be permitted to request receipt of indemnity to its satisfaction prior to such declaration of acceleration. Upon the occurrence of any acceleration hereunder, the Trustee shall immediately exercise such rights as it may have as the owner of the Note to declare all payments thereunder to be due and payable immediately, and to the extent it has not already done so, shall immediately draw upon the Credit Facility to the extent permitted by the terms thereof. Interest on the Bonds shall cease to accrue upon receipt by the Trustee of funds drawn under the Credit Facility.

(b) Immediately after any acceleration because of the occurrence of an Event of Default under Sections 901(a), (b), (d), (e) or (f), the Trustee shall (immediately, and in no event within two Business Days thereafter) notify in writing the Issuer, the Company and the Credit Facility Issuer of the occurrence of such acceleration. Within five (5) days of the occurrence of any acceleration hereunder, the Trustee shall notify by first class mail, postage prepaid, the owners of all Bonds Outstanding of the occurrence of such acceleration.

(c) If, after the principal of the Bonds has become due and payable, all arrears of interest upon the Bonds are paid by the Issuer, and the Issuer also performs all other things in respect to which it may have been in default hereunder and pays the reasonable charges of the Trustee and the Bondholders, including reasonable attorneys' fees, then, and in every such case, the Credit Facility Issuer or a Majority of the Bondholders by written notice to the Issuer and to the Trustee, may annul such acceleration and its consequences, and such annulment shall be binding upon the Trustee and upon all owners of Bonds issued hereunder; provided, however, that the Trustee shall not annul any declaration without the written consent of the Credit Facility Issuer unless such acceleration has resulted from the failure of the Credit Facility Issuer to honor a proper draw for payment under the Credit Facility. Notwithstanding the foregoing, the Trustee shall not annul any acceleration which has resulted from an Event of Default which has resulted in a drawing under the Credit Facility under Section 901(e) hereof unless the Credit Facility has been reinstated in accordance with its terms to an amount equal to the principal amount of the Bonds Outstanding plus one hundred twenty (120) days' interest accrued thereon, and the Trustee has received written notice of such reinstatement from the Credit Facility Issuer. The Trustee shall forward a copy of any notice from Bondholders received by it pursuant to this paragraph to the Company. Immediately upon such annulment, the Trustee shall cancel, by notice to the Company, any demand for payment of the Note made by the Trustee pursuant to this Section 902.

Section 903. Other Remedies.

If any Event of Default occurs and is continuing, the Trustee, before or after the principal of the Bonds becomes immediately due and payable, may enforce each and every right granted to it as the owner of the Note and under the Loan Agreement and any supplements or amendments thereto. In exercising such rights and the rights given the Trustee under this Article IX, the Trustee shall take such action as, in the judgment of the Trustee applying the standards described in Section 1001 hereof, would best serve the interests of the Bondholders.

Section 904. Legal Proceedings by the Trustee.

(a) If any Event of Default has occurred and is continuing, the Trustee in its discretion may, and upon the written request of the Credit Facility Issuer or the owners of not less than twenty-five percent (25%) in aggregate principal amount of the Outstanding Bonds and receipt of indemnity to its satisfaction shall, in its own name:

(1) By mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Bondholders hereunder;

(2) Bring suit upon the Bonds, the Credit Facility (but only to

the extent the Credit Facility Issuer shall have wrongfully dishonored drawings made in strict conformity with the terms hereof) and the Note; and

(3) By action or suit in equity seek to enjoin any acts or things which may be unlawful or in violation of the rights of the Bondholders.

(b) If an Event of Default under Section 901(c) occurs and is continuing, the Trustee in its discretion may, and upon the written request of the owners of not less than twenty-five percent (25%) in aggregate principal amount of the Outstanding Bonds and receipt of indemnity to its satisfaction shall, enforce each and every right granted to it under the Loan Agreement or as owner of the Note.

Section 905. Discontinuance of Proceedings by the Trustee.

If any proceeding commenced by the Trustee on account of any Event of Default is discontinued or is determined adversely to the Trustee, then the Company, the Credit Facility Issuer, the Issuer, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder as though no proceedings had been commenced.

Section 906. Credit Facility Issuer or Bondholders May Direct Proceedings.

Anything to the contrary in this Indenture notwithstanding, either the Credit Facility Issuer if a Credit Facility is in effect (and no default has occurred and is continuing under the Credit Facility), or a Majority of the Bondholders, if there is no Credit Facility in effect, shall have the right, after furnishing indemnity satisfactory to the Trustee, to direct the method and place of conducting all remedial proceedings by the Trustee hereunder, provided that such direction shall not be in conflict with any rule of law or with this Indenture or unduly prejudice the rights of minority Bondholders.

Section 907. Limitations on Actions by the Bondholders.

(a) No Bondholder shall have any right to bring suit on the Credit Facility. No Bondholder shall have any right to pursue any other remedy hereunder unless:

(1) the Trustee shall have been given written notice of an Event of Default;

(2) the owners of not less than twenty-five percent (25%) in aggregate principal amount of the Outstanding Bonds shall have requested the Trustee, in writing, to exercise the powers hereinabove granted or to pursue such remedy in its or their name or names;

(3) the Trustee shall have been offered indemnity satisfactory to it against costs, expenses and liabilities, except that no offer of indemnification shall be required for a declaration of acceleration under Section 902 hereof or for a drawing under the Credit Facility;

(4) the Trustee shall have failed to comply with such request within a reasonable time; and

(5) prior to the Conversion Date, the Credit Facility Issuer has failed to honor a proper draw request under the Credit Facility.

(b) Notwithstanding the foregoing provisions of subsection (a) of this Section 907 or any other provision of this Indenture, the obligation of the Issuer shall be absolute and unconditional to pay hereunder, but solely from the Revenues and other funds pledged under this Indenture, the principal or redemption price of, and interest on, the Bonds to the respective owners thereof on the respective due dates thereof, and nothing herein shall affect or impair the right of action, which is absolute and unconditional, of such owners to enforce such payment.

Section 908. Trustee May Enforce Rights Without Possession of the Bonds.

All rights under this Indenture and the Bonds may be enforced by the Trustee without the possession of any Bonds or the production thereof at the trial or other proceedings relative thereto, and any proceedings instituted by the Trustee shall be brought in its name for the ratable benefit of the owners of the Bonds.

Section 909. Remedies Not Exclusive.

No remedy herein conferred is intended to be exclusive of any other remedy or remedies, and each remedy is in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 910. Delays and Omissions Not to Impair Rights.

No delays or omission in respect of exercising any right or power accruing upon any default shall impair such right or power or be a waiver of such default, and every remedy given by this Article IX may be exercised from time to time and as often as may be deemed expedient.

Section 911. Application of Moneys in the Event of Default.

(a) Any moneys received by the Trustee under this Article IX shall be applied in the following order; provided that any moneys received by the Trustee from a drawing under the Credit Facility shall be applied to the extent permitted by the terms thereof only as provided in paragraph (3) below with respect to the principal of, and interest accrued on, Bonds other than Bonds held by or for the Company:

(1) To the payment of the reasonable costs of the Trustee, including counsel fees and any disbursements of the Trustee with interest thereon at the per annum rate equal to the "Prime" or "Base" rate of the Credit Facility Issuer and to the payment of reasonable costs and expenses of the Issuer, including counsel fees, incurred in connection with the Event of Default; and

(2) To the payment of principal or redemption price (as the case may be) and interest on the Bonds, and in case such moneys shall be insufficient to pay the same in full, then to payment of principal or redemption price and interest ratably, without preference or priority of one over another or of any installment of interest over any other

installment of interest.

(b) The surplus, if any, shall be paid to the Company or the person lawfully entitled to receive the same as a court of competent jurisdiction may direct; provided that, if the Trustee has received payments on the Credit Facility following the Event of Default, the surplus shall be paid to the Credit Facility Issuer to the extent of such payments to the extent the Credit Facility Issuer has not been reimbursed for such payments and its fees and expenses related thereto.

Section 912. Trustee and Bondholders Entitled to All Remedies Under the Act.

It is the purpose of this Article IX to provide such remedies to the Trustee and the Bondholders as may be lawfully granted under the provisions of the Act, but should any remedy herein granted be held unlawful, the Trustee and the Bondholders shall nevertheless be entitled to every remedy provided by the Act. It is further intended that, insofar as lawfully possible, the provisions of this Article shall apply to and be binding upon any trustee or receiver appointed under applicable law.

Section 913. Trustee May File Claim in Bankruptcy.

(a) In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other similar judicial proceeding relating to the Issuer, the Company or any other obligor upon the Loan Agreement or the Bonds or to property of the Issuer, the Company, or such other obligor or the creditors of any of them, the Trustee (irrespective of whether the principal of the Bonds shall then be due and payable as therein expressed or by declaration or otherwise and irrespective of whether the Trustee shall have made any demand on the Company for the payment on the Note of an amount equal to overdue principal or interest or additional interest) shall be entitled and empowered, by intervention in such proceedings or otherwise;

(1) to file and prove a claim for the whole amount of principal and interest owing and unpaid in respect of the Bonds and to file such other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and of the Bondholders allowed in such judicial proceeding; and

(2) to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same;

and any receiver, assignee, trustee, liquidator, sequestrator (or other similar official) in any such judicial proceeding is hereby authorized by the Bondholders to make such payments to the Trustee, and in the event that the Trustee shall consent to the making of such payments directly to the Bondholders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 911 hereof.

(b) Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept, or adopt on behalf of the

Bondholders, any plan of reorganization, arrangement, adjustment or composition affecting the Bonds or the rights of any Bondholder thereof, or to authorize the Trustee to vote in respect of the claim of the Bondholders in any such proceeding.

(c) All moneys received by the Trustee pursuant to any right given or action taken under this Indenture shall, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and the fees and expenses of the Trustee, be deposited in the Bond Fund and applied to the payment of the principal of, redemption premium, if any, and interest then due and unpaid on the Bonds in accordance with the provisions of this Indenture.

Section 914. Receiver.

Upon the occurrence of an Event of Default and upon the filing of a suit or other commencement of judicial proceedings to enforce the rights of the Trustee and of the Bondholders under this Indenture, the Trustee shall be entitled, as a matter of right, to the appointment of a receiver or receivers of the amounts payable on the Note or otherwise under the Loan Agreement and assigned to the Trustee under this Indenture pending such proceedings, with such powers as the court making such appointment shall confer, whether or not any such amounts payable shall be deemed sufficient ultimately to satisfy the Bonds.

ARTICLE X

CONCERNING THE TRUSTEE

Section 1001. Acceptance of the Trusts.

The Trustee hereby represents and warrants to the Issuer (for the benefit of the Company and the Bondholders as well as the Issuer) that it is a national banking association and that it is duly authorized under the laws of the United States of America to accept and execute trusts of the character herein set out.

The Trustee accepts and agrees to execute the trusts imposed upon it by this Indenture, but only upon the terms and conditions set forth in this Article and subject to the provisions of this Indenture including the following express terms and conditions, to all of which the parties hereto and the Bondholders agree:

(a) Except during the continuance of an Event of Default, the Trustee undertakes to perform such duties and only such duties as are specifically set forth in this Indenture, and no implied covenants or obligations shall be read into this Indenture against the Trustee.

(b) In case an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a prudent man would exercise or use under the circumstances in the conduct of his own affairs.

(c) The Trustee may execute any of the trusts or powers hereof and perform any of its duties by or through attorneys, agents, receivers or

employees and it shall not be responsible for any misconduct or negligence of any such attorney, agent or receiver appointed by it upon due care, and shall be entitled to act upon the opinion or advice of its counsel concerning all matters of trust hereof and the duties hereunder, and may in all cases be reimbursed hereunder for reasonable compensation paid to all such attorneys, agents, receivers and employees as may reasonably be employed in connection with the trust hereof. The Trustee may conclusively rely upon an opinion of counsel and shall not be responsible for any loss or damage resulting from any action or non-action by it taken or omitted to be taken in good faith in reliance upon such opinion of counsel.

(d) Except as is specifically provided in Section 1019 with respect to the filing of continuation statements, the Trustee shall not be responsible for any recital herein, or in the Bonds (except in respect to the authentication certificate of the Trustee endorsed on the Bonds), or for insuring the Trust Estate or any part of the Project or collecting any insurance moneys, or for the validity of the execution hereof by the Issuer or of any supplements hereto or instruments of further assurance, or for the sufficiency of the security for the Bonds; and the Trustee shall not be bound to ascertain or inquire as to the performance or observance of any agreements or conditions on the part of the Issuer or on the part of the Company under the Loan Agreement, except as hereinafter set forth; but the Trustee may require of the Issuer or the Company full information and advice as to the performance of the agreements and conditions aforesaid and as to the condition of the Trust Estate.

(e) The Trustee shall not be liable in connection with the performance or non-performance of its duties under this Indenture except for its own grossly negligent action, its own grossly negligent failure to act, or its own willful misconduct, except that:

(1) this subsection shall not be construed to limit the effect of subsection (a) of this Section 1001;

(2) The Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer or Officers of the Trustee unless it shall be proved that the Trustee was grossly negligent in ascertaining the pertinent facts; and

(3) The Trustee shall not be liable with respect to any action taken or omitted to be taken by it in good faith in accordance with the direction of a Majority of the Bondholders relating to the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee under this Indenture.

(f) Whether or not therein expressly so provided, every provision of this Indenture that in any way relates to the Trustee, including without limitation Sections 1003 and 1004 hereof, shall be subject to the provisions of this Section 1001.

Section 1002. Trustee to Give Notice.

(a) The Trustee shall not be required to take notice or be deemed to have notice of any default hereunder, except failure by the Issuer to cause to be made any of the payments to the Trustee required to be made by Article V or failure by the Issuer or the Company to file with the Trustee

any document required by this Indenture or the Loan Agreement to be so filed, unless the Trustee shall be notified of such default by the Issuer or by the holders of 25% in aggregate principal amount of Bonds then Outstanding or unless a responsible corporate trust officer of the Trustee charged with the responsibility for the management of the trusts conferred by this Indenture shall have actual knowledge of such default.

(b) If a responsible trust officer of the Trustee charged with the responsibility for the management of the trusts conferred by this Indenture shall have actual knowledge of any Event of Default continuing hereunder, the Trustee shall give to all Bondholders and to the Credit Facility Issuer written notice of all such defaults within thirty (30) days after receipt of such information.

(c) Promptly upon receipt of notice of the occurrence of a Determination of Taxability, the Trustee shall give notice thereof to the Company, the Issuer, the Bondholders and former Bondholders and to the Credit Facility Issuer.

Section 1003. Trustee Entitled to Indemnity.

(a) The Company shall indemnify the Trustee its officers, directors and employees against any loss, liability or expense incurred by it arising out of or in connection with the acceptance or administration of its duties under this Indenture, except as set forth in subsection (b) below. The Trustee shall notify the Company promptly of any claim for which it may seek indemnity. Except where the Company is the claimant, the Company shall have full and sole right to defend the claim, and the Trustee shall cooperate in the defense. If the Trustee engages separate counsel, the Trustee shall pay all fees and expenses of such counsel and the Company shall no longer have the obligation to indemnify the Trustee; provided, however that the Trustee shall have the right to retain separate counsel, with the fees and expenses to be paid by the Company, if representation of the Trustee would be inappropriate due to an actual conflict of interest, as reasonably determined by either party, between the Trustee and the Company. The Company shall not be responsible for any settlement reached without the Company's consent.

(b) The Company shall not be obligated to reimburse any expense or to indemnify against any loss or liability incurred by the Trustee through its gross negligence, willful misconduct or bad faith.

(c) To secure the Company's payment obligations in this Section and in Section 911, the Trustee shall have a lien prior to the lien of the Trustee for the benefit of the owners of the Bonds on all money or property held or collected by the Trustee, except for amounts drawn under the Credit Facility and money and property held in the Rebate Fund, as to which the Trustee shall have no such lien. Such obligations shall survive the satisfaction and discharge of this Indenture.

(d) When the Trustee or Issuer incurs expenses or renders services after an Event of Default, the expenses and compensation for the services are intended to constitute expenses of administration under any applicable bankruptcy law.

(e) The Trustee may begin suit, or appear in and defend suit, or do anything else in its judgment proper to be done by it as such Trustee,

without indemnity under paragraph (a) above, and in such case the Issuer shall reimburse the Trustee and the Issuer, on an equal basis, from funds available therefor under the Loan Agreement for all costs and expenses, outlays and counsel fees and other reasonable disbursements properly incurred in connection therewith; provided, however, that the Trustee shall:

(1) make all payments hereunder of principal and redemption price of and interest on the Bonds and of the purchase price of Bonds tendered at the option of the owners thereof or purchased by the Company in lieu of redemption,

(2) accelerate the Bonds when required to do so hereunder other than at the direction of the Bondholders, and

(3) draw on the Credit Facility when required to do so hereunder,

each without the necessity of the Bondholders providing security or indemnity to the Trustee. If the Issuer shall fail to make reimbursement, the Trustee may reimburse itself from any moneys in its possession under the provisions of this Indenture other than moneys drawn under the Credit Facility and shall be entitled with respect thereto to a preference over the Bonds.

Section 1004. Trustee Not Responsible for Insurance, Taxes, Execution of this Indenture, Acts of the Issuer or Application of the Moneys Applied in Accordance with this Indenture.

(a) The Trustee shall not be under any obligation to effect or maintain insurance or to renew any policies of insurance or to inquire as to the sufficiency of any policies of insurance carried by the Company, or to report, or make or file claims or proof of loss for, any loss or damage insured against or which may occur, or to keep itself informed or advised as to the payment of any taxes or assessments, or to require any such payment to be made. The Trustee shall have no responsibility in respect of the validity, sufficiency, due execution or acknowledgment of this Indenture or any supplements thereto or instruments of further assurance or the validity or sufficiency of the security provided hereunder or in respect of the validity of the Bonds or the due execution or issuance thereof. The Trustee shall not be under any obligation to see that any duties herein imposed upon any party other than itself, or any covenants herein contained on the part of any party other than itself to be performed, shall be done or performed, and the Trustee shall be under no liability for failure to see that any such duties or covenants are so done or performed.

(b) The Trustee shall not be liable or responsible because of the failure of the Issuer or of any of its employees or agents to make any collections or deposits or to perform any act herein required of the Issuer or because of the loss of any moneys arising through the insolvency or the act or default or omission of any other depository in which such moneys shall have been deposited under the provisions of this Indenture. The Trustee shall not be responsible for the application of any of the proceeds of the Bonds or any other moneys deposited with it and paid out, withdrawn or transferred hereunder if such application, payment, withdrawal or transfer shall be made in accordance with the provisions of this Indenture.

The Trustee shall not be responsible or liable for any loss suffered in connection with any investment of funds made by it in accordance with Section 602.

(c) The permissive right of the Trustee to do things enumerated in this Indenture shall not be construed as a duty, and the Trustee shall not be answerable for other than its gross negligence or willful misconduct. The immunities and exemptions from liability of the Trustee hereunder shall extend to its directors, officers, employees and agents.

Section 1005. Compensation.

Subject to the provisions of any agreement relating to the compensation of the Trustee, the Issuer shall cause the Company to pay to the Trustee as Administrative Expenses its reasonable fees, charges and out-of-pocket expenses in accordance with Section 7.5 of the Loan Agreement. In computing the Trustee's compensation, the parties shall not be limited by any law on the compensation of an express trust. If the Company shall fail to make any payment required by this Section 1005, the Trustee may, but shall be under no obligation to, make such payment from any moneys in its possession under the provisions of this Indenture and shall be entitled to a preference therefor over the Bonds hereunder; provided that no payments under this Section 1005 shall be made with moneys drawn under the Credit Facility.

Section 1006. Trustee to Preserve Records.

All records and files pertaining to the Project in the custody of the Trustee shall be open at all reasonable times to the inspection of the Issuer, the Credit Facility Issuer and the Company and their agents and representatives.

Section 1007. Trustee May Be a Bondholder.

The institution acting as Trustee under this Indenture, and its directors, officers, employees or agents, may in good faith buy, sell, own, hold and deal in the Bonds issued under and secured by this Indenture, and may join in the capacity of a Bondholder in any action which any Bondholder may be entitled to take with like effect as if such institution were not the Trustee under this Indenture. To the extent permitted by law, such institution may also receive tenders and purchase in good faith Bonds from itself, including any department, affiliate or subsidiary, with like effect as if it were not the Trustee.

Section 1008. Trustee Not Responsible for Recitals.

The recitals, statements and representations contained herein and in the Bonds shall be taken and construed as made by and on the part of the Issuer and not by the Trustee, and the Trustee shall not be under any responsibility for the correctness of the same.

Section 1009. No Trustee Responsibility for Recording or Filing.

The Trustee shall not be under any obligation to see to the recording or filing of this Indenture, the Loan Agreement, any financing statements or any other instrument or otherwise to the giving to any person of notice of the provisions hereof or thereof.

Section 1010. Trustee May Require Information.

Except for the obligations of the Trustee under Section 902 and the obligations of the Trustee to make payments on the Bonds when due and to draw under the Credit Facility as required hereunder, anything contained in this Indenture to the contrary notwithstanding, the Trustee shall have the right, but shall not be required, to demand, as a condition of any action by the Trustee in respect of the authentication of any Bonds, the withdrawal of any cash, the release of any property, or any action whatsoever within the purview of this Indenture, any showings, certificates, opinions, appraisals or other information, or evidence of corporate authority, in addition to that required by the terms hereof.

Section 1011. Trustee May Rely on Certificates.

The Trustee shall be protected and shall incur no liability in acting or proceeding, or in not acting or not proceeding, in good faith and in accordance with the terms of this Indenture, upon any ordinance, resolution, order, notice, request, consent, waiver, certificate, statement, instrument, opinion, affidavit, requisition, bond or other paper or document which it shall in good faith believe to be genuine and to have been adopted or signed by the proper board or person or to have been prepared and furnished pursuant to any of the provisions of the Loan Agreement or this Indenture, or upon the written opinion of any attorney, engineer, accountant or other expert believed by it to be qualified in relation to the subject matter, and the Trustee shall not be under any duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument. Any action taken by the Trustee pursuant to this Indenture upon the request or authority or consent of any person who at the time of making such request or giving such authority or consent is the owner of any Bond shall be conclusive and binding upon all future owners of the same Bond and upon Bonds issued in exchange therefor or in place thereof.

Section 1012. Trustee Bond.

The Trustee shall not be required to give any bond or surety in respect to the execution of its rights and obligations hereunder.

Section 1013. Segregation of Funds; Interests:

All moneys received by the Trustee shall, until used or applied or invested as herein provided, be held in trust in the manner and for the purposes for which they were received but need not be segregated from other funds except to the extent required by this Indenture or law. The Trustee shall not be under any liability for interest on any moneys received hereunder.

Section 1014. Qualification of the Trustee.

There shall at all times be a Trustee hereunder which shall be an association or a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws and the applicable laws of the State to exercise corporate trust powers and act as Bond Registrar hereunder, having a combined capital and surplus of at least One Hundred Million Dollars (\$100,000,000), and subject to

supervision or examination by federal or state authority. If such association or corporation is not a commercial bank or trust company, it shall also have a rating by Moody's (if the Bonds are then rated by Moody's) of BAA 3/P3 or higher, or by S&P (if the Bonds are then rated by S&P) of Baa/A3 or higher or shall otherwise be approved in writing by Moody's or S&P, as the case may be. If such association or corporation publishes reports of condition at least annually, pursuant to law or to the requirements of the aforesaid supervising or examining authority, then for the purposes of this Section 1014, the combined capital and surplus of such association or corporation shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee shall cease to be eligible in accordance with the provisions of this Section 1014, it shall resign immediately in the manner and with the effect specified in Section 1015 hereof.

Section 1015. Resignation and Removal of the Trustee.

(a) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee under Section 1016 hereof.

(b) The Trustee may resign at any time by giving written notice thereof to the Issuer and the Company. If an instrument of acceptance by a successor Trustee shall not have been delivered to the Trustee within thirty (30) days after the giving of such notice of resignation, the retiring Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(c) The Trustee may be removed at any time by an instrument or instruments in writing to the Trustee, with copies to the Issuer and the Company, signed by a Majority of the Bondholders or by their attorneys, legal representatives or agents and delivered to the Trustee, the Issuer and the Company (such instruments to be effective only when received by the Trustee).

(d) If at any time:

(1) the Trustee shall cease to be eligible under Section 1014 hereof, and shall fail to resign after written request therefor by the Company or by a Majority of the Bondholders, or

(2) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, the Issuer or the Company may remove the Trustee, or any Bondholder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor.

(e) If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, the Issuer with the approval of the Company shall promptly appoint a successor. If no successor Trustee shall have been so appointed by the Issuer and approved by the Company or a Majority of the Bondholders and

accepted appointment in the manner hereinafter provided, any Bondholder, if he has been a bona fide owner of a Bond for at least six (6) months, may petition any court of competent jurisdiction for the appointment of a successor Trustee.

(f) The Issuer shall give notice of each resignation and each removal of the Trustee and each appointment of a successor Trustee by mailing written notice of such event by first-class mail, postage prepaid, to each Bondholder. Each notice shall include the name and address of the principal corporate trust office of the successor Trustee.

Section 1016. Successor Trustee.

(a) Every successor Trustee appointed hereunder shall execute, acknowledge and deliver to its predecessor, and also to the Issuer and the Company, an instrument in writing accepting such appointment hereunder, and thereupon and upon transfer of the Credit Facility to the successor Trustee such successor Trustee without any further act, shall become fully vested with all the rights, immunities, powers and trusts, and subject to all the duties and obligations, of its predecessors; but such predecessor shall, nevertheless, on the written request of its successor or of the Issuer and upon payment of the expenses, charges and other disbursements of such predecessor which are payable pursuant to the provisions of Section 1005 hereof, execute and deliver an instrument transferring to such successor Trustee all the rights, immunities, powers and trusts of such predecessor hereunder; and every predecessor Trustee shall deliver all property and moneys held by it hereunder to its successor, subject, nevertheless, to its preference, if any, provided for in Sections 1003 and 1005 hereof. Should any instrument in writing from the Issuer be required by any successor Trustee for more fully and certainly vesting in such Trustee the rights, immunities, powers and trusts hereby vested or intended to be vested in the predecessor Trustee, any such instrument in writing shall and will, on request, be executed, acknowledged and delivered by the Issuer. The resignation of any Trustee and the instrument or instruments removing any Trustee and appointing a successor hereunder, together with all other instruments provided for in this Article, shall be filed and/or recorded by the successor Trustee in each recording office where this Indenture and the Financing Statements have been filed and/or recorded.

(b) Notwithstanding any of the foregoing provisions of this Article, any bank or trust company having power to perform the duties and execute the trusts of this Indenture and otherwise qualified to act as Trustee hereunder with or into which the bank or trust company acting as Trustee may be merged or consolidated, or to which the assets and business of such bank or trust company may be sold, shall be deemed the successor of the Trustee.

Section 1017. Co-Trustee.

It is the purpose of this Indenture that there shall be no violation of any law of any jurisdiction denying or restricting the right of certain banking corporations or associations to transact business as trustee as contemplated herein in such jurisdiction. It is recognized that in case of litigation under this Indenture and in particular in case of the enforcement of the security interest contained in this Indenture upon the occurrence of an Event of Default, it may be necessary that the Trustee appoint an additional individual or institution as a separate Trustee or

Co-Trustee, which shall be satisfactory to the Company. The following provisions of this Section 1017 are adapted to these ends:

(a) In the event of the incapacity or lack of authority of the Trustee by reason of any present or future law of any jurisdiction to exercise any of the rights, powers and trusts herein granted to the Trustee or to hold title to or a security interest in the Trust Estate or to take any other action which may be necessary or desirable in connection therewith, each and every remedy, power, right, claim, demand, cause of action, immunity, estate, title, interest and lien expressed or intended by this Indenture to be exercised by or vested in or conveyed to the Trustee with respect thereto shall be exercisable by and vest in such separate Trustee or Co-Trustee but only to the extent necessary to enable the separate Trustee or Co-Trustee to exercise such rights, powers and trusts, and every covenant and obligation necessary to the exercise thereof shall run to and be enforceable by such separate Trustee or Co-Trustee.

(b) Should any deed, conveyance or instrument in writing from the Issuer be required by the separate Trustee or Co-Trustee so appointed by the Trustee in order to more fully and certainly vest in and confirm to it such properties, rights, powers, trusts, duties and obligations any and all such deeds, conveyances and instruments shall, on request, be executed, acknowledged and delivered by the Issuer. In case any separate Trustee or Co-Trustee or a successor to either, shall die, be dissolved, become incapable of action, resign or be removed, all the estates, properties, rights, powers, trusts, duties and obligations of such separate Trustee or Co-Trustee, so far as permitted by law, shall vest in and be exercised by the Trustee until the appointment of a new Trustee or successor to such separate Trustee or Co-Trustee.

Section 1018. Notice to Moody's or S&P.

At any time during which the Bonds are rated by Moody's or S&P, the Trustee shall notify Moody's or S&P, as applicable, promptly of:

(a) any change in the Trustee,

(b) the expiration or termination of the Credit Facility during the Variable Rate Period unless an Alternate Credit Facility is provided to the Trustee in accordance with the terms of this Indenture,

(c) a change in the interest rate borne by the Bonds from a Variable Rate to a Fixed Rate,

(d) the payment of all of the Bonds, or

(e) any material change to this Indenture, the Loan Agreement, the Reimbursement Agreement, the Credit Facility or the Remarketing Agreement.

Section 1019. Filing of Certain Continuation Statements.

From time to time, the Trustee shall file or cause to be filed continuation statements for the purpose of continuing without lapse the effectiveness of (i) those Financing Statements which shall have been filed at or prior to the issuance of the Bonds in connection with the Issuer's assignment to the Trustee of the Trust Estate pursuant to the authority of the Uniform Commercial Code of the State of Florida, and (ii) any

previously filed continuation statements which shall have been filed as herein required. The Issuer and the Company shall sign and deliver to the Trustee or its designee such continuation statements as may be requested of it from time to time by the Trustee. Upon the filing of any such continuation statement the Trustee shall immediately notify the Issuer that the same has been accomplished.

ARTICLE XI

EXECUTION OF INSTRUMENTS BY THE BONDHOLDERS AND PROOF OF OWNERSHIP OF THE BONDS

Section 1101. Execution of Instruments by the Bondholders and Proof of Ownership of the Bonds.

(a) Any request, direction, consent or other instrument in writing required or permitted by this Indenture to be signed or executed by a Bondholder may be signed or executed by the Bondholder or its attorneys or legal representatives. Proof of the execution of any such instrument and of the ownership of the Bonds shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee with regard to any action taken by it under such instrument if made in the following manner:

The fact and date of the execution by any person of any such instrument may be proved by the verification of any officer in any jurisdiction who, by the laws thereof, has power to take affidavits within such jurisdiction, to the effect that such instrument was subscribed and sworn to before him, or by an affidavit of a witness to such execution, and where such execution is by an officer of a corporation or association or a member of a partnership on behalf of such corporation, association or partnership, such verification or affidavit shall also constitute sufficient proof of his authority.

(b) Nothing contained in this Section 1101 shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of the matters herein stated which may be sufficient. Any request or consent of a Bondholder shall bind every future owner of the Bond(s) to which such request or consent pertains or any Bond(s) issued in lieu thereof in respect of anything done by the Trustee pursuant to such request or consent.

(c) Notwithstanding any of the foregoing provisions of this Section 1101, the Trustee shall not be required to recognize any person as an owner of Bonds or to take any action at its request unless the Bonds shall be deposited with it.

Section 1102. Preservation of Information.

The Trustee shall preserve in the Bond Register, in as current a form as is reasonably practicable, the name and address of each Bondholder received by the Trustee in its capacity as Bond Registrar.

ARTICLE XII

THE REMARKETING AGENT; THE TENDER AGENT; THE PLACEMENT AGENT

Section 1201. The Remarketing Agent.

(a) The Issuer hereby appoints First Union National Bank of North Carolina, with its corporate office in Charlotte, North Carolina, as Remarketing Agent under this Indenture. The Remarketing Agent and any successor Remarketing Agent, by written instrument delivered to the Issuer, the Trustee and the Company, shall accept the duties and obligations imposed on it under this Indenture and the Remarketing Agreement.

(b) In addition to the other obligations imposed on the Remarketing Agent hereunder, the Remarketing Agent shall agree to keep such books and records in connection with its activities as Remarketing Agent hereunder as shall be consistent with prudent industry practice and make such books and records available for inspection by the Issuer, the Trustee, the Credit Facility Issuer and the Company at all reasonable times.

(c) The Remarketing Agent shall at all times be a member of the National Association of Securities Dealers, Inc. and registered as a Municipal Securities Dealer under the Securities Exchange Act of 1934, as amended, or a national banking association or a bank or a trust company, in each case authorized by law to perform its obligations hereunder.

(d) If at any time the Remarketing Agent is unable or unwilling to act as Remarketing Agent, the Remarketing Agent, upon thirty (30) Business Days' prior written notice to the Issuer, the Trustee, the Tender Agent and the Company, may resign. The Remarketing Agent may be removed at any time by the Company with the consent of the Issuer, by written notice signed by the Company delivered to the Trustee, the Remarketing Agent, the Credit Facility Issuer and the Tender Agent. Upon resignation or removal of the Remarketing Agent, the Company, with the consent of the Issuer, shall appoint a substitute Remarketing Agent meeting the qualifications of Section 1201(c) above.

(e) In the event that the Company shall fail to appoint a successor Remarketing Agent, upon the resignation or removal of the Remarketing Agent or upon its dissolution, insolvency or bankruptcy, the Trustee may, but is not required to, appoint a Remarketing Agent or itself act as Remarketing Agent until the appointment of a successor Remarketing Agent in accordance with this Section 1201; provided, however, that the Trustee, in its capacity as Remarketing Agent, shall not be required to sell Bonds or determine the interest rate on the Bonds pursuant to Section 202 hereof.

Section 1202. The Tender Agent.

(a) The Issuer hereby appoints as Tender Agent under this Indenture The First National Bank of Boston, which agent has a corporate trust office at Canton, Massachusetts. The Tender Agent and any successor Tender Agent, by written instrument delivered to the Issuer, the Trustee and the Company, shall accept the duties and obligations imposed on it under this Indenture.

(b) The Tender Agent shall at all times be a member of the National Association of Securities Dealers, Inc. having a capitalization of at least Fifteen Million Dollars (\$15,000,000) and a rating by Moody's (if the Bonds are then rated by Moody's) of BAA 3/P3 or higher, or a national banking

association or a bank or a trust company having capital and surplus of at least \$50,000,000, in each case authorized by law to perform its obligations hereunder.

(c) If at any time the Tender Agent is unable or unwilling to act as Tender Agent, the Tender Agent, upon sixty (60) days' prior written notice to the Issuer, the Trustee, the Remarketing Agent and the Company, may resign; provided, however, that in no case shall such resignation become effective until the appointment of a successor Tender Agent. The Tender Agent may be removed at any time by the Company with the consent of the Issuer, by written notice signed by the Company delivered to the Trustee, the Remarketing Agent, the Credit Facility Issuer and the Tender Agent; provided, however, that in no case shall such removal become effective until the appointment of a successor Tender Agent. Upon resignation or removal of the Tender Agent, the Company, with the consent of the Issuer, shall appoint a substitute Tender Agent meeting the qualifications of Section 1202(b) above.

(d) In the event that the Company shall fail to appoint a successor Tender Agent, upon the resignation or removal of the Tender Agent or upon its dissolution, insolvency or bankruptcy, the Trustee may at its discretion, but is not required to, act as Tender Agent until the appointment of a successor Tender Agent in accordance with this Section 1202.

Section 1203. The Placement Agent.

The Placement Agent shall be a member of the National Association of Securities Dealers, Inc. and registered as a Municipal Securities Dealer under the Securities Exchange Act of 1934, as amended, or a national banking association or a bank or trust company, in each case authorized by law to perform its obligations described in Section 202(e) hereof.

Section 1204. Notices.

The Trustee shall, within thirty (30) days of the resignation or removal of the Remarketing Agent or the Tender Agent or the appointment of the Placement Agent or a successor Remarketing Agent or Tender Agent, give notice thereof by first class mail, postage prepaid, to the owners of the Bonds.

ARTICLE XIII

AMENDMENTS AND SUPPLEMENTS

Section 1301. Amendments and Supplements Without the Bondholders' Consent.

This Indenture may be amended or supplemented at any time and from time to time, without the consent of the Bondholders, but with the consent of the Credit Facility Issuer, if a Credit Facility is in effect (and no default has occurred and is continuing under the Credit Facility), by a supplemental indenture authorized by the Issuer filed with the Trustee, for one or more of the following purposes:

(a) to add additional covenants of the Issuer or to surrender any

right or power herein conferred upon the Issuer;

(b) for any purpose not inconsistent with the terms of this Indenture or to cure any ambiguity or to correct or supplement any provision contained herein or in any supplemental indenture which may be defective or inconsistent with any other provision contained herein or in any supplemental indenture, or to make such other provisions in regard to matters or questions arising under this Indenture which shall not adversely affect the interests of the owners of the Bonds or the Company;

(c) to permit the Bonds to be converted during the Variable Rate Period to certificateless securities or securities represented by a master certificate held in trust, ownership of which, in either case, is evidenced by book entries on the books of the Bond Registrar, for any period of time;

(d) to permit the appointment of a Co-Trustee under this Indenture;

(e) to modify, eliminate or add to the provisions of this Indenture to such extent as shall be necessary to effect the qualification of this Indenture under the Trust Indenture Act of 1939, or under any similar federal statute hereafter enacted, and to add to this Indenture such other provisions as may be expressly permitted by the Trust Indenture Act of 1939;

(e) except as otherwise provided in Section 1302 hereof, to modify, eliminate or add to the provisions of this Indenture to such extent as shall be necessary to obtain a rating of the Bonds from Moody's or S&P ;

(f) to amend the administrative provisions hereof to accommodate the provisions of an Alternate Credit Facility; and

(g) to amend the provisions hereof to reflect the obligation of the Trustee, the Issuer or the Company to disclose information regarding the Bonds, the Project, the Issuer, the Company or the issuer of the Letter of Credit as shall be required or recommended to be disclosed in accordance with applicable regulations or guidelines established by, among others, the American Bankers Association Corporate Trust Committee.

Section 1302. Amendments With the Bondholders' and the Credit Facility Issuer's Consent.

(a) This Indenture may be amended from time to time, except with respect to:

(1) the principal, redemption price, purchase price, or interest payable upon any Bonds,

(2) the Interest Payment Dates, the dates of maturity or the redemption or purchase provisions of any Bonds, and

(3) this Article XIII,

by a supplemental indenture consented to by the Credit Facility Issuer if a Credit Facility is in effect (and no default has occurred and is continuing under the Credit Facility) and by the Company and approved by a Majority of the Bondholders which would be affected by the action proposed to be taken.

(b) This Indenture may be amended with respect to the matters enumerated in paragraphs (1) through (3) of subsection (a) of this Section with the unanimous consent of all Bondholders, the Credit Facility Issuer if a Credit Facility is in effect (and there is no default has occurred and is continuing under the Credit Facility), the Company and the Issuer.

Notwithstanding the foregoing, the Issuer and the Trustee and, during the Variable Rate Period, the Credit Facility Issuer if the Credit Facility is in effect (and no default has occurred and is continuing under the Credit Facility), may amend the Indenture to such extent as may be necessary to obtain a rating of the Bonds from Moody's or S&P without providing the opinion of Bond Counsel specified in paragraph (2) above.

Section 1303. Supplemental Indentures Affecting the Rights of the Credit Facility Issuer.

Anything herein to the contrary notwithstanding, a supplemental indenture under this Article XIII which in the judgment of the Credit Facility Issuer if a Credit Facility is in effect (and no default has occurred and is continuing under the Credit Facility) adversely affects the rights of the Credit Facility Issuer shall not become effective unless or until the Credit Facility Issuer shall have consented to the execution and delivery thereof.

Section 1304. Amendment of the Loan Agreement.

(a) The Company, the Trustee and, during the Variable Rate Period, the Credit Facility Issuer if a Credit Facility is in effect (and no default has occurred and is continuing under the Credit Facility), may amend the Loan Agreement; provided that prior to making any amendment, the Company shall provide the Trustee and the Credit Facility Issuer with:

(1) a copy of the proposed amendment and

(2) an opinion of Bond Counsel to the effect that such amendment or supplement will not adversely affect the exclusion of the interest on the Bonds from the gross income of the recipients thereof for federal income tax purposes and unless the Trustee shall have otherwise given its consent to such amendment or supplement, to the further effect that such amendment or supplement will not otherwise adversely affect the interests of the Bondholders.

Notwithstanding the foregoing, the Issuer, the Company, the Trustee, and, during the Variable Rate Period, the Credit Facility Issuer if a Credit Facility is in effect (and no default has occurred and is continuing under the Credit Facility), may amend the Loan Agreement to such extent as may be necessary to obtain a rating of the Bonds from Moody's or S&P without providing the opinion of Bond Counsel specified in paragraph (2) above.

(b) If the Company proposes to amend the Loan Agreement in such a manner as would adversely affect the interests of the Bondholders, the Trustee shall notify Bondholders of the proposed amendment and may consent thereto with the consent of at least a Majority of the Bondholders which would be affected by the action proposed to be taken; provided, that the Trustee shall not, without the unanimous consent of the owners of all Bonds then Outstanding, consent to any amendment which would:

- (1) decrease the amounts payable on the Note,
- (2) change the due date of principal or interest on the Note or change any of the prepayment provisions of the Note, or
- (3) change Section 5.3 of the Loan Agreement.

Section 1305. Amendment of the Loan Agreement Requiring the Consent of the Credit Facility Issuer.

Anything herein to the contrary notwithstanding, any amendment, change or modification of the Loan Agreement which in the judgment of the Credit Facility Issuer affects the rights of the Credit Facility Issuer shall not become effective unless or until the Credit Facility Issuer shall have consented to the execution and delivery of such amendment, change or modification.

Section 1306. Amendment of the Credit Facility.

The initial Credit Facility may be amended to such extent as shall be necessary to obtain a rating of the Bonds from Moody's or S&P provided that such amendment or supplement will not adversely affect the interests of the Bondholders. The Trustee shall notify the Bondholders and the Issuer of any proposed amendment of the Credit Facility which would adversely affect the interests of the Bondholders and may consent thereto with the consent of the Issuer, which consent shall not be unreasonably withheld, and at least a Majority of the Bondholders which would be affected by the action proposed to be taken; provided, that the Trustee shall not, without the unanimous consent of the owners of all Bonds then Outstanding, consent to any amendment which would decrease the amount payable under the Credit Facility or reduce the term of the Credit Facility.

Section 1307. Trustee Authorized to Join in Amendments and Supplements; Reliance on Counsel.

The Trustee is authorized to join with the Issuer in the execution and delivery of any supplemental indenture or amendment permitted by this Article XIII and in so doing shall be fully protected by an opinion of Counsel that such supplemental indenture or amendment is so permitted and has been duly authorized by the Issuer and that all things necessary to make it a valid and binding agreement have been done; provided that certain amendments may, by agreement between the Trustee and the Credit Facility Issuer, require the prior consent of the Credit Facility Issuer.

ARTICLE XIV

DEFEASANCE; OTHER PAYMENTS

Section 1401. Defeasance.

(a) When the principal or redemption price (as the case may be) of, and interest on all Bonds issued hereunder have been paid, including without limitation the purchase price for Bonds tendered under Section 202 hereof, or provision has been made for payment of the same, together with the compensation of the Trustee and all other sums payable hereunder by the

Issuer, the right, title and interest of the Trustee in and to the Trust Estate and the security interests shall thereupon cease, and the Trustee, on written demand of the Issuer, shall release this Indenture and the security interests and shall execute such documents to evidence such release as may be reasonably required by the Issuer and shall turn over to the Company or to such person, body or authority as may be entitled to receive the same all balances then held by it hereunder; provided, that, if any payments have been received by the Trustee from the Credit Facility in connection with such release, such balances shall be paid to the Credit Facility Issuer to the extent of such payments. If payment or provision therefor is made with respect to less than all of the Bonds, the particular Bonds (or portion thereof) for which provision for payment shall have been considered made shall be selected by lot by the Trustee and thereupon the Trustee shall take similar action for the release of this Indenture with respect to such Bonds. Notwithstanding anything to the contrary contained herein, Bonds purchased at the option of the owners thereof with moneys held by the Trustee pursuant to this Article XIV shall not be remarketed but shall be cancelled by the Trustee.

(b) Provision for the payment of Bonds shall be deemed to have been made when the Trustee holds in the Bond Fund, in trust and irrevocably set aside exclusively for such payment, (1) moneys sufficient to make such payment provided that if a Credit Facility is then held by the Trustee, such moneys shall constitute Available Moneys or (2) noncallable Governmental Obligations maturing as to principal and interest in such amounts and at such times as will provide sufficient moneys without reinvestment to make such payment; provided that the Trustee shall have received an opinion of Bond Counsel to the effect that such deposit will not affect the exclusion of the interest on any of the Bonds from the gross income of the recipients thereof for federal income tax purposes (e.g. by causing any of the Bonds to be classified as an "arbitrage bond" within the meaning of Section 148 of the Code), and provided further, that if a Credit Facility is then held by the Trustee, such Governmental Obligations shall have been on deposit with the Trustee in a separate and segregated account for a period of three hundred sixty-seven (367) days during and prior to which no Event of Bankruptcy has occurred or which Governmental Obligations were purchased with Available Moneys.

(c) No Bonds in respect of which a deposit under subsection (b) above has been made shall be deemed paid within the meaning of this Article unless the Trustee is satisfied that the amounts deposited are sufficient to make all payments that might become due on the Bonds, including purchase price payments for Bonds tendered at the option of the owners or purchased by the Company in lieu of redemption, if any. Notwithstanding the foregoing, no delivery to the Trustee under this subsection (c) shall be deemed a payment of any Bonds which are to be redeemed prior to their stated maturity until such Bonds shall have been irrevocably called or designated for redemption on a date thereafter on which such Bonds may be redeemed in accordance with the provisions of this Indenture or the Issuer shall have given the Trustee, in form satisfactory to the Trustee, irrevocable instructions to give notice of redemption. Neither the obligations nor moneys deposited with the Trustee pursuant to this Section shall be withdrawn or used for any purpose other than, and shall be segregated and held in trust for, the payment of the principal of, redemption price of, purchase price if applicable of, and interest on the Bonds with respect to which such deposit has been made. In the event that such moneys or obligations are to be applied to the payment of principal or

redemption price of any Bonds more than sixty (60) days following the deposit thereof with the Trustee, the Trustee shall mail a notice stating that such moneys or obligations have been deposited and identifying the Bonds for the payment of which such moneys or obligations are being held to all owners of such Bonds at their addresses shown on the Bond Register.

(d) Anything in Article XIV to the contrary notwithstanding, if moneys or Governmental Obligations have been deposited or set aside with the Trustee pursuant to this Article for the payment of the principal or redemption price, including purchase price if applicable, of the Bonds and the interest thereon and the principal or redemption price, including purchase price if applicable, of such Bonds and such moneys or Governmental Obligations do not constitute Available Moneys, no amendment to the provisions of this Article shall be made without the consent of the owner of each of the Bonds affected thereby.

(e) Notwithstanding the foregoing, those provisions relating to the purchase of Bonds upon the demand of any Bondholders, the maturity of Bonds, interest payments and dates thereof, and the dates, premiums and notice requirements for optional and mandatory redemption or purchase and the Trustee's remedies with respect thereto, and provisions relating to exchange, transfer and registration of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, non-presentment of Bonds, the holding of moneys in trust and repayments to the Company or the Credit Facility Issuer from the Bond Fund and the duties of the Trustee in connection with all of the foregoing and the fees, expenses and indemnities of the Trustee, shall remain in effect and shall be binding upon the Trustee, the Issuer, the Company and the Bondholders notwithstanding the release and discharge of the lien of this Indenture until payment in full of all outstanding Bonds.

Section 1402. Deposit of Funds for Payment of the Bonds.

If the principal or redemption price of any Bonds become due, either at maturity or by call for redemption or otherwise, together with all interest accruing thereon to the due date, has been paid or provision therefor made in accordance with Section 1401 hereof, all interest on such Bonds shall cease to accrue on the due date and all liability of the Issuer with respect to such Bonds shall likewise cease, except as hereinafter provided. Thereafter the owners of such Bonds shall be restricted exclusively to the funds so deposited for any claim of whatsoever nature with respect to such Bonds, and the Trustee shall hold such funds in trust for such owners.

Section 1403. Effect of Purchase of the Bonds.

No purchase of Bonds pursuant to Section 303 hereof shall be deemed to be a payment or redemption of such Bonds or any portion thereof and such purchase will not operate to extinguish or discharge the indebtedness evidenced by such Bonds.

ARTICLE XV

MISCELLANEOUS PROVISIONS

Section 1501. Covenants of the Issuer to Bind its Successors.

In the event of the dissolution of the Issuer, all of the covenants, stipulations, obligations and agreements contained in this Indenture by or in behalf of or for the benefit of the Issuer shall bind or inure to the benefit of the successor or successors of the Issuer from time to time and any officer, board, commission, authority, agency or instrumentality to whom or to which any power or duty affecting such covenants, stipulations, obligations and agreements shall be transferred by or in accordance with law, and the term "Issuer" as used in this Indenture shall include such successor or successors.

Section 1502. Notices.

(a) Any notice, demand, direction, request or other instrument authorized or required by this Indenture to be given or filed with the Issuer, the Trustee, the Company or the Credit Facility Issuer shall be in writing and shall be deemed given or filed for all purposes of this Indenture when delivered by hand delivery or mailed by first class mail, postage prepaid, registered or certified mail, addressed as follows:

- (1) If to the Issuer, to: Hillsborough County
Industrial Development Authority
c/o Thomas K. Morrison, Esq.
Morrison, Morrison & Mills, D.A.
Suite 100
1200 West Platt Street
Tampa, FL 33606
- (2) If to the Company, to: Leslie Controls, Inc.
c/o Watts Industries, Inc.
815 Chestnut Street
North Andover, MA 01845
(Attention: William C. McCartney,
Corporate Controller); and
- with a copy to: John R. LeClaire, P.C.
Goodwin, Procter & Hoar
Exchange Place
Boston, MA 02109
- (3) If to the Trustee, to: The First National Bank of Boston
150 Royall Street, Mail Stop 45-02-15
Canton, MA 02021
Attention: Corporate Trust Division
- (4) If to the Credit Facility Issuer, to: First Union National Bank of North Carolina
301 South College Street
T-7
Charlotte, NC 28288
Attention: International Operations
CORP-10.

and if sent by telegraph, telegram or telecopy, addressed as above, at the time and date appearing on the report of delivery. Notwithstanding the foregoing, the delivery of Bonds or Optional Tender Notices to the Trustee

or Tender Agent if made by telegraph, telegram or telecopy, must be made by delivery of the hard copy by overnight delivery on the date of delivery of such telegraph, telegram or telecopy and shall not be effective until actual receipt thereof by the Trustee or the Tender Agent, as the case may be.

(b) A duplicate copy of each notice or other communication given hereunder by either the Issuer or Trustee to the other shall also be given to the Company.

(c) All documents received by the Trustee under the provisions of this Indenture, or photographic copies thereof, shall be retained in its possession until this Indenture shall be released in accordance with the provisions of the Indenture, subject at all reasonable times to the inspection of the Issuer and the Bondholders and the agents and representatives thereof.

(d) The Issuer, the Trustee, the Company and the Credit Facility Issuer may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates or other communications shall be sent.

Section 1503. Trustee as the Paying Agent and the Bond Registrar.

The Trustee is hereby designated and agrees to act as payment agent and Bond Registrar for and in respect of the Bonds and any amounts received under the Credit Facility or the Loan Agreement.

Section 1504. Rights Under this Indenture.

Except as herein otherwise expressly provided, nothing in this Indenture expressed or implied is intended or shall be construed to confer upon any person, firm or corporation other than the parties hereto, the Company and the owners of the Bonds issued under and secured by this Indenture, any rights under this Indenture or any provisions hereof, this Indenture and all its provisions being intended to be and being for the sole and exclusive benefit of the parties hereto, the Company and the owners from time to time of the Bonds issued hereunder.

Section 1505. Form of Certificates and Opinions.

Except as otherwise provided in this Indenture, any request, notice, certificate or other instrument from the Issuer or the Company to the Trustee shall be deemed to have been signed by the proper party or parties if signed by the Issuer Representative or the Company Representative, respectively, and the Trustee may accept and rely upon a certificate signed by the Issuer Representative as to any action taken by the Issuer and by the Company Representative as to any action taken by the Company.

Section 1506. Severability.

In case any one or more of the provisions of this Indenture or of the Bonds issued hereunder shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provisions of this Indenture or of the bonds, but this Indenture and the Bonds shall be construed and enforced as if such illegal or invalid provision had not been contained therein. In case any covenant,

stipulation, obligation or agreement of the Issuer contained in this Indenture or in the Bonds shall for any reason be held to be in violation of law, then such covenant, stipulation, obligation or agreement of the Issuer shall be enforced to the full extent permitted by law.

Section 1507. Covenants of the Issuer Not Covenants of Officials Individually.

All covenants, stipulations, obligations and agreements of the Issuer contained in this Indenture shall be deemed to be covenants, stipulations, obligations and agreements of the Issuer to the full extent permitted by the Constitution and laws of the State. No covenant, stipulation, obligation or agreement contained herein shall be deemed to be a covenant, stipulation, obligation or agreement of any present or future officer, member, agent or employee of the Issuer in his individual capacity, and no officer of the Issuer executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof. No officer, agent or employee of the Issuer shall incur any personal liability in acting or proceeding or in not acting or not proceeding in accordance with the terms of this Indenture.

Section 1508. State Law Governs.

This Indenture shall be governed by and construed in accordance with the laws of the State.

Section 1509. Payments Due on Days Other Than Business Days.

In any case where the date of maturity of interest on or principal of the Bonds or the date fixed for redemption of the Bonds shall be in the city of payment a day other than a Business Day, then payment of interest or principal need not be made on such date but may be made on the next succeeding Business Day with the same force and effect as if made on the date of maturity or the date fixed for redemption, provided that interest shall accrue for the period of any such extension.

Section 1510. Execution in Counterparts.

This Indenture may be executed in multiple counterparts, each of which shall be regarded for all purposes as an original, and such counterparts shall constitute but one and the same instrument, and no one counterpart of which need be executed by all parties.

IN WITNESS WHEREOF, the HILLSBOROUGH COUNTY INDUSTRIAL DEVELOPMENT AUTHORITY has caused this Indenture to be executed in its name and on its behalf by the Chairman or Vice Chairman of the Issuer and to the same to be attested by the Secretary or Assistant Secretary of the Issuer; and the Trustee has caused this Indenture to be executed in its name and on its behalf by an authorized officer and the same to be attested by a responsible officer, all as of the date and year first above written.

HILLSBOROUGH COUNTY INDUSTRIAL
DEVELOPMENT AUTHORITY

By: (Signature)
Chairman,

Attest:

By: (Signature)
Secretary,

THE FIRST NATIONAL BANK OF BOSTON, as
Trustee

By: (Signature)
Its: Account Administrator

Attest:

By: (Signature)
Assistant Cashier

EXHIBIT 10.12
INDEMNIFICATION AGREEMENT

This Agreement is made as of this ___ day of November 2002 ("Agreement"), by and between CIRCOR International, Inc., a Delaware corporation (the "Company," which term shall include, where appropriate, any Entity (as hereinafter defined) controlled directly or indirectly by the Company) and _____ ("Indemnitee").

WHEREAS, it is essential to the Company that it be able to retain and attract as officers and directors the most capable persons available;

WHEREAS, increased corporate litigation has subjected officers and directors to litigation risks and expenses, and the limitations on the availability of directors and officers liability insurance have made it increasingly difficult for the Company to attract and retain such persons;

WHEREAS, the Company's Amended and Restated By-laws require it to indemnify its officers and directors to the fullest extent permitted by law and permit it to make other indemnification arrangements and agreements;

WHEREAS, the Company desires to provide Indemnitee with specific contractual assurance of Indemnitee's rights to full indemnification against litigation risks and expenses (regardless of, among other things, any amendment to or revocation of any such By-laws or any change in the ownership of the Company or the composition of its Board of Directors); and

WHEREAS, Indemnitee is relying upon the rights afforded under this Agreement in continuing in Indemnitee's position as an officer or director of the Company.

NOW, THEREFORE, in consideration of the promises and the covenants contained herein, the Company and Indemnitee do hereby covenant and agree as follows:

1. Definitions.

(a) "Corporate Status" describes the status of a person who is serving or has served (i) as a director or officer of the Company, (ii) in any capacity with respect to any employee benefit plan of the Company, or (iii) as a director, partner, trustee, officer, employee or agent of any other Entity at the request of the Company. For purposes of subsection (iii) of this Section 1(a), an officer or director of the Company who is serving or has served as a director, partner, trustee, officer, employee or agent of a Subsidiary shall be deemed to be serving at the request of the Company.

(b) "Entity" shall mean any corporation, partnership, limited liability company, joint venture, trust, foundation, association, organization or other legal entity.

(c) "Expenses" shall mean all fees, costs and expenses incurred in connection with any Proceeding (as defined below), including, without limitation, attorneys' fees, disbursements and retainers (including, without limitation, any such fees,

disbursements and retainers incurred by Indemnatee pursuant to Sections 10 and 11(c) of this Agreement), fees and disbursements of expert witnesses, private investigators and professional advisors (including, without limitation, accountants and investment bankers), court costs, transcript costs, fees of experts, travel expenses, duplicating, printing and binding costs, telephone and fax transmission charges, postage, delivery services, secretarial services, and other disbursements and expenses.

(d) "Indemnifiable Expenses," "Indemnifiable Liabilities" and "Indemnifiable Amounts" shall have the meanings ascribed to those terms in Section 3(a) below.

(e) "Liabilities" shall mean judgments, damages, liabilities, losses, penalties, excise taxes, fines and amounts paid in settlement.

(f) "Proceeding" shall mean any threatened, pending or completed claim, action, suit, arbitration, alternate dispute resolution process, investigation, administrative hearing, appeal, or any other proceeding, whether civil, criminal, administrative, arbitratve or investigative, whether formal or informal, including a proceeding initiated by Indemnatee pursuant to Section 10 of this Agreement to enforce Indemnatee's rights hereunder.

(g) "Subsidiary" shall mean any corporation, partnership, limited liability company, joint venture, trust or other Entity of which the Company owns (either directly or through or together with another Subsidiary of the Company) either (i) a general partner, managing member or other similar interest or (ii) (A) 50% or more of the voting power of the voting capital equity interests of such corporation, partnership, limited liability company, joint venture or other Entity, or (B) 50% or more of the outstanding voting capital stock or other voting equity interests of such corporation, partnership, limited liability company, joint venture or other Entity.

2. Services of Indemnatee. In consideration of the Company's covenants and commitments hereunder, Indemnatee agrees to serve or continue to serve as a director or officer of the Company. However, this Agreement shall not impose any obligation on Indemnatee or the Company to continue Indemnatee's service to the Company beyond any period otherwise required by law or by other agreements or commitments of the parties, if any.

3. Agreement to Indemnify. The Company agrees to indemnify Indemnatee as follows:

(a) Subject to the exceptions contained in Section 4(a) below, if Indemnatee was or is a party or is threatened to be made a party to any Proceeding (other than an action by or in the right of the Company) by reason of Indemnatee's Corporate Status, Indemnatee shall be indemnified by the Company against all Expenses and Liabilities incurred or paid by Indemnatee in connection with such Proceeding (referred to herein as "Indemnifiable Expenses" and "Indemnifiable Liabilities," respectively, and collectively as "Indemnifiable Amounts").

(b) Subject to the exceptions contained in Section 4(b) below, if Indemnatee was or is a party or is threatened to be made a party to any Proceeding by or

in the right of the Company to procure a judgment in its favor by reason of Indemnatee's Corporate Status, Indemnatee shall be indemnified by the Company against all Indemnifiable Expenses.

(c) If Indemnatee, in connection with Indemnatee's Corporate Status, is compelled or asked to be a witness in connection with any Proceeding but is not otherwise a Party or threatened to be made a party to such Proceeding, Indemnatee shall be indemnified by the Company against all Indemnifiable Expenses.

4. Exceptions to Indemnification. Indemnatee shall be entitled to indemnification under Sections 3(a) and 3(b) above in all circumstances other than the following:

(a) If indemnification is requested under Section 3(a) and it has been adjudicated finally by a court of competent jurisdiction that, in connection with the subject of the Proceeding out of which the claim for indemnification has arisen, Indemnatee failed to act (i) in good faith and (ii) in a manner Indemnatee reasonably believed to be in or not opposed to the best interests of the Company, or, with respect to any criminal action or proceeding, Indemnatee had reasonable cause to believe that Indemnatee's conduct was unlawful, Indemnatee shall not be entitled to payment of Indemnifiable Amounts hereunder.

(b) If indemnification is requested under Section 3(b) and

(i) it has been adjudicated finally by a court of competent jurisdiction that, in connection with the subject of the Proceeding out of which the claim for indemnification has arisen, Indemnatee failed to act (A) in good faith and (B) in a manner Indemnatee reasonably believed to be in or not opposed to the best interests of the Company, Indemnatee shall not be entitled to payment of Indemnifiable Expenses hereunder; or

(ii) it has been adjudicated finally by a court of competent jurisdiction that Indemnatee is liable to the Company with respect to any claim, issue or matter involved in the Proceeding out of which the claim for indemnification has arisen, including, without limitation, a claim that Indemnatee received an improper personal benefit, no Indemnifiable Expenses shall be paid with respect to such claim, issue or matter unless the Court of Chancery or another court in which such Proceeding was brought shall determine upon application that, despite the adjudication of liability, but in view of all the circumstances of the case, Indemnatee is fairly and reasonably entitled to indemnity for such Indemnifiable Expenses which such court shall deem proper.

5. Procedure for Payment of Indemnifiable Amounts. Indemnatee shall submit to the Company a written request specifying the Indemnifiable Amounts for which Indemnatee seeks payment under Section 3 of this Agreement and the basis for the claim. The Company shall pay such Indemnifiable Amounts to Indemnatee within twenty (20) calendar days of receipt of the request. At the request of the Company, Indemnatee shall furnish such documentation and information as are reasonably available to Indemnatee and necessary to establish that Indemnatee is entitled to indemnification hereunder.

6. Indemnification for Expenses of a Party Who is Wholly or Partly Successful. Notwithstanding any other provision of this Agreement, and without limiting any such

provision, to the extent that Indemnatee is, by reason of Indemnatee's Corporate Status, a party to and is successful, on the merits or otherwise, in any Proceeding, Indemnatee shall be indemnified against all Expenses reasonably incurred by Indemnatee or on Indemnatee's behalf in connection therewith. If Indemnatee is not wholly successful in such Proceeding but is successful, on the merits or otherwise, as to one or more but less than all claims, issues or matters in such Proceeding, the Company shall indemnify Indemnatee against all Expenses reasonably incurred by Indemnatee or on Indemnatee's behalf in connection with each successfully resolved claim, issue or matter. For purposes of this Agreement, the termination of any claim, issue or matter in such a Proceeding by dismissal, with or without prejudice, shall be deemed to be a successful result as to such claim, issue or matter.

7. Effect of Certain Resolutions. Neither the settlement or termination of any Proceeding nor the failure of the Company to award indemnification or to determine that indemnification is payable shall create an adverse presumption that Indemnatee is not entitled to indemnification hereunder. In addition, the termination of any proceeding by judgment, order, settlement, conviction, or upon a plea of nolo contendere or its equivalent shall not create a presumption that Indemnatee did not act in good faith and in a manner which Indemnatee reasonably believed to be in or not opposed to the best interests of the Company or, with respect to any criminal action or proceeding, had reasonable cause to believe that Indemnatee's action was unlawful.

8. Agreement to Advance Expenses; Conditions. The Company shall pay to Indemnatee all Indemnifiable Expenses incurred by Indemnatee in connection with any Proceeding, including a Proceeding by or in the right of the Company, in advance of the final disposition of such Proceeding. To the extent required by Delaware law, Indemnatee hereby undertakes to repay the amount of Indemnifiable Expenses paid to Indemnatee if it is finally determined by a court of competent jurisdiction that Indemnatee is not entitled under this Agreement to indemnification with respect to such Expenses. This undertaking is an unlimited general obligation of Indemnatee.

9. Procedure for Advance Payment of Expenses. Indemnatee shall submit to the Company a written request specifying the Indemnifiable Expenses for which Indemnatee seeks an advancement under Section 8 of this Agreement, together with documentation evidencing that Indemnatee has incurred such Indemnifiable Expenses. Payment of Indemnifiable Expenses under Section 8 shall be made no later than twenty (20) calendar days after the Company's receipt of such request.

10. Remedies of Indemnitee.

(a) Right to Petition Court. In the event that Indemnitee makes a request for payment of Indemnifiable Amounts under Sections 3 and 5 above or a request for an advancement of Indemnifiable Expenses under Sections 8 and 9 above and the Company fails to make such payment or advancement in a timely manner pursuant to the terms of this Agreement, Indemnitee may petition the Court of Chancery to enforce the Company's obligations under this Agreement.

(b) Burden of Proof. In any judicial proceeding brought under Section 10(a) above, the Company shall have the burden of proving by clear and convincing evidence that Indemnitee is not entitled to payment of Indemnifiable Amounts hereunder.

(c) Expenses. The Company agrees to reimburse Indemnitee in full for any Expenses incurred by Indemnitee in connection with investigating, preparing for, litigating, defending or settling any action brought by Indemnitee under Section 10(a) above, or in connection with any claim or counterclaim brought by the Company in connection therewith.

(d) Validity of Agreement. The Company shall be precluded from asserting in any Proceeding, including, without limitation, an action under Section 10(a) above, that the provisions of this Agreement are not valid, binding and enforceable or that there is insufficient consideration for this Agreement and shall stipulate in court that the Company is bound by all the provisions of this Agreement.

(e) Failure to Act Not a Defense. The failure of the Company (including its Board of Directors or any committee thereof, independent legal counsel or stockholders) to make a determination concerning the permissibility of the payment of Indemnifiable Amounts or the advancement of Indemnifiable Expenses under this Agreement shall not be a defense in any action brought under Section 10(a) above, and shall not create a presumption that such payment or advancement is not permissible.

11. Defense of the Underlying Proceeding.

(a) Notice by Indemnitee. Indemnitee agrees to notify the Company promptly upon being served with any summons, citation, subpoena, complaint, indictment, information, or other document relating to any Proceeding which may result in the payment of Indemnifiable Amounts or the advancement of Indemnifiable Expenses hereunder; provided, however, that the failure to give any such notice shall not disqualify Indemnitee from the right to receive payments of Indemnifiable Amounts or advancements of Indemnifiable Expenses unless the Company is materially and adversely prejudiced thereby.

(b) Indemnitee's Option to Control Defense. Subject to the provisions of Section 11(c) below, the Indemnitee shall have the right to control the defense of any Proceeding brought against the Indemnitee including, but not limited to, the selection of defense counsel and the determination of whether or not to consent to the entry of any judgment against Indemnitee or enter into any settlement or compromise. Alternatively,

Indemnitee may elect to tender defense of the Proceeding to the Company by providing the Company with written notice as soon as practicable after Indemnitee has learned of the circumstances giving rise to Indemnitee's claim for indemnification in connection with such Proceeding. Upon receipt of Indemnitee's notice tendering defense of the Proceeding to the Company, the Company, at the Company's sole cost and expense, shall provide such defense with counsel reasonably acceptable to the Indemnitee. In no event, however, shall the Company consent to the entry of any judgment against Indemnitee or enter into any settlement or compromise without the prior written consent of the Indemnitee.

(c) Limitations of Defense by Indemnitee. Notwithstanding paragraph 11(b) above and except as otherwise provided by paragraph 11(d) below, the Company's obligation to indemnify Indemnitee with respect to legal fees shall be limited to the fees charged by counsel unanimously selected by Indemnitee and all other persons similarly entitled to indemnification by the Company in the same Proceeding on account of their Corporate Status to defend the interests of all such persons entitled to indemnification. .

(d) Indemnitee's Right to Individual Counsel. Notwithstanding the provisions of Section 11(c) above, if in a Proceeding to which Indemnitee is a party by reason of Indemnitee's Corporate Status, Indemnitee reasonably concludes that it may have separate defenses or counterclaims to assert with respect to any issue which may not be consistent with the position of other defendants in such Proceeding, , Indemnitee shall be entitled to be represented by separate legal counsel of Indemnitee's choice at the expense of the Company. In addition, if the Company fails to comply with any of its obligations under this Agreement or in the event that the Company or any other person takes any action to declare this Agreement void or unenforceable, or institutes any action, suit or proceeding to deny or to recover from Indemnitee the benefits intended to be provided to Indemnitee hereunder, Indemnitee shall have the right to retain counsel of Indemnitee's choice, at the expense of the Company, to represent Indemnitee in connection with any such matter.

12. Representations and Warranties of the Company. The Company hereby represents and warrants to Indemnitee as follows:

(a) Authority. The Company has all necessary power and authority to enter into, and be bound by the terms of, this Agreement, and the execution, delivery and performance of the undertakings contemplated by this Agreement have been duly authorized by the Company.

(b) Enforceability. This Agreement, when executed and delivered by the Company in accordance with the provisions hereof, shall be a legal, valid and binding obligation of the Company, enforceable against the Company in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, moratorium, reorganization or similar laws affecting the enforcement of creditors' rights generally.

13. Insurance.

(a) Prior to any Change of Control. Prior to any Change in Control (as defined in paragraph 13(c) below), the Company shall, from time to time, make the good faith determination whether or not it is practicable for the Company to obtain and maintain a policy or policies of insurance with a reputable insurance company providing Indemnitee with coverage for losses from wrongful acts, and to ensure the Company's performance of its indemnification obligations under this Agreement. Among other considerations, the Company will weigh the costs of obtaining such insurance coverage against the protection afforded by such coverage. In all policies of director and officer liability insurance, Indemnitee shall be named as an insured in such a manner as to provide Indemnitee the same rights and benefits as are accorded to the most favorably insured of the Company's officers and directors. Notwithstanding the foregoing, the Company shall have no obligation to obtain or maintain such insurance if the Company determines in good faith that such insurance is not reasonably available, if the premium costs for such insurance are disproportionate to the amount of coverage provided, or if the coverage provided by such insurance is limited by exclusions so as to provide an insufficient benefit. The Company shall promptly notify Indemnitee of any good faith determination not to provide such coverage.

(b) Upon a Change of Control. In the event of and immediately upon a Change of Control (as defined in paragraph 13(c) below), the Company (or any successor to the interests of the Company by way of merger, sale of assets or otherwise) shall be obligated to continue, procure and/or otherwise maintain in effect for a period of six (6) years from the date on which such Change of Control is effective a policy or policies of insurance (the "Change of Control Coverage") with an insurance company having a minimum rating by A.M. Best (or its successor) of "excellent" providing Indemnitee with coverage for losses from wrongful acts occurring on or before the effective date of the Change of Control, and to ensure the Company's performance of its indemnification obligations under this Agreement. If such insurance is in place immediately prior to the Change of Control, then the Change of Control Coverage shall contain limits, deductibles and exclusions substantially identical to those in place immediately prior to the Change in Control. In the event that the Company does not maintain such insurance immediately prior to the Change of Control, the Change of Control Coverage shall contain such limits, deductibles and exclusions as are customary for companies of similar size as determined by an insurance brokerage company of national reputation, provided, however, that in no event shall the Change of Control Coverage contain limits, deductibles and exclusions that are less favorable to Indemnitee than those set forth in the policy or policies most recently maintained by the Company. Each policy evidencing the Change of Control Coverage shall contain an endorsement or other provision requiring that Indemnitee be provided with at least sixty (60) days written notice prior to the termination or non-renewal (as applicable) of such policy or policies.

(c) Definition of "Change of Control". For purposes of this Section 13, the term "Change of Control" shall mean any of the following:

(i) Any "person," as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Act") or any trustee, fiduciary or other person or entity holding securities under any employee benefit plan or trust of the Parent or any of its subsidiaries), together with all "affiliates" and "associates" (as such terms are defined in Rule 12b-2 under the Act) of such person, shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Parent representing fifty percent (50%) or more of either (A) the combined voting power of the Company's then outstanding securities having the right to vote in an election of the Company's Board ("Voting Securities") or (B) the then outstanding shares of the Company's common stock, par value \$0.01 per share ("Common Stock") (other than as a result of an acquisition of securities directly from the Company); or

(ii) Incumbent Directors (as defined below) cease for any reason, including, without limitation, as a result of a tender offer, proxy contest, merger or similar transaction, to constitute at least a majority of the Board; or

(iii) The stockholders of the Company shall approve (A) any consolidation or merger of the Company where the stockholders of the Company, immediately prior to the consolidation or merger, would not, immediately after the consolidation or merger, beneficially own (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, shares representing in the aggregate fifty percent (50%) or more of the voting shares of the Company or other party issuing cash or securities in the consolidation or merger (or of its ultimate parent corporation, if any), (B) any sale, lease, exchange or other transfer (in one transaction or a series of transactions contemplated or arranged by any party as a single plan) of all or substantially all of the assets of the Company or (C) any plan or proposal for the liquidation or dissolution of the Company.

Notwithstanding the foregoing, a "Change of Control" shall not be deemed to have occurred for purposes of the foregoing clause (i) solely as the result of an acquisition of securities by the Company which, by reducing the number of shares of Common Stock or other Voting Securities outstanding, increases the proportionate number of shares beneficially owned by any person to fifty percent (50%) or more of either (A) the combined voting power of all of the then outstanding Voting Securities or (B) Common Stock; provided, however, that if any person referred to in this sentence shall thereafter become the beneficial owner of any additional shares of Voting Securities or Common Stock (other than pursuant to a stock split, stock dividend, or similar transaction or as a result of an acquisition of securities directly from the Company) and immediately thereafter beneficially owns fifty percent (50%) or more of either (A) the combined voting power of all of the then outstanding Voting Securities or (B) Common Stock, then a "Change of Control" shall be deemed to have occurred for purposes of the foregoing clause (i).

14. Contract Rights Not Exclusive. The rights to payment of Indemnifiable Amounts and advancement of Indemnifiable Expenses provided by this Agreement shall be in addition to, but not exclusive of, any other rights which Indemnitee may have at any time under applicable law, the Company's By-laws or Certificate of Incorporation, or any other agreement, vote of stockholders or directors (or a committee of directors), or otherwise, both as to action in Indemnitee's official capacity and as to action in any other capacity as a result of Indemnitee's serving as an officer or director of the Company.

15. Successors. This Agreement shall be (a) binding upon all successors and assigns of the Company (including any transferee of all or a substantial portion of the business, stock and/or assets of the Company and any direct or indirect successor by merger or consolidation or otherwise by operation of law) and (b) binding on and shall inure to the benefit of the heirs, personal representatives, executors and administrators of Indemnitee. This Agreement shall continue for the benefit of Indemnitee and such heirs, personal representatives, executors and administrators after Indemnitee has ceased to have Corporate Status.

16. Subrogation. In the event of any payment of Indemnifiable Amounts under this Agreement, the Company shall be subrogated to the extent of such payment to all of the rights of contribution or recovery of Indemnitee against other persons, and Indemnitee shall take, at the request of the Company, all reasonable action necessary to secure such rights, including the execution of such documents as are necessary to enable the Company to bring suit to enforce such rights.

17. Change in Law. To the extent that a change in Delaware law (whether by statute or judicial decision) shall permit broader indemnification or advancement of expenses than is provided under the terms of the By-laws of the Company and this Agreement, Indemnitee shall be entitled to such broader indemnification and advancements, and this Agreement shall be deemed to be amended to such extent.

18. Severability. Whenever possible, each provision of this Agreement shall be interpreted in such a manner as to be effective and valid under applicable law, but if any provision of this Agreement, or any clause thereof, shall be determined by a court of competent jurisdiction to be illegal, invalid or unenforceable, in whole or in part, such provision or clause shall be limited or modified in its application to the minimum extent necessary to make such provision or clause valid, legal and enforceable, and the remaining provisions and clauses of this Agreement shall remain fully enforceable and binding on the parties.

19. Indemnitee as Plaintiff. Except as provided in Section 10(c) of this Agreement and in the next sentence, Indemnitee shall not be entitled to payment of Indemnifiable Amounts or advancement of Indemnifiable Expenses with respect to any Proceeding brought by Indemnitee against the Company, any Entity which it controls, any director or officer thereof, or any third party, unless such Company has consented to the initiation of such Proceeding. This Section shall not apply to counterclaims or affirmative defenses asserted by Indemnitee in an action brought against Indemnitee, nor shall this Section apply to any Proceeding brought by Indemnitee in order to enforce Indemnitee's

rights under any policies of insurance that the Company has secured under Section 13 above.

20. Modifications and Waiver. Except as provided in Section 17 above with respect to changes in Delaware law which broaden the right of Indemnitee to be indemnified by the Company, no supplement, modification or amendment of this Agreement shall be binding unless executed in writing by each of the parties hereto. This Agreement supercedes any prior indemnification agreements between the Indemnitee and the Company. No waiver of any of the provisions of this Agreement shall be deemed or shall constitute a waiver of any other provisions of this Agreement (whether or not similar), nor shall such waiver constitute a continuing waiver.

21. General Notices. All notices, requests, demands and other communications hereunder shall be in writing and shall be deemed to have been duly given (a) when delivered by hand, (b) when transmitted by facsimile and receipt is acknowledged, or (c) if mailed by certified or registered mail with postage prepaid, on the third business day after the date on which it is so mailed:

- (i) If to Indemnitee, to:

[name of Indemnitee]
c/o CIRCOR International, Inc.
35 Corporate Drive
Burlington, Massachusetts 01803
- (ii) If to the Company, to:

CIRCOR International, Inc.
35 Corporate Drive
Burlington, Massachusetts 01803
Attn: Corporate Counsel

or to such other address as may have been furnished in the same manner by any party to the others.

22. Governing Law. This Agreement shall be governed by and construed and enforced under the laws of Delaware without giving effect to the provisions thereof relating to conflicts of law.

23. Consent to Jurisdiction. The Company hereby irrevocably and unconditionally consents to the jurisdiction of the courts of the State of Delaware and the United States District Court for the District of Delaware. The Company hereby irrevocably and unconditionally waives any objection to the laying of venue of any Proceeding arising out of or relating to this Agreement in the courts of the State of Delaware or the United States District Court for the District of Delaware, and hereby irrevocably and unconditionally waives and agrees not to plead or claim that any such Proceeding brought in any such court has been brought in an inconvenient forum.

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

CIRCOR INTERNATIONAL, INC.

By:

Name:

Title:

INDEMNITEE:

Name:

EXHIBIT 10.13

EXECUTIVE EMPLOYMENT AGREEMENT
AS AMENDED AND RESTATED

The EXECUTIVE EMPLOYMENT AGREEMENT ("Agreement") made as of the 16th day of September, 1999, between CIRCOR, Inc., a Massachusetts corporation (the "Company"), and David A. Bloss, Sr. ("Executive") is hereby amended and restated in its entirety this 23rd day of October, 2002 as follows:

WHEREAS, pursuant to the Agreement, Executive serves as the President and member of the Board of Directors of the Company and the Chairman of the Board, Chief Executive Officer and President of CIRCOR International, Inc., a Delaware corporation of which the Company is a wholly-owned subsidiary (the "Parent"); and

WHEREAS, the Company, Parent and Executive desire to amend and restate the Agreement in its entirety.

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Employment. The term of this Agreement shall extend from September 16, 2002 (the "Commencement Date") until the third anniversary of the Commencement Date; provided, however, that the term of this Agreement shall automatically be extended for one additional year on the third anniversary of the Commencement Date and each anniversary thereafter unless, not less than 90 days prior to each such date, either party shall have given notice to the other that it does not wish to extend this Agreement; provided, further, that if a Change in Control occurs during the original or extended term of this Agreement, the term of this Agreement shall continue in effect for a period of not less than eighteen (18) months beyond the month in which the Change in Control occurred. The term of this Agreement shall be subject to termination as provided in Paragraph 6 and may be referred to herein as the "Period of Employment."

2. Position and Duties. During the Period of Employment, Executive shall serve as the President and member of the Board of Directors of the Company and the Chairman of the Board, Chief Executive Officer and President of Parent and shall have supervision and control over and responsibility for the day-to-day business and affairs of those functions and operations of the Company and the Parent and shall have such other powers and duties as may from time to time be prescribed by the Board of Directors of the Parent (the "Board"), provided that such duties are consistent with Executive's position or other positions that he may hold from time to time. Executive shall devote his full working time and efforts to the business and affairs of the Company and the Parent. Notwithstanding the foregoing, Executive may serve on other boards of directors, with the approval of the Board, or engage in religious, charitable or other community activities as long as such services and activities are disclosed to the Board and do not

materially interfere with Executive's performance of his duties to the Company and the Parent as provided in this Agreement.

3. Compensation and Related Matters.

(a) Base Salary and Incentive Compensation. Executive's annual base salary shall be \$500,000, beginning January 1, 2003. Executive's base salary shall be redetermined from time to time by the Board or a Committee thereof. The base salary in effect at any given time is referred to herein as "Base Salary." The Base Salary shall be payable in substantially equal bi-weekly installments. In addition to Base Salary, Executive shall be eligible to receive cash incentive compensation as determined by the Board or a Committee thereof from time to time, and shall also be eligible to participate in such incentive compensation plans as the Board or a Committee thereof shall determine from time to time for employees of the same status within the hierarchy of the Company.

(b) Expenses. Executive shall be entitled to receive prompt reimbursement for all reasonable expenses incurred by him in performing services hereunder during the Period of Employment, in accordance with the policies and procedures then in effect and established by the Company for its senior executive officers.

(c) Other Benefits. During the Period of Employment, Executive shall be entitled to continue to participate in or receive benefits under all of the Company's Employee Benefit Plans in effect on the date hereof, or under plans or arrangements that provide Executive with benefits at least substantially equivalent to those provided under such Employee Benefit Plans. As used herein, the term "Employee Benefit Plans" includes, without limitation, each pension and retirement plan; supplemental pension, retirement and deferred compensation plan; savings and profit-sharing plan; stock ownership plan; stock purchase plan; stock option plan; life insurance plan; medical insurance plan; disability plan; and health and accident plan or arrangement established and maintained by the Company on the date hereof for employees of the same status within the hierarchy of the Company. To the extent that the scope or nature of benefits described in this section is determined under the policies of the Company based in whole or in part on the seniority or tenure of an employee's service, Executive shall be deemed to have a tenure with the Company equal to the actual time of Executive's service with the Company plus the actual service by Executive to the Previous Employer. During the Period of Employment, Executive shall be entitled to participate in or receive benefits under any employee benefit plan or arrangement which may, in the future, be made available by the Company to its executives and key management employees, subject to and on a basis consistent with the terms, conditions and overall administration of such plan or arrangement. Any payments or benefits payable to Executive under a plan or arrangement referred to in this Subparagraph 3(c) in respect of any calendar year during which Executive is employed by the Company for less than the whole of such year shall, unless otherwise provided in the applicable plan or arrangement, be prorated in accordance with the number of days in such calendar year during which he is so employed. Should any such payments or benefits accrue on a fiscal (rather than calendar) year, then the proration in the preceding sentence shall be on the basis of a fiscal year rather than calendar year.

(d) Vacations. Executive shall be entitled to twenty (20) paid vacation days in each calendar year, which shall be accrued ratably during the calendar year. Executive shall also be entitled to all paid holidays given by the Company to its executives. To the extent that the scope or nature of benefits described in this section are determined under the policies of the Company based in whole or in part on the seniority or tenure of an employee's service, Executive shall be deemed to have a tenure with the Company equal to the actual time of Executive's service with Company plus the actual service by Executive to the Previous Employer.

(e) Club Membership. The Company shall pay the initiation fees and annual dues associated with a country club membership of Executive's choice.

(f) Tax Planning. The Company shall provide Executive with tax preparation and planning services.

4. Unauthorized Disclosure.

(a) Confidential Information. Executive acknowledges that in the course of his employment with the Company (and, if applicable, its predecessors), he has been allowed to become, and will continue to be allowed to become, acquainted with the Company's and the Parent's business affairs, information, trade secrets, and other matters which are of a proprietary or confidential nature, including but not limited to the Company's, the Parent's and their affiliates' and predecessors' operations, business opportunities, price and cost information, finance, customer information, business plans, various sales techniques, manuals, letters, notebooks, procedures, reports, products, processes, services, and other confidential information and knowledge (collectively the "Confidential Information") concerning the Company's, the Parent's and their affiliates' and predecessors' business. The Company agrees to provide on an ongoing basis such Confidential Information as the Company deems necessary or desirable to aid Executive in the performance of his duties. Executive understands and acknowledges that such Confidential Information is confidential, and he agrees not to disclose such Confidential Information to anyone outside the Company or the Parent except to the extent that (i) Executive deems such disclosure or use reasonably necessary or appropriate in connection with performing his duties on behalf of the Company and the Parent, (ii) Executive is required by order of a court of competent jurisdiction (by subpoena or similar process) to disclose or discuss any Confidential Information, provided that in such case, Executive shall promptly inform the Company or the Parent, as appropriate, of such event, shall cooperate with the Company or the Parent, as appropriate, in attempting to obtain a protective order or to otherwise restrict such disclosure, and shall only disclose Confidential Information to the minimum extent necessary to comply with any such court order; (iii) such Confidential Information becomes generally known to and available for use in the Company's industry (the "Fluid-Control Industry"), other than as a result of any action or inaction by Executive; or (iv) such information has been rightfully received by a member of the Fluid-Control Industry or has been published in a form generally available to the Fluid-Control Industry prior to the date Executive proposes to disclose or use such information. Executive further agrees that he will not during employment and/or at any time thereafter use such Confidential Information in competing, directly or indirectly, with the Company or the Parent. At such time as Executive shall cease to be employed by the Company, he will immediately turn over to the Company or the Parent, as appropriate, all Confidential

Information, including papers, documents, writings, electronically stored information, other property, and all copies of them provided to or created by him during the course of his employment with the Company.

(b) Heirs, successors, and legal representatives. The foregoing provisions of this Paragraph 4 shall be binding upon Executive's heirs, successors, and legal representatives. The provisions of this Paragraph 4 shall survive the termination of this Agreement for any reason.

5. Covenant Not to Compete. In consideration for Executive's employment by the Company under the terms provided in this Agreement and as a means to aid in the performance and enforcement of the terms of the provisions of Paragraph 4, Executive agrees that

(a) during the term of Executive's employment with the Company and for a period of twenty-four (24) months thereafter, regardless of the reason for termination of employment, Executive will not, directly or indirectly, as an owner, director, principal, agent, officer, employee, partner, consultant, servant, or otherwise, carry on, operate, manage, control, or become involved in any manner with any business, operation, corporation, partnership, association, agency, or other person or entity which is engaged in a business that is competitive with any of the Company's or the Parent's products which are produced by the Company or the Parent or any affiliate of either entity as of the date of Executive's termination of employment with the Company, in any area or territory in which the Company or the Parent or any affiliate of either entity conducts operations; provided, however, that the foregoing shall not prohibit Executive from owning up to one percent (1%) of the outstanding stock of a publicly held company engaged in the Fluid-Control Industry; and

(b) during the term of Executive's employment with the Company and for a period of twenty-four (24) months thereafter, regardless of the reason for termination of employment, Executive will not directly or indirectly solicit or induce any present or future employee of the Company or the Parent or any affiliate of either entity to accept employment with Executive or with any business, operation, corporation, partnership, association, agency, or other person or entity with which Executive may be associated, and Executive will not employ or cause any business, operation, corporation, partnership, association, agency, or other person or entity with which Executive may be associated to employ any present or future employee of the Company or the Parent without providing the Company or the Parent, as appropriate, with ten (10) days' prior written notice of such proposed employment.

Should Executive violate any of the provisions of this Paragraph, then in addition to all other rights and remedies available to the Company at law or in equity, the duration of this covenant shall automatically be extended for the period of time from which Executive began such violation until he permanently ceases such violation.

6. Termination. Executive's employment hereunder may be terminated without any breach of this Agreement under the following circumstances:

(a) Death. Executive's employment hereunder shall terminate upon his death.

(b) Disability. If, as a result of Executive's incapacity due to physical or mental illness, Executive shall have been absent from his duties hereunder on a full-time basis for one hundred eighty (180) calendar days in the aggregate in any twelve (12) month period, the Company may terminate Executive's employment hereunder.

(c) Termination by Company For Cause. At any time during the Period of Employment, the Company or Parent may terminate Executive's employment hereunder for Cause if such termination is approved by not less than a majority of the Board at a meeting of the Board called and held for such purpose. For purposes of this Agreement, "Cause" shall mean: (A) conduct by Executive constituting a material act of willful misconduct in connection with the performance of his duties, including, without limitation, misappropriation of funds or property of the Company or any of its affiliates other than the occasional, customary and de minimis use of Company property for personal purposes; (B) criminal or civil conviction of Executive, a plea of nolo contendere by Executive or conduct by Executive that would reasonably be expected to result in material injury to the reputation of the Company if he were retained in his position with the Company, including, without limitation, conviction of a felony involving moral turpitude; (C) continued, willful and deliberate non-performance by Executive of his duties hereunder (other than by reason of Executive's physical or mental illness, incapacity or disability) which has continued for more than thirty (30) days following written notice of such non-performance from the Board; (D) a breach by Executive of any of the provisions contained in Paragraphs 4 and 5 of this Agreement; or (E) a violation by Executive of the Company's employment policies which has continued following written notice of such violation from the Board.

(d) Termination Without Cause. At any time during the Period of Employment, the Company or Parent may terminate Executive's employment hereunder without Cause if such termination is approved by a majority of the Board at a meeting of the Board called and held for such purpose. Any termination by the Company or Parent of Executive's employment under this Agreement which does not constitute a termination for Cause under Subparagraph 6(c) or result from the death or disability of the Executive under Subparagraph 6(a) or (b) shall be deemed a termination without Cause. If the Company or Parent provides notice to Executive under Paragraph 1 that it does not wish to extend the Period of Employment, such action shall be deemed a termination without Cause.

(e) Termination by Executive. At any time during the Period of Employment, Executive may terminate his employment hereunder for any reason, including but not limited to Good Reason. If Executive provides notice to the Company under Paragraph 1 that he does not wish to extend the Period of Employment, such action shall be deemed a voluntary termination by Executive and one without Good Reason. For purposes of this Agreement, "Good Reason" shall mean that Executive has complied with the "Good Reason Process" (hereinafter defined) following the occurrence of any of the following events: (A) a substantial diminution or other substantive adverse change, not consented to by Executive, in the nature or scope of Executive's responsibilities, authorities, powers, functions or duties; (B) any removal, during the Period of Employment, from Executive of his titles of Chief Executive Officer and President of the Parent; (C) an involuntary reduction in Executive's Base Salary except for across-the-board reductions similarly affecting all or substantially all management employees; (D) a breach by the Company of any of its other material obligations under this Agreement and the failure of the Company to

cure such breach within thirty (30) days after written notice thereof by Executive; (E) the involuntary relocation of the Company's offices at which Executive is principally employed or the involuntary relocation of the offices of Executive's primary workgroup to a location more than thirty (30) miles from such offices, or the requirement by the Company that Executive be based anywhere other than the Company's offices at such location on an extended basis, except for required travel on the Company's business to an extent substantially consistent with Executive's business travel obligations; or (F) a reduction in Executive's annual incentive compensation opportunity below the annual incentive compensation opportunity most recently in effect for Executive prior to the Change in Control as determined by the Board or a Committee thereof. "Good Reason Process" shall mean that (i) Executive reasonably determines in good faith that a "Good Reason" event has occurred; (ii) Executive notifies the Company in writing of the occurrence of the Good Reason event; (iii) Executive cooperates in good faith with the Company's efforts, for a period not less than ninety (90) days following such notice, to modify Executive's employment situation in a manner acceptable to Executive and Company; and (iv) notwithstanding such efforts, one or more of the Good Reason events continues to exist and has not been modified in a manner acceptable to Executive. If the Company cures the Good Reason event in a manner acceptable to Executive during the ninety (90) day period, Good Reason shall be deemed not to have occurred.

(f) Notice of Termination. Except for termination as specified in Subparagraph 6(a), any termination of Executive's employment by the Company or any such termination by Executive shall be communicated by written Notice of Termination to the other party hereto. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon.

(g) Date of Termination. "Date of Termination" shall mean: (A) if Executive's employment is terminated by his death, the date of his death; (B) if Executive's employment is terminated on account of disability under Subparagraph 6(b) or by the Company for Cause under Subparagraph 6(c), the date on which Notice of Termination is given; (C) if Executive's employment is terminated by the Company under Subparagraph 6(d), sixty (60) days after the date on which a Notice of Termination is given; and (D) if Executive's employment is terminated by Executive under Subparagraph 6(e), thirty (30) days after the date on which a Notice of Termination is given.

7. Compensation Upon Termination or During Disability.

(a) If Executive's employment terminates by reason of his death, the Company shall, within ninety (90) days of death, pay in a lump sum amount to such person as Executive shall designate in a notice filed with the Company or, if no such person is designated, to Executive's estate, Executive's accrued and unpaid Base Salary to the date of his death, plus his accrued and unpaid incentive compensation, if any, under Subparagraph 3(a). Upon the death of Executive, all vested stock options shall immediately vest in Executive's estate or other legal representatives and become exercisable, and Executive's estate or other legal representatives shall have 360 days from the Date of Termination or the remaining option term, if earlier, to exercise all stock options granted to Executive. All other stock-based grants and awards held by Executive shall vest or be canceled upon the death of Executive in accordance with their terms.

For a period of one (1) year following the Date of Termination, the Company shall pay such health insurance premiums as may be necessary to allow Executive's spouse and dependents to receive health insurance coverage substantially similar to coverage they received prior to the Date of Termination. In addition to the foregoing, any payments to which Executive's spouse, beneficiaries, or estate may be entitled under any employee benefit plan shall also be paid in accordance with the terms of such plan or arrangement. Such payments, in the aggregate, shall fully discharge the Company's obligations hereunder.

(b) During any period that Executive fails to perform his duties hereunder as a result of incapacity due to physical or mental illness, Executive shall continue to receive his accrued and unpaid Base Salary and accrued and unpaid incentive compensation, if any, under Subparagraph 3(a), until Executive's employment is terminated due to disability in accordance with Subparagraph 6(b) or until Executive terminates his employment in accordance with Subparagraph 6(e), whichever first occurs. Upon the Date of Termination, all unvested stock options shall immediately vest and become exercisable and Executive shall have 360 days from the Date of Termination or the remaining option term, if earlier, to exercise all stock options granted to Executive. All other stock-based grants and awards held by Executive shall vest or be canceled upon the Date of Termination in accordance with their terms. For a period of one (1) year following the Date of Termination, the Company shall pay such health insurance premiums as may be necessary to allow Executive and Executive's spouse and dependents to receive health insurance coverage substantially similar to coverage they received prior to the Date of Termination. Upon termination due to death prior to the termination first to occur as specified in the preceding sentence, Subparagraph 7(a) shall apply.

(c) If Executive's employment is terminated by Executive other than for Good Reason as provided in Subparagraph 6(e), then the Company shall, through the Date of Termination, pay Executive his accrued and unpaid Base Salary at the rate in effect at the time Notice of Termination is given. Thereafter, the Company shall have no further obligations to Executive except as otherwise expressly provided under this Agreement, provided any such termination shall not adversely affect or alter Executive's rights under any employee benefit plan of the Company in which Executive, at the Date of Termination, has a vested interest, unless otherwise provided in such employee benefit plan or any agreement or other instrument attendant thereto. In addition, all vested but unexercised stock options held by Executive as of the Date of Termination must be exercised by Executive within three (3) months following the Date of Termination or by the end of the option term, if earlier. All other stock-based grants and awards held by Executive shall vest or be canceled upon the Date of Termination in accordance with their terms.

(d) If Executive terminates his employment for Good Reason as provided in Subparagraph 6(e) or if Executive's employment is terminated by the Company without Cause as provided in Subparagraph 6(d), then the Company shall, through the Date of Termination, pay Executive his accrued and unpaid Base Salary at the rate in effect at the time Notice of Termination is given and his accrued and unpaid incentive compensation, if any, under Subparagraph 3(a). In addition, subject to signing by Executive of a general release of claims in a form and manner satisfactory to the Company,

(i) the Company shall pay Executive an amount equal to two (2) times the sum of Executive's Average Base Salary and his Average Incentive Compensation (the "Severance Amount"). The Severance Amount shall be paid out in substantially equal bi-weekly installments over twenty-four (24) months, in arrears. For purposes of this Agreement, "Average Base Salary" shall mean the average of the annual Base Salary received by Executive for each of the three (3) immediately preceding fiscal years or such fewer number of complete fiscal years as Executive may have been employed by the Company or the Previous Employer. For purposes of this Agreement, "Average Incentive Compensation" shall mean the average of the annual incentive compensation under Subparagraph 3(a) received by Executive for the three (3) immediately preceding fiscal years or such fewer number of complete fiscal years as Executive may have been employed by the Company or the Previous Employer. In no event shall "Average Incentive Compensation" include any sign-on bonus, retention bonus or any other special bonus. Notwithstanding the foregoing, if the Executive breaches any of the provisions contained in Paragraphs 4 and 5 of this Agreement, all payments of the Severance Amount shall immediately cease. Furthermore, in the event Executive terminates his employment for Good Reason as provided in Subparagraph 6(e), he shall be entitled to the Severance Amount only if he provides the Notice of Termination provided for in Subparagraph 6(f) within thirty (30) days after the occurrence of the event or events which constitute such Good Reason as specified in clauses (A), (B), (C), (D) and (E) of Subparagraph 6(e); and

(ii) upon the Date of Termination, each unvested stock option shall continue to vest in accordance with the vesting schedule set forth in such stock option for an additional twenty-four (24) months following the Date of Termination as if Executive's employment had not ceased. Each such stock option, to the extent exercisable, must be exercised by Executive within 180 days after the last installment of such stock option first becomes exercisable as described herein. In addition, each restricted stock unit held by Executive under the CIRCOR International, Inc. Management Stock Purchase Plan shall continue to vest for an additional twenty-four (24) months following the Date of Termination as if Executive's employment had not ceased, and Executive shall be credited with an additional twenty-four (24) months of Benefit Service under the CIRCOR International, Inc. Supplemental Executive Retirement Plan (the "SERP") as of the Date of Termination; and

(iii) in addition to any other benefits to which Executive may be entitled in accordance with the Company's then existing severance policies, the Company shall, for a period of one (1) year commencing on the Date of Termination, pay such health insurance premiums as may be necessary to allow Executive and Executive's spouse and dependents to continue to receive health insurance coverage substantially similar to the coverage they received prior to the Date of Termination.

(e) If Executive's employment is terminated by the Company for Cause as provided in Subparagraph 6(c), then the Company shall, through the Date of Termination, pay Executive his accrued and unpaid Base Salary at the rate in effect at the time Notice of Termination is given. Thereafter, the Company shall have no further obligations to Executive except as

otherwise expressly provided under this Agreement, provided any such termination shall not adversely affect or alter Executive's rights under any employee benefit plan of the Company in which Executive, at the Date of Termination, has a vested interest, unless otherwise provided in such employee benefit plan or any agreement or other instrument attendant thereto. In addition, all stock options held by Executive as of the Date of Termination shall immediately terminate and be of no further force and effect, and all other stock-based grants and awards shall be canceled or terminated in accordance with their terms.

(f) Nothing contained in the foregoing Subparagraphs 7(a) through 7(e) shall be construed so as to affect Executive's rights or the Company's obligations relating to agreements or benefits which are unrelated to termination of employment.

8. Change in Control Payment. The provisions of this Paragraph 8 set forth certain terms of an agreement reached between Executive and the Company regarding Executive's rights and obligations upon the occurrence of a Change in Control of the Company. These provisions are intended to assure and encourage in advance Executive's continued attention and dedication to his assigned duties and his objectivity during the pendency and after the occurrence of any such event. These provisions shall apply in lieu of, and expressly supersede, the provisions of Subparagraph 7(d) regarding severance pay and benefits upon a termination of employment, if such termination of employment occurs within eighteen (18) months after the occurrence of the first event constituting a Change of Control, provided that such first event occurs during the Period of Employment. These provisions shall terminate and be of no further force or effect beginning eighteen (18) months after the occurrence of a Change of Control.

(a) Change in Control.

(i) If within eighteen (18) months after the occurrence of the first event constituting a Change in Control, Executive's employment is terminated by the Company without Cause as provided in Subparagraph 6(d) or Executive terminates his employment for Good Reason as provided in Subparagraph 6(e), then the Company shall pay Executive a lump sum in cash in an amount equal to three (3) times the sum of (A) Executive's current Base Salary plus (B) Executive's highest annual incentive compensation under Subparagraph 3(a) in the three (3) immediately preceding fiscal years, excluding any sign-on bonus, retention bonus or any other special bonus. Such lump sum cash payment shall be paid to Executive within thirty (30) days following the Date of Termination; and

(ii) Notwithstanding anything to the contrary in any applicable option agreement or stock-based award agreement, upon a Change in Control, all stock options and other stock-based awards granted to Executive by the Parent shall immediately accelerate and become exercisable or non-forfeitable as of the effective date of such Change in Control. Executive shall also be entitled to any other rights and benefits with respect to stock-related awards, to the extent and upon the terms provided in the employee stock option or incentive plan or any agreement or other instrument attendant thereto pursuant to which such options or awards were granted; and

(iii) Executive shall be fully vested in his accrued benefit under the SERP as of the Date of Termination and shall be credited with an additional thirty-six (36) months of Benefit Service under the SERP; and

(iv) The Company shall, for a period of three (3) years commencing on the Date of Termination, pay such health insurance premiums as may be necessary to allow Executive, Executive's spouse and dependents to continue to receive health insurance coverage substantially similar to the coverage they received prior to the Date of Termination.

(v) In addition, the Company shall, for a period of three (3) years commencing on the Date of Termination, pay or promptly reimburse Executive for expenses incurred for leasing an automobile (the "Leasing Allowance") in an amount equal to the Leasing Allowance that Executive was entitled to receive from the Company in accordance with the Leasing Allowance policies and procedures then in effect prior to the Date of Termination.

(b) Gross Up Payment.

(i) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any compensation, payment or distribution by the Company to or for the benefit of Executive, whether paid or payable or distributed or distributable pursuant to the terms of this Agreement or otherwise (the "Severance Payments"), would be subject to the excise tax imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), or any interest or penalties are incurred by Executive with respect to such excise tax (such excise tax, together with any such interest and penalties, are hereinafter collectively referred to as the "Excise Tax"), then Executive shall be entitled to receive an additional payment (a "Gross-Up Payment") such that the net amount retained by Executive, after deduction of any Excise Tax on the Severance Payments, any Federal, state, and local income tax, employment tax and Excise Tax upon the payment provided by this subsection, and any interest and/or penalties assessed with respect to such Excise Tax, shall be equal to the Severance Payments.

(ii) Subject to the provisions of Subparagraph 8(b)(iii), all determinations required to be made under this Subparagraph 8(b)(ii), including whether a Gross-Up Payment is required and the amount of such Gross-Up Payment, shall be made by KPMG Peat Marwick LLP or any other nationally recognized accounting firm selected by the Company (the "Accounting Firm"), which shall provide detailed supporting calculations both to the Company and Executive within fifteen (15) business days of the Date of Termination, if applicable, or at such earlier time as is reasonably requested by the Company or Executive. For purposes of determining the amount of the Gross-Up Payment, Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation applicable to individuals for the calendar year in which the Gross-Up Payment is to be made, and state and local income taxes at the highest marginal rates of individual taxation in the state and locality of Executive's residence on the Date of Termination, net of the maximum reduction in federal income taxes which

could be obtained from deduction of such state and local taxes. The initial Gross-Up Payment, if any, as determined pursuant to this Subparagraph 8(b)(iii), shall be paid to Executive within five (5) days of the receipt of the Accounting Firm's determination. If the Accounting Firm determines that no Excise Tax is payable by Executive, the Company shall furnish Executive with an opinion of counsel that failure to report the Excise Tax on Executive's applicable federal income tax return would not result in the imposition of a negligence or similar penalty. Any determination by the Accounting Firm shall be binding upon the Company and Executive. As a result of the uncertainty in the application of Section 4999 of the Code at the time of the initial determination by the Accounting Firm hereunder, it is possible that Gross-Up Payments which will not have been made by the Company should have been made (an "Underpayment"). In the event that the Company exhausts its remedies pursuant to Subparagraph 8(b)(iii) and Executive thereafter is required to make a payment of any Excise Tax, the Accounting Firm shall determine the amount of the Underpayment that has occurred, consistent with the calculations required to be made hereunder, and any such Underpayment, and any interest and penalties imposed on the Underpayment and required to be paid by Executive in connection with the proceedings described in Subparagraph 8(b)(iii), shall be promptly paid by the Company to or for the benefit of Executive.

(iii) Executive shall notify the Company in writing of any claim by the Internal Revenue Service that, if successful, would require the payment by the Company of the Gross-up Payment. Such notification shall be given as soon as practicable but no later than ten (10) business days after Executive knows of such claim and shall apprise the Company of the nature of such claim and the date on which such claim is requested to be paid. Executive shall not pay such claim prior to the expiration of the 30-day period following the date on which he gives such notice to the Company (or such shorter period ending on the date that any payment of taxes with respect to such claim is due). If the Company notifies Executive in writing prior to the expiration of such period that it desires to contest such claim, provided that the Company has set aside adequate reserves to cover the Underpayment and any interest and penalties thereon that may accrue, Executive shall:

(A) give the Company any information reasonably requested by the Company relating to such claim,

(B) take such action in connection with contesting such claim as the Company shall reasonably request in writing from time to time, including, without limitation, accepting legal representation with respect to such claim by an attorney selected by the Company,

(C) cooperate with the Company in good faith in order to effectively contest such claim, and

(D) permit the Company to participate in any proceedings relating to such claim; provided, however, that the Company shall bear and pay directly all costs and expenses (including additional interest and penalties) incurred in

connection with such contest and shall indemnify and hold Executive harmless, on an after-tax basis, for any Excise Tax or income tax, including interest and penalties with respect thereto, imposed as a result of such representation and payment of costs and expenses. Without limitation on the foregoing provisions of this Subparagraph 8(b)(iii), the Company shall control all proceedings taken in connection with such contest and, at its sole option, may pursue or forego any and all administrative appeals, proceedings, hearings and conferences with the taxing authority in respect of such claim and may, at its sole option, either direct Executive to pay the tax claimed and sue for a refund or contest the claim in any permissible manner, and Executive agrees to prosecute such contest to a determination before any administrative tribunal, in a court of initial jurisdiction and in one or more appellate courts, as the Company shall determine; provided, however, that if the Company directs Executive to pay such claim and sue for a refund, the Company shall advance the amount of such payment to Executive on an interest-free basis and shall indemnify and hold Executive harmless, on an after-tax basis, from any Excise Tax or income tax, including interest or penalties with respect thereto, imposed with respect to such advance or with respect to any imputed income with respect to such advance; and further provided that any extension of the statute of limitations relating to payment of taxes for the taxable year of Executive with respect to which such contested amount is claimed to be due is limited solely to such contested amount. Furthermore, the Company's control of the contest shall be limited to issues with respect to which a Gross-Up Payment would be payable hereunder and Executive shall be entitled to settle or contest, as the case may be, any other issues raised by the Internal Revenue Service or any other taxing authority.

(iv) If, after the receipt by Executive of an amount advanced by the Company pursuant to Subparagraph 8(b)(iii), Executive becomes entitled to receive any refund with respect to such claim, Executive shall (subject to the Company's complying with the requirements of Subparagraph 8(b)(iii)) promptly pay to the Company the amount of such refund (together with any interest paid or credited thereon after taxes applicable thereto). If, after the receipt by Executive of an amount advanced by the Company pursuant to Subparagraph 8(b)(iii), a determination is made that Executive shall not be entitled to any refund with respect to such claim and the Company does not notify Executive in writing of its intent to contest such denial of refund prior to the expiration of 30 days after such determination, then such advance shall be forgiven and shall not be required to be repaid and the amount of such advance shall offset, to the extent thereof, the amount of Gross-Up Payment required to be paid.

(c) Definitions. For purposes of this Paragraph 8, the following terms shall have the following meanings:

"Change in Control" shall mean any of the following:

(a) any "person," as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Act") (other than the Parent, any of

its subsidiaries, any member of the Horne Family Group (as defined herein) or any trustee, fiduciary or other person or entity holding securities under any employee benefit plan or trust of the Parent or any of its subsidiaries), together with all "affiliates" and "associates" (as such terms are defined in Rule 12b-2 under the Act) of such person, shall become the "beneficial owner" (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, of securities of the Parent representing twenty-five percent (25%) or more of either (A) the combined voting power of the Parent's then outstanding securities having the right to vote in an election of the Parent's Board ("Voting Securities") or (B) the then outstanding shares of Parent's common stock, par value \$0.01 per share ("Common Stock") (other than as a result of an acquisition of securities directly from the Parent); or

(b) persons who, as of the Commencement Date, constitute the Parent's Board (the "Incumbent Directors") cease for any reason, including, without limitation, as a result of a tender offer, proxy contest, merger or similar transaction, to constitute at least a majority of the Board, provided that any person becoming a director of the Parent subsequent to the Commencement Date shall be considered an Incumbent Director if such person's election was approved by or such person was nominated for election by a vote of at least a majority of the Incumbent Directors; but provided further, that any such person whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of members of the Board or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board, including by reason of agreement intended to avoid or settle any such actual or threatened contest or solicitation, shall not be considered an Incumbent Director; or

(c) the stockholders of the Parent shall approve (A) any consolidation or merger of the Parent where the stockholders of the Parent, immediately prior to the consolidation or merger, would not, immediately after the consolidation or merger, beneficially own (as such term is defined in Rule 13d-3 under the Act), directly or indirectly, shares representing in the aggregate fifty percent (50%) or more of the voting shares of the Parent issuing cash or securities in the consolidation or merger (or of its ultimate parent corporation, if any), (B) any sale, lease, exchange or other transfer (in one transaction or a series of transactions contemplated or arranged by any party as a single plan) of all or substantially all of the assets of the Parent or (C) any plan or proposal for the liquidation or dissolution of the Parent.

Notwithstanding the foregoing, a "Change of Control" shall not be deemed to have occurred for purposes of the foregoing clause (a) solely as the result of an acquisition of securities by the Parent which, by reducing the number of shares of Common Stock or other Voting Securities outstanding, increases the proportionate number of shares beneficially owned by any person to twenty-five percent (25%) or more of either (A) the combined voting power of all of the then outstanding Voting Securities or (B) Common Stock; provided, however, that if any person referred to in this sentence shall thereafter become the beneficial owner of any additional shares of Voting Securities or Common Stock (other than pursuant to a stock split, stock dividend, or similar transaction or as a result of an acquisition of securities directly from the Parent) and immediately thereafter beneficially owns twenty-five percent (25%) or more of

either (A) the combined voting power of all of the then outstanding Voting Securities or (B) Common Stock, then a "Change of Control" shall be deemed to have occurred for purposes of the foregoing clause (a).

"Parent" shall mean not only CIRCOR International, Inc., but also its successors by merger or otherwise.

"Horne Family Group" shall mean Timothy P. Horne, the George B. Horne Voting Trust, and any other person who or which, together with its affiliates and associates, beneficially owns 15% or more of the outstanding shares of common stock of the Parent on the Commencement Date.

9. Notice. For purposes of this Agreement, notices and all other communications provided for in the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States certified mail, return receipt requested, postage prepaid, addressed as follows:

if to the Executive:

At his home address as shown
in the Company's personnel records;

if to the Company:

CIRCOR, Inc.
35 Corporate Drive
Burlington, MA 01803
Attention: Board of Directors

if to the Parent:

CIRCOR International, Inc.
35 Corporate Drive
Burlington, MA 01803
Attention: Board of Directors

or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

10. Miscellaneous. No provisions of this Agreement may be modified, waived, or discharged unless such waiver, modification, or discharge is agreed to in writing and signed by Executive and such officer of the Company as may be specifically designated by the Board. No waiver by either party hereto of, or compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. No agreements or representations, oral or otherwise, express or implied, unless specifically referred to herein, with respect to the subject matter hereof have been made by either party which are not set forth

expressly in this Agreement. The validity, interpretation, construction, and performance of this Agreement shall be governed by the laws of the Commonwealth of Massachusetts (without regard to principles of conflicts of laws).

11. **Validity.** The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect. The invalid portion of this Agreement, if any, shall be modified by any court having jurisdiction to the extent necessary to render such portion enforceable.

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

13. **Arbitration; Other Disputes.** In the event of any dispute or controversy arising under or in connection with this Agreement, the parties shall first promptly try in good faith to settle such dispute or controversy by mediation under the applicable rules of the American Arbitration Association before resorting to arbitration. In the event such dispute or controversy remains unresolved in whole or in part for a period of thirty (30) days after it arises, the parties will settle any remaining dispute or controversy exclusively by arbitration in Boston, Massachusetts, in accordance with the rules of the American Arbitration Association then in effect. Judgment may be entered on the arbitrator's award in any court having jurisdiction. Notwithstanding the above, the Company shall be entitled to seek a restraining order or injunction in any court of competent jurisdiction to prevent any continuation of any violation of Paragraph 4 or 5 hereof. Furthermore, should a dispute occur concerning Executive's mental or physical capacity as described in Subparagraph 6(b), 6(c) or 7(b), a doctor selected by Executive and a doctor selected by the Company shall be entitled to examine Executive. If the opinion of the Company's doctor and Executive's doctor conflict, the Company's doctor and Executive's doctor shall together agree upon a third doctor, whose opinion shall be binding.

14. **Third-Party Agreements and Rights.** Executive represents to the Company that Executive's execution of this Agreement, Executive's employment with the Company and the performance of Executive's proposed duties for the Company and the Parent will not violate any obligations Executive may have to any employer or other party, and Executive will not bring to the premises of the Company any copies or other tangible embodiments of non-public information belonging to or obtained from any such previous employment or other party.

15. **Litigation and Regulatory Cooperation.** During and after Executive's employment, Executive shall reasonably cooperate with the Company and the Parent in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of the Company and/or the Parent which relate to events or occurrences that transpired while Executive was employed by the Company; provided, however, that such cooperation shall not materially and adversely affect Executive or expose Executive to an increased probability of civil or criminal litigation. Executive's cooperation in connection with such claims or actions shall include, but not be limited to, being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of the Company and/or the Parent

at mutually convenient times. During and after Executive's employment, Executive also shall cooperate fully with the Company and the Parent in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while Executive was employed by the Company. The Company shall also provide Executive with compensation on an hourly basis (to be derived from the sum of his Base Compensation and Average Incentive Compensation) for requested litigation and regulatory cooperation that occurs after his termination of employment, and reimburse Executive for all costs and expenses incurred in connection with his performance under this Paragraph 15, including, but not limited to, reasonable attorneys' fees and costs.

16. Gender Neutral. Wherever used herein, a pronoun in the masculine gender shall be considered as including the feminine gender unless the context clearly indicates otherwise.

IN WITNESS WHEREOF, the parties have executed this Agreement effective on the date and year first above written.

CIRCOR INTERNATIONAL, INC.

By: /S/ DEWAIN K. CROSS

Dewain K. Cross
Chairman, Compensation Committee
Board of Directors

CIRCOR, INC.

By: /S/ KENNETH W. SMITH

Kenneth W. Smith
Vice President

EXECUTIVE

/S/ DAVID A. BLOSS, SR.

David A. Bloss, Sr.

AMENDMENT No.1

AMENDMENT No.1 dated as of December 22, 2000 (this "Amendment"), among CIRCOR INTERNATIONAL, INC., a corporation duly organized and validly existing under the laws of the State of Delaware (the "Borrower"); each of the Subsidiary Guarantors referred to therein (collectively, the "Subsidiary Guarantors"); each of the lenders that is a signatory hereto (individually, a "Lender" and, collectively, the "Lenders"); and ING (U.S.) CAPITAL LLC, a Delaware limited liability company, as agent for the Lenders (in such capacity, together with its successors in such capacity, the "Agent").

The Borrower, the Subsidiary Guarantors, the Lenders and the Agent are parties to a Credit Agreement dated as of October 18, 1999 (as heretofore modified and supplemented and in effect on the date hereof, the "Credit Agreement"). The Borrower, the Subsidiary Guarantors, the Lenders and the Agent wish to amend the Credit Agreement in certain respects and, accordingly, the parties hereto hereby agree as follows:

Section 1. Definitions. Except as otherwise defined in this Amendment, terms defined in the Credit Agreement are used herein as defined therein.

Section 2. Amendments. Subject to the satisfaction of the conditions precedent specified in Section 4 below, but effective as of the date hereof, the Credit Agreement shall be amended as follows:

2.01. Definitions. Section 1.01 of the Credit Agreement shall be amended by inserting the following definitions in the appropriate alphabetical order:

"Canadian Transactions' shall mean, collectively, the following transactions:

(a) the borrowing by the Company of Revolving Credit Loans, the proceeds of which are used solely to make a loan (the "KF Loan") in an amount not to exceed \$16,000,000 to KF Industries, Inc., a Wholly Owned Subsidiary of the Company ("KF"), the proceeds of which are used solely to make a loan to Telford evidenced by a promissory note (the 'Telford Note'), the proceeds of which shall be used by Telford solely to make a dividend payment to KF, the proceeds of which are used by KF solely to make a dividend payment to the Company; and

(b) after the completion of the transactions described in the foregoing clause (a), the incurrence by a Foreign Subsidiary of Indebtedness in an aggregate principal amount not to exceed \$16,000,000 (the 'Second Loan'), the proceeds of which are used solely to make a loan to another Foreign Subsidiary (the 'Second Foreign Subsidiary'), the Company entering into a Guarantee of the Second Loan to the lender of the Second Loan (the 'Company Guarantee'), the Second Foreign Subsidiary using the proceeds of the loan made to it to purchase from KF the Telford Note (the 'Telford Note Sale'), the proceeds of which are used by KF solely to repay the KF Loan."

"Telford' shall mean IOG Canada, Inc., a Canadian corporation and a Wholly Owned Subsidiary of the Company."

2.02. Mandatory Prepayment From Debt Issuance. The definition of "Debt Issuance" in Section 1.01 of the Credit Agreement shall be amended by adding the following at the end thereof:

", and other than the KF Loan and the Second Loan (as those terms are defined in the definition of 'Canadian Transactions' in Section 1.01 hereof.)"

2.03. Sale of Telford Note. Section 9.05(c) of the Credit Agreement shall be amended by replacing the word "and" at the end of clause (iii) with a comma and adding the following new clause (v):

"and (v) sale of the Telford Note in connection with the Canadian Transactions)."

2.04. Increase in Indebtedness Basket. Section 9.07(d) of the Credit Agreement shall be amended by replacing it with the following new Section 9.07(d):

"(d) the following Indebtedness: (i) the Second Loan (as that term is defined in the definition of 'Canadian Transactions' in Section 1.01 hereof), and (ii) after repayment in full of the Second Loan, additional Indebtedness up to but not exceeding \$10,000,000 at any one time outstanding; and"

2.05. Company Guarantee. Section 9.08(d) of the Credit Agreement shall be amended by replacing clause (ii) appearing therein with the following new clause (i):

"(i) Foreign Subsidiaries, including the Telford Note and the Investment consisting of the Company Guarantee, so long as the amount of any advances by the Company to its Foreign Subsidiaries other than the Telford Note and the Company Guarantee shall not exceed \$10,000,000 in aggregate at any one time;"

2.06. Use of Proceeds. Section 9.18 of the Credit Agreement shall be amended by adding the following after the words "working capital purposes":

"and to finance acquisitions made in compliance with the provisions of Section 9.05(b)(iv) hereof."

2.07. Granting of Liens. Section 9.19 of the Credit Agreement shall be amended by inserting the following text immediately after the text "the granting of Liens" appearing therein:

", other than a prohibition on the granting of Liens pursuant to an agreement providing for the Second Loan (as that term is defined in the definition of 'Canadian Transactions' in Section 1.01 hereof),"

Section 3. Representations and Warranties. The Borrower and the Subsidiary Guarantors represent and warrant to the Lenders that the representations and warranties set forth in Section 8 of the Credit Agreement are true and complete on the date hereof as if made on and as of the date hereof and as if each reference in said Section 8 to "this Agreement" included reference to this Amendment.

Section 4. Conditions Precedent. As provided in Section 2 above, the amendments to the Credit Agreement set forth in said Section 2 shall become effective, as of the date hereof, upon (i) the execution and delivery of this Amendment by the Borrower, the Subsidiary Guarantors, the Majority Lenders and the Agent and (ii) the delivery of any agreements or documents executed in connection with the Second Loan.

Section 5. Miscellaneous. Except as herein provided, the Credit Agreement shall remain unchanged and in full force and effect. This Amendment 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 Amendment by signing any such counterpart. This Amendment shall be governed by, and construed in accordance with, the law of the State of New York.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered as of the day and year first above written.

CIRCOR INTERNATIONAL, INC.

By: /s/ David A. Bloss

Title: Chairman, Chief Executive Officer

SUBSIDIARY GUARANTORS

CIRCOR, INC.

By: /s/ David A. Bloss

Name: David A. Bloss, Sr.
Title: Chairman, Chief Executive Officer

CIRCOR IP HOLDING CO

By: /s/ Kenneth W. Smith

Name: Kenneth W. Smith
Title: VP, Chief Financial Officer

CIRCLE SEAL CONTROLS, INC.

By: /s/ Kenneth W. Smith

Name: Kenneth W. Smith
Title: VP, Chief Financial Officer

CIRCLE SEAL CORPORATION

By: /s/ Kenneth W. Smith

Name: Kenneth W. Smith
Title: VP, Chief Financial Officer

GO REGULATOR, INC.

BY: /s/ Kenneth W. Smith

Name: Kenneth W. Smith
Title: VP, Chief Financial Officer

HOKE INC.

By: /s/ Kenneth W. Smith

Name: Kenneth W. Smith
Title: VP, Chief Financial Officer

KF INDUSTRIES INC.

By: /s/ Kenneth W. Smith

Name: Kenneth W. Smith
Title: VP, Chief Financial Officer

KF SALES CORPORATION

By: /s/ Kenneth W. Smith

Name: Kenneth W. Smith
Title: VP, Chief Financial Officer

LESLIE CONTROLS, INC.

By: /s/ Kenneth W. Smith

Name: Kenneth W. Smith
Title: VP, Chief Financial Officer

SPENCE ENGINEERING COMPANY, INC.

By: /s/ Kenneth W. Smith

Name: Kenneth W. Smith
Title: VP, Chief Financial Officer

ING (U.S.) CAPITAL LLC, as Lender

By: /s/ Gerlach Jacobs

Title: DIRECTOR
Gerlach Jacobs

Fleet National Bank
f/k/a BANKBOSTON, N.A., as Lender

By: /s/ John P. O'Loughlin

Title: Director

BROWN BROTHERS HARRIMAN & CO., as Lender

BY: /s/ Joseph E. Hall

Title: SENIOR VICE PRESIDENT

FIRST UNION NATIONAL BANK, as Lender

By: /s/ Jorge A. Gonzalez

Title: Jorge A. Gonzalez
Senior Vice President

CITIZENS BANK OF MASSACHUSETTS, as Lender

By: /s/ Daniel R. Gillette

Title: Vice President

ING (U.S.) CAPITAL LLC, as Agent

By: /s/ Gerlach Jacobs

Title: DIRECTOR
Gerlach Jacobs

EXHIBIT 21

SUBSIDIARIES OF CIRCOR INTERNATIONAL, INC.

- I. Subsidiaries of CIRCOR International, Inc.:
 - 1. Spence Engineering Company, Inc., a Delaware Corporation
 - 2. Leslie Controls, Inc., a New Jersey Corporation
 - 3. Circle Seal Controls, Inc., a Delaware Corporation
 - 4. KF Industries, Inc., an Oklahoma Corporation
 - 5. Circor, Inc., a Massachusetts Corporation
 - 6. Societe Alsacienne Regulaves Thermiques von Rohr, SAS, a French Limited Liability Company
 - 7. Circor Holdings B.V., a Netherlands Corporation
 - 8. Circor (Jersey) Ltd., a United Kingdom Company (80% ownership)
 - 9. U.S. Para Plate Corporation, a California Corporation
 - 10. TOMCO Products, Inc., an Ohio Corporation
 - 11. U.S. Para Plate Acquisition Corp., a Delaware Corporation
 - 12. CIRCOR Business Trust, A Massachusetts Business Trust
- II. Subsidiaries of Circle Seal Controls, Inc.:
 - 1. CIRCOR IP Holding Co., a Delaware Corporation
 - 2. Circle Seal Corporation, a Delaware Corporation
 - 3. Suzhou KF Valve Co., Ltd. (JV), a Chinese Joint Venture (60% ownership)
 - 4. Hoke, Inc., a New York Corporation
- III. Subsidiaries of KF Industries, Inc.:
 - 1. Pibiviesse S.p.A., an Italian Company
 - 2. IOG Canada Inc., a Canadian Corporation
- IV. Subsidiaries of Pibiviesse S.p.A.:
 - 1. De Martin Giuseppe & Figli Srl, an Italian Company
- V. Subsidiaries of IOG Canada, Inc.:
 - 1. SSI Equipment Inc., a Canadian Corporation

- VI. Subsidiaries of Hoke, Inc.:
 - 1. Hoke Controls, Ltd., a Canadian Corporation
 - 2. CIRCOR German Holdings Management GmbH, a German Closed Corporation
 - 3. Circor (Jersey) Ltd., a United Kingdom Company (20% ownership)
 - 4. Circor Instrumentation Ltd., a United Kingdom Company
- VII. Subsidiaries of Regeltechnik Kornwestheim GmbH:
 - 1. RTK Control Systems Limited, a United Kingdom Corporation
- VIII. Subsidiaries of Societe Alsacienne Regulaves Thermiques von Rohr, SAS:
 - 1. SCI MMC, a French Limited Liability Partnership
- IX. Subsidiaries of Circor Business Trust:
 - 1. Circor Securities Corp., a Massachusetts Corporation
- X. Subsidiaries of Circor (Jersey), Ltd.:
 - 1. Circor German Holdings, LLC, a Massachusetts Limited Liability Company
- XII. Subsidiaries of Circor German Holdings, LLC:
 - 1. Circor German Holdings GmbH & Co. KG
- XII. Subsidiaries of Circor German Holdings GmbH & Co. KG
 - 1. Hoke GmbH, a German Corporation
 - 2. Regeltechnik Kornwestheim GmbH, a German Closed Corporation

EXHIBIT 23
CONSENT OF INDEPENDENT AUDITORS'

We hereby consent to the incorporation by reference in this registration statement (No. 333 91229) on Form S-8 of CIRCOR International, Inc. of our report dated February 4, 2003, relating to the consolidated balance sheets of CIRCOR International, Inc. and subsidiaries as of December 31, 2002 and 2001 and the related consolidated statements of operations, cash flows and shareholders' equity for each of the years in the three year period ended December 31, 2002 and the related financial statement schedule, which report appears in the December 31, 2002 annual report on Form 10-K of CIRCOR International, Inc.

Our audit report indicates that, effective January 1, 2002, the Company changed its method of accounting for goodwill and other intangible assets.

/S/ KPMG LLP

Boston, Massachusetts
March 10, 2003