

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended October 31, 1999  
or  
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For the transition period from to  
Commission File Number 1-12273

ROPER INDUSTRIES, INC.  
(Exact name of Registrant as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

51-0263969  
(I.R.S. Employer  
Identification No.)

160 Ben Burton Road  
Bogart, Georgia 30622  
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (706) 369-7170

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

Title of Each Class	Name of Each Exchange On Which Registered
Common Stock, \$.01 Par Value	New York Stock Exchange
Preferred Stock Purchase Rights with respect to Common Stock, \$.01 Par Value	New York Stock Exchange

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 ((S) 229.405 of this chapter) 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.

Aggregate market value of the voting stock held by non-affiliates of the Registrant, computed by reference to the closing price of such stock, as of December 31, 1999: \$1,147,060,111

Number of shares of Registrant's Common Stock outstanding as of December 31, 1999: 30,335,474

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement to be furnished to Shareholders in connection with its Annual Meeting of Shareholders to be held on March 17, 2000, are incorporated by reference into Part III

PART I

ITEM 1. BUSINESS

Roper Industries, Inc. ("Roper") designs, manufactures and distributes specialty industrial controls, fluid handling and analytical instrumentation products worldwide, serving selected segments of a broad range of markets such as oil & gas, scientific research, medical diagnostics, semiconductor, microscopy, chemical and petrochemical processing, large diesel engine and turbine/compressor control applications, bulk-liquid trucking, power generation, and agricultural irrigation industries.

Roper pursues consistent and sustainable growth in sales and earnings by operating and acquiring businesses that manufacture and sell high value-added, highly engineered industrial products that are capable of achieving and maintaining high margins. This strategy continually emphasizes (i) increasing market share and market expansion, (ii) new product development, (iii) improving productivity and reducing costs and (iv) acquisition of similar businesses. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - - Year Ended October 31, 1999 Compared to Year Ended October 31, 1998 and - - Year Ended October 31, 1998 Compared to Year Ended October 31, 1997."

Market Share, Market Expansion and Product Development. Roper competes in many narrowly defined niche markets. Its position in these markets is typically as the market leader or as a competitive alternate to the market leader. In those markets where Roper is regionally dominant it seeks to sustain growth through geographic expansion of its marketing efforts and the development of new products for associated markets.

Roper expanded its markets in fiscal 1999 principally by new business acquisitions. In June 1999 it acquired the three units comprising the instruments division of Varlen Corporation, and has integrated their management and sales distribution with that of Roper's ISL unit. These businesses now operate as Petroleum Analyzer Company ("Petroleum Analyzer") which manufactures and markets petroleum properties test equipment. Subsequent to the end of the fiscal year, Roper acquired in November 1999 the Motion Analysis Systems Division of Eastman Kodak Company, now named Roper Scientific MASD, Inc. ("MASD"), and Redlake Imaging Corporation ("Redlake Imaging"). MASD and Redlake Imaging manufacture and market high-speed and high-resolution digital video equipment.

The fiscal 1999 Petroleum Analyzer acquisitions represented an investment of \$36 million in cash. The MASD and Redlake Imaging acquisitions represented a combined investment of approximately \$60 million in cash. These acquisitions have been financed principally from borrowings. Roper's debt under its primary credit facility was \$109 million at October 31, 1999 (\$158 million after the additional borrowings to purchase MASD) and \$119 million at October 31, 1998. Total debt was 36% (44% after the MASD borrowings) and 39% of total capitalization at October 31, 1999 and 1998, respectively. Roper believes it is well positioned for additional acquisitions.

International Sales. Sales outside the United States continue to play an important part in Roper's overall operating results, including U.S.-based businesses. In fiscal 1999, 1998 and 1997, Roper's net sales outside the U.S. were 51%, 50% and 46%, respectively, of total net sales. Information regarding international operations is set forth in Note 13 of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report on Form 10-K ("Annual Report").

Research and Development. Roper conducts applied research and development to improve the quality and performance of its products, to develop new products and to enter new markets. Research and development performed by Roper often includes extensive field testing of its products. Roper expensed \$16.7 million, \$18.0 million and \$14.2 million in the years ended October 31, 1999, 1998 and 1997, respectively, on research and development activities.

#### INDUSTRIAL CONTROLS SEGMENT

The Industrial Controls segment's products are manufactured and distributed by Amot Controls Corporation, Richmond, California ("Amot U.S."), and its U.K. affiliated division, Roper Industries Limited, Bury St. Edmunds, England ("Amot U.K."), which are collectively referred to as "Amot", Compressor Controls Corporation, Des Moines, Iowa ("Compressor Controls"), Metrix Instrument Co., L.P., having divisions located in Houston, Texas and Natick, Massachusetts ("Metrix") and Petrotech, Inc., Belle Chasse, Louisiana ("Petrotech").

Selected financial information for the Industrial Controls segment is set forth in Note 13 of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report. This segment's principal sales and services consist of: (i) rotating machinery control systems and panels (ii) industrial valve, control and measurement products, (iii) vibration instrumentation and (iv) design, build, construct and install services.

Rotating Machinery Control Systems and Panels. Roper manufactures control systems and panels engineered for applications involving compressors, turbines, and engines in the oil & gas, pipeline, power generation and marine industries.

Industrial Valve, Control and Measurement Products. Roper manufactures a variety of valve, sensor, switch and control products used on engines, compressors, turbines and other powered equipment for the oil & gas, pipeline, power generation, marine and general industrial markets. Most of these products are designed for use in hazardous, explosive environments.

Vibration Instrumentation. Roper manufactures industrial vibration sensors, switches and transmitters for use in the broad industrial controls market. Their applications typically involve turbomachinery, engines, compressors, fans and/or pumps.

Design, Build, Construct and Install Services. Roper provides specialized technical services to the product markets described above and thus offers turnkey solution capability to its customers. Services offered include engineering design, procurement, packaging and site installation. Those classes of products within the Industrial Controls segment that accounted for at least 10% of

Roper's consolidated net sales in any of the periods presented below were as follows (in thousands):

	Year ended October 31,		
	1999	1998	1997
Rotating machinery control systems and panels	\$78,979	\$93,540	\$59,078
Industrial valve, control and measurement products	25,123	32,298	34,827

The following chart shows the breakdown of sales by market for fiscal 1999 for the Industrial Controls segment:

Power Generation	10%
Oil & Gas - Pipeline	39%
General Industry	6%
Oil & Gas Production and Processing	40%
Marine	5%

Backlog. The bulk of this segment's business consists of large engineered oil & gas development and transmission projects with lead times of three-to-nine months. Standard products generally ship within two weeks of receipt of order, while shipment of orders for specialty products varies according to the complexity of the product and availability of the required components. Roper enters into blanket purchase orders for the manufacture of products for certain OEMs and end-users over periods of time specified by such customers. The segment's backlog of firm unfilled orders, including blanket purchase orders, totaled \$29.3 million at October 31, 1999 compared to \$39.0 million as of October 31, 1998. The principle reason for this decrease was softness in the segment's oil & gas markets.

Distribution and Sales. Distribution and sales occur through direct sales offices, manufacturer's representatives and industrial machinery distributors.

Customers. Each of Roper's business units sells to a variety of customers worldwide. RAO Gazprom ("Gazprom"), a large Russian natural gas company, was the biggest single customer in this segment for the year, contributing approximately 22% of segment sales in fiscal 1999, and has

indicated its interest to continue purchases of control systems for several years. However, continuation of this business at expected levels will continue to be subject to numerous commercial and political risks beyond Roper's control and cannot be assured. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS - Forward Looking Information".

#### FLUID HANDLING SEGMENT

The Fluid Handling segment's products are manufactured and distributed by Cornell Pump Manufacturing Corporation, Portland, Oregon ("Cornell Pump"), Fluid Metering, Inc., Syosset, New York ("Fluid Metering"), FTI Flow Technology, Inc., Phoenix, Arizona ("Flow Technology"), Integrated Designs L.P., Carrollton, Texas ("Integrated Designs") and Roper Pump Company, Commerce, Georgia ("Roper Pump").

Selected financial information for the Fluid Handling segment is set forth in Note 13 of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report. This segment's principal products consist of (i) general industrial pumps, (ii) integrated dispense systems and (iii) flow metering products.

**General Industrial Pumps.** Roper manufactures a variety of general industrial pumps including (i) rotary gear pumps which operate on the principle of two gears intermeshing and are primarily used for pumping particle-free viscous liquids such as oil and certain fluid products, and specialty rotary gear pumps such as lubricating oil pumps for diesel engines and fuel distribution devices, (ii) progressing cavity pumps whose pumping elements consist of a steel rotor within an elastomeric stator and which are used primarily for handling viscous liquids with suspended solids and abrasive material and is the basis for Roper's "mud motor" used in the oil & gas industry for directional drilling, (iii) centrifugal pumps which are used for pumping water and other low-viscosity liquids in agricultural, industrial and municipal applications and (iv) piston-type metering pumps able to handle most types of chemicals and fluids within low-flow applications and used principally in the medical diagnostics, chemical processing, food processing and agricultural industries.

**Integrated Dispense Systems.** Roper's microprocessor-based integrated dispense systems are used principally in the semiconductor industry to dispense chemicals in a precise and repeatable fashion during the wafer fabrication process. These highly reliable dispense units incorporate no mechanical displacement, but utilize the application of electronically regulated vacuum pressure.

**Flow Metering Products.** Roper manufactures turbine flow meters, emissions measurement equipment and flow meter calibration for the aerospace, automotive and other industrial applications.

Those classes of products within the Fluid Handling segment that accounted for at least 10% of Roper's consolidated net sales in any of the periods presented below were as follows (in thousands):

	Year ended October 31,		
	1999	1998	1997
General industrial pumps	\$ 76,193	\$ 72,095	\$ 71,918

The following chart shows the breakdown of Fluid Handling segment sales by market for fiscal 1999:

Semiconductor Equipment	12%
General Industry and Other	40%
Transportation	4%
Aerospace	3%
Irrigation	7%
Food Processing	8%
Oil & Gas	7%
Power Generation	9%
Medical	10%

Backlog. The Fluid Handling companies' sales also reflect a combination of standard products and specifically engineered, application-specific products. Standard products are typically shipped within two weeks of receipt of order. Application-specific products typically ship within six-to-twelve weeks following receipt of order, although certain blanket purchase orders for certain OEMs and other end-users may extend for longer periods. This segment's backlog of firm unfilled orders, including blanket purchase orders, totaled \$14.4 million at October 31, 1999 compared to \$12.7 million as of October 31, 1998. Most of the increase in backlog was attributed to the semiconductor equipment business where backlog was up over 500% compared to depressed conditions that existed last year.

Distribution and Sales. Distribution and sales occur through direct sales personnel, manufacturer's representatives and stocking and non-stocking distributors.

Customers. Several of the Fluid Handling segment's companies have sales to one or a few customers that represent a significant portion of that company's sales and the relative importance of such a concentrated customer base for these companies is expected to continue. In particular, two customers of Integrated Designs contributed approximately 55% of its fiscal 1999 net sales. However, no customer was responsible for as much as 10% of the segment's net sales.

#### ANALYTICAL INSTRUMENTATION SEGMENT

The Analytical Instrumentation segment's products are manufactured and distributed by Gatan, Inc. ("Gatan"), having principal operations in Pleasanton, CA and Warrendale PA, Molecular Imaging Corporation ("Molecular Imaging"), Tempe, AZ, Petroleum Analyzer, having principal operations in Houston and San Antonio, TX, Verson, France and Lauda, Germany, Redlake Imaging, Morgan Hill, CA, Roper Scientific, Inc. ("Roper Scientific"), having principal operations in Tucson, AZ, Trenton, NJ and Acton, MA, MASD, San Diego, CA and Uson L.P. ("Uson"), Houston, TX.

Selected financial information for the Analytical Instrumentation segment is set forth in Note 13 of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report. This segment's principal products consist of (i) digital imaging products, (ii) industrial testing and analysis products, (iii) microscopy specimen preparation/handling products and (iv) spectroscopy products.

**Digital Imaging Products.** Roper manufactures and sells extremely sensitive, high-performance charge-coupled device ("CCD") cameras and detectors for a variety of scientific uses, which use high resolution and/or high speed digital video, including transmission electron microscopy and spectroscopy applications. These products are principally sold for use within academic, government research, semiconductor, automotive, ballistic and biological and material science end-user markets. They are frequently incorporated into original equipment manufacturers' ("OEM") products.

**Industrial Testing and Analysis Products.** Roper manufactures and sells (i) automated and manual test equipment to determine certain characteristics of petroleum products, such as flash point, viscosity, freeze point and distillation and (ii) products and systems to determine leaks and completeness of assemblies and sub-assemblies in the automotive, medical and consumer products industries.

**Microscopy Specimen Preparation/Handling Products.** Roper manufactures and sells specimen preparation and handling equipment for use with electron microscopes. The handling products are incorporated into OEM equipment and also sold as a retrofit for microscopes currently in use within the academic, government research, electronics, biological and material science end-user markets.

**Spectroscopy Products.** Roper manufactures and sells spectrometers, monochrometers and optical components and coatings for various high-end analytical applications. These products are often incorporated into OEM equipment for use within the research and material science end-user markets.

The class of products within the Analytical Instrumentation segment that accounted for at least 10% of Roper's consolidated net sales in any of the periods presented below were as follows (in thousands):

	Year ended October 31,		
	1999	1998	1997
Digital imaging products	\$ 89,739	\$ 65,576	\$ 37,181

The following chart shows the breakdown of Analytical Instrumentation segment sales by market for fiscal 1999:

General Industry and Other	8%
Medical	7%
Oil & Gas	18%
Automotive	9%
Research	53%
Semiconductor	5%

**Backlog.** The Analytical Instrumentation companies have lead times of up to several months on many of their product sales, although standard products are often shipped within four weeks of receipt of order. Blanket purchase orders are placed by certain OEMs and end-users, with continuing requirements for fulfillment over specified periods of time. The segment's backlog of firm unfilled orders, including blanket purchase orders, totaled \$30.0 million at October 31, 1999 compared to \$28.9 million as of October 31, 1998. This year-over-year increase mostly attributed to the fiscal 1999 acquisition of the Varlen Instruments companies.

**Distribution and Sales.** Distribution and sales are achieved through a combination of manufacturer representatives, agents, distributors and direct sales offices in both the U.S. and various leading industrial nations.

**Customers.** Each of the companies in the Analytical Instrumentation segment sells to a variety of customers worldwide, with certain major OEMs in the automotive, medical diagnostics and microscopy industries having operations globally. In particular, the two major OEM customers of



Gatan contributed approximately 47% of its fiscal 1999 net sales. However, no customer accounted for as much as 10% of the segment's sales.

#### MATERIALS AND SUPPLIERS

Most materials and supplies used by Roper are believed to be readily available from numerous sources and suppliers throughout the world which are believed adequate for their needs. Some high-performance components for digital imaging products can be in short supply and Roper continuously investigates and identifies alternative sources where possible. Roper believes this condition equally affects its competitors and, thus far, it has not had a significant adverse effect on sales.

#### ENVIRONMENTAL MATTERS AND OTHER GOVERNMENTAL REGULATION

Roper is subject to environmental laws and regulations concerning emissions to the air, discharges to waterways and the generation, handling, storage, transportation, treatment and disposal of waste materials. These laws and regulations are constantly changing and it is impossible to predict with accuracy the effect they may have on Roper in the future. It is Roper's policy to comply with all applicable environmental, health and safety laws and regulations.

Roper is subject to various U.S. federal, state and local laws and foreign laws affecting its businesses, as well as a variety of regulations relating to such matters as working conditions and product safety. A variety of state laws regulate Roper's contractual relationships with its distributors and manufacturer representatives, some of which impose substantive standards on these relationships.

#### COMPETITION

Roper has significant competition from a limited number of companies in each of its markets. No single competitor competes with Roper over a significant number of product lines. Roper's products compete primarily on the basis of performance, innovation and price.

#### PATENTS AND TRADEMARKS

Roper owns the rights under a number of patents and trademarks relating to certain of its products and businesses. While it believes that none of its companies is substantially dependent on any single, or group, of patents, trademarks or other items of intellectual property rights, the product development and market activities of Compressor Controls, Gatan, Integrated Designs, MASD and Roper Scientific, in particular, have been planned and conducted in conjunction with important and continuing patent strategies. Compressor Controls has been granted a series of U.S. and associated foreign patents and a significant portion of its fiscal 1999 sales of Compressor Controls-manufactured products was of equipment which incorporated innovations that are the subject of several such patents which will not begin to expire until 2004. Integrated Designs was granted a U.S. patent in 1994 related to methods and apparatus claims embodied in its integrated dispense

systems which accounted for the majority of its fiscal 1999 sales. The U.S. patent will expire in 2011.

#### EMPLOYEES

As of October 31, 1999, Roper had approximately 2,200 total employees, of whom approximately 1,800 were located in the United States.

#### ITEM 2. PROPERTIES

Roper's corporate offices, consisting of 9,500 square feet of leased space, are located in Bogart, Georgia, which is adjacent to Athens, Georgia. Roper has established sales and service locations around the world to support its operating units. The principal operating company properties are on the table that follows.

Roper considers each facility to be in good operating condition and adequate for its present use and believes that it has sufficient plant capacity to meet its current and anticipated operating requirements.

Location	Property	Square footage		Industry segment
		Owned	Leased	
Phoenix, AZ	Office / Mfg.	-	45,900	Fluid Handling
Tucson, AZ	Office / Mfg.	-	37,300	Analytical Instrumentation
Morgan Hill, CA	Office / Mfg.	-	10,500	Analytical Instrumentation
Pleasanton, CA	Office	-	19,400	Analytical Instrumentation
Richmond, CA	Office / Mfg.	66,000	-	Industrial Controls
San Diego, CA	Office / Mfg.	-	48,000	Analytical Instrumentation
Verson, France	Office / Mfg.	-	22,500	Analytical Instrumentation
Commerce, GA	Office / Mfg.	189,000	-	Fluid Handling
Lauda, Germany	Office / Mfg.	24,000	-	Analytical Instrumentation
Des Moines, IA	Office / Mfg.	-	75,200	Industrial Controls
Belle Chasse, LA	Office / Mfg.	-	66,400	Industrial Controls
Acton, MA	Office / Mfg.	-	32,700	Analytical Instrumentation
Trenton, NJ	Office / Mfg.	40,000	-	Analytical Instrumentation
Syosset, NY	Office / Mfg.	-	27,500	Fluid Handling
Portland, OR	Office / Mfg.	-	128,000	Fluid Handling
Warrendale, PA	Mfg.	-	22,800	Analytical Instrumentation
Carrollton, TX	Office / Mfg.	-	22,000	Fluid Handling
Houston, TX	Office / Mfg.	12,600	-	Industrial Controls
Houston, TX	Office	-	10,500	Analytical Instrumentation
Houston, TX	Office / Mfg.	-	17,800	Analytical Instrumentation
San Antonio, TX	Office / Mfg.	-	37,900	Analytical Instrumentation
Bury St. Edmunds, U.K.	Office / Mfg.	90,000	-	Industrial Controls

ITEM 3. LEGAL PROCEEDINGS

Roper is a defendant in various lawsuits involving product liability and other matters, none of which Roper believes, if adversely determined, would have a material adverse effect on its consolidated financial position or results of operations. The majority of such claims are the subject of insurance coverage.

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

No matter was submitted to a vote of Roper's security-holders during the fourth quarter of fiscal 1999.

## PART II

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

Roper's single class of common stock issued and outstanding trades on the New York Stock Exchange ("NYSE") under the symbol "ROP". Following is the range of high and low sales prices for Roper's common stock as reported by the NYSE during each of its fiscal 1999 and 1998 quarters and the dividends declared per share. The last sales price reported by the NYSE on December 31, 1999, was \$37.813.

		High	Low	Dividend Declared
		-----	-----	-----
1999	4th Quarter	\$38.562	\$29.750	\$0.065
	3rd Quarter	36.500	28.000	0.065
	2nd Quarter	29.594	20.875	0.065
	1st Quarter	22.500	15.750	0.065
1998	4th Quarter	23.250	13.313	0.060
	3rd Quarter	34.063	20.000	0.060
	2nd Quarter	33.500	25.750	0.060
	1st Quarter	31.000	24.438	0.060

Based on information available to Roper and its transfer agent, Roper believes that as of December 31, 1999 there were approximately 273 record holders of its common stock.

**Dividend Policy.** Roper has declared a cash dividend in each fiscal quarter since its February 1992 initial public offering and has also increased its dividend rate annually since the initial public offering. In November 1999, Roper's Board of Directors increased the quarterly dividend rate to \$0.07 per share, an increase of 8%, from the prior rate. However, the timing, declaration and payment of future dividends will be at the sole discretion of Roper's Board of Directors and will depend upon Roper's profitability, financial condition, capital needs, future prospects and other factors deemed relevant by the Board of Directors. Therefore, there can be no assurance as to the amount, if any, that will be available for the declaration of cash dividends in the future.

**Recent Sales of Unregistered Securities.** None

ITEM 6. SELECTED FINANCIAL INFORMATION

The consolidated selected financial data presented below has been derived from Roper's audited consolidated financial statements and should be read in conjunction with "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS" and with Roper's Consolidated Financial Statements and related notes thereto included elsewhere in this Annual Report. All per share data have been restated to reflect the 2-for-1 stock split in August 1997.

	Year ended October 31,				
	1999/(1)/	1998/(2)/	1997/(3)/	1996/(4)/	1995/(5)/
	(Dollars in thousands except per share data)				
Operations data:					
Net sales	\$ 407,256	\$ 389,170	\$ 298,236	\$ 225,651	\$ 175,421
Gross profit	210,503	190,953	153,389	115,924	93,803
Income from operations	77,955	66,092	60,870	47,272	37,411
Net earning applicable to common shares	47,346	39,316	36,350	28,857	23,271
Per share data:					
Net earnings applicable to common shares:					
Basic	\$ 1.56	\$ 1.27	\$ 1.19	\$ 0.96	\$ 0.78
Diluted	1.53	1.24	1.16	0.93	0.77
Dividends	0.26	0.24	0.20	0.16	0.11
Balance sheet data:					
Working capital	\$ 89,576	\$ 82,274	\$ 86,954	\$ 45,007	\$ 38,077
Total assets	420,163	381,533	329,320	242,953	155,381
Long-term debt, less current portion	109,659	120,307	99,638	63,373	20,150
Stockholders' equity	231,968	197,033	177,869	137,396	105,595

- (1) Reflects inclusion of Flow Technology, Acton Research, Photometrics (now part of Roper Scientific) and PMC/Beta (now part of Metrix) for the full year as compared to only part of 1998 and the inclusion of the fiscal 1999 Petroleum Analyzer acquisitions for four months in 1999.
- (2) Reflects inclusion of Princeton Instruments (now part of Roper Scientific), Petrotech and IDS (now part of Uson) for the full year as compared to only part of 1997 and the inclusion of Flow Technology, Acton Research (now part of Roper Scientific), Photometrics and PMC/Beta for part in 1998.
- (3) Reflects inclusion of Gatan and Fluid Metering for the full year as compared to five months in the prior year; and inclusion of Princeton Instruments (5 1/2 months), Petrotech (5 months) and IDS (balance sheet only) in 1997.
- (4) Reflects inclusion of Uson for the full year as compared to eight months in the prior year; inclusion of Metrix for the full year as compared to one month in the prior year; and inclusion of Gatan and Fluid Metering for five months in 1996.
- (5) Reflects inclusion of ISL for the full year as compared to two months in the prior year; and inclusion of Uson and Metrix for eight months and one month, respectively, in 1995.

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

The following discussion should be read in conjunction with Roper's Consolidated Financial Statements and selected financial data included elsewhere in this Annual Report.

Results of Operations

General

The following table sets forth selected information for the years indicated. Amounts are dollars in thousands and percentages are of net sales.

	Year ended October 31,		
	1999	1998	1997
Net sales	100.0%	100.0%	100.0%
Cost of sales	48.3	50.9	48.6
Gross profit	51.7	49.1	51.4
Selling, general and administrative expenses	32.6	32.1	31.0
Income from operations	19.1	17.0	20.4
Interest expense	1.8	2.0	2.0
Other income	0.4	0.3	0.1
Earnings before income taxes	17.7	15.3	18.5
Income taxes	6.1	5.2	6.3
Net earnings	11.6%	10.1%	12.2%

	Year ended October 31,					
	1999		1998		1997	
	\$	%	\$	%	\$	%
Industrial Controls:/(1)/						
Net sales	160,090		177,258		123,129	
Gross profit	78,957	49.3	84,386	47.6	61,756	50.2
Operating profit/(2)/	29,973	18.7	31,458	17.7	22,402	18.2
Fluid Handling:/(3)/						
Net sales	98,298		99,471		94,175	
Gross profit	47,662	48.5	45,160	45.4	43,213	45.9
Operating profit/(2)/	27,386	27.9	24,125	24.3	25,853	27.5
Analytical Instrumentation:/(4)/						
Net sales	148,868		112,441		80,932	
Gross profit	83,884	56.3	61,407	54.6	48,420	59.8
Operating profit/(2)/	27,713	18.6	16,417	14.6	18,292	22.6

- /(1)/ Includes results of Petrotech from June 1, 1997 and the PMC/Beta division of Metrix from May 1, 1998.
- /(2)/ Operating profit excludes unallocated corporate administrative costs. Such costs were \$7,117, \$5,908 and \$5,677 for the years ended October 31, 1999, 1998 and 1997, respectively.
- /(3)/ Includes results of Flow Technology from December 1, 1997.
- /(4)/ Includes results of the Princeton Instruments division of Roper Scientific from May 17, 1997, IDS from November 1, 1997, the Acton Research division of Roper Scientific from March 1, 1998, the Photometrics division of Roper Scientific from April 1, 1998 and the fiscal 1999 Petroleum Analyzer acquisitions from June 21, 1999.

Year Ended October 31, 1999 Compared to Year Ended October 31, 1998

Net sales for fiscal 1999 of \$407.3 million represented the seventh consecutive year that Roper established a record high. Roper core sales (excluding sales to Gazprom) increased 7% for the year ended October 31, 1999 compared to the year ended October 31, 1998. Total Industrial Controls sales decreased 10% due mostly to difficult market conditions throughout the oil & gas industry, as oil and natural gas prices were at historical lows in the early part of fiscal 1999, and consolidation within the industry. Each of these factors caused reductions in capital spending by Roper's customers during fiscal 1999. Sales to Gazprom were \$35.0 million for the year ended October 31, 1999, down 16% from fiscal 1998 as a result of dropping certain low margin, pass-through products from the contract. Total Analytical Instrumentation sales increased 32% due to full-year contributions from the fiscal 1998 acquisitions of Acton Research (February 1998) and Photometrics (March 1998), the partial-year contribution from the fiscal 1999 Petroleum Analyzer acquisitions (June 1999) and improved market conditions for the segment's digital imaging business. On a pro forma basis, Analytical Instrumentation sales increased 11% in fiscal 1999 compared to the prior year. Total Fluid Handling sales decreased 1% in fiscal 1999 compared to fiscal 1998. Poor semiconductor equipment industry conditions that affected the Fluid Handling segment primarily in the first half of fiscal 1999 offset the strength in the segment's centrifugal pump business as several new product offerings were very well received by the market.

Industrial Controls gross profit percentage increased 1.7 points in fiscal 1999 compared to the prior year. The major reason for the increase was the elimination of certain low-margin business with Gazprom in fiscal 1999. Analytical Instrumentation gross profit also increased 1.7 points in fiscal 1999 compared to the prior year. The major contributors to this increase were an inventory write-down in the fourth quarter of fiscal 1998, the realization of cost structure improvements at those businesses acquired over the past two years and volume leverage. Fluid Handling gross profit increased 3.1 points in fiscal 1999 compared to the prior year. This gain resulted from a number of factors, including improved product mix in fiscal 1999 from larger diameter centrifugal pumps, an improved power generation market, the leverage of improved semiconductor industry conditions in the second half of fiscal 1999, and improved cost structures throughout the segment. Every one of this segment's businesses improved gross margins in fiscal 1999 compared to fiscal 1998. In addition, the consolidated gross profit percentage improvement of 2.6 points in fiscal 1999 was due mostly to increased higher-margin Analytical Instrumentation sales.

Selling, general and administrative ("SG&A") expenses increased 6% in fiscal 1999 compared to the year ended October 31, 1998 mostly due to the partial year costs associated with Petroleum Analyzer. As a percentage of sales, these costs were 32.5% in fiscal 1999 compared to 32.1% in fiscal 1998. This increase was attributable mostly to the increased size of the Analytical Instrumentation segment, whose businesses typically have higher engineering and amortization costs compared to Roper's other business segments. Analytical Instrumentation SG&A costs were 37.7% and 40.0% of sales in fiscal 1999 and 1998, respectively. Comparative percentages for the Industrial Controls and Fluid Handling segments were each within 1 point for these years. Excluding Russian-related reserves recorded during the fourth quarter of fiscal 1998 in the Industrial Controls segment, this segment's SG&A costs were about the same in fiscal 1999 as fiscal 1998.

Interest expense was about 8% lower during the year ended October 31, 1999 compared to fiscal 1998, with lower interest rates throughout most of fiscal 1999 as compared to fiscal 1998. The German revolving credit facility opened in June 1999 also accrued interest at a relatively low rate compared to U.S. borrowings. Average debt levels were about 4% higher in fiscal 1999 compared to the prior year.

The effective income tax rate was 34.5% for the year ended October 31, 1999 and 34.1% for the year ended October 31, 1998. The difference between these rates and the differences between the reconciling items between the statutory income tax rate and the effective income tax rate for these years are not considered significant.

Average outstanding shares were less in fiscal 1999 than fiscal 1998 as a result of the repurchase of 1.2 million shares by Roper during the fourth quarter of fiscal 1998 through the second quarter of fiscal 1999. The buy-back program was terminated in May 1999.

Other components of comprehensive earnings represented the change in cumulative translation adjustments related to the net assets of non-U.S. subsidiaries whose functional currency was not the U.S. dollar. The net change during each of fiscal 1999 and fiscal 1998 was related to Roper's subsidiaries in Europe and Japan.

Net cash provided by operating activities declined by \$24.7 million, or 30.6%, primarily as a result of a \$10.6 million increase in accounts receivable as compared to a \$12.7 million decrease in the fiscal years ended October 31, 1999 and October 31, 1998, respectively. The reduction in 1998 was attributable to exceptional Gazprom cash receipts and the increase in 1999 arose primarily at Roper Scientific and Integrated Designs largely as a result of increased fourth quarter business levels.

The following table summarizes bookings and backlog information (dollars in thousands):

	Bookings			Backlog		
	Year ended October 31,			October 31,		
	1999	1998	Change	1999	1998	Change
Analytical Instrumentation	\$148,478	\$111,637	+33.0%	\$ 30,000	\$ 28,898	+3.8%
Fluid Handling	100,600	94,470	+6.5	14,375	12,746	+12.8
Industrial Controls	150,604	176,228	-14.5	29,286	39,035	-25.0
	\$399,682	\$382,335	+4.5%	\$ 73,661	\$ 80,679	-8.7%
	=====	=====	=====	=====	=====	=====

On a pro forma basis to include current year acquisitions for the comparable prior year period, Analytical Instrumentation segment bookings and backlog were up 8% and down 7%, respectively, in fiscal 1999 compared to fiscal 1998. Consolidated pro forma bookings and backlog were down 3% and down 12%, respectively. Actual compared to pro forma results were about the same for the Fluid Handling and Industrial Controls segments. The 33% increase in



Analytical Instrumentation segment bookings was due to the full-year contributions of Acton Research and Photometrics, the partial-year contribution of Petroleum Analyzer and strengthened digital imaging markets in fiscal 1999 (which also accounts for the pro forma increase). Fluid Handling segment bookings increased from its stronger centrifugal pump business and the increased backlog reflected much better semiconductor industry conditions. Decreased Industrial Controls segment bookings reflected weak oil & gas industry conditions.

Year Ended October 31, 1998 Compared to Year Ended October 31, 1997

Roper's core sales increased 23% for the year ended October 31, 1998 compared to the year ended October 31, 1997. Total Industrial Controls sales increased 44% due mostly to the full year results from the May 1997 acquisition of Petrotech and increased sales to Gazprom. Sales to Gazprom were \$41.9 million for the year ended October 31, 1998 as Gazprom entered into a financing agreement to stabilize this business. This compared to \$14.7 million in sales during fiscal 1997. Fluid Handling sales increased 6% because of the December 1997 acquisition of Flow Technology, which more than offset sales declines related to this segment's oil & gas, power generation and semiconductor capital equipment markets. Analytical Instrumentation sales increased 39% largely because of the full year or partial-year results of four then-recent acquisitions.

Changes in overall gross profit derived mainly from the impact of the recently acquired companies and increased sales to Gazprom. The gross profit percentage for the Industrial Controls segment in fiscal 1998 compared to fiscal 1997 was adversely affected by Petrotech, which was acquired in May 1997 and historically experiences lower returns than the segment's other units. Excluding Petrotech, Industrial Controls' gross profit percentage would have been 56.5% compared to 57.2% for fiscal 1997. Most of the other decline stemmed from lower margins at Compressor Controls as a result of lower margins on Gazprom business from increased engineering and procurement services in fiscal 1998. The decline in Fluid Handling's gross profit percentage was not significant despite some difficult market conditions that affected several of this segment's units that more than offset strong results from Flow Technology. The gross profit percentage for Analytical Instrumentation decreased primarily because of results of Acton Research, Photometrics and Princeton Instruments, which reported combined gross profit of 44.4%. Photometrics and Princeton Instruments were merged into a single company named Roper Scientific. Analytical Instrumentation's gross profit was also adversely affected by about 2% on an inventory write-down at Roper Scientific that was identified upon implementation of better business systems. Petrotech had the greatest effect that caused the decrease in Roper's overall gross profit percentages in 1998 compared to 1997. Other large factors were the lower margins at Compressor Controls and the inventory write-down at Roper Scientific.

SG&A expenses increased 35% for the year ended October 31, 1998 compared to the year ended October 31, 1997, primarily because of the expenses associated with the then-recent acquisitions. As a percentage of sales, SG&A expenses were 32.1% for fiscal 1998 compared to 31.0% for fiscal 1997. This increase resulted largely from additional reserves recorded during the fourth quarter of fiscal 1998 in response to a further deterioration of economic conditions in Russia and the region that cast doubt on the collectibility of certain accounts receivable related to sales in 1996.

Interest expense increased \$1.8 million for the year ended October 31, 1998 compared to the year ended October 31, 1997 principally because of higher debt levels that resulted from the acquisition of seven companies during fiscal 1997 and 1998. Interest rates were slightly lower in fiscal 1998 compared to fiscal 1997 primarily because of more favorable terms negotiated into the U.S. revolving credit facility agreement in May 1997. LIBOR rates became lower late in fiscal 1998, but the effects on fiscal 1998 results were not significant.

The effective tax rate was 34.1% for fiscal 1998 compared to 34.0% for fiscal 1997. There were also no significant differences between years in the reconciling items between the statutory rate and the effective rate for these years.

Sales order bookings were \$382.3 million during the year ended October 31, 1998 compared to \$297.6 million for the year ended October 31, 1997, an increase of 28%. On a pro forma basis, to include acquisitions for similar periods in the prior year, bookings were 4% higher in fiscal 1998 compared to fiscal 1997. Industrial Controls' bookings were up 40% (20% on a pro forma basis) because of Petrotech, which booked a large project, and Compressor Controls, because of increased business with Gazprom following Gazprom establishing new financing arrangements early in the year. Fluid Handling's bookings were up 2% (down 8% on a pro forma basis) compared to fiscal 1997. The acquisition of Flow Technology offset 46% lower bookings at Integrated Designs caused by the depressed business conditions in the semiconductor capital equipment industry. Bookings within Analytical Instrumentation increased 42% (down 6% on a pro forma basis). Whereas the increase resulted from acquisitions, the pro forma decrease reflected weak business conditions for all of the companies in this segment.

Sales order backlog was \$80.7 million at October 31, 1998 compared to \$82.6 million at October 31, 1997. On a pro forma basis, backlog was 13% lower than fiscal 1997. Pro forma backlog at Industrial Controls was down 11% despite a significant increase at Petrotech that resulted from increased bookings discussed above. Backlog related to Russia-region shipments was down \$8.5 million compared to fiscal 1997, largely because of delayed shipments at October 31, 1997 that were shipped during the first quarter of fiscal 1998. Excluding the Russia-region decrease in backlog, actual and pro forma backlog at Industrial Controls was up 12% and 11% at October 31, 1998 compared to October 31, 1997, respectively. Fluid Handling's pro forma backlog was 32% lower at the end of fiscal 1998 compared to fiscal 1997 largely because of an 89% decline in the backlog at Integrated Designs. Pro forma backlog was 6% lower at Analytical Instrumentation due to the lower level of bookings.

## Financial Condition, Liquidity and Capital Resources

October 31, 1999 compared to October 31, 1998

Working capital was \$89.6 million at October 31, 1999 compared to \$82.3 million at October 31, 1998. October 1999 cash was unusually high due to long-term borrowings made immediately prior to October 31, 1999 that were used to fund the acquisition of Redlake Imaging in early November. Accounts receivable increased as a result of strong fourth quarter digital imaging sales and the balances at the fiscal 1999 Petroleum Analyzer acquisitions that more than offset the effects of lower fourth quarter oil & gas-related sales. The increase in notes payable and current portion of long-term debt at October 31, 1999 compared to 1998 reflected borrowings under the \$16 million German revolving credit facility that was opened in June 1999.

Roper utilizes a \$200 million U.S. revolving credit facility with a syndicate of banks to provide most of its external financing requirements. Total borrowings under this agreement were \$109.0 million at October 31, 1999 and an additional \$49 million was borrowed subsequent to October 31, 1999 to fund the acquisition of MASD. The German revolving credit facility was amended subsequent to October 31, 1999 to increase its size to \$30 million. Total borrowings under the German facility were \$15.9 million at October 31, 1999. The debt to total capitalization ratio was 36.0% (43.6% including the November borrowings of \$49 million) at October 31, 1999 compared to 39.0% at October 31, 1998.

During fiscal 1998, Roper's largest customer, Gazprom, put in place a long-term financing for its purchase of turbomachinery controls sourced from Roper's Compressor Controls unit. This financing has facilitated a more consistent supply of product to Gazprom. This financing arrangement is expected to be available over the next several years for additional turbomachinery controls purchases. However, given unstable political and economic conditions in Russia, Roper's future shipments to Gazprom will continue to be subject to these political, economic and other uncertainties, which could adversely affect the timing and amount of future shipments and cannot be assured.

Roper believes its capital expenditures requirements are modest for an industrial products company and were \$5.1 million for the year ended October 31, 1999. Although the increased size of the business will drive increased capital expenditure requirements, Roper does not believe there will be a change in the order of magnitude of capital expenditures in fiscal 2000.

In November 1999, Roper's Board of Directors increased the quarterly cash dividend paid on its outstanding common stock from \$0.065 per share to \$0.07 per share. This represents the seventh consecutive year in which the quarterly dividend has been increased since Roper's 1992 initial public offering.

Roper believes that internally generated cash flows and the remaining unused credit under its U.S. and German revolving credit facilities will be adequate to finance normal operating requirements and further acquisition activities. Although Roper maintains an active acquisition program, any further acquisitions will be dependent on numerous factors and it is not feasible to reasonably

estimate if or when any such acquisitions will occur and what the impact will be on Roper's activities, financial condition and results of operations. Roper may also explore alternatives to increase its access to additional capital resources.

Roper anticipates that the newly acquired companies as well as the existing companies will generate positive cash flows from operating activities, and that these cash flows will permit the reduction of currently outstanding debt at a pace consistent with that which Roper historically has experienced. However, the rate at which Roper can reduce its debt during fiscal 2000 (and reduce the associated interest expense) will be affected by, among other things, the financing and operating requirements of any new acquisitions and the financial performance of its existing companies and cannot be predicted with certainty.

The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards ("SFAS") 133 - Accounting for Derivative Instruments and Hedging Activities that will be applicable to Roper in fiscal 2001, as amended by SFAS 137. Once adopted, this standard is not expected to significantly affect Roper's financial position, operating results or disclosures. See Note 1 to Roper's Notes to Consolidated Financial Statements for further discussion of this pronouncement.

#### Year 2000 Issues ("Y2K" issues)

During recent years, Roper instigated processes to ensure that its operations would not be exposed to material adverse effects as a result of Y2K issues. In total, the past costs associated with Y2K compliance, including capital expenditures, were less than \$3 million. All of Roper's business and infrastructure systems have operated substantially as normal since January 1, 2000. In general, Roper has very few products that are date sensitive and most of those products do not rely on the date for their performance. Accordingly, Roper does not believe that it has any materially increased liability for product warranty.

Generally, Roper is not aware of any potential disruptions in the businesses due to problems with Y2K issues which could have a materially adverse effect on its operations. However, Roper cautions that it is not presently possible to evaluate whether all of its customers and/or vendors have been unaffected by any Y2K issues which could, in turn, have an adverse impact on the Company's operations.

#### Market Risks

At October 31, 1999, Roper's interest rate swap agreements represented a potential asset. This asset value is directly related to changes in interest rates. A sufficient decline in interest rates would cause the current asset position to become a liability position. Upon adoption of SFAS 133, the value attributed to the swap agreements will be reflected in Roper's balance sheet and changes in this valuation will mostly be reflected as a component of other comprehensive earnings. The

swap agreements are intended to reduce the volatility of interest payments related to its long-term borrowings. See Note 1 to Roper's Notes to Consolidated Financial Statements.

At October 31, 1999, Roper's total borrowings exceeded the notional value of the interest rate swap agreements. These borrowings are generally at current market rates and these rates have increased subsequent to October 31, 1999.

Some of Roper's fiscal 1999 sales were denominated in a currency other than U.S. dollars (mostly Euro, U.K. sterling and Japanese yen) and some of Roper's net assets at October 31, 1999 were maintained in a functional currency other than U.S. dollars (mostly Euro and U.K. sterling). The effects of changes in foreign currency exchange rates has not historically been significant to Roper's operations or net assets.

The traded price of Roper's common stock influences the effects on Roper's financial statements and disclosures with regard to Roper's stock option programs and certain cash compensation arrangements.

#### Outlook

Fiscal 2000 is expected to be another record year for sales and earnings. The November 1999 acquisitions of Redlake Imaging and MASD are expected to be immediately accretive to earnings. The fiscal 1999 Petroleum Analyzer acquisition will be included in Roper's results for the entire year and increased quoting activity by Roper's oil & gas businesses is expected to generate additional bookings and revenues (but not during the first fiscal quarter).

Roper expects to continue an active acquisition program. However, completion of future acquisitions and their impact on Roper's results or financial condition cannot be accurately predicted.

#### Forward Looking Information

The information provided elsewhere in this Annual Report, in other Roper filings with the Securities and Exchange Commission, and in other press releases and public disclosures contains forward-looking statements about Roper's businesses and prospects as to which there are numerous risks and uncertainties which generally are beyond Roper's control. Some of these risks include the level and timing of future business with Gazprom and other Eastern European customers, changes in interest rates, Y2K effects and the future operating results of the newly acquired companies. There is no assurance that these and other risks and uncertainties will not have an adverse impact on Roper's future operations, financial condition, or financial results.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Roper is exposed to interest rate risks on its outstanding interest rate swap agreements and its outstanding variable-rate borrowings to the extent that such borrowings exceed the notional value of the interest rate swap agreements. Roper is exposed to foreign exchange risks pertaining to its business denominated in currencies other than the U.S. dollar. Roper is exposed to equity market risks pertaining to the traded price of its common stock.

Roper's interest rate swap agreements provide that Roper pays a fixed interest rate in exchange for receiving a variable interest rate on a total notional value of \$75 million. These agreements mature in 2003 and the other party has options to extend the agreements until 2008. At October 31, 1999, the fixed rate obligation of Roper was less than the variable rate Roper was entitled to receive. As a result, the fair value of the interest rate swap agreements was determined to be an asset value of \$1.2 million (assuming the options are not exercised). At October 31, 1999, an interest rate movement up or down by 10 basis points would have increased or decreased the asset value by about \$250,000. Upon adoption of SFAS 133, changes in the valuation of the interest rate swap agreements will be a direct charge to other comprehensive earnings.

Immediately after giving effect to the \$49 million of additional borrowings in November 1999 to finance the acquisition of MASD, Roper's outstanding variable rate borrowings exceeded the notional value of the interest rate swap agreements by about \$103 million. Based on this level of debt, an increase or decrease in interest rates by 10 basis points would increase or decrease annualized interest expense by about \$100,000.

Roper and its subsidiary companies generally do not enter into significant transactions denominated in currencies other than the U.S. dollar or their functional currency. Non-U.S. dollar balances and transactions at October 31, 1999 and for the year then ended were principally denominated in Western European or Japanese currencies. At October 31, 1999 and for the year then ended, 10-15% of Roper's consolidated net assets (and cumulative translation adjustments were less than 1%) and sales were denominated in these currencies. Roper expects that these currencies will remain relatively stable. Therefore, foreign exchange risks are not expected to have a material effect on Roper's financial statements.

Equity markets are influenced by many factors and changes in Roper's stock price may be influenced by factors other than Roper's historical earnings and by factors not within Roper's control. The volatility of Roper's common stock prices preceding an option grant is directly related to the valuation of that grant for purposes of determining pro forma earnings disclosures. Roper's stock prices following an option grant directly influence the dilutive effect of these options for earnings per share calculations. The sensitivity of these issues to a change in Roper's stock price are not readily determinable, but a change in Roper's stock price by \$1.00 is not believed to have a material effect on Roper's financial statements or disclosures.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The financial statements and supplementary data required by this item begin at page F-1 hereof.

CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Index

	Page
Consolidated Financial Statements:	
Independent Auditors' Report (fiscal 1999 auditors).....	F-2
Independent Auditors' Report (fiscal 1998 and 1997 auditors).....	F-3
Consolidated Balance Sheets as of October 31, 1999 and 1998.....	F-4
Consolidated Statements of Earnings for the Years ended October 31, 1999, 1998 and 1997....	F-5
Consolidated Statements of Stockholders' Equity and Comprehensive Earnings for the Years ended October 31, 1999, 1998 and 1997.....	F-6
Consolidated Statements of Cash Flows for the Years ended October 31, 1999, 1998 and 1997..	F-7
Notes to Consolidated Financial Statements.....	F-8
Supplementary Data:	
Schedule II - Consolidated Valuation and Qualifying Accounts for the Years ended October 31, 1999, 1998 and 1997.....	S-1



Independent Auditors' Report

To The Shareholders of Roper Industries, Inc.:

We have audited the accompanying consolidated balance sheet of Roper Industries, Inc. (a Delaware corporation) as of October 31, 1999, and the related consolidated statements of earnings, stockholders' equity and comprehensive earnings and cash flows for the year then ended. These financial statements and the schedule referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and the schedule based on our audit. The consolidated balance sheet at October 31, 1998 and the consolidated statements of earnings, stockholders' equity and comprehensive earnings, cash flows and the schedule referred to below for the fiscal years ended October 31, 1998 and 1997 were audited by other auditors whose report dated December 4, 1998 expressed an unqualified opinion on those statements and schedule.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Roper Industries, Inc. as of October 31, 1999, and the results of its operations and cash flows for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The financial statement schedule listed in the index to the consolidated financial statements and supplementary data is presented for the purpose of complying with the Securities and Exchange Commission's rules and is not part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

Arthur Andersen LLP

Atlanta, Georgia  
December 2, 1999

Independent Auditors' Report

The Board of Directors and Stockholders  
Roper Industries, Inc.:

We have audited the accompanying consolidated balance sheet of Roper Industries, Inc. and subsidiaries as of October 31, 1998 and the related consolidated statements of earnings, stockholders' equity and comprehensive earnings and cash flows for the years ended October 31, 1998 and 1997. In connection with our audits of the consolidated financial statements, we also audited the related financial statement schedule for the years ended October 31, 1998 and 1997. These consolidated financial statements and financial statement 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 generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Roper Industries, Inc. and subsidiaries as of October 31, 1998, and the results of their operations and their cash flows for the years ended October 31, 1998 and 1997, in conformity with generally accepted accounting principles. 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.

KPMG LLP

Atlanta, Georgia  
December 4, 1998

ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

October 31, 1999 and 1998

(Dollar and share amounts in thousands, except per share data)

	1999	1998
	-----	-----
<b>Assets</b>		
Cash and cash equivalents	\$ 13,490	\$ 9,350
Accounts receivable, net	89,154	76,999
Inventories	56,401	51,444
Other current assets	2,774	2,059
	-----	-----
Total current assets	161,819	139,852
Property, plant and equipment, net	34,797	31,905
Intangible assets, net	215,020	197,179
Other assets	8,527	12,597
	-----	-----
Total assets	\$420,163	\$381,533
	=====	=====
<b>Liabilities and Stockholders' Equity</b>		
Accounts payable	\$ 18,457	\$ 21,051
Accrued liabilities	31,444	29,915
Income taxes payable	1,485	863
Current portion of long-term debt	20,857	5,749
	-----	-----
Total current liabilities	72,243	57,578
Long-term debt	109,659	120,307
Other liabilities	6,293	6,615
	-----	-----
Total liabilities	188,195	184,500
	-----	-----
<b>Stockholders' equity:</b>		
Preferred stock, \$.01 par value per share; 1,000 shares authorized; none outstanding	-	-
Common stock, \$.01 par value per share; 80,000 shares authorized; 31,551 shares issued and 30,282 outstanding at October 31, 1999 and 31,307 shares issued and 30,343 outstanding at October 31, 1998	316	313
Additional paid-in capital	71,084	67,145
Retained earnings	187,911	148,435
Accumulated other comprehensive earnings	(2,172)	(906)
Treasury stock, 1,269 shares October 31, 1999 and 964 shares at October 31, 1998	(25,171)	(17,954)
	-----	-----
Total stockholders' equity	231,968	197,033
	-----	-----
Total liabilities and stockholders' equity	\$420,163	\$381,533
	=====	=====

See accompanying notes to consolidated financial statements.

ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Earnings

Years ended October 31, 1999, 1998 and 1997  
(Dollar and share amounts in thousands, except per share data)

	1999	1998	1997
	-----	-----	-----
Net sales	\$407,256	\$389,170	\$298,236
Cost of sales	196,753	198,217	144,847
	-----	-----	-----
Gross profit	210,503	190,953	153,389
Selling, general and administrative expenses	132,548	124,861	92,519
	-----	-----	-----
Income from operations	77,955	66,092	60,870
Interest expense	7,254	7,856	6,048
Other income	1,583	1,380	278
	-----	-----	-----
Earnings before income taxes	72,284	59,616	55,100
Income taxes	24,938	20,300	18,750
	-----	-----	-----
Net earnings	\$ 47,346	\$ 39,316	\$ 36,350
	=====	=====	=====
Net earnings per common and common equivalent share:			
Basic	\$ 1.56	\$ 1.27	\$ 1.19
	=====	=====	=====
Diluted	\$ 1.53	\$ 1.24	\$ 1.16
	=====	=====	=====
Weighted average common and common equivalent shares outstanding:			
Basic	30,268	31,001	30,580
	=====	=====	=====
Diluted	30,992	31,717	31,458
	=====	=====	=====

See accompanying notes to consolidated financial statements.

ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders' Equity and Comprehensive Earnings

Years ended October 31, 1999, 1998 and 1997  
(Dollar and share amounts in thousands, except per share data)

	Common stock		Additional paid-in capital	Retained earnings	Accumulated other comprehensive earnings	Treasury stock	Total stockholders' equity	Comprehensive earnings
	Shares	Amount						
Balances at October 31, 1996	30,323	\$ 303	\$ 50,742	\$ 86,174	\$ 177	\$ -	\$ 137,396	\$ -
Net earnings	-	-	-	36,350	-	-	36,350	36,350
Common shares issued for acquisitions	416	4	8,708	-	-	-	8,712	-
Common shares issued under incentive bonus plan	10	-	245	-	-	-	245	-
Exercise of stock options	171	2	2,255	-	-	-	2,257	-
Currency translation adjustments	-	-	-	-	(1,114)	-	(1,114)	(1,114)
Cash dividends (\$0.195 per share)	-	-	-	(5,977)	-	-	(5,977)	-
Balances at October 31, 1997	30,920	309	61,950	116,547	(937)	-	177,869	\$ 35,236
Net earnings	-	-	-	39,316	-	-	39,316	\$ 39,316
Common shares issued for acquisitions	75	1	1,935	-	-	-	1,936	-
Exercise of stock options	312	3	3,260	-	-	-	3,263	-
Currency translation adjustments	-	-	-	-	31	-	31	31
Cash dividends (\$0.24 per share)	-	-	-	(7,428)	-	-	(7,428)	-
Treasury stock purchases	(964)	-	-	-	-	(17,954)	(17,954)	-
Balances at October 31, 1998	30,343	313	67,145	148,435	(906)	(17,954)	197,033	\$ 39,347
Net earnings	-	-	-	47,346	-	-	47,346	47,346
Common shares issued for acquisitions	(45)	-	-	-	-	(1,667)	(1,667)	-
Exercise of stock options	244	3	3,939	-	-	-	3,942	-
Currency translation adjustments	-	-	-	-	(1,266)	-	(1,266)	(1,266)
Cash dividends (\$0.26 per share)	-	-	-	(7,870)	-	-	(7,870)	-
Treasury stock purchases	(260)	-	-	-	-	(5,550)	(5,550)	-
Balances at October 31, 1999	30,282	\$ 316	\$ 71,084	\$ 187,911	\$ (2,172)	\$ (25,171)	\$ 231,968	\$ 46,080

See accompanying notes to consolidated financial statements.

ROPER INDUSTRIES, INC. AND SUBSIDIARIES  
Consolidated Statements of Cash Flows  
Years ended October 31, 1999, 1998 and 1997  
(In thousands)

	1999	1998	1997
Cash flows from operating activities:			
Net earnings	\$ 47,346	\$ 39,316	\$ 36,350
Adjustments to reconcile net earnings to net cash flows from operating activities:			
Depreciation and amortization of property, plant and equipment	6,620	6,106	5,367
Amortization of intangible assets	9,346	8,328	6,033
Changes in operating assets and liabilities:			
Accounts receivable	(10,621)	10,084	(10,876)
Inventories	3,778	5,615	2,303
Accounts payable and accrued liabilities	(7,557)	7,118	(2,357)
Income taxes payable	4,112	(1,001)	(1,585)
Other, net	(198)	607	168
Net cash provided by operating activities	52,826	76,173	35,403
Cash flows from investing activities:			
Acquisitions of businesses, net of cash acquired	(36,343)	(62,676)	(55,311)
Capital expenditures	(5,148)	(5,502)	(4,984)
Other, net	167	(252)	(163)
Net cash used in investing activities	(41,324)	(68,430)	(60,458)
Cash flows from financing activities:			
Proceeds from notes payable and long-term debt	45,926	60,896	94,845
Principal payments on notes payable and long-term debt	(41,867)	(37,522)	(65,180)
Cash dividends to stockholders	(7,870)	(7,428)	(5,977)
Treasury stock purchases	(5,550)	(17,954)	-
Proceeds from stock option exercises	3,942	3,263	1,762
Other, net	(1,667)	(200)	(116)
Net cash provided by (used in) financing activities	(7,086)	1,055	25,334
Effect of exchange rate changes on cash	(276)	(97)	(53)
Net increase in cash and cash equivalents	4,140	8,701	226
Cash and cash equivalents, beginning of year	9,350	649	423
Cash and cash equivalents, end of year	\$ 13,490	\$ 9,350	\$ 649

See accompanying notes to consolidated financial statements.

ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

October 31, 1999, 1998 and 1997  
(Dollars amounts in thousands, except per share data)

(1) Summary of Accounting Policies

Accounts Receivable - Accounts receivable were stated net of an allowance for doubtful accounts of \$3,760 and \$6,915 at October 31, 1999 and 1998, respectively.

Basis of Presentation - The consolidated financial statements include the accounts of Roper Industries, Inc. (the "Company") and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. On August 1, 1997, the Company effected a 2-for-1 stock split on its common stock in the form of a 100% stock dividend. All amounts related to fiscal 1997 reflect the stock split for the entire year.

Cash and Cash Equivalents - The Company considers highly liquid financial instruments with original maturities of three months or less to be cash equivalents. Cash equivalents at October 31, 1999 and October 31, 1998 were none and \$5,697, respectively, and were comprised of money market investments and overnight Eurodollar funds.

Earnings Per Common and Common Equivalent Share - Basic earnings per share was calculated using net earnings and the weighted average number of shares of common stock outstanding during the respective year. Diluted earnings per share was calculated using net earnings and the weighted average number of shares of common stock and dilutive common stock equivalents outstanding during the respective year. There were no differences between net earnings and net earnings available for common stockholders. Common stock equivalents consisted of stock options. The effects of common stock equivalents was determined using the treasury stock method.

For the year ended October 31, 1998, there were 365,000 options that were not included in the determination of diluted earnings per share because doing so would have been antidilutive. There were no such antidilutive options in 1999 or 1997.

In financial reports issued prior to fiscal 1998, earnings per share were expressed as either primary or fully diluted. Earnings per share amounts for periods prior to fiscal 1998 have been restated to conform with SFAS 128 -Earnings per Share, which was implemented at the beginning of fiscal 1998.

Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Fair Value of Financial Instruments - The Company's carrying value of long-term debt approximated fair value since most of the debt matures within 30-90 days of incurrence and is renewed at current interest rates.

In February 1998 and April 1998, the Company entered into five-year interest rate swap agreements for notional amounts of \$50,000 and \$25,000, respectively. In both agreements, the Company pays a fixed interest rate and the other party pays a variable interest rate. In June 1998, both of these agreements were amended to lower the Company's fixed interest rate obligations in exchange for granting the other party an option to extend the agreements for an additional five years. At October 31, 1999, the Company's weighted average fixed-rate obligation was 5.7% and the applicable LIBOR rate was 6.2%. The Company accrues the effects of the different interest rates as a charge or credit against current earnings over the life of the

ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

October 31, 1999, 1998 and 1997  
(Dollars amounts in thousands, except per share data)

agreements. The earnings effects of these agreements during the years ended October 31, 1999 and 1998 were not material.

The estimated fair value of these agreements at October 31, 1999 was an asset of approximately \$1,150 (\$2,470 assuming the options are exercised) that was not reflected in the Company's financial statements. This value was determined by comparing the present value of the fixed interest payments to the variable interest payments based on the interest rates at October 31, 1999.

The carrying value of all other financial instruments approximated fair value due to their short-term nature.

Foreign Currency Translation - Assets and liabilities of foreign

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subsidiaries whose functional currency is not the U.S. dollar are translated at the exchange rate in effect at the balance sheet date and revenues and expenses are translated at average exchange rates for the year. Translation adjustments are reflected as a component of other comprehensive earnings.

Income Taxes - The Company has not provided deferred income taxes on the

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accumulated undistributed earnings of its non-U.S. subsidiaries, as substantially all of such presently undistributed earnings are expected to be permanently invested. At October 31, 1999, the accumulated undistributed earnings were approximately \$20,000. The amount of U.S. income tax due if such earnings were repatriated would be approximately \$7,000 and would be substantially offset by allowable foreign income tax credits. The Company also has not provided for any foreign withholding taxes that would be due upon the repatriation of such earnings.

Intangible Assets - Intangible assets consisted principally of goodwill,

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which is amortized on a straight-line basis over periods ranging from 15 to 40 years. The accumulated amortization for intangible assets was \$32,315 and \$22,954 at October 31, 1999 and 1998, respectively. The Company accounts for goodwill in a purchase business combination as the excess of the cost over the fair value of net assets acquired. Other intangible assets not arising out of acquisitions are recorded at cost. On an ongoing basis, management reviews the valuation and amortization periods of intangible assets. The Company assesses the recoverability of the goodwill element of its intangible assets by determining whether the amortization of the goodwill balance over its remaining life can be recovered through undiscounted future operating cash flows of the acquired enterprise. Based upon such reviews as of October 31, 1999 and 1998, management did not consider the unamortized balances of goodwill or other intangible assets to be impaired.

Inventories - Inventories are valued at the lower of cost or market.

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Subsidiaries of the Company use primarily either the first-in, first-out cost method ("FIFO") or the last-in, first-out cost method ("LIFO"). Inventories valued at LIFO cost comprised 15% and 16% of consolidated inventories at October 31, 1999 and 1998, respectively.

One of the Company's subsidiaries had a decrement in its LIFO reserve during 1999, 1998 and 1997. The impact of these decrements on the Company's consolidated results of operations was immaterial for each of these years.

Inventories included \$2,443 and \$2,587 at October 31, 1999 and 1998, respectively, of costs incurred in excess of billings related to long-term contracts.



ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

October 31, 1999, 1998 and 1997  
(Dollars amounts in thousands, except per share data)

Other Comprehensive Earnings - Effective November 1, 1998, the Company

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adopted Statement of Financial Accounting Standards ("SFAS") No. 130 -  
Reporting Comprehensive Income. Comprehensive income includes net earnings  
and all other non-owner sources in a company's net assets. The difference  
between net earnings and comprehensive earnings for the Company was  
currency translation adjustments. Income taxes have not been provided on  
currency translation adjustments because the net assets invested in the  
Company's non-U.S. are considered to be permanently invested. Fiscal 1998  
and 1997 were restated to reflect the adoption of SFAS 130.

ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

October 31, 1999, 1998 and 1997  
(Dollars amounts in thousands, except per share data)

Property, Plant and Equipment and Depreciation - Property, plant and  
-----  
equipment are stated at cost less accumulated depreciation and  
amortization. Depreciation and amortization are provided for using the  
straight-line method over the estimated useful lives of the assets as  
follows:

Buildings	20-30 years
Machinery	8-12 years
Tooling	3 years
Other equipment	3-5 years

Recently Released Accounting and Reporting Pronouncements - SFAS 133 -  
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Accounting for Derivative Instruments and Hedging Activities establishes  
accounting and reporting standards for derivative instruments, including  
certain derivative instruments embedded in other contracts and for hedging  
activities. It requires recognition of all derivatives as either assets or  
liabilities in the statement of financial position at their fair value.  
SFAS 133 was subsequently amended by SFAS 137 to defer the effective date  
of SFAS 133 such that it is currently applicable to the Company beginning  
with its first quarter of fiscal 2001. The impact of SFAS 133 on the  
Company's financial statements is not expected to be significant.

Reclassifications - Certain reclassifications were made to prior year  
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amounts to conform to the fiscal 1999 presentation.

Research and Development - Research and development costs include salaries  
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and benefits, rents, supplies, and other costs related to various products  
under development. Research and development costs are expensed in the  
period incurred and totaled approximately \$16,700, \$18,000 and \$14,200 for  
the years ended October 31, 1999, 1998 and 1997, respectively.

Revenue Recognition - Revenues under certain long-term contracts are  
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recognized under the percentage-of-completion method using the ratio of  
costs incurred to total estimated costs as the measure of performance.  
Estimated losses on such contracts are recognized immediately. All other  
revenue is recognized as products are shipped or services are rendered.

Stock Options - Stock-based compensation was measured at its fair value at  
-----  
the grant date in accordance with an option pricing model. SFAS 123 -  
Accounting for Stock-Based Compensation provides that the related expense  
may be recorded in the basic financial statements or the pro forma effect  
on earnings may be disclosed in the financial statements. The Company  
provides the pro forma disclosures.

(2) Business Acquisitions  
-----

Over the past three years, the following acquisitions have occurred, each  
of which was accounted for using the purchase method of accounting. The  
acquired assets and liabilities of the acquired entities were recorded at  
their estimated fair values and the results of operations were included in  
the Company's consolidated results of operations beginning from the date  
acquired. Some recent allocations of fair value are preliminary, but the  
Company does not believe that subsequent revisions will be significant.

ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

October 31, 1999, 1998 and 1997  
(Dollar amounts in thousands, except per share data)

	Date	Acquisition costs		Segment	Goodwill period
		Cash	Roper shares 000's Value		
Petroleum Analyzer	06/18/99	\$ 36,439	- \$ -	Analytical Instrumentation	25 years
PMC/Beta	04/30/98	6,600	- -	Industrial Controls	20 years
Photometrics	03/31/98	36,400	- -	Analytical Instrumentation	25 years
Acton Research	02/27/98	9,300	75 1,936	Analytical Instrumentation	15 years
Flow Technology	12/01/97	10,000	- -	Fluid Handling	20 years
IDS	10/31/97	4,900	15 352	Analytical Instrumentation	15 years
Petrotech	05/30/97	14,900	262 5,720	Industrial Controls	15 years
Princeton Instruments	05/16/97	36,000	138 2,640	Analytical Instrumentation	30 years

In November 1999, the Company acquired Redlake Imaging Corporation ("Redlake Imaging") and the Motion Analysis Systems Division ("MASD") of Eastman Kodak Company. Total purchase costs were approximately \$60,000 cash. Each of these companies designs, manufactures and markets high-speed digital cameras used in automotive, industrial, military and research markets. The MASD business also manufactures and markets high-resolution digital cameras for the machine vision and image conversion markets. These businesses will be included in the Company's Analytical Instrumentation segment.

Petroleum Analyzer manufactures, markets and distributes instrumentation products for petroleum analysis in the laboratory and process markets.

PMC/Beta manufactures and markets vibration-monitoring equipment and operates as a division of the Company's Metrix unit.

Photometrics is a leading manufacturer and marketer of extremely sensitive cooled CCD cameras and detectors for primary and applied research markets. Subsequent to the acquisition of Photometrics, it was merged into Princeton and the combined company was renamed Roper Scientific, Inc. ("Roper Scientific").

Acton Research manufactures and markets spectrometers, monochromators and optical components and coatings for various high-end analytical applications.

Flow Technology manufactures and markets turbine flow meters, calibrators and emissions measurement equipment for aerospace, automotive and industrial markets.

IDS is a leading manufacturer of leak testing instrumentation primarily for the medical and industrial supplies industry and operates as a division of the Company's Uson unit.

Petrotech provides system integration of control products and systems for turbines and compressors within the oil & gas, pipeline, process control and power generation markets. Petrotech derives a considerable portion of its revenues from manufacturing advanced turbine and compressor control products.

Princeton Instruments (now part of Roper Scientific, see Photometrics above) designs, manufactures and markets spectral and digital imaging cameras supplied to a diverse end-user base including the scientific

ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

October 31, 1999, 1998 and 1997  
(Dollars amounts in thousands, except per share data)

research market, industrial research markets and various industrial process markets. During 1999, the Company settled its dispute with the seller of Princeton Instruments regarding alleged breeches by the seller of certain re presentations and warranties related to the purchase of Princeton Instruments. Pursuant to the settlement, approximately 45,000 shares of the Company's common stock, valued at \$1,667, were returned to the Company. The excess of the settlement above the amount previously estimated by the Company was not material.

Using applicable rules, the following unaudited pro forma summary presents the Company's consolidated results of operations as if the acquisitions during fiscal 1999 and 1998 had occurred at the beginning of fiscal 1998. However, actual results may have been different had the acquisitions occurred at an earlier date and this pro forma information provides no assurance as to future results.

	Years ended October 31,	
	1999	1998
Net sales	\$430,863	\$445,403
Net earnings	\$ 46,914	\$ 40,850
Net earnings per share:		
Basic	\$ 1.55	\$ 1.32
Diluted	\$ 1.51	\$ 1.29

(3) Supplemental Cash Flow Information

A summary of annual supplemental cash flow information for the years ended October 31 is as follows:

	1999	1998	1997
Cash paid during the year for:			
Interest	\$ 7,471	\$ 6,869	\$ 7,409
Income taxes, net of refunds received	\$20,826	\$19,906	\$ 20,207
Noncash investing activities:			
Net assets of businesses acquired:			
Fair value of assets, including goodwill	\$42,770	\$69,755	\$ 81,431
Liabilities assumed	(6,427)	(5,143)	(17,408)
Common shares issued	-	(1,936)	(8,712)
Cash paid, net of cash acquired	\$36,343	\$62,676	\$ 55,311

(4) Inventories

The components of inventories at October 31 are as follows:

	1999	1998
Raw materials and supplies	\$27,811	\$27,462
Work in process	14,556	10,700

ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

October 31, 1999, 1998 and 1997  
(Dollars amounts in thousands, except per share data)

Finished products	15,724	14,885
Less LIFO reserve	(1,690)	(1,603)
	-----	-----
	\$56,401	\$51,444
	=====	=====

ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

October 31, 1999, 1998 and 1997  
(Dollar amounts in thousands, except per share data)

(5) Property and Equipment  
-----

The components of property and equipment at October 31 were as follows:

	1999	1998
	-----	-----
Land	\$ 1,524	\$ 1,348
Buildings	20,604	14,682
Machinery, tooling and other equipment	58,712	53,579
	-----	-----
Less accumulated depreciation and amortization	80,840 (46,043)	69,609 (37,704)
	-----	-----
	\$ 34,797	\$ 31,905
	=====	=====

(6) Accrued Liabilities  
-----

Accrued liabilities at October 31 were as follows:

	1999	1998
	-----	-----
Wages and other compensation	\$ 14,478	\$ 13,271
Commissions	4,317	4,489
Other	12,649	12,155
	-----	-----
	\$ 31,444	\$ 29,915
	=====	=====

(7) Income Taxes  
-----

Earnings before income taxes for the years ended October 31 consist of the following components:

	1999	1998	1997
	-----	-----	-----
Domestic	\$59,972	\$48,065	\$47,704
Foreign	12,312	11,551	7,396
	-----	-----	-----
	\$72,284	\$59,616	\$55,100
	=====	=====	=====

Components of income tax expense for the years ended October 31 are as follows:

	1999	1998	1997
	-----	-----	-----
Current:			
Federal	\$16,317	\$17,188	\$15,414
State	1,102	353	993
Foreign	5,449	3,941	2,574
Deferred expense (benefit)	2,070	(1,182)	(231)
	-----	-----	-----
	\$24,938	\$20,300	\$18,750
	=====	=====	=====

ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

October 31, 1999, 1998 and 1997  
(Dollar amounts in thousands, except per share data)

A reconciliation between the statutory federal income tax rate and the effective income tax rate for the years ended October 31 were as follows:

	1999	1998	1997
	-----	-----	-----
Federal statutory rate	35.0%	35.0%	35.0%
Exempt Income of Foreign Sales Corporation	(3.7)	(3.5)	(4.0)
Goodwill amortization	2.3	2.2	1.5
Other, net	0.9	0.4	1.5
	-----	-----	-----
	34.5%	34.1%	34.0%
	=====	=====	=====

Components of the deferred tax assets and liabilities at October 31 are as follows:

	1999	1998
	-----	-----
Deferred tax assets:		
Reserves and accrued expenses	\$3,455	\$4,511
Amortizable intangible assets	811	2,193
Postretirement medical benefits	584	540
Research and development	250	-
Inventories	880	422
	-----	-----
Total deferred tax assets	5,980	7,666
	-----	-----
Deferred tax liabilities:		
Plant and equipment	760	629
Former IC-DISC recapture	872	1,019
	-----	-----
Total deferred tax liabilities	1,632	1,648
	-----	-----
Net deferred tax asset	\$4,348	\$6,018
	=====	=====

The Company has not recognized a valuation allowance since management has determined that it is more likely than not that the results of future operations will generate sufficient taxable income to realize all deferred tax assets.

(8) Long-Term Debt

Long-term debt at October 31 consists of the following:

	1999	1998
	-----	-----
U.S. revolving credit facility	\$109,000	\$119,000
German revolving credit facility	15,866	-
Other	5,650	7,056
	-----	-----
	130,516	126,056
Less current portion	20,857	5,749
	-----	-----
	\$109,659	\$120,307
	=====	=====

ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Noes to Consolidated Financial Statements

October 31, 1999, 1998 and 1997  
(Dollar amounts in thousands, except per share data)

Future maturities of long-term debt during each of the next five years ending October 31 and thereafter are as follows:

2000	\$ 20,857
2001	127
2002	109,209
2003	110
2004	110
Thereafter	103
	-----
	\$130,516
	=====

On May 15, 1997, the Company secured a new \$200,000 U.S. revolving credit facility by the amendment and restatement of its principal credit agreement that theretofore had provided for a \$100,000 facility. Financing under the new agreement continues to be provided by a syndication of financial institutions whose agent is Bank of America (following a merger between Bank of America and NationsBank). The agreement requires annual commitment fees ranging from 0.15% to 0.30% on the unused portion of the total credit commitment, payable quarterly.

Borrowings under the U.S. revolving credit facility accrue interest at the Company's option at either a function of the prime rate or LIBOR and are secured only by a pledge of varying percentages of the capital stock of the Company's subsidiaries to the lenders. The interest rate is also influenced by certain financial ratios of the Company. There is a \$10,000 sublimit for letters of credit under this agreement. The weighted average interest rate on the outstanding borrowings under this facility was 5.9% at October 31, 1999 and 5.9% at October 31, 1998.

At October 31, 1999, the Company had \$88,055 in unused availability under the U.S. revolving credit facility. In early November, the Company borrowed \$49,000 to fund its acquisition of MASD. The acquisition of Redlake Imaging was financed with cash on hand at October 31, 1999.

The U.S. revolving credit facility generally provides for, among other things, restrictions on certain future acquisitions and cash payments to stockholders and for the Company to maintain certain minimum consolidated tangible net worth and other financial ratios. Restricted payments to stockholders include dividends and are limited to 50% of fiscal year net earnings as defined in the agreement. The U.S. revolving credit facility is effective through May 31, 2002.

In June 1999, the Company entered into a one year agreement with a German bank to provide the Company with a \$16,000 revolving credit facility. Subsequent to the year-end, the revolving credit facility was increased to \$30,000. Outstanding borrowings under this facility may be denominated in various currencies and such borrowings at October 31, 1999 were subject to at a weighted average interest rate of 3.5%.

(9) Retirement and Other Benefit Plans

-----  
The Company maintains two defined contribution retirement plans, under the provisions of Section 401 of the Internal Revenue Code, covering substantially all domestic employees not subject to collective bargaining



ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Noes to Consolidated Financial Statements

October 31, 1999, 1998 and 1997  
(Dollar amounts in thousands, except per share data)

agreements. The Company partially matches employee contributions. Its costs related to these two plans were \$3,269, \$3,293 and \$2,530 in fiscal 1999, 1998 and 1997, respectively.

The Company also maintains a defined benefit retirement plan covering employees of a foreign subsidiary, a plan that provides postretirement medical benefits for employees at a number of its domestic subsidiaries and a plan that supplements certain employees for the contribution ceiling applicable to the Section 401 plans. The costs and accumulated benefit obligations associated with each of these plans were not material.

Pursuant to the fiscal 1999 Petroleum Analyzer acquisitions, the Company agreed to assume a defined benefit pension plan covering certain U.S. employees subject to a collective bargaining agreement. Upon obtaining necessary regulatory approvals, the Company intends to terminate this plan. Total plan assets at October 31, 1999 were not material and the anticipated costs associated with terminating this plan are not expected to be material to the Company's financial statements.

In November 1999, the Company's Board of Directors (the "Board") approved an employee stock purchase plan covering eligible employees whereby they may designate up to 10% of eligible earnings to purchase the Company's common stock at a 10% discount to the average closing price of the Company's common stock at the beginning and end of a quarterly period. The common stock sold to the employees may be either treasury stock, stock purchased on the open market, or newly issued shares to be authorized by the Board on a periodic basis.

(10) Common Stock Transactions

-----  
The Company's restated Certificate of Incorporation provides that each outstanding share of the Company's common stock entitles the holder thereof to five votes per share, except that holders of outstanding shares with respect to which there has been a change in beneficial ownership during the four years immediately preceding the applicable record date will be entitled to one vote per share.

The Company's Board adopted a Shareholder Rights Plan whereby one Preferred Stock Purchase Right (a "Right") accompanies each outstanding share of common stock. Such Rights only become exercisable, or transferable apart from the common stock, ten business days after a person or group acquires various specified levels of beneficial ownership, with or without the Board's consent. Each Right may be exercised to acquire one one-thousandth of a newly issued share of the Company's Series A Preferred Stock, at an exercise price of \$170, subject to adjustment. Alternatively, upon the occurrence of certain specified events, the Rights allow holders to purchase the Company's common stock having a market value at such time of twice the Right's exercise price. The Rights may be redeemed by the Company at a redemption price of \$.01 per Right at any time until the tenth business day following public announcement that a 20% position has been acquired or ten business days after commencement of a tender or exchange offer. The Rights expire on January 8, 2006.

The Company periodically enters into agreements with the management of newly-acquired companies for the issuance of Company common stock based on the achievement of specified goals. A similar agreement was made with a corporate executive. Under these agreements, 10,000 shares were issued during fiscal 1997 and 20,000 shares are reserved for future issue.

ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Noes to Consolidated Financial Statements

October 31, 1999, 1998 and 1997  
(Dollar amounts in thousands, except per share data)

(11) Stock Options  
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The Company has a stock option plan (the "Plan"), as amended, which authorizes the issuance of up to 3,500,000 shares of common stock to certain directors, key employees, and consultants of the Company and its subsidiaries as incentive and/or nonqualified options. Options under the Plan may be granted through December 17, 2001 at prices not less than 100% of market value of the underlying stock at the date of grant. These options vest annually and ratably over a five-year period from the date of the grant. Options expire ten years from the date of grant. Payment of the option price may be made in cash, extension of loans by the Company, or by tendering shares of the Company's common stock having a fair market value equal to the aggregate option price.

The Company also has a stock option plan for non-employee directors (the "Non-employee Director Plan"). The Non-employee Director Plan provides for each non-employee director appointed or elected to the Board initial options to purchase 4,000 shares of the Company's common stock and thereafter options to purchase an additional 4,000 shares per annum under terms and conditions similar to the Plan, except that following their grant, all options will become fully vested at the time of the Annual Meeting of Shareholders in the next fiscal year and will be exercisable ratably over five years from the date of grant.

A summary of stock option transactions under these plans is shown below:

	Outstanding options		Exercisable options	
	000's	Average exercise price	000's	Average exercise price
	-----	-----	-----	-----
October 31, 1996	2,178	\$ 13.51	677	\$ 10.43
Granted	205	22.18		
Exercised	(171)	10.29		
Canceled	(80)	16.06		
	-----			
October 31, 1997	2,132	14.51	995	11.58
Granted	389	27.59		
Exercised	(316)	10.73		
Canceled	(118)	19.48		
	-----			
October 31, 1998	2,087	17.24	1,109	13.08
Granted	350	18.71		
Exercised	(251)	13.66		
Canceled	(69)	22.22		
	-----			
October 31, 1999	2,117	\$ 17.67	1,226	\$ 14.67
	=====	=====	=====	=====

ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Noes to Consolidated Financial Statements

October 31, 1999, 1998 and 1997  
(Dollar amounts in thousands, except per share data)

Options outstanding and exercisable at October 31, 1999 are summarized below.

Exercise price	Outstanding options			Exercisable options	
	000's	Average exercise price	Average remaining life	000's	Average exercise price
\$ 3.75 - 10.00	299	\$ 6.31	3.1 years	299	\$ 6.31
10.01 - 15.00	257	11.98	5.0 years	223	12.00
15.01 - 20.00	900	17.37	6.3 years	508	16.97
20.01 - 25.00	319	22.94	7.2 years	131	22.98
25.01 - 30.00	307	27.22	8.1 years	59	27.24
30.01 - 35.84	35	32.90	8.7 years	6	32.16
	-----	-----	-----	-----	-----
\$ 3.75 - 35.84	2,117	\$ 17.67	6.1 years	1,226	\$ 14.67
	=====	=====	=====	=====	=====

For pro forma disclosure purposes, the weighted-average grant-date fair value of options granted during the years ended October 31, 1999, 1998 and 1997 was \$8.95 per share, \$11.73 per share and \$8.66 per share, respectively. All options granted during each of the years ended October 31, 1999, 1998 and 1997 were at exercise prices equal to the market price of the Company's common stock when granted.

	1999	1998	1997
Risk-free interest rate (%)	5.75	6.25	6.25
Average expected option life (years)	7.00	7.00	7.00
Expected volatility (%)	35-41	28-36	24-26
Expected dividend yield (%)	0.75	0.75	0.75

Had the Company recognized compensation expense for the fair value of options granted during fiscal 1999, 1998 and 1997 in accordance with the provisions of SFAS 123, pro forma earnings and pro forma earnings per share would have been as presented below.

	1999	1998	1997
Net earnings, as reported	\$47,346	\$39,316	\$36,350
Net earnings, pro forma	44,177	36,094	35,110
Net earnings per share, as reported:			
Basic	1.56	1.27	1.19
Diluted	1.53	1.24	1.16
Net earnings per share, pro forma:			
Basic	1.46	1.16	1.15
Diluted	1.43	1.14	1.12

The disclosed pro forma effects on earnings do not include the effects of options granted prior to fiscal 1996 since the provisions of SFAS 123 are not applicable to options for this purpose. The pro forma effects of applying SFAS 123 to fiscal 1999, 1998 and 1997 may not be representative of the pro forma effects in

ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Noes to Consolidated Financial Statements

October 31, 1999, 1998 and 1997  
(Dollar amounts in thousands, except per share data)

future years. Based on the historical vesting schedule of the Company's option grants, the pro forma effects on earnings are most pronounced in the early years following each grant. The timing and magnitude of any future grants is at the discretion of the Company's Board and cannot be assured.

(12) Contingencies

-----  
The Company, in the ordinary course of business, is the subject of, or a party to, various pending or threatened legal actions, including those pertaining to product liability. The Company is vigorously contesting all product liability lawsuits which, in general, are based upon claims of the kind which have been customary over the past several years. Based upon the Company's past experience with resolution of its product liability claims and the limits of the primary, excess, and umbrella liability insurance coverages that are available with respect to pending claims, management believes that adequate provision has been made to cover any potential liability not covered by insurance, and that the ultimate liability, if any, arising from these actions should not have a material adverse effect on the consolidated financial position or results of operations of the Company. Included in other noncurrent assets at October 31, 1999 are estimated insurable settlements receivable from insurance companies of \$195.

Over the past five years, one of the Company's subsidiaries, Compressor Controls, has made significant sales to large natural gas distribution companies and compressor manufacturers in the countries of the former Soviet Union. Certain of this business was on an open account basis. During the fourth quarter of fiscal 1998, economic uncertainties in Russia and the region deteriorated and a severe devaluation of the region's currencies occurred. This created additional doubt concerning the collectibility of certain accounts receivable from customers in this region. In response to these events, the Company provided \$3,800 to fully reserve all of these receivables except those from RAO Gazprom. The Company believes that RAO Gazprom receivables will be fully collected as most of these receivables are secured by U.S. dollar letters of credit drawn on a European bank. Accounts receivable at October 31, 1999 included amounts due from such customers, primarily RAO Gazprom, of \$8,383.

(13) Segment and Geographic Area Information

-----  
The Company's operations are grouped into three business segments based on similarities between the Company's products and services: industrial controls ("IC"), fluid handling ("FH") and analytical instrumentation ("AI"). The industrial controls segment's products include thermostatic valves, pneumatic panel components, pressure and temperature sensors, microprocessor-based turbomachinery control systems and associated engineering services, and vibration monitoring instruments. Products included within the fluid handling segment are rotary gear, progressing cavity, positive displacement, centrifugal and piston-type metering pumps, turbine flow meters, calibrators, emissions measuring equipment and precision chemical dispensing products. The analytical instrumentation segment's products include petroleum product analysis/test equipment, microprocessor-based leak testers, CCD cameras and detectors and analytical products used in the operation of transmission and scanning electron microscopes.

There have been no material transactions between the Company's business segments during any of the three years ended October 31, 1999. Sales between geographic areas are primarily of finished products and are accounted for at cost plus a profit margin. Operating profit by business segment and by geographic area is

ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

October 31, 1999, 1998 and 1997

(Dollar amounts in thousands, except per share data)

defined as sales less operating costs and expenses. Items below operating profit on the Company's consolidated statement of earnings are not allocated to the Company's business segments.

Identifiable assets are those assets used exclusively in the operations of each business segment or geographic area, or which are allocated when used jointly. Corporate assets were principally comprised of cash, recoverable insurance claims, deferred compensation assets and property and equipment.

ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Noes to Consolidated Financial Statements

October 31, 1999, 1998 and 1997  
(Dollar amounts in thousands, except per share data)

Selected financial information by business segment for the years ended  
October 31 follows:

	IC	FH	AI	Corporate	Total
	-----	-----	-----	-----	-----
1999					
----					
Net sales	\$ 160,090	\$ 98,298	\$ 148,868	\$ -	\$ 407,256
Operating profit	29,973	27,386	27,713	(7,117)	77,955
Total assets:					
Operating assets	55,704	37,245	88,405	-	181,354
Intangible assets, net	44,314	41,055	129,612	39	215,020
Other	3,411	(1,981)	6,408	15,951	23,789
					-----
Total					420,163
Capital expenditures	1,935	1,702	1,425	86	5,148
Depreciation and amortization	4,398	3,474	7,795	299	15,966
1998					
----					
Net sales	\$ 177,258	\$ 99,471	\$ 112,441	\$ -	\$ 389,170
Operating profit	31,458	24,125	16,417	(5,908)	66,092
Total assets:					
Operating assets	65,127	35,843	61,036	-	162,006
Intangible assets, net	46,312	42,648	108,005	214	197,179
Other	5,015	(2,004)	7,533	11,804	22,348
					-----
Total					381,533
Capital expenditures	2,139	1,706	1,475	182	5,502
Depreciation and amortization	4,331	3,440	6,195	468	14,434
1997					
----					
Net sales	\$ 123,129	\$ 94,175	\$ 80,932	\$ -	\$ 298,236
Operating profit	22,402	25,853	18,292	(5,677)	60,870
Total assets:					
Operating assets	76,067	34,355	57,511	-	167,933
Intangible assets, net	42,836	36,226	74,719	474	154,255
Other	(517)	(1,464)	2,740	6,373	7,132
					-----
Total					329,320
Capital expenditures	1,817	1,693	1,347	127	4,984
Depreciation and amortization	3,712	2,844	4,347	497	11,400

ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Noes to Consolidated Financial Statements

October 31, 1999, 1998 and 1997  
(Dollar amounts in thousands, except per share data)

Summarized data for the Company's U.S. and foreign operations (principally in Europe and Japan) for the years ended October 31 are as follows:

	United States -----	Foreign -----	Corporate adjustments and elimi- nations -----	Total -----
1999 ----				
Sales to unaffiliated customers	\$345,376	\$61,880	\$ -	\$ 407,256
Sales between geographic areas	20,282	4,760	(25,042)	-
Net sales	<u>\$365,658</u>	<u>\$66,640</u>	<u>\$ (25,042)</u>	<u>\$ 407,256</u>
Long-lived assets	<u>\$229,898</u>	<u>\$27,795</u>	<u>\$ 651</u>	<u>\$ 258,344</u>
1998 ----				
Sales to unaffiliated customers	\$336,985	\$52,185	\$ -	\$ 389,170
Sales between geographic areas	12,385	5,077	(17,462)	-
Net sales	<u>\$349,370</u>	<u>\$57,262</u>	<u>\$ (17,462)</u>	<u>\$ 389,170</u>
Long-lived assets	<u>\$230,769</u>	<u>\$ 7,178</u>	<u>\$ 3,734</u>	<u>\$ 241,681</u>
1997 ----				
Sales to unaffiliated customers	\$259,583	\$38,653	\$ -	\$ 298,236
Sales between geographic areas	7,326	3,795	(11,121)	-
Net sales	<u>\$266,909</u>	<u>\$42,448</u>	<u>\$ (11,121)</u>	<u>\$ 298,236</u>
Long-lived assets	<u>\$181,480</u>	<u>\$10,691</u>	<u>\$ 5,259</u>	<u>\$ 197,430</u>

Export sales from the United States during the years ended October 31, 1999, 1998 and 1997 were \$163,000, \$160,000 and \$111,000, respectively. In the year ended October 31, 1999 these exports were shipped primarily to Europe (25%), Russia (23%), Asia and the Far East (19%) and Latin America (15%).

ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

October 31, 1999, 1998 and 1997  
(Dollar amounts in thousands, except per share data)

Sales to customers outside the United States accounted for a significant portion of the Company's revenues. Sales are attributed to geographic areas based upon the location to which the product is shipped. Foreign countries that accounted for at least 10% of consolidated net sales in any of the past three years have been individually identified in the following table. Other countries have been grouped by region.

	IC	FH	AI	Total
	-----	-----	-----	-----
1999				
----				
Europe	\$ 26,219	\$ 5,009	\$39,586	\$ 70,814
Asia and Far East	9,342	3,280	29,743	42,365
Russia	36,715	16	232	36,963
Latin America	16,959	2,875	4,974	24,808
Other	20,113	7,461	4,178	31,752
	-----	-----	-----	-----
Total	\$109,348	\$18,641	\$78,713	\$206,702
	=====	=====	=====	=====
1998				
----				
Europe	\$ 28,159	\$ 4,720	\$28,370	\$ 61,249
Asia and Far East	13,230	6,362	21,951	41,543
Russia	43,811	-	372	44,183
Latin America	15,021	1,827	2,668	19,516
Other	20,893	4,707	3,997	29,597
	-----	-----	-----	-----
Total	\$121,114	\$17,616	\$57,358	\$196,088
	=====	=====	=====	=====
1997				
----				
Europe	\$ 22,125	\$ 3,439	\$18,741	\$ 44,305
Asia and Far East	9,337	5,762	17,412	32,511
Russia	15,805	4	734	16,543
Latin America	7,410	1,264	2,409	11,083
Other	22,754	6,398	4,516	33,668
	-----	-----	-----	-----
Total	\$ 77,431	\$16,867	\$43,812	\$138,110
	=====	=====	=====	=====



ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Notes to Consolidated Financial Statements

October 31, 1999, 1998 and 1997  
(Dollar amounts in thousands, except per share data)

(14) Quarterly Financial Data (Unaudited)

	Fiscal 1999 quarters			
	First	Second	Third	Fourth
Net sales	\$89,078	\$100,452	\$104,095	\$113,631
Gross profit	43,644	52,887	54,258	59,714
Earnings from operations	13,496	20,143	21,184	23,132
Net earnings	7,840	12,039	12,796	14,671
Earnings per common share:				
Basic	\$ 0.26	\$ 0.40	\$ 0.42	\$ 0.48
Diluted	\$ 0.26	\$ 0.39	\$ 0.41	\$ 0.47

	Fiscal 1998 quarters			
	First	Second	Third	Fourth
Net sales	\$90,099	\$ 95,995	\$ 97,412	\$105,664
Gross profit	45,467	48,415	48,299	48,772
Earnings from operations	17,741	17,670	18,002	12,679
Net earnings	10,720	10,634	10,560	7,402
Earnings per common share:				
Basic	\$ 0.35	\$ 0.34	\$ 0.34	\$ 0.24
Diluted	\$ 0.34	\$ 0.33	\$ 0.33	\$ 0.24

ROPER INDUSTRIES, INC. AND SUBSIDIARIES

Schedule II - Consolidated Valuation and Qualifying Accounts  
for the Years ended October 31, 1999, 1998 and 1997  
(In thousands)

	Balance at beginning of year	Additions charged to costs and expenses	Deductions	Other	Balance at end of year
	-----	-----	-----	-----	-----
Allowance for doubtful accounts:					
Year ended October 31, 1999	\$6,915	\$1,618	\$(5,072)	\$299	\$3,760
Year ended October 31, 1998	1,866	4,643	(173)	579	6,915
Year ended October 31, 1997	992	1,053	(714)	535	1,866
Reserve for inventory obsolescence:					
Year ended October 31, 1999	4,081	2,257	(1,519)	1,950	6,769
Year ended October 31, 1998	2,053	1,558	(911)	1,381	4,081
Year ended October 31, 1997	1,310	1,037	(516)	222	2,053

Deductions from the allowance for doubtful accounts represented the net write-off of uncollectible accounts receivable. Deductions from the inventory obsolescence reserve represented the disposal of obsolete items.

Other included the allowance for doubtful accounts and reserve for inventory obsolescence of acquired businesses at the dates of acquisition and the effects of foreign currency translation adjustments for those companies whose functional currency was not the U.S. dollar.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

Roper engaged Arthur Andersen LLP to serve as its independent public accountants on May 13, 1999. Prior to that date, KPMG LLP had served as Roper's independent public accountants. The decision to change public accountants was recommended by the Audit Committee and approved by the Board of Directors.

In connection with the audits of Roper's two fiscal years ended October 31, 1998, and with respect to the subsequent period through May 13, 1999, there were no disagreements with KPMG LLP on any matter of accounting principles or practices, financial statements disclosure, or auditing scope or procedures, which disagreements, if not resolved to their satisfaction, would have caused them to make reference in connection with their opinion to the subject matter of the disagreement.

KPMG LLP's reports on Roper's consolidated financial statements as of and for the two fiscal year periods ended October 31, 1998 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Reference is made to the information to be included under the captions "BOARD OF DIRECTORS AND EXECUTIVE OFFICERS - Proposal 1: Election of Three (3) Directors" and "-- Executive Officers", and "VOTING SECURITIES -- Compliance with Section 16 (a) of the Securities and Exchange Act of 1934" in Roper's definitive Proxy Statement which relates to the 2000 Annual Meeting of Shareholders of Roper to be held on March 17, 2000 (the "Proxy Statement"), to be filed within 120 days after the close of Roper's 1999 fiscal year, which information is incorporated herein by this reference.

ITEM 11. EXECUTIVE COMPENSATION

Reference is made to the information to be included under the captions "BOARD OF DIRECTORS AND EXECUTIVE OFFICERS - Meetings of the Board and Board Committees; Compensation of Directors", "-- Related Transactions", "-- Compensation Committee Interlocks and Insider Participation in Compensation Decisions", and "--Executive Compensation" contained in the Proxy Statement, which information is incorporated herein by this reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Reference is made to the information included under the captions "VOTING SECURITIES" in the Proxy Statement, which information is incorporated herein by this reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Reference is made to the information to be included under the captions "BOARD OF DIRECTORS AND EXECUTIVE OFFICERS -- Related Transactions" in the Proxy Statement, which information is incorporated herein by this reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

- (a)(1) The Consolidated Financial Statements listed in Item 8 of Part II are filed as a part of this Annual Report.
- (a)(2) The following consolidated financial statement schedule on page S-1 is filed in response to this Item. All other schedules are omitted or the required information is either inapplicable or is presented in the consolidated financial statements or related notes:

II. Consolidated Valuation and Qualifying Accounts for the Years ended October 31, 1999, 1998 and 1997.

(b). Reports on Form 8-K  
-----

Roper did not file any Current Reports on Form 8-K during the fourth quarter of fiscal 1999.

(c). Exhibits  
-----

The following exhibits are separately filed with this Annual Report.

Exhibit No. -----	Description of Exhibit -----
2.1	Stock Purchase Agreement (Varlen Instruments, Inc.)
2.2	Stock Purchase Agreement (Walter Herzog GmbH)
2.3	Agreement to Purchase Partnership Interest (Herzog-Varlen Instruments)
2.4	Asset Purchase Agreement (Kodak MASD Division)
2.5	Agreement and Plan of Merger (Redlake Imaging Corporation)
3.1/(a)/	Amended and Restated Certificate of Incorporation, including Form of Certificate of Designation, Preferences and Rights of Series A Preferred Stock
3.2/(b)/	Amended and Restated By-Laws
4.01/(c)/	Rights Agreement between Roper Industries, Inc. and SunTrust Bank, Atlanta, Inc. as Rights Agent, dated as of January 8, 1996, including Certificate of Designation, Preferences and Rights of Series A Preferred Stock (Exhibit A), Form of Rights Certificate (Exhibit B) and Summary of Rights (Exhibit C)

4.02/(b)/	Third Amended and Restated Credit Agreement dated May 15, 1997 by and between Roper Industries, Inc. and NationsBank, N.A. (South) and the lender parties thereto
4.03/(d)/	Amendment Agreement No. 1 to Amended and Restated Credit Agreement
4.04/(d)/	Amendment Agreement No. 2 to Amended and Restated Credit Agreement
4.05/(e)/	Amendment Agreement No. 3 to Amended and Restated Credit Agreement
10.01/(a)/	1991 Stock Option Plan, as amended
10.02/(e)/	Non-employee Director Stock Option Plan, as amended
10.03/(f)/	Form of Amended and Restated Indemnification Agreement
10.04/(a)/	Consulting Agreement (G.L. Ohrstrom & Co., Inc.)
10.06/(g)/	Amendment to G.L. Ohrstrom & Co., Inc. Consulting Agreement
21	List of Subsidiaries
23.1	Consent of Independent Auditors - Arthur Andersen LLP
23.2	Consent of Independent Auditors - KPMG LLP
27	Financial Data Schedule

- 
- (a) Incorporated herein by reference to Exhibits 3.1, 10.2 and 10.5 to the Roper Industries, Inc. Annual Report on Form 10-K filed January 21, 1998.
  - (b) Incorporated herein by reference to Exhibits 3 and 4 to the Roper Industries, Inc. Current Report on Form 8-K filed June 2, 1997.
  - (c) Incorporated herein by reference to Exhibit 4.02 to the Roper Industries, Inc. Current Report on Form 8-K filed January 18, 1996.
  - (d) Incorporated herein by reference to Exhibits 4.03 and 4.04 to the Roper Industries, Inc. Quarterly Report on Form 10-Q filed August 21, 1998.
  - (e) Incorporated herein by reference to Exhibits 4.05 and 10.03 to the Roper Industries, Inc. Annual Report on Form 10-K filed January 20, 1999.
  - (f) Incorporated herein by reference to Exhibit 10.04 of the Roper Industries, Inc. Quarterly Report on Form 10-Q filed August 31, 1999.
  - (g) Incorporated herein by reference to Exhibit 10.06 to the Roper Industries, Inc. Quarterly Report on Form 10-Q filed June 11, 1999.
  - + Management contract or compensatory plan or arrangement.

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

ROPER INDUSTRIES, INC.  
(Registrant)

By /s/ DERRICK N. KEY

January 26, 2000

-----  
Derrick N. Key  
Chairman of the Board, President  
and Chief Executive Officer

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

/s/ DERRICK N. KEY Chairman of the Board, President January 26, 2000  
-----  
Derrick N. Key and Chief Executive Officer

/s/ MARTIN S. HEADLEY Vice President and January 26, 2000  
-----  
Martin S. Headley Chief Financial Officer

/s/ KEVIN G. MCHUGH Controller January 26, 2000  
-----  
Kevin G. McHugh

/s/ W. LAWRENCE BANKS Director January 26, 2000  
-----  
W. Lawrence Banks

/s/ LUITPOLD VON BRAUN Director January 26, 2000  
-----  
Luitpold von Braun

/s/ DONALD G. CALDER Director January 26, 2000  
-----  
Donald G. Calder

/s/ JOHN F. FORT III Director January 26, 2000  
-----  
John F. Fort III

/s/ WILBUR J. PREZZANO Director January 26, 2000  
-----  
Wilbur J. Prezzano

/s/ GEORG GRAF SCHALL-RIACOUR Director January 26, 2000  
-----  
Georg Graf Schall-Riaucour

/s/ ERIBERTO R. SCOCIMARA Director January 26, 2000  
-----  
Eriberto R. Scocimara

/s/ CHRISTOPHER WRIGHT Director January 26, 2000  
-----  
Christopher Wright

## EXHIBIT INDEX

Number	Exhibit
/a/2.1	Stock Purchase Agreement (Varlen Instruments, Inc.)
/b/2.2	Stock Purchase Agreement (Walter Herzog GmbH)
/c/2.3	Agreement to Purchase Partnership Interest (Herzog-Varlen Instruments)
/d/2.4	Asset Purchase Agreement (Kodak MASD Division)
/e/2.5	Agreement and Plan of Merger (Redlake Imaging Corporation)
3.1	Amended and Restated Certificate of Incorporation, including Form of Certificate of Designation, Preferences and Rights of Series A Preferred Stock incorporated herein by reference to Exhibit 3.1 to the Roper Industries, Inc. Annual Report on Form 10-K filed January 21, 1998
3.2	Amended and Restated By-Law incorporated herein by reference to Exhibit 3 to the Roper Industries, Inc. Current Report on Form 8-K filed June 2, 1997
4.01	Rights Agreement between Roper Industries, Inc. and Sun Trust Bank, Atlanta, Inc. as Rights Agent, dated as of January 8, 1996, including Certificate of Designation, Preferences and Rights of Series A (Exhibit A), Form of Rights Certificate (Exhibit B) and Summary of Rights (Exhibit C), incorporation by reference to Exhibit 4.02 to the Roper Industries, Inc. Current Report on Form 8-K filed January 18, 1996
4.02	Third Amended and Restated Credit Agreement dated May 15, 1997 by and between Roper industries, Inc. and Nationsbank, N.A. (South and the lender parties thereto, incorporated herein by reference to Exhibit 4 to the Roper Industries, Inc. Current Report on Form 8-K filed June 2, 1997
4.03	Amendment Agreement No. 1 to the Amended and Restated Credit Agreement incorporated herein by reference to Exhibit 4.03 to Roper Industries, Inc.'s Quarterly Report on Form 10-Q filed August 21, 1998



- 4.04 Amendment Agreement No.2 to the Amended and Restated Credit Agreement incorporated herein by reference to Exhibit 4.04 to Roper Industries, Inc.'s Quarterly Report on Form 10-Q filed August 21, 1998
- 4.05 Amendment Agreement No.3 to the Amended and Restated Credit Agreement incorporated herein by reference to Exhibit 4.05 to Roper Industries, Inc.'s Annual Report on Form 10-K filed January 20, 1999
- 10.01 1991 Stock Option Plan, as amended incorporated herein by reference to Exhibit 10.2 to the Roper Industries, Inc. Annual Report on Form 10-K filed January 21, 1998
- 10.02 Non-employee Director Stock Option Plan, as amended incorporated herein by reference to Exhibit 10.03 to the Roper industries, Inc. Annual Report on Form 10-K filed January 20, 1999
- 10.03 Form of Amended and Restated Indemnification Agreement incorporated herein by reference to Exhibit 10.06 to the Roper Industries, Inc. Quarterly Report on Form 10-Q filed August 31, 1999
- 10.04 Consulting Agreement (G.L. Ohrstrom & Co., Inc.) incorporated herein by reference to Exhibit 10.05 to the Roper Industries, Inc. Annual Report on Form 10-K filed January 21, 1998
- 10.06 Amendment to G.L. Ohrstrom & Co., Inc. Consulting Agreement incorporated herein by reference to Exhibit 10.04 of the Roper Industries, Inc. Quarter Report on Form 10-Q filed June 11, 1999
- 21 List of Subsidiaries
- 23.1 Consent of Independent Auditors - Arthur Anderson LLP
- 23.2 Consent of Independent Auditors - KPMG LLP
- 27 Financial Data Schedule

/a/ The following schedules or similar attachments to this exhibit has been omitted and will be furnished supplementally upon request.

Disclosure Schedule:

- 2.1(a) Organization and Standing
- 2.1(b) Consents, Authorization and Binding Effect
- 2.1(d) Capitalization of the Company

- 2.1(e) Subsidiaries
- 2.1(f) Minute Books and Stock Records
- 2.1(g) Financial Statements
- 2.1(h) Absence of Certain Changes
- 2.1(i) Title and Condition of Assets
- 2.1(j) Litigation; Compliance with Laws
- 2.1(k) Company Contacts
- 2.1(l) Pension and Other Employee Plans and Agreements
- 2.1(m)(iii) Tax Matters
- 2.1(p) Inventories
- 2.1(q) Intangible Assets
- 2.1(s) Employees
- 2.1(t) Real Estate

/b/ The following schedules or similar attachments to this exhibit has been omitted and will be furnished supplementally upon request.

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- 2.1(j) Company Contacts
- 2.1(k) Pension and Other Employee Plans and Agreements
- 2.1(l) Tax Matters
- 2.1(n) Receivables
- 2.1(o) Inventories
- 2.1(p) Intangible Assets
- 2.1(s) Real Estate

/c/ The following schedules or similar attachments to this exhibit has been omitted and will be furnished supplementally upon request.

Disclosure Schedule:

- 2.1(a) Organization and Standing
- 2.1(d) Capitalization of the Company
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- 2.1(g) Financial Statements
- 2.1(h) Absence of Certain Changes
- 2.1(i) Title and Condition of Assets
- 2.1(k) Company Contacts
- 2.1(s) Real Estate

/d/ The following schedules or similar attachments to this exhibit has been omitted and will be furnished supplementally upon request.

Exhibits:

- A-1 Agreement - Patent and Intellectual Property Licenses to Buyer and Buyer's Covenant Not to Asset Buyer's Patent Rights

- A-2 Seller License Agreement for Seller-Licensed Software
- B Agreement - Patent and Intellectual Property Licenses to Buyer and Buyer's Covenant Not to Asset Buyer's Patent Rights
- C Image Sensor Supply Agreement between East Kodak Company and Roper Industries, Inc.
- D Transition Distribution Agreement
- E Summary of Terms of Master License Agreement
- F Development Agreement Term Sheet

Schedules:

- 1.1(a) Required Approvals
- 1.2(e) Persons with Knowledge
- 2.1(e) Assumed Leases and Assumed Contracts
- 2.1(f)(i) Transferred Patents
- 2.1(f)(ii) Transferred Trademarks
- 2.1(f)(iii) Transferred Product Development Projects
- 2.1(f)(iv) Transferred Software and firmware
- 2.1(f)(vi) Transferred Licenses
- 2.1(l) Certain Transferred Assets
- 2.2(o) Certain Excluded Assets
- 2.3(a)(i) Seller-Licensed Intellectual Property: Patents
- 2.3(a)(ii) Seller-Licensed Intellectual Property: Software
- 2.8 Closing Balance Sheet
- 3.3 Consents Other Than Required Approvals
- 3.6(b) September Balance Sheet
- 3.6(c) Financial Statement
- 3.6(d) Certain Liabilities
- 3.9(a) Litigation and Claims
- 3.9(b) Orders and Judgements
- 3.10(b) Intellectual Property: Infringement
- 3.11(a) Employee Benefits: U.S. Plans
- 3.11(b) Employee Benefits: Litigation
- 3.12 Environmental Matters
- 3.13(a) Labor Matters
- 3.16 Subsequent Changes
- 3.19 Year 2000 Compliance Plan
- 5.6(f) Licensed Trademarks
- 6.1 Employees
- 6.2 Roper Scientific Benefits for MASD Employees

/c/ The following schedules or similar attachments to this exhibit has been omitted and will be furnished supplementally upon request.

Exhibits:

- Exhibit A Escrow Agreement
- Exhibit B Lease Consent
- Exhibit C Financial Statements
- Exhibit D Third Party Consents
- Exhibit E Noncompetition Agreements
- Exhibit F Employment Agreements
- Exhibit G RPI Opinion
- Exhibit H PGFM Opinion

Exhibit I          Stockholder Notice Addresses

Schedules:

- 3(a)          Organization of the Company
- 3(b)          Noncontravention
- 3(d)          Brokers Fees
- 3(e)          Title to Assets
- 3(f)          The Company Shares
- 3(h)          Events Subsequent to September 30, 1999
- 3(k)          Tax Matters
- 3(l)          Real Property
- 3(m)          Intellectual Property
- 3(p)          Contracts
- 3(q)          Accounts Receivable aged by Due Date
- 3(s)          Insurance

STOCK PURCHASE AGREEMENT

BY AND AMONG

VARLEN CORPORATION,

VARLEN INSTRUMENTS, INC.

AND

ROPER INDUSTRIES, INC.

DATED AS OF JUNE 21, 1999

TABLE OF CONTENTS

	Page
ARTICLE I Purchase and Sale of Shares.....	1
1.1. Purchase of Shares.....	1
1.2. Preparation of Closing Date Schedule.....	1
1.3. Adjustment of Purchase Price.....	2
ARTICLE II REPRESENTATIONS AND WARRANTIES.....	3
2.1. Representations and Warranties of Seller.....	3
2.2. Representations and Warranties of Buyer.....	17
ARTICLE III CLOSING; CONDITIONS OF CLOSING AND TERMINATION.....	18
3.1. Closing.....	18
3.2. Conditions to Obligations of Buyer.....	18
3.3. Conditions to Obligations of Seller.....	19
ARTICLE IV INDEMNIFICATION.....	20
4.1. Indemnification of Buyer.....	20
4.2. Indemnification of Seller.....	21
4.3. Survival.....	22
4.4. Claims.....	22
4.5. Limitations.....	23
ARTICLE V CERTAIN POST CLOSING MATTERS.....	24
5.1. Certain Tax Matters.....	24
5.2. Income Tax Matters Generally.....	24
5.3. Access to Records After Closing.....	26
5.4. Covenant Not to Compete.....	27
5.5. Employee Matters.....	28
5.6. General, Auto and Product Liability.....	31
5.7. Cooperation on Claims.....	31
5.8. Name Change.....	32
5.9. Letters of Credit.....	32
ARTICLE VI MISCELLANEOUS.....	32
6.1. Further Actions.....	32
6.2. Brokerage.....	32
6.3. Expenses.....	33
6.4. Entire Agreement.....	33
6.5. Descriptive Headings.....	33
6.6. Notices.....	33
6.7. Governing Law.....	34
6.8. Assignability.....	34
6.9. Waivers and Amendments.....	34
6.10. Third Party Rights.....	34

6.11.	Illegality.....	34
6.12.	Release.....	34

STOCK PURCHASE AGREEMENT

STOCK PURCHASE AGREEMENT dated as of June 21, 1999 (this "Agreement"), by and among (i) VARLEN CORPORATION, a Delaware corporation ("Seller"), (ii) VARLEN INSTRUMENTS INC., a Delaware corporation (the "Company") and (iii) ROPER INDUSTRIES, INC., a Delaware corporation ("Buyer"). Seller, the Company and Buyer will be sometimes referred to herein as a "Party" and collectively as the "Parties".

The Company is engaged in the design, manufacture and sale of petroleum analytical instrumentation products and related services (the "Business"). Seller owns and has the legal right and authority to sell, transfer, assign and deliver One Hundred (100) shares (the "Shares") of the capital stock of the Company, which Shares constitute all of the issued and outstanding shares of the capital stock of the Company, and Seller desires to sell, and Buyer desires to purchase, all the Shares upon the terms and conditions set forth in this Agreement. In addition, simultaneously with the execution and delivery of this Agreement, (i) Seller is entering into an agreement with Buyer with respect to the sale by Seller to Roper Industries Deutschland GmbH i. Gr. of all the outstanding capital stock of Walter Herzog GmbH ("Herzog"), a German corporation (the "German Sales Agreement"), and (ii) Seller and Acieries de Ploermel, a French corporation, are entering into an agreement with Buyer and Instrumentation Scientifique de Laboratoire with respect to the sale of a 99% partnership interest of Herzog Varlen Instruments (the "French Sales Agreement").

NOW, THEREFORE, in consideration of the mutual benefits to be derived and of the mutual promises, covenants, representations, warranties and agreements herein contained, and intending to be legally bound hereby, Seller, the Company and Buyer hereby agree as follows:

ARTICLE I  
PURCHASE AND SALE OF SHARES

1.1. Purchase of Shares.  
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Upon the terms and subject to the conditions set forth in this Agreement and the representations and warranties herein made by each of the Parties to the other, Seller agrees to sell to Buyer, free and clear of Liens (as defined in Section 2.1(i)), and Buyer agrees to purchase from Seller, on the Closing Date (as hereinafter defined), the Shares for a purchase price of \$14,200,000, subject to adjustment as hereinafter provided (the "Purchase Price"), payable in cash at closing by wire transfer to an account designated by Seller to Buyer two days prior to the Closing Date.

1.2. Preparation of Closing Date Schedule.  
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(a) Within two days following the Closing Date, Buyer shall be responsible for the taking of a physical inventory of all inventories of the Company as of the close of business on the Effective Date; no goods or items in inventory shall be moved while the physical inventory is being conducted. Promptly after the Closing, Buyer shall prepare a schedule showing the working capital of the Company as of the close of business on the Effective Date



(the "Closing Date Schedule"). Amounts on the Closing Date Schedule with respect to inventories shall be derived from the physical inventory taken by Buyer. The Closing Date Schedule shall be prepared with the accounting principles and procedures used in the preparation of the Financial Statements described in Section 2.1(g) hereof, except as noted in Section 2.1(g) of the Disclosure Schedule. Buyer agrees to use all reasonable efforts to cause the Closing Date Schedule to be prepared and delivered to Seller within 90 days after the Closing.

(b) Seller and its authorized representatives and designees, at Seller's expense, shall have the right to observe the physical inventory. Seller and its authorized representatives and designees, at Seller's expense, shall have the right to review the Closing Date Schedule and perform other review procedures, including a review of any working papers with respect to its preparation.

(c) Seller shall be deemed to have accepted the Closing Date Schedule unless within thirty (30) days after delivery thereof to Seller, Seller gives written notice to Buyer of Seller's objection to any item therein. In the event Seller gives such written notice of objection, and Buyer and Seller have been unable to resolve such dispute by a date twenty (20) days after delivery of such notice of objection, either party may require that such dispute be resolved by arbitration under the rules, but not the jurisdiction, of the American Arbitration Association by one arbitrator (the "Arbitrator") who shall be a certified public accountant and a partner in the Dallas, Texas, office of Price Waterhouse Coopers.

(d) The Arbitrator shall have access to all documents and facilities necessary to perform its function as Arbitrator. The Arbitrator's determination with respect to any dispute shall be final and binding upon the parties hereto. Seller and Buyer shall each pay one-half of the fees and expenses of the Arbitrator for such services.

### 1.3. Adjustment of Purchase Price.

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(a) Within thirty (30) days after delivery of the Closing Date Schedule to Seller pursuant to Section 1.2 hereof, or, if disputed, within ten (10) days after the final resolution of such dispute pursuant to Section 1.2(c), the Purchase Price shall be adjusted as follows. For the purposes of this adjustment, Pro Forma Working Capital shall mean the working capital of the Company calculated in the same manner as the working capital on the Financial Statements described in Section 2.1(g) hereof, except as noted in Section 2.1(g) of the Disclosure Schedule, but shall include all indebtedness of the Company without regard to whether such indebtedness is classified as working capital under United States generally accepted accounting principles ("GAAP"). To the extent there is a liability which Seller has assumed or agreed to indemnify Buyer for, the accrual for such item shall not be counted in the determination of the Pro Forma Working Capital on the Closing Date Schedule. Any intercompany indebtedness of the Company set forth on the Financial Statements which has been cancelled as a contribution to capital as of a date prior to the close of business on the Effective Date shall not be reflected on the Closing Date Schedule.

(b) If Pro Forma Working Capital as set forth on the Closing Date Schedule exceeds \$4,094,000, the Purchase Price will be increased by, and Buyer will pay to Seller, the amount of such excess.

(c) If Pro Forma Working Capital as set forth on the Closing Date Schedule is less than \$4,094,000, the Purchase Price will be decreased by, and Seller will pay to Buyer, the amount of such deficiency.

(d) All payments to be made pursuant to this Section shall (i) be made by wire transfer of immediately available funds to an account designated by the recipient at least two business days prior to the transfer, except that payments of less than \$10,000 may be made by check subject to collection and (ii) be accompanied by a payment of interest thereon at the "Prime Rate" from time to time in effect on such amount from the Closing Date until paid. As used in this Agreement, "Prime Rate" means the rate of interest equal to the "Prime Rate" reported from time to time in the "Money" column of The Wall Street Journal, and shall change from time to time effective with any changes in the reporting of such rate.

ARTICLE II  
REPRESENTATIONS AND WARRANTIES

Simultaneously with the execution and delivery of this Agreement, Seller is delivering to Buyer the Disclosure Schedule referred to herein.

2.1. Representations and Warranties of Seller.

Except as and to the extent set forth in the specific section of the Disclosure Schedule to which such representation and warranty relates, Seller represents and warrants to Buyer, as of the Effective Date, as follows:

(a) Organization and Standing.

(i) Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder. Seller is qualified to transact business as a foreign corporation in each jurisdiction where it is required to qualify in order to conduct its business as presently conducted.

(ii) The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to carry on its business as it is now being conducted. The Company is qualified to transact business as a foreign corporation in the jurisdictions (which are listed on Section 2.1(a) of the Disclosure Schedule hereto) where it is required to qualify in order to conduct its business as presently conducted.

(b) Consents, Authorizations and Binding Effect. Each of Seller and the Company has full corporate power and authority to execute, deliver and perform its respective obligations under this Agreement without the necessity of obtaining any consent, approval, authorization, advice or waiver or giving any notice, except for such consents, approvals, authorizations, advice or waivers (individually a "Consent" and collectively "Consents") which have been obtained and are unconditional and in full force and effect and such notices (individually a "Notice" and collectively "Notices") which have been duly given, all of which

are listed on Section 2.1(b) of the Disclosure Schedule, and except for Consents and Notices which are required under immaterial contracts the absence of which would not have a material adverse effect on the assets, business, financial condition or results of operations of the Company or Seller. The board of directors of each of Seller and the Company have duly authorized the execution, delivery and performance of this Agreement by Seller and the Company. This Agreement has been duly executed and delivered by each of Seller and the Company and constitutes their respective legal, valid and binding obligations, enforceable against them in accordance with its terms, except as may be limited by bankruptcy, reorganization, insolvency and similar laws of general application relating to or affecting the enforcement of rights of creditors. The execution, delivery and performance of this Agreement by Seller and the Company, and the consummation of the transactions contemplated thereby will not:

(i) conflict with, result in the breach of, or constitute a default under, or the acceleration of any contract, agreement, commitment, undertaking, restriction or instrument to which Seller or the Company is a party or by which either of them may be bound or affected;

(ii) constitute a violation of any statute, judgment, order, decree, regulation or rule of any court, governmental authority or arbitrator applicable or relating to or binding upon Seller or the Company; or

(iii) violate any provision of the Articles of Incorporation or Bylaws of Seller or the Company.

(c) Shares. Seller has good title to the Shares, and has the right,

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title, power and authority to sell and transfer to Buyer the Shares. The Shares are owned by Seller, and are being transferred by Seller to Buyer, free and clear of all Liens (as defined in Section 2.1(i)), other than customary restrictions under Federal and state securities laws. There are no options, proxies, voting trusts or other agreements or understandings with respect to the issuance, transfer or voting of the Shares. All issuances, sales and repurchases of equity interests by the Company have been effected in compliance with all applicable laws, including, without limitation, applicable federal and state securities laws.

(d) Capitalization of the Company.

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(i) The Company's total authorized capitalization consists solely of 1,000 shares of Common Stock, par value \$0.01 per share (the "Common Stock"), of which a total of only 100 shares are presently issued and outstanding, all of which are owned by Seller. The Company does not hold any shares of its capital stock in its treasury. All of the issued and outstanding shares of capital stock of the Company have been duly authorized and validly issued and are fully paid and nonassessable.

(ii) There are no authorized, outstanding or existing:

(A) proxies or other agreements or understandings with respect to the voting of any capital stock of the Company;

(B) depositary receipts of shares issued by the Company;

(C) securities convertible into or exchangeable for any capital stock of the Company (including notes, bonds or debentures);

(D) options, warrants or other rights to purchase or subscribe for any capital stock of the Company (other than this Agreement), or securities convertible into or exchangeable for any capital stock of the Company;

(E) agreements of any kind relating to the sale or issuance of any capital stock of the Company, any such convertible or exchangeable securities or any such options, warrants or rights; or

(F) agreements of any kind which may obligate the Company to sell, issue or purchase any of its securities.

Subsequent to January 31, 1999, the Company has not declared or paid, and has no obligation to declare or pay, any dividends, and the Company has not made, and has no obligation to make, any distribution or payment to the stockholders of the Company or its affiliates, except that (x) to reduce the Buyer's risk with respect to its acquisition of the Company, the Company has dividended, otherwise distributed or sold to Seller or its designee all of the Company's accounts receivable and cash as of the close of business on the day immediately prior to the Effective Date and Seller is responsible for the collection of such receivables, (y) the Company has distributed to Seller four small parcels of real property that have nominal value, are not recorded in the Company's Financial Statements, are not utilized in the Company's business operations and are near to former operations of the Company and (z) the Company is indebted to Seller to the extent set forth in the Financial Statements (as hereinafter defined).

(e) The Company. The Company is engaged only in the Business and has

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no subsidiaries, except as set forth in Section 2.1(e) of the Disclosure Schedule. Copies of the Articles of Incorporation and Bylaws of the Company have heretofore been delivered to Buyer or Buyer's counsel and are correct and complete and reflect all amendments or changes in effect.

(f) Minute Books and Stock Records. The minute books of the Company

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have been furnished to Buyer for inspection and in the form so furnished are correct and complete in all material respects and current (including signatures). The stock record books of the Company are correct and complete in all material respects and current (including signatures). Section 2.1(f) of the Disclosure Schedule includes a list of the directors and officers of the Company.

(g) Financial Statements and Financial Condition. Attached as Section

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2.1(g) of the Disclosure Schedule are the following financial statements:

(i) the unaudited balance sheets of the Company as of January 31, 1998 and 1999 and statements of income of the Company for the fiscal years ended January 31, 1998 and 1999 (collectively, the "Annual Financial Statements"); and

(ii) the unaudited balance sheet of the Company as of May 1, 1999, and statement of income of the Company for the period then ended (the "Interim Financial

Statements" and together with the Annual Financial Statements, sometimes collectively referred to herein as the "Financial Statements").

The Financial Statements have been prepared in accordance with GAAP consistently applied (except such deviations described in Section 2.1(g) of the Disclosure Schedule) and the amounts set forth therein were used by Seller in connection with the preparation of its financial statements. The Financial Statements are consistent with the books and records of the Company. The Financial Statements present fairly the financial condition and results of operations of the Company at the dates and for the periods specified, except as otherwise noted therein and subject, in the case of Interim Financial Statements, to recurring year-end adjustments that are not expected to be material in amount.

As of the date hereof, the Company has no obligations or liabilities other than:

(A) those set forth or reserved against in the Financial Statements;

(B) those incurred since May 1, 1999 in the ordinary course of business in arms-length transactions and consistent in nature and scope with past practice, which liabilities will not have, in the aggregate, a material adverse effect upon the business, operations or financial condition of the Company as it exists on the Effective Date;

(C) those under the executory portion of contracts and agreements to which the Company is a party or by which it is bound that are listed in the Disclosure Schedule or are not required by the terms of this Agreement to be listed in the Disclosure Schedule; and

(D) those incurred in the ordinary course of business and consistent in nature and scope with past practice, which liabilities are not required by GAAP to be shown on a balance sheet (other than in notes thereto) and which liabilities, individually and in the aggregate, are not material.

The Company has maintained its books of account and other records in accordance with applicable laws, rules and regulations, and such books and records are and, during the periods covered by the Financial Statements and from May 1, 1999, through the Effective Date were, correct and complete in all material respects, and provide or provided a fair and accurate basis for the preparation of the Financial Statements and the Closing Date Schedule and reflect all material transactions to which the Company has been a party.

(h) Absence of Certain Changes. Etc. Since January 31, 1999, there

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has been no material adverse change in the business, operations, financial condition or assets, of the Company. Without limiting the generality of the foregoing, since January 31, 1999, except as set forth on the Disclosure Schedule, the Company has not:

(i) issued, sold or delivered any shares of capital stock or notes, bonds or other debt instruments of the Company, or granted any rights calling for the issuance, sale or

delivery of any thereof (including without limitation options, warrants, convertible securities, stock appreciation rights or similar rights);

(ii) made any payments or distribution of assets (other than in cash or as otherwise described in this Agreement) in the form of management fees or otherwise to Seller or any Affiliate of Seller or of the Company. (As used herein, the term "Affiliate" means a person or entity which controls, is controlled by or is under common control with the person with respect to which the determination is being made. "Control" means the power to direct or cause the direction of the management and policies of a person or entity through voting securities, by contract or otherwise.)

(iii) purchased or redeemed any of the shares of capital stock of the Company;

(iv) subdivided, combined, reclassified or recapitalized any of the shares of capital stock of the Company;

(v) amended the Articles of Incorporation or Bylaws of the Company or changed the Company's corporate name or permitted the use thereof by any other person;

(vi) agreed to merge or consolidate the Company with any other entity or to acquire any corporation, association, partnership, joint venture or other entity;

(vii) changed the methods of accounting or accounting principles or practices of the Company from those set forth in or reflected by the Financial Statements or increased or experienced any adverse change in any assumption underlying any method of calculating contingencies or other reserves from that reflected in the Financial Statements;

(viii) cancelled or waived a claim of substantial value or sold, transferred or otherwise disposed of (or agreed to sell, transfer or otherwise dispose of) any assets of the Company, except for sales of inventory in the ordinary course of business consistent with past practices or as otherwise set forth on the Disclosure Schedule;

(ix) failed to maintain in full force and effect with respect to the assets, employees and business of the Company all insurance coverage of the types and in the amounts as were in effect on and as of January 31, 1999;

(x) made any legally binding commitment for additions to property, plant or equipment having an individual cost in excess of \$25,000 or an aggregate cost of \$75,000 for all such items taken together;

(xi) disposed of or permitted to lapse any right listed or described on the Disclosure Schedule pursuant to Section 2.1(q);

(xii) made or agreed to make any increase in the compensation payable to any of the officers, directors or employees of the Company, other than in accordance with continuing obligations disclosed in the Disclosure Schedule;

(xiii) except as previously disclosed to Buyer, entered into or amended any Company Plan (as that term is defined in Section 2.1(l));

(xiv) suffered any significant casualty, damage, destruction or loss, or interruption in use, of any significant asset or property (whether or not covered by insurance), on account of fire, flood, riot, strike or other hazard or act of God;

(xv) hired or terminated any employee who has an annual salary in excess of \$30,000;

(xvi) imposed or permitted any Liens upon any of its assets, tangible or intangible;

(xvii) without limitation by the enumeration of any of the foregoing, entered into any agreement or transaction other than in the usual and ordinary course of business in accordance with past practices, except for actions taken in connection with the transactions contemplated by this Agreement; or

(xviii) agreed, whether in writing or not, to do any of the foregoing.

(i) Title and Condition of Assets. The Company has good and

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marketable title to all of its assets (other than leased assets), free and clear of all Liens. The Company's tangible assets, taken as a whole, are in good operating condition, ordinary wear and tear excepted and constitute all of the assets necessary to conduct the Business of the Company as the same is presently conducted. As used herein, "Liens" shall mean any mortgage, pledge, lien, encumbrance, charge or other security interest, other than (a) mechanic's, materialmen's and similar liens, (b) liens for Taxes (as defined in Section 2.1(m)) not yet due and payable or for Taxes that the taxpayer is contesting in good faith through appropriate proceedings, (c) purchase money liens and liens securing rental payments under capital lease arrangements, and (d) other liens arising in the ordinary course of business and not incurred in connection with the borrowing of money.

(j) Litigation; Compliance With Laws.

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(i) Except as set forth in the Disclosure Schedule, there are no suits, actions, claims, arbitrations, administrative or legal or other proceedings, whether in equity or at law, or governmental or administrative investigations pending (i.e., where Seller or the Company has received service of process or other formal action to commence such a proceeding) or, to the best of Seller's knowledge, threatened (A) against or related to (x) Seller with respect to the transactions contemplated by this Agreement, (y) the Company or (z) any material asset or property owned, leased or used by the Company, or (B) which question or challenge the validity of this Agreement or any action taken or to be taken pursuant to this Agreement. Except as set forth on the Disclosure Schedule, no material product liability claim is pending or, to the best of Seller's knowledge, threatened against the Company with respect to the products of the Company. The Disclosure Schedule lists all product liability claims with respect to the products or services of the Company arising out of occurrences from January 1, 1995 through the date of this Agreement.

(ii) The Company is in compliance with federal, state or local governmental or judicial laws, ordinances, permits, requirements, decrees, rules, regulations, arbitration awards and orders applicable to the Company or the business, operations or properties of the Company, except where noncompliance would not have a material adverse effect on the Company. There is no order, writ, injunction, judgment or decree of any court or Federal, state or local department, official, commission, authority, board/bureau, agency, or other instrumentality issued or pending against the Company. The Company has duly filed all reports and returns required to be filed by it with governmental authorities and obtained all governmental permits and licenses and other governmental consents which are required in connection with the businesses and operations of the Company; all of such permits, licenses and consents are in full force and effect, and no proceedings for the suspension or cancellation of any of them are pending or threatened, except where any of the above would not have a material adverse effect on the Company.

(k) Company Contracts. Except as set forth on the Disclosure

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Schedule, all Company Contracts (as defined herein) are valid, subsisting, in full force and effect and binding upon the parties thereto in accordance with their terms, subject to the qualifications that enforcement of the rights and remedies created thereby is subject to (A) bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting the rights and remedies of creditors and (B) general principles of equity (regardless of whether such enforcement is considered in a proceeding in equity or at law), and the Company is not in default under any of them, nor does any condition exist that with notice or lapse of time or both would constitute such a default. To the knowledge of the Seller, no other party to any such Company Contract is in default thereunder, nor does any condition exist that with notice or lapse of time or both would constitute such a default. Subject to obtaining any consents required under the terms of the Company Contracts, all of the Company's rights under such Company Contracts will remain in full effect upon consummation of the transactions contemplated by this Agreement. For purposes of this Agreement, the term "Company Contracts" means and includes, and the Disclosure Schedule lists, all contracts, mortgages, debt instruments, security agreements, licenses, commitments, guaranties, leases, charters, franchises, powers of attorney and agency and other agreements to which the Company is a party or by which it is bound (excluding purchase and sale orders, inventory acquisition agreements and product distribution agreements, in each case made in the ordinary course of business in arms-length transactions and consistent in nature and scope with prior practices of the Company) as of the date of this Agreement and that:

(i) involve or would involve the payment by the Company of in excess of \$25,000 during any fiscal year, unless cancelable by the Company with notice of less than six (6) months and premium or penalty of less than \$10,000;

(ii) relate to the payment of royalties with respect to any products sold by the Company;

(iii) guarantee, indemnify or otherwise cause the Company to be liable for the obligations or liabilities of another;



- (iv) involve the borrowing or lending of money, or the granting of any Lien;
  - (v) involve an agreement with any bank, finance company or similar organization for the sale of any products of the Company on credit;
  - (vi) involve the sale by or to the Company of products on consignment;
  - (vii) are or contain a power of attorney;
  - (viii) contain any renegotiation or redetermination provision;
  - (ix) require or are otherwise contingent upon the payment of commissions or compensation to any person not a party to such Company Contract;
  - (x) concern the formation of a partnership or joint venture;
  - (xi) impose material noncompetition or confidentiality obligations on the Company with respect to a third party;
  - (xii) involve any significant license agreement or arrangement;
- or
- (xiii) require the Company to supply any other party with such party's requirements for products or services.

The Disclosure Schedule specifically describes the arrangements (formal and informal, written or oral) between the Company and any Related Party (as defined below) (including Seller) and the services or functions (administrative or otherwise) provided to the Company by any Related Party. No Related Party owns any assets which are used in the Company's business, and no Related Party which is under the control of the Seller is engaged in any business which competes with the Business. As used herein, the term "Related Party" means (A) Seller or any Affiliate (as defined below) of Seller or the Company, or (B) any corporation, partnership, association, limited liability company or other entity (other than the Company), in which any of the foregoing persons has any relation by blood or marriage, has any material interest, direct or indirect. As used herein, "Affiliate" shall mean any person, firm, corporation, partnership, association or entity that directly or indirectly or through one or more intermediaries controls, is controlled by or is under common control with another person, firm, corporation, partnership, association or entity.

(1) Pension and Other Employee Plans and Agreements.  
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(i) "Varlen Affiliate Plan" shall mean each employee benefit plan (within the meaning of Section 3(3) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA")), each employment, severance, salary continuation or other similar contract, stock purchase plan, stock option plan, stock appreciation plan, vacation, sick leave or other fringe benefit plan, incentive plan, insurance plan or arrangement, bonus plan and any deferred compensation agreement, plan, policy or funding arrangement sponsored, maintained or to which contributions are made by the Seller or any of its affiliates with respect to which the

Seller or any of its affiliates has any potential liability. "Company Plan" shall mean each Varlen Affiliate Plan which is sponsored, maintained or contributed to by the Company for the benefit of employees or retirees of the Company (or their dependents) or with respect to which the Company has or will have any actual liability (a "Company Plan"). The Disclosure Statement lists each Company Plan.

(ii) With respect to the Company Plans, Seller will deliver to Buyer accurate and complete copies of the Company Plans and, to the extent applicable, for each Company Plan, copies of the most recent, if any,

(A) determination letters,

(B) Form 5500 and any attachments required to be annexed thereto (including any related actuarial valuation report, if any) with respect to the last three plan years for each Company Plan subject to section 401 of the Internal Revenue Code of 1986, as amended (the "Code"),

(C) collective bargaining arrangements,

(D) Form 5310 and any related filings with the Pension Benefit Guaranty Corporation (the "PBGC") with respect to the last five plan years for each such Company Plan,

(E) related trust agreements,

(F) related insurance and/or "annuity contracts",

(G) summary plan descriptions,

(H) all communications to employees regarding any Company Plan, which communications modify any such Company Plan,

(I) Form 990 for the past three (3) years, and

(J) PBGC Form-I with respect to the last three plan years for each Company Plan subject to section 412 of the Code.

(iii) Except to the extent Buyer is indemnified under Section 4.1(e)(vii), each Company Plan (and any related trust agreements or annuity contracts) has been administered in all material respects in accordance with its terms and the Company and each Company Plan (and any related trust agreements or annuity contracts) are in compliance in all material respects with the applicable provisions of ERISA, the Code and other laws applicable thereto (or is considered to be in compliance pursuant to any remedial amendment period applicable to such plan pursuant to section 401(b) of the Code or any other ruling, notice, or procedure issued by the Internal Revenue Service).

(iv) All reports, returns and similar documents with respect to each Company Plan required to be filed with any governmental agency or distributed to any participant of each Company Plan have been duly and timely filed or distributed in all material respects.

(v) Each Company Plan which is an employee pension benefit plan (as such term is defined in Section 3(2) of ERISA) intended to qualify under section 401(a) of the Code has received a favorable determination letter as to its qualification under the Code and each such favorable determination letter remains in effect with respect to the form of the Company Plan other than compliance as to any aspect of form with respect to which the applicable remedial amendment period has not expired.

(vi) (A) No actions, suits or claims (other than routine claims for benefits in the ordinary course, qualified domestic relations orders or qualified medical child support orders) are pending or, to the best of Seller's knowledge, threatened with respect to any Company Plan, (B) to the best of Seller's knowledge, neither the Company, Seller nor any Company Plan fiduciary has, with respect to the Company Plans, engaged in a non-exempt prohibited transaction, as such term is defined in section 4975 of the Code or section 406 of ERISA and (C) except with respect to this transaction or as set forth on the Disclosure Schedule, for the current plan year and the immediately preceding five consecutive plan years, no event or condition exists or may be reasonably expected to occur prior to the Effective Date with respect to any Company Plan that is subject to section 412 of the Code or the funding requirements of section 302 of ERISA, which constitutes a reportable event within the meaning of section 4043 of ERISA with respect to which the 30-day notice requirement has not been waived. No event has occurred which presents a material risk for which the Company would have any present or future liability that any Company Plan subject to Title IV of ERISA has experienced a partial termination within the meaning of section 411(d)(3) of the Code.

(vii) The Company has made all contributions or payments to or under each Company Plan required by law or by the terms of such Company Plan. The Company is not obligated to make any nondeductible contributions to any Company Plan and no excise taxes are assessable against the Company as a result of any other contributions made or not made to a Company Plan. The liabilities of the Company with respect to each Company Plan are reported on the Financial Statements in accordance with GAAP consistently applied except as set forth on the Disclosure Schedule. As of May 28, 1999, the assets of the Union Plan (as defined in Section 5.5 below) are reported at their fair market value on the books and records of such Company Plan.

(viii) The Company has no obligation to make contributions to a multiemployer plan (within the meaning of section 414(f)(1) of the Code), with respect to its employees. The Company has no actual present or future liability for post-retirement health or death benefits with respect to employees or directors, past or present, other than with respect to one existing retiree under the Retiree Health and Dental Insurance Plan.

(ix) The Company has incurred no liability to the PBGC as a result of the voluntary or involuntary termination of any Company Plan which is subject to Title IV of ERISA. There is currently no active filing with the PBGC (and no proceeding has been

commenced by the PBGC) to terminate any Company Plan which is subject to Title IV of ERISA. As of the Effective Date, the Company has no liability for unpaid premium payments for Company Plans subject to Title IV of ERISA and all required premium payments for the Company Plans for plan years commencing in the plan year which would include the Effective Date and which are due on or before the Effective Date have been made to the PBGC. No Company Plan subject to Title IV of ERISA has suffered any accumulated funding deficiency within the meaning of section 302 of ERISA or section 412 of the Code for which the Company would have any present or future liability.

(x) No assets of the Company are subject to any lien under section 302(f) or section 4068 of ERISA or under section 412(n) or section 401(a)(29) of the Code.

(xi) Solely as a result of the consummation of the transactions contemplated by this Agreement, no payment required to be made to any Company employee will, if made, constitute an excess parachute payment within the meaning of section 280G of the Code and, except as set forth in the Disclosure Schedule, no severance payment will become due and payable with respect to any Company employee.

(xii) Neither the Company nor the Buyer shall incur any actual liability attributable to those Varlen Affiliate Plans that are not also Company Plans.

(m) Tax Matters.  
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(i) As used in this Agreement, the following terms shall have the following meanings: (A) the term "Taxes" means all federal, state, local, foreign and other net income, gross income, gross receipts, sales, use, ad valorem, transfer, franchise, profits, license, lease, service, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property, windfall profits, customs, duties or other taxes, together with any interest and any penalties, additions to tax or additional amounts with respect thereto; (B) the term "Returns" means all returns, declarations, reports, statements and other documents required to be filed in respect of Taxes; and (C) the term "Sales and Use Tax" means all sales taxes, use taxes, retailer's occupation taxes and other taxes commonly understood to be sales or use taxes. All citations to the Code, or to the Treasury Regulations promulgated thereunder, shall include any amendments or any substitute or successor provisions thereto. Any reference in this Section to the Company includes a reference to a person or entity acting on behalf of or with respect to the Company (including, without limitation, Seller). The Company has duly and timely filed all Returns required to have been filed by it prior to the Effective Date. Except for Taxes which will be paid by Seller when due, all Taxes and Sales and Use Taxes required to have been paid prior to the Effective Date, or accruing with respect to the period ending on the Effective Date, have been fully paid on or prior to the due date thereof, or will be fully accrued on the Closing Date Schedule. Except for this Agreement, there are no tax sharing agreements to which the Company is a party or by which the Company is affected.

(ii) The Company is not a party to or bound by any tax indemnity, tax sharing or tax allocation agreement.

(iii) The Company has not agreed to make, nor is it required to make, any adjustment under section 481(a) of the Code by reason of a change in accounting method or otherwise.

(iv) The Company is not a party to or bound by any agreement, contract, arrangement or plan that has resulted or would result, separately or in the aggregate, in the payment of any "excess parachute payments" within the meaning of Section 280G of the Code.

(n) Environmental.  
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(i) The Company has complied with all Environmental Laws (as defined herein), the failure to comply with which could result in Damages (as defined herein) in excess of \$25,000, and no action, suit, proceeding, hearing, charge, complaint, claim, demand, or notice, and no investigation has been filed or commenced against the Company alleging such failure.

(ii) Except (i) to the extent accrued in the Closing Balance Sheet and (ii) liabilities for storage, handling, transportation, use and disposal of Hazardous Substances (as defined herein) which are incurred by the Company in the ordinary course of business, the Company has no liability for Hazardous Substances (and has not handled, used, stored, recycled or disposed of any Hazardous Substance (as defined herein)), arranged for the disposal of any Hazardous Substance, exposed any employee or other individual to any Hazardous Substance or condition, or owned or operated any property or facility, in any manner that could reasonably be expected to form the basis for any present or future action, suit, proceeding, hearing, investigations, charge, complaint, claim or demand giving rise to any liability for Hazardous Substances, including, without limitation, liability under CERCLA or similar state statutes, which in each case could result in Damages in excess of \$25,000 for any reason under any Environmental Laws.

(iii) Except (i) to the extent accrued in the Closing Balance Sheet and (ii) liabilities for storage, handling, transportation, use and disposal of Hazardous Substances which are incurred by the Company in the ordinary course of business, all properties and equipment used in the Business are free of any amounts of Hazardous Substances, the use and disposal of which could result in Damages (as defined herein) in excess of \$25,000.

(iv) There are no in service or out of service underground storage tanks located in or on real property owned by the Company or, to the extent the Company is responsible for such tanks or any environmental damage resulting therefrom, real property leased by the Company.

(v) The Company has not received notice and has no knowledge of any reasonably likely claim under any Environmental Laws regarding the Business, or any real property owned or leased by the Company.

(vi) As used herein, the term Environmental Laws shall mean all federal, state and local laws, statutes, ordinances, rules, regulations, decrees, orders and settlements regarding the protection of human health, safety and the environment and pollution,

in effect as of the date of this Agreement and applicable to the Facilities and the operations conducted thereon, including, but not limited to, the following statutes, as amended, and any regulations promulgated thereunder, as they existed on the date hereof:

(A) Clean Air Act, 42 USC (S)7401 et sec.;

(B) Federal Water Pollution Control Act, as amended by the Clean Water Act, 33 USC (S)1251 et sec.;

(C) Resource Recovery and Conservation Act, 42 USC (S)6901 et sec.;

(D) Comprehensive Environmental Response, Compensation, and Liability Act, 42 USC (S)9601 et sec. as amended by the Superfund Amendments and Reauthorization Act of 1986 ("CERCLA");

(E) Toxic Substance Control Act, 15 USC (S)2601 et sec.;

and

(F) applicable state or local statutes, regulations, laws or ordinances pertaining to the subject matter embodied in the Environmental Laws set forth in (D) above, as they existed on the Closing Date.

"Hazardous Substances" shall mean materials, substances or wastes defined by or regulated by applicable Environmental Laws.

(o) Receivables. To the knowledge of Seller, all of the accounts

receivable of the Company arose in the ordinary course of business, and are good and collectable in the ordinary course of business, net of reserves therefor in the Financial Statements.

(p) Inventories. The inventory of the Company consists of raw

materials and supplies, manufactured and purchased parts, goods in process and finished goods, all of which is merchantable and fit for the purpose for which it was procured or manufactured. The inventories of the Company have been valued in the Financial Statements at the lower of cost (LIFO) or market and in a consistent manner with respect to all periods covered thereby. Section 2.1(p) of the Disclosure Schedule sets forth the Company's practices and procedures with respect to the valuation of inventories which are consistent with those used in the preparation of the Financial Statements (and will be used in the preparation of the Closing Balance Sheet). The Company is not under any liability or obligation with respect to the return of inventory or merchandise in the possession of wholesalers, distributors, retailers or other customers. Except as described on Section 2.1(p) of the Disclosure Schedule, no inventory of the Company is on consignment.

(q) Intangible Assets. The Disclosure Schedule lists all material

patents, trademarks and service marks, patent, trademark and service mark registrations and applications, trade names, copyrights, copyright registrations and applications, and licenses with respect thereto owned by the Company or used by the Company in its business operations (collectively, "Intellectual Property"). Intellectual Property which is owned by a third party and used by the Company has been duly licensed to the Company and the Company has sufficient rights to use such Intellectual Property to conduct its business as presently conducted. There is no material

item of Intellectual Property not owned by or licensed to the Company which is necessary for the conduct of the Company's business as presently conducted. There are no claims, demands or proceedings instituted, pending or, to the best of Seller's knowledge, threatened pertaining to or challenging the right of the Company to use any of the Intellectual Property or alleging that any of the Intellectual Property infringes or otherwise violates the patent, trade name, trademark, copyright or other rights of any other person. Except as set forth in the Disclosure Schedule, the Company has not granted any licenses or other rights under, or authorized or permitted anyone else to use, any of the Intellectual Property.

(r) Customers. To the best of Seller's knowledge, since May 31,

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1999, there has not been any termination, cancellation or material limitation, modification or change in the business relationship of the Company with any significant customer of the Company.

(s) Employees. With respect to employees of the Company: (i) there

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is no pending, or to the best of Seller's knowledge threatened, unfair labor practice charge or employee grievance charge; (ii) there is no request for union representation, labor strike, dispute, slowdown or stoppage pending, or to the best of Seller's knowledge threatened, against or directly affecting the Company and (iii) no grievance or arbitration proceeding arising out of or under collective bargaining agreements is pending and no claims therefor exist. Within the last 90 days, no key employee of the Company has advised Seller that he intends to terminate his employment with the Company and Seller has not encouraged any employee of the Company to terminate his employment with the Company.

(t) Real Estate.

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(i) The Company does not own any real estate.

(ii) The Disclosure Schedule lists and describes briefly all real property leased to the Company. The Company has delivered to the Buyer correct and complete copies of the leases listed in the Disclosure Schedule. With respect to each lease listed in the Disclosure Schedule:

(A) the lease or sublease is legal, valid, binding, enforceable, and in full force and effect in accordance with its terms.

(B) the Company is not, and to the knowledge of the Company, no party to the lease or sublease is, in breach or default, and no event has occurred and is continuing which, with notice or lapse of time, would constitute a breach or default or permit termination, modification, or acceleration thereunder;

(C) there are no disputes, oral agreements, or forbearance programs in effect as to the lease;

(D) the Company has not assigned, transferred, conveyed, mortgaged, deeded in trust, or encumbered any interest in the leasehold; and

(E) all facilities leased thereunder have received all approvals of governmental authorities (including licenses and permits) required in connection with the operation thereof and have been operated and maintained in all material respects in accordance with applicable laws, rules, and regulations.

(u) No Other Representations and Warranties by Seller; Specific  
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Disclosure.  
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(i) Seller shall not be deemed to have made to Buyer any representation or warranty other than as expressly made by Seller in this Section 2.1.

(ii) Without limiting the generality of the foregoing, but subject to the express representations and warranties made by Seller in Section 2.1, Seller is not making any representation and warranty with respect to:

(A) any projections, estimates or budgets of future revenues, expenses or expenditures, results of operations (or any component thereof) or financial condition (or any component thereof) of the Company, or

(B) any other information or documents made available to Buyer or any of its representatives or investors with respect to the Company.

(iii) For purposes of this Agreement, references to the "knowledge of Seller", "Seller's knowledge" or "Seller's awareness" or words of similar import shall mean and include the actual knowledge of Seller after due inquiry of the individuals listed on Section 2.1(u) of the Disclosure Schedule with respect to the indicated matters.

(iv) A disclosure in one section of the Disclosure Schedule shall not be effective with respect to another representation and warranty unless such section is specifically cross-referenced.

2.2. Representations and Warranties of Buyer.  
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Buyer hereby represents and warrants to Seller, as of the Effective Date, as follows:

(a) Organization and Good Standing. Buyer is a corporation duly  
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organized, validly existing, and in good standing under the laws of the State of Delaware and has all requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder. Buyer is qualified to do business as a foreign corporation in each jurisdiction where it is required to qualify in order to conduct its business as presently conducted.

(b) Consents, Authorizations and Binding Effect. Buyer has full  
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corporate power and authority to execute, deliver and perform its obligations under this Agreement without the necessity of obtaining any Consent or giving any Notice, except for such Consents which have been obtained and are unconditional and in full force and effect and such Notices which have been duly given. The board of directors of Buyer has duly authorized the execution, delivery and performance of this Agreement by Buyer. This Agreement has been duly executed



and delivered by Buyer and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, except as may be limited by bankruptcy, reorganization, insolvency and similar laws of general application relating to or affecting the enforcement of rights of creditors. The execution, delivery and performance of this Agreement by Buyer will not:

(i) conflict with, result in the breach of or constitute a default under or the acceleration of any contract, agreement commitment, undertaking, restriction or instrument to which Buyer is a party or by which Buyer may be bound or affected, or

(ii) constitute a violation of any statute, judgment, order, decree, regulation or rule of any court, governmental authority or arbitrator applicable or relating to or binding upon Buyer, or

(iii) violate any provision of the Articles of Incorporation or Bylaws of Buyer.

(c) Acquisition of Shares for Investment. Buyer acknowledges that in

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acquiring the Shares under this Agreement, Buyer has relied solely on its own due diligence investigation, the representations and warranties set forth in Section 2.1, including the information in the Disclosure Schedule related thereto and the documents and information referred to therein, and the other covenants and statements of Seller set forth in this Agreement, and not upon any other representations, warranties, covenants or statements of any kind. Buyer is an "accredited investor", as defined in Rule 501 of Regulation D under the Securities Act of 1933, as amended (the "Securities Act"), and has sufficient knowledge, experience and sophistication to enable it properly and fully to evaluate and understand the merits and risks associated with its acquisition of the Shares. Buyer is acquiring the Shares for its own account for investment and with no present intention of distributing or reselling such Shares or any part thereof in any transaction which would constitute a "distribution" within the meaning of the Securities Act. Buyer understands that the Shares have not been registered under the Securities Act or any state securities laws and may not be sold or transferred except in compliance therewith or pursuant to an exemption thereunder and are being transferred to Buyer, in part, in reliance on the foregoing representation and warranty.

### ARTICLE III

#### CLOSING; CONDITIONS OF CLOSING AND TERMINATION

##### 3.1. Closing.

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The Closing and the sale, purchase and transfer of the Shares will take place at the offices of Powell, Goldstein, Frazer & Murphy LLP, 16/th/ Floor, 191 Peachtree Street, N.E., Atlanta, Georgia 30303, on June 21, 1999 (the "Closing Date"), effective as of the close of business on June 18, 1999 (the "Effective Date").

##### 3.2. Conditions to Obligations of Buyer.

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The obligations of Buyer to consummate the sale and purchase under this Agreement are subject to the satisfaction of the following conditions, each of which may be waived by Buyer.

(a) Representations and Warranties; Performance of Obligations. The

representations and warranties of Seller set forth in this Agreement shall be true and correct in all material respects. Seller shall have performed in all material respects the covenants and obligations necessary to be performed by it under this Agreement prior to the Closing Date.

(b) Authorization of Agreement. All action necessary to authorize

the execution, delivery and performance of this Agreement by Seller shall have been duly and validly taken, and Seller shall have full right, power and authority to consummate the transactions contemplated hereby on the terms provided herein.

(c) Security Interests, Encumbrances, Liens, etc. Buyer shall have

received written advice to the effect that a search of the public records has disclosed that no Liens, other than those reflected in Section 2.1(h) of the Disclosure Schedule, have been filed or recorded with respect to the Company, and all Liens requested by Buyer to have been released or satisfied shall have been released or satisfied.

(d) Suits or Proceedings. No suit, proceeding or investigation shall

have been commenced or threatened by any governmental authority to restrain, enjoin or hinder, or to seek material damages on account of, the consummation of the transactions herein contemplated.

(e) Corporate Matters. Buyer shall have received (i) such

resignations of the directors and officers of the Company as it may have requested, such resignations to be effective as of immediately following the Closing and (ii) the minute books and stockholder registers and corporate seal of the Company.

(f) Other Agreements. The sellers under the German Sales Agreement

and under the French Sales Agreement are closing the transactions contemplated under such agreements simultaneously with the Closing.

(g) Shares. Buyer shall have received stock certificates for the

Shares, duly endorsed for transfer.

(h) Opinion. Buyer shall have received a legal opinion from Seller's

General Counsel containing customary opinions with respect to the Company and the transactions contemplated hereby.

3.3. Conditions to Obligations of Seller.

The obligations of Seller to consummate the sale and purchase under this Agreement are subject to the satisfaction of the following conditions, each of which may be waived by Seller:

(a) Representations and Warranties; Performance of Obligations. The

representations and warranties of Buyer set forth in this Agreement shall be true and correct in all material respects. Buyer shall have performed in all material respects the covenants and obligations necessary to be performed by it under this Agreement prior to the Closing Date.

(b) Authorization of Agreement. All action necessary to authorize the

execution, delivery and performance of this Agreement by Buyer shall have been duly and

validly taken and Buyer shall have full right, power and authority to consummate the transactions contemplated hereby on the terms provided herein.

(c) Suits or Proceedings. No suit, proceeding or investigation shall

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have been commenced or threatened by any governmental authority to restrain, enjoin or hinder, or to seek material damages on account of, the consummation of the transactions herein contemplated.

(d) Other Agreements. The buyers under the German Sales Agreement

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and under the French Sales Agreement are closing the transactions contemplated under such agreements simultaneously with the Closing.

(e) Purchase Price. Seller shall have received the Purchase Price.

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(f) Opinion. Seller shall have received a legal opinion from Buyer's

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counsel with respect to Buyer and the transactions contemplated by this Agreement.

ARTICLE IV  
INDEMNIFICATION

4.1. Indemnification of Buyer.

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Subject to the terms and conditions of this Article IV, Seller shall defend, at its own expense, and shall indemnify Buyer and Company against, and hold Buyer and Company harmless from, any and all loss, damage or liability, and all expenses, including without limitation reasonable legal fees and costs of investigation, remediation or other response action and other costs (collectively "Damages"), asserted against or incurred by Buyer arising out of:

(a) a breach of the representations and warranties made by Seller in this Agreement or in any certificate or other instrument furnished or to be furnished to Buyer hereunder;

(b) the non-fulfillment of any agreement or covenant made by Seller in or pursuant to this Agreement or in any certificate or other instrument furnished or to be furnished to Buyer hereunder;

(c) all Income Taxes (as defined in Section 5.1 hereof) for all periods (or portions thereof) ending on or before the Effective Date for which the Company is liable;

(d) the Company having been a member of a consolidated, affiliated or controlled group for Tax purposes (excluding the Company's own liabilities);

(e) the following liabilities:

(i) Any liability or obligation arising under that certain Asset Purchase Agreement dated June 26, 1996, between the Company and Jouan, Inc., and Jouan S.A.;

(ii) Any liability or obligation arising out of that certain Asset Purchase Agreement between Seller, the Company and Boston Advanced Technologies, dated October 31, 1997, relating to earnout or cost reduction payments due or to be due thereunder;

(iii) Any liability or obligation arising out of that certain Indenture dated August 25, 1947, through September 15, 1997, for property commonly known as 3737 North Cortland Avenue, Chicago, Illinois, which was the subject of such lease;

(iv) Any liability or obligation arising out of that certain litigation titled Expotech USA, Inc. v. Varlen Instruments, Inc., et al., Case -----  
Civil Action No. 98-61449, pending in the 129/th/ Judicial District, Harris County, Texas;

(v) Any liability or obligation arising out of the sale or resale of laboratory appliance products to Iran, including any claims by the United States Department of Commerce or others with respect to claims, fines or similar penalties or in respect of any prohibition or restriction placed upon the Company arising out of such activities;

(vi) Any liability or obligation arising out of ownership, use, condition of or activities at the four parcels of real property formerly owned by the Company described on Section 2.1(t)(i) of the Disclosure Schedule, previously sold or transferred by the Company; or

(vii) Any liability arising out of the Retiree Health and Dental Insurance Plan for one retiree described on the Disclosure Schedule or deferred compensation obligations described in Section 5.5(h) or any liability attributable to the disqualification of the Union Plan under section 401(a) of the Code if such disqualification relates to events occurring on or after January 1, 1998, and prior to the Effective Date.

(f) any liability or obligation of the Company arising out of or in connection with the conduct of the Business prior to the Effective Date, except to the extent such liability or obligation (i) is described in Paragraphs (A), (B), (C) or (D) of Section 2.1(g) (without regard to any materiality qualifier contained therein); or (ii) results in an indemnifiable claim for a breach of representation and warranty for which Buyer otherwise recovers under Section 4.1(a) above.

#### 4.2. Indemnification of Seller. -----

Subject to the terms and conditions of this Article IV, Buyer shall defend, at its own expense, and shall indemnify Seller against, and hold Seller harmless from, any and all Damages asserted against or incurred by Seller arising out of:

(a) any breach of the representations and warranties made by Buyer in this Agreement or in any certificate or other instrument furnished or to be furnished to Seller hereunder,

(b) the non-fulfillment of any agreement or covenant made by Buyer in or pursuant to this Agreement,

(c) any liability arising under the letters of credit listed on Section 2.1(b) of the Disclosure Schedule; or

(d) the operations of the Company following the Effective Date.

#### 4.3. Survival.

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All representations and warranties contained herein or made pursuant hereto, whether by Seller or Buyer, and the indemnification provided under Section 4.1(f) shall survive the closing hereunder until the second anniversary of the Closing Date, except that:

(a) the representations and warranties of Seller contained in or made pursuant to Sections 2.1(a) (other than the last sentence thereof), 2.1(b), 2.1(c) and 2.1(d), and of Buyer contained in Sections 2.2(a), 2.2(b) and 2.2(c) shall survive the Closing hereunder without any limitation as to time; and

(b) the representations and warranties of Seller contained in or made pursuant to Section 2.1(m) hereof or otherwise with respect to Tax matters shall survive the Closing until six months after the date on which the right to file any claim in respect of such matters by the appropriate governmental or administrative authority or any other Person has expired.

The expiration of any representation and warranty or any indemnification obligation hereunder shall not affect any claim made by the giving of written notice by a Party to the other in the manner provided by this Agreement, prior to the date of such expiration. All covenants, indemnities and agreements shall survive the Closing forever, subject to applicable time periods and limitations specified in this Agreement.

#### 4.4. Claims.

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(a) Promptly after receipt by an indemnified party of written notice of the commencement of any investigation, claim, proceeding or other action in respect of which indemnity may be sought from the indemnitor (an "Action"), such indemnified party shall notify the indemnitor in writing of the commencement of such Action; but the omission to so notify the indemnitor shall not relieve it from any liability that it may otherwise have to such indemnified party, except to the extent that the indemnitor is materially prejudiced or forfeits substantive rights or defenses as a result of such failure. In connection with any Action in which the indemnitor and any indemnified party are parties, the indemnitor shall be entitled to participate therein, and may assume the defense thereof. So long as the indemnifying party is diligently defending in good faith any such Action, the indemnifying party may control the defense thereof; in such event, the indemnified party may participate in the defense of the Action at its own expense. Neither the indemnifying party nor the indemnified party will settle or compromise the Action without the consent of the other, which consent will not be unreasonably withheld.

(b) In the event a Party should have a claim for indemnification that does not involve a claim or demand being asserted by a third party, the Party seeking indemnification shall promptly send notice of such claim to the Party from whom indemnification is sought. If the latter does not dispute such claim, the latter shall pay such claim in full within 10 business days. If the latter disputes such claim, such dispute shall be resolved by agreement of the Parties or in any other manner available under law.

(c) The indemnified party shall make available to the indemnifying party or its representatives all records and other materials reasonably required by them for use in connection with any such claim and shall cooperate with the indemnifying party in the defense of all third party claims.

#### 4.5. Limitations.

Any claims for breach of any representation or warranty made hereunder shall be subject to the following limitations and adjustments:

(a) indemnification under Section 4.1(a) and 4.1(f) shall only be required to be provided by Seller when the aggregate amount of all claims for which indemnification is sought from Seller under Sections 4.1(a) and 4.1(f) of this Agreement, the German Sales Agreement and the French Sales Agreement exceeds US \$250,000, in which case Seller shall be liable for all such amounts in excess thereof.

(b) no individual claim for indemnity under Sections 4.1(f) may be brought unless the aggregate Damages in respect of such claim exceeds US \$20,000, but in such event Damages shall be recoverable without regard to such US \$20,000 threshold, subject to any other limitations imposed under this Section 4.5;

(c) no claim for indemnity under Sections 4.1 or 4.2 shall be effective unless noticed, pursuant to Section 4.4, within the survival period specified under Section 4.3;

(d) in no event shall Seller's indemnification obligation with respect to a breach of representations and warranties under Section 4.1(a) (but excluding Sections 2.1(a), except the last sentence thereof, 2.1(b), 2.1(c) and 2.1(d)) of this Agreement, the German Sales Agreement and the French Sales Agreement exceed the amount of US \$4,200,000. The indemnification obligations of either Seller or Buyer respectively, for representations and warranties set forth in Sections 2.1(a), except the last sentence thereof, 2.1(b), 2.1(c) and 2.1(d) and Sections 2.2(a), 2.2(b) and 2.2(c) of this Agreement, the German Sales Agreement and the French Sales Agreement, shall not exceed the aggregate purchase price under this Agreement, the German Sales Agreement and the French Sales Agreement;

(e) in no event shall either Seller's or Buyer's respective indemnification obligations under Section 4.1(f) or 4.2(d) exceed the amount of US \$5,000,000.

(f) under no circumstances shall any Party be liable to another Party for punitive, consequential or non-compensatory damages;

(g) any indemnifiable claim shall be reduced by the amounts actually recovered by the indemnified party from insurance carriers and any amount recovered by the indemnified party subsequent to the payment by the indemnitor with respect to the same claim shall be remitted to the indemnitor, provided that such remittance shall not exceed the amount of such indemnification payment by the indemnitor;

(h) notwithstanding the foregoing, the provisions of this Section 4.5 shall not apply to any indemnification obligations arising out of the indemnities contained in Sections

4.1(b), 4.1(c), 4.1(d), 4.1(e), or 4.2(b) of this Agreement, but all such indemnification obligations of either party shall be limited to and shall not exceed the aggregate purchase price under this Agreement, the German Sales Agreement and the French Sales Agreement; and

(i) the Parties agree that the sole liability and the sole remedy of Seller, Buyer and the Company for any claim with respect to the transactions contemplated under this Agreement (including without limitation under Environmental Laws) shall be limited to indemnification under Article IV of this Agreement, and in connection therewith each Party waives any and all statutory and common law rights and remedies (including without limitation rights of indemnification and contribution) which any such Party may have against another Party (except equitable remedies such as injunction and specific performance).

(j) For purposes of this Section 4.5, any amounts paid as Damages under the French Sales Agreement or the German Sales Agreement in foreign currency shall be valued at the US Exchange rate on the Effective Date.

ARTICLE V  
CERTAIN POST CLOSING MATTERS

5.1. Certain Tax Matters.  
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The following will apply with respect to the Income Taxes (as hereinafter defined) relating to the Company. The term "Income Taxes" shall mean (i) all U.S. Federal income taxes and (ii) all taxes imposed by states, territories and possessions of the United States and political subdivisions thereof which are based on or measured by net income or net profits together with all interest, penalties and additions imposed with respect to such taxes.

5.2. Income Tax Matters Generally.  
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(a) Pre-Closing Tax Returns. The consolidated Federal and other  
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Income Tax returns, reports and filings of Seller and the Company shall include all items of income, gain, loss, deduction or credit of the Company attributable to all Income Tax periods (or portions thereof) ending on or prior to the Effective Date, including transactions required to be recognized as a result of the sale of the Shares hereunder (such periods or portions thereof being herein referred to as the "Seller Income Tax Periods"); and Seller shall be responsible for and shall pay all Income Taxes payable (other than in respect of deferred Income Taxes) as a consequence of the inclusion or omission of such items in the consolidated Income Tax returns, reports and filings of Seller for Seller Income Tax Periods and shall timely file such tax returns and reports.

(b) Post-Closing Tax Returns. The Income Tax returns, reports and  
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filings of Buyer or the Company shall include all items of income, gain, loss, deduction or credit of Buyer or the Company attributable to all Income Tax periods (or portions thereof) commencing after the Effective Date (such periods or portions thereof being herein referred to as the "Buyer Income Tax Periods"); and Buyer shall be responsible for and shall pay all Income Taxes payable (including without limitation any deferred Income Taxes) as a consequence of the inclusion of such items in such Income Tax returns, reports and filings of Buyer or the Company for Buyer Income Tax Periods.

(c) Tax Cooperation.  
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(i) With respect to the taxable year of the Company ended January 31, 1999 and the short period ending on the Effective Date, Buyer shall cause to be prepared and delivered to Seller (to the extent not already prepared and delivered) in the normal timeframe followed by Seller and the Company consistent with past practice and in all events within 15 days after it shall have been requested by Seller, the package of income tax information materials heretofore provided to Seller by the Company in accordance with past practice, including past practice as to information schedules and work papers and as to the method of computation of separate taxable income or other relevant measure of income of the Company.

(ii) Without limiting the generality of the foregoing or of Section 5.3 hereof, Buyer shall cause the employees of Buyer and the Company to cooperate fully and to assist Seller (including without limitation allowing access by Seller to the books and records of the Company relating to Seller Income Tax Periods and any period (or portion thereof) ending on or before (or including) the Effective Date, and the right to make copies thereof) in connection with the preparation by Seller of its consolidated Income Tax returns, reports and filings for the Seller Income Tax Periods or the resolution of any Income Tax Dispute (as hereinafter defined); and Seller shall not be charged with any cost or expense for the reasonable assistance rendered by officers and employees of Buyer and the Company in connection therewith.

(iii) Refunds. Seller shall be entitled to all refunds of  
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Income Taxes paid in connection with any Income Tax returns, reports and filings of Seller and/or of the Company with respect to any Seller Income Tax Period. Applications for refunds of such Income Taxes, and the filing of amended returns, reports and filings, shall be made and prosecuted only by Seller; but Buyer and the Company shall provide to Seller such cooperation and reasonable assistance in connection therewith as shall be reasonably requested by Seller, and Seller shall not be charged with any cost or expense for the assistance rendered by officers and employees of the Company and Buyer in connection therewith.

(d) Amendments. Neither Buyer nor the Company will amend, or take  
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any similar action with respect to, any Federal, state or local Income Tax returns, reports and filings filed with respect to any Seller Income Tax Period without the prior written consent of Seller, which consent shall not be unreasonably withheld. Seller shall not amend, or take any similar action with respect to any Federal, state or local Income Tax returns, reports and filings filed with respect to any Seller Income Tax Period which would result in adverse tax consequences to Buyer without the prior written consent of Buyer, which consent shall not be unreasonably withheld. Neither Buyer nor the Company will extend the applicable statute of limitations with respect to any Federal, state or local Income Tax returns, reports and filings filed with respect to any Seller Income Tax Period without the prior written consent of Seller, which consent shall not be unreasonably withheld. This Section shall not apply to any amended return which may be required by law following resolution of an Income Tax Dispute (as defined herein).



(e) Income Tax Disputes. Etc.  
-----

(i) Except as required by law (but subject to Section 5.2(e)(ii) hereof), neither Buyer nor the Company will take any position on any Federal, state or local Income Tax return, report or filing for any tax period which might result in any:

(A) increase for any Seller Income Tax Period in the liability of Seller in respect of the consolidated Income Tax liabilities of Seller for periods while the Company was part of Seller's consolidated tax group; or

(B) reduction in any tax attributes as to which Seller may receive a benefit with respect to any Seller Income Tax Period.

(ii) Subsequent to the Closing, Buyer and the Company shall promptly forward to Seller any notice received by Buyer or the Company of any Federal, state or local pending or threatened Income Tax audit, examination or proposed assessment or the like relating to the Company or Seller's consolidated tax group with respect to any Seller Income Tax Period (an "Income Tax Dispute"). Seller, Buyer and the Company shall cooperate with and assist each other, and shall cause their respective counsel and accountants to cooperate with and assist each other, in connection with any such Income Tax Dispute (including without limitation any currently pending Income Tax Dispute involving state or local Income Taxes of the Company). Any Income Tax Dispute relating to any consolidated Income Tax return, report or filing made by the Seller consolidated tax group shall be investigated, conducted, prosecuted, contested, defended, settled or compromised by Seller with counsel and accountants chosen by Seller at the expense of Seller. Neither Buyer nor the Company will settle or compromise any Federal, state or local Income Tax Dispute, or any issue or determination related thereto, without the prior written consent of Seller, which consent shall not be unreasonably withheld.

(f) Tax Sharing Arrangements. All tax sharing arrangements and any  
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other contracts with respect to Taxes between Seller (and its affiliates) and the Company are terminated as of the Effective Date, and this Section 5.2 will govern the obligations of Buyer and the Company to make payments of Taxes applicable to the Company.

5.3. Access to Records After Closing.  
-----

(a) Following the Closing, Buyer shall give to Seller, without charge, reasonable access to (and the right to make copies at the expense of Seller of) the books, files, records and tax returns of the Company to the extent that such relate to the business and operations of the Company on or prior to the Closing Date and are in the Company's possession on the Closing Date or subsequently come into Buyer's possession, but any access pursuant to this Section 5.3 shall be conducted by Seller in good faith, with a reasonable purpose and in such manner as not to interfere unreasonably with the operations of Buyer following the Closing. For a period of five years after the Closing, Buyer shall maintain such books, files, records and tax returns and thereafter, prior to destroying or disposing of any of them, Buyer shall give, or shall cause the Company to give, 30 days' advance notice to Seller of their intended destruction or disposition, and during such 30-day period Seller shall have the right to take possession of the same or to make copies of the same, all at Seller's expense.

(b) Following the Closing, Seller shall give to Buyer, without charge, reasonable access to (and the right to make copies at the expense of Buyer of) the books, files, records and tax returns of Seller to the extent that such relate to the business and operations of the Company on or prior to the Closing Date and are in Seller's possession on the Closing Date or subsequently come into Seller's possession, but any access pursuant to this Section 5.3 shall be conducted by Buyer in good faith, with a reasonable purpose and in such manner as not to interfere unreasonably with the operations of Seller following the Closing. For a period of five years after the Closing, Seller shall maintain such books, files, records and tax returns and thereafter, prior to destroying or disposing of any of them, Seller shall give, 30 days' advance notice to Buyer of their intended destruction or disposition, and during such 30-day period Buyer shall have the right to take possession of the same or to make copies of the same, all at Buyer's expense.

(c) For a period of one hundred twenty (120) days following the Closing, Buyer shall cause to be prepared and delivered to Seller (to the extent not already prepared and delivered) in the normal time frame followed by Seller and the Company consistent with past practice and in all events within fifteen (15) days after it shall have been requested by Seller, the financial reporting package for the Company (but only in respect of periods ending on or prior to the Closing Date) for (i) the quarterly closing for Seller's fiscal quarter ending July 31, 1999, and (ii) Seller's fiscal year ending January 31, 2000. After such one hundred twenty (120) day period, Buyer shall cooperate and use reasonable diligence to provide Seller with all information requested by Seller to assist Seller in preparing a financial reporting package for the Company (but only in respect of periods ending on or prior to the Effective Date) for (i) the quarterly closing for Seller's fiscal quarter ending July 31, 1999, and (ii) Seller's fiscal year ending January 31, 2000.

#### 5.4. Covenant Not to Compete.

As an inducement for Buyer to enter into this Agreement, Seller agrees that:

(a) Non-Compete. For a period of three (3) years after the Closing,

Seller shall not do, and shall cause any Affiliate of Seller controlled by it not to do, any one or more of the following, directly or indirectly:

(i) engage, manage, operate, finance, control or participate, as an owner, partner, shareholder, member, consultant, or (without limitation by the specific enumeration of the foregoing) otherwise, in any business whose products or activities compete, in whole or in part, with the products or activities which the Company manufactures or distributes (which products or activities include those currently sold and under active development) on the Effective Date (any such business is referred to herein as a "Competitive Business"). For purposes of this Section, "active development" shall mean efforts for which resources have been committed by the Company having a value in excess of \$50,000.

(ii) solicit or attempt to solicit, with respect to a Competitive Business, any customer of Buyer which has been a customer of the Company within the past three (3) years; or

(iii) except as set forth in the Disclosure Schedule, induce or attempt to induce any person or entity that is an employee or agent of the Company on the Effective Date to terminate his, her or its relationship with, or employment by, the Company.

(b) Limitation. Notwithstanding the foregoing, the provisions of

Section 5.4(a) hereof shall not be deemed to prohibit or restrict in any manner (i) the acquisition by Seller or any Affiliate of Seller of any company partially engaged in a Competitive Business, provided that if such Competitive Business accounts for more than the lesser of \$10,000,000 or five percent (5%) of the net revenues of the acquired company, Seller or such Affiliate shall use commercially reasonable efforts promptly after the consummation of the acquisition to divest itself of the Competitive Business within eighteen (18) months after such consummation, or (ii) acquisition or ownership by Seller or any Affiliate of Seller of up to five percent (5%) of the debt or equity interest in any company partially engaged in a Competitive Business whose securities are traded on a national securities exchange or NASDAQ, so long as such Competitive Business does not account for more than the lesser of \$10,000,000 or five percent (5%) of the net revenues of such company and neither Seller nor an Affiliate of Seller is an Affiliate of such company.

(c) Modifications. Seller recognizes that the time and scope

limitations set forth in this Section 5.4 are reasonable and are required for the protection of Buyer and in the event that any such territorial, time or scope limitation is deemed to be unreasonable by a court of competent jurisdiction, Buyer and Seller agree to the reduction of either of such time or scope limitations to such a period or scope as such court shall deem reasonable under the circumstances.

(d) Injunctive Relief. The Parties specifically recognize that any

breach of Section 5.4(a) may cause irreparable injury and that actual damages may be difficult to ascertain, and in any event, may be inadequate. Accordingly (and without limiting the availability of legal or equitable, including injunctive, remedies under any other provisions of this Agreement), each Party agrees that in the event of any such breach, the other Party shall be entitled to injunctive relief in addition to such other legal and equitable remedies that may be available.

#### 5.5. Employee Matters.

(a) Union Plan. As of the Effective Date, the Company shall continue

to sponsor and maintain the Precision Scientific Instruments and Precision Scientific Petroleum Instruments Defined Benefit Pension Plan (the "Union Plan"). The Seller shall make all contributions to the Union Plan that are required to be made (whether by applicable law or by the terms of the Plan) prior to the Effective Date, and the Seller shall be liable for no further contributions to the Union Plan after such payments have been made. As soon as practical after the Effective Date, but no more than 60 days thereafter, the Buyer shall direct the Seller and the Seller shall transfer all Union Plan assets and liabilities from the Varlen Corporation Defined Benefit Master Trust ("Varlen Master Trust") to an employee benefit trust to be established and maintained by the Company. If there is any delay in the transfer of Union Plan assets and liabilities beyond the 60-day period referred to above that is caused by Buyer or its agents and administrators with respect to the transfer of Union Plan assets from the Varlen Master Trust, Buyer shall reimburse Seller for all costs and expenses associated with the Company's delayed

withdrawal from the Varlen Master Trust. If any dispute arises between the Seller and the Buyer concerning the amount or nature of the Varlen Master Trust assets which are attributable to the Union Plan, the matter shall be resolved by a public accounting firm mutually selected by the Seller and Buyer.

(b) Defined Contribution Plans. Effective as of the Effective Date,  
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Company employees who are participants in the Varlen Corporation Profit-Sharing and Retirement Savings Plan (the "Seller DC Plan") shall become participants in one of the Buyer's defined contribution plans that has a qualified cash or deferred arrangement under section 401(k) of the Code (the "Buyer DC Plan"). The Buyer DC Plan shall recognize for all purposes service recognized by the Seller DC Plan on the Effective Date with respect to all employees of the Company that are participants in the Seller DC Plan on the Effective Date. The Buyer shall cause the Buyer DC Plan to accept the rollover contribution of any Company employee who is a participant in the Seller DC Plan and who elects to rollover his or her interest in the Seller DC Plan to the Buyer DC Plan. If, consistent with the foregoing, a Company employee makes a rollover contribution to the Buyer DC Plan, a corresponding transfer shall be made of that employee's outstanding participant loan, if any, from the Seller DC Plan to the Buyer DC Plan, and such transfer shall include such employee's repayment obligations thereunder. Seller will make, within thirty (30) days of the Closing Date, any matching or profit-sharing contribution with respect to the Company's current fiscal year, at least to the extent of the accruals therefore on the Closing Date Schedule, and the accrual for the same on the Closing Date Schedule shall be eliminated.

(c) COBRA. Seller shall provide COBRA benefits, to the extent  
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required by law, to any Company employee (or dependent thereof) who experiences a qualifying event prior to the Effective Date. The Company or Buyer shall be responsible to provide COBRA benefits, to the extent required by law, to any Company employee (or dependent thereof) who experiences a qualifying event on or after the Effective Date.

(d) Health Benefits.  
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(i) Seller's group health, dental and vision plans shall be liable for any and all claims under such group health, dental or vision plan (within the meaning of section 5000(b)(1) of the Code) maintained by Seller or the Company for employees of the Company, and their dependents, with respect to which covered health or medical service expenses were incurred prior to the Effective Date. The Company shall be liable for any and all such claims with respect to which any health or medical service was incurred on or after the Effective Date, (1) as provided for in sub-paragraph (iii) below during the period of time beginning on the Effective Date and ending on June 30, 1999 (the "Extended Coverage Period"), and (2) on and after July 1, 1999, Buyer or Company will provide a plan for employees of the Company, and their dependents, who are covered by the corresponding group health, dental or vision plan of the Seller on the Effective Date or otherwise within the Extended Coverage Period, which will have no eligibility waiting periods, will waive pre-existing conditions and "actively at work" requirements and which will credit any health or medical service expenses incurred during the 1999 plan year and throughout the Extended Coverage Period for purposes of applying the deductible and out of pocket limits under the Company's or the Buyer's group health, dental or vision plan.

(ii) Seller's group health, dental and vision plans shall be liable for any administrative expenses associated with such plans maintained by the Seller or the Company for employees and retirees of the Company, and their dependents, where such administrative expenses were incurred prior to the Effective Date. The Company or Buyer shall be responsible for any administrative expenses associated with establishing or maintaining a group health, dental or vision plan for Company employees, and their dependents, on and after July 1, 1999, and shall be responsible for such administrative expenses as are provided for in sub-paragraph (iii) below with respect to the Extended Coverage Period.

(iii) During the Extended Coverage Period, Company employees and their dependents shall continue to be eligible for coverage under the Seller's group health, dental and vision plans pursuant to the eligibility rules of those plans; however, the Company or Buyer shall reimburse the Seller for (1) its administrative expenses associated with providing such coverage to Company employees and their dependents during the Extended Coverage Period, and (2) all covered health or medical service expenses actually paid by the Seller, for which the Seller does not otherwise receive reimbursements from an insurer, with respect to covered health or medical service expenses by Company employees or their dependents under such plans incurred during the Extended Coverage Period. Company or Buyer shall deliver such reimbursements to Seller within thirty (30) days of receipt of notice and supporting documentation from the Seller regarding any such expenses.

(iv) The Company shall not be liable for (and, to the extent applicable, shall not claim) any retrospective adjustments pertaining to the operation of the Seller's group health, dental and vision plans for the 1999 plan year.

(e) Insured Welfare Benefits. Seller shall be liable for (A) any and -----  
all long-term disability benefits under the terms of its long term disability plan, payable to all current and former employees of the Company who are determined to have become disabled under such plan prior to the Effective Date; and (B) any and all benefits payable to all current and former employees of the Company or their dependents under any life insurance or accidental death and dismemberment plan maintained by the Seller for the benefit of such employees, or their dependents, where such benefits are payable with respect to events occurring prior to the Effective Date. The Company or Buyer shall be liable for any and all insured welfare benefits, to the extent required by law, payable to all employees of the Company and their dependents who become entitled to such benefits on or after the Effective Date.

(f) Workers Compensation. Seller shall be liable for any and all -----  
workers compensation claims (including reasonable administrative costs in accordance with past practice) to the extent (A) of occurrences prior to the Effective Date and (B) in excess of the reserves therefor on the Closing Date Schedule to the extent the claims are made prior to the second anniversary of the Effective Date. The Company shall be liable for any and all other workers compensation claims (including administrative costs).

(g) Payments. Accruals under the management bonus plan for the -----  
current fiscal year shall be reflected on the Closing Date Schedule in a manner consistent with past practice. The bonus plan will be terminated for Company employees as of the Effective Date.

(h) Certain Obligations. Seller shall be liable for all obligations,

whether or not accrued prior to the Effective Date (unless such obligations are created by Buyer or the Company after the Closing Date) to employees or former employees of the Company, and their dependents, under any Varlen Affiliate Plan maintained by the Seller and/or the Company at any time prior to the Effective Date to the extent such obligations constitute (i) retiree health obligations; and (ii) deferred compensation obligations arising under any arrangement that is not intended to be subject to section 401(a) of the Code. Seller shall be liable for all severance obligations under any Varlen Affiliate Plan maintained by Seller and/or the Company to the extent such obligations accrued prior to the Closing Date or to the extent such obligations are attributable solely to the transactions contemplated herein (unless such obligations are created by Buyer or the Company after the Closing Date).

(i) Governmental Actions. Buyer and Seller shall take, or cause to be

taken, such action as may be necessary or reasonably appropriate to accomplish the actions described in this Section 5.5, such as notifying any agency of the federal government which is required by law to receive such notice, and to provide such further information or documents as the IRS (or any other agency) may require. Further, Buyer and Seller agree to use their respective reasonable efforts to obtain any necessary IRS (or other United States federal governmental agency) approval without material modification of the transactions contemplated hereby.

(j) Cooperation. Buyer and Seller agree to provide each other with

such records, information and assistance as they may reasonably request to carry out their respective obligations under this Section or the administration of the employee benefit plans (and, where applicable, their associated trusts) referred to in this Section 5.5.

(k) No Employee Rights. No participating employee or other employee

of the Company, nor his spouse, former spouse or other beneficiary under any employee benefit plan of Seller or the Company shall be entitled to assert any claim under any provision of this Agreement (including, but not limited to, this Section 5.5).

#### 5.6. General, Auto and Product Liability.

(a) Liability. Seller shall be liable for all general, auto and

product liability claims with respect to occurrences on or before the Effective Date to the extent such claims are made prior to the second anniversary of the Effective Date.

(b) Insurance. In the event the proceeds of any insurance of Seller

are available with respect to the matters covered by Sections 5.5 and 5.6(a), such proceeds of insurance shall belong and inure to the benefit of Seller. Buyer shall cooperate with Seller in all reasonable respects in recovering such proceeds as long as Seller reimburses Buyer for any out-of-pocket expenses incurred by Buyer in connection therewith.

#### 5.7. Cooperation on Claims.

Without limiting the generality of any other provision of this Agreement, with respect to any claim of any kind for which Seller has retained liability under this Agreement, (i) Buyer will not settle or compromise any such claim without the consent of Seller, (ii) Buyer will make available to Seller, its insurer and their respective representatives all records and other materials

as may be reasonably requested by them for use in handling any such claim and (iii) Buyer will reasonably cooperate, and will use its best efforts to cause its employees to cooperate, with Seller, its insurer and their respective representatives in the handling of all such claims.

5.8. Name Change.  
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Within two (2) days of the Closing Date, the Company shall file an amendment to its Articles of Incorporation changing its name to one that does not include "Varlen" or any variation thereof, and shall provide Seller with a copy of such amendment upon its effectiveness. The Company shall have the right to use the "Varlen" name or any variation thereof in connection with the continuing conduct of the Business for a period of thirty (30) days (and for such longer period as shall be reasonably required to consume existing inventories of trademarked items, but in no event to exceed six months).

5.9. Letters of Credit.  
-----

Within thirty (30) days following the Closing Date, Buyer shall obtain a stand-by letter of credit from a nationally recognized financial institution to support the letters of credit reflected on Section 2.1(b) of the Disclosure Schedule.

ARTICLE VI  
MISCELLANEOUS

6.1. Further Actions.  
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From time to time, as and when requested by Buyer and at Buyer's expense, Seller shall execute and deliver, or cause to be executed and delivered, all such documents and instruments and shall take, or cause to be taken, all such further or other actions as Buyer may reasonably deem necessary or desirable to carry out the intent and purposes of this Agreement, to convey, transfer, assign and deliver on the Closing Date to Buyer, and its successors and assigns, the Shares (or to evidence the foregoing) and to consummate the other transactions contemplated hereby.

6.2. Brokerage.  
-----

Seller represents and warrants to Buyer that Seller has no obligation or liability to any broker or finder by reason of the transactions which are the subject of this Agreement; Seller shall indemnify Buyer and the Company against, and shall hold Buyer and the Company harmless from, at all times after the date hereof, any and all liabilities (including without limitation legal fees), and shall pay any final judgment obtained by any person claiming brokerage commissions or finder's fees, or rights to similar compensation, on account of services purportedly rendered on behalf of Seller, or prior to Closing the Company, in connection with this Agreement or the transactions contemplated hereby. Buyer represents and warrants to Seller that Buyer has no obligation or liability to any broker or finder by reason of the transactions which are the subject of this Agreement; Buyer shall indemnify Seller against, and shall hold Seller harmless from, at all times after the date hereof, any and all liabilities (including without limitation legal fees), and shall pay any final judgment obtained by any person claiming brokerage commissions or finder's fees, or rights to similar compensation, on account of services

purportedly rendered on behalf of Buyer, or after Closing the Company, in connection with this Agreement or the transactions contemplated hereby.

6.3. Expenses.

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Each of Buyer and Seller shall pay their respective expenses in connection with the negotiation, execution, delivery and performance of this Agreement.

6.4. Entire Agreement.

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This Agreement, which includes the Schedules and Exhibits hereto and the other documents, agreements and instruments executed and delivered pursuant to or in connection with this Agreement, contains the entire agreement between Buyer, the Company and Seller with respect to the transactions contemplated by this Agreement and supersedes all prior arrangements or understandings with respect thereto.

6.5. Descriptive Headings.

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The descriptive headings of this Agreement are for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement.

6.6. Notices.

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All notices and other communications which are required or permitted hereunder shall be in writing and sufficient if delivered personally or sent by overnight delivery service or by registered or certified mail, postage prepaid, addressed as follows:

If to Seller, or pre-Closing to the Company:

Varlen Corporation  
55 Shuman Boulevard  
P.O. Box 3089  
Naperville, Illinois 60566-7089  
Attn: Vicki Casmere  
General Counsel

If to Buyer, or post-Closing to the Company:

Roper Industries, Inc.  
160 Ben Burton Road  
Bogart, Georgia 30622  
Attn: President

Any party may by notice change the address to which notices or other communications to it are to be delivered or mailed.



6.7. Governing Law.  
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This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware. Each of the parties hereto irrevocably submits to the jurisdiction of the Courts of the State of Delaware, and of any Federal Court located in the State of Delaware, in connection with any action or proceeding arising out of or relating to, or breach of, this Agreement or of any document or instrument delivered pursuant to or in connection with this Agreement.

6.8. Assignability.  
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This Agreement shall not be assignable otherwise than by operation of law by any Party without the prior written consent of the other Parties, and any purported assignment by any Party without the prior written consent of the other Parties shall be void. This Agreement shall inure to the benefit of and be binding upon the Parties hereto and their respective successors and permitted assigns.

6.9. Waivers and Amendments.  
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Any waiver of any term or condition, or any amendment or supplementation, of this Agreement shall be effective only if in writing. A waiver of any breach of any of the terms or conditions of this Agreement shall not in any way be construed as a waiver of any subsequent breach.

6.10. Third Party Rights.  
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This Agreement shall be effective only as between the Parties hereto, their successors and permitted assigns.

6.11. Illegality.  
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In the event that any one or more of the provisions contained in this Agreement shall be determined to be invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in any other respect and the remaining provisions of this Agreement shall not, at the election of the Party for whom the benefit of the provision exists, be in any way impaired.

6.12. Release.  
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As of the Effective Date, the Company hereby releases, acquits and forever discharges each officer, director and stockholder of the Company from any and all liabilities, obligations, claims, demands, actions and causes of action which the Company ever had, now has or hereafter may have based upon, relating to or arising out of any event, occurrence, act, omission or condition occurring or existing as of or prior to the Effective Date in any way connected with such officer's, director's or stockholder's status as such or actions taken in such capacity. Buyer consents to the foregoing release. Seller and Buyer agree that this release shall not in any manner limit or otherwise affect the rights and obligations of Seller and Buyer under this Agreement.

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

Seller:

VARLEN CORPORATION

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

The Company:

VARLEN INSTRUMENTS INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Buyer:

ROPER INDUSTRIES, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

STOCK PURCHASE AGREEMENT

BY AND AMONG

VARLEN CORPORATION,

WALTER HERZOG GmbH,

ROPER INDUSTRIES DEUTSCHLAND GmbH i. Gr.

AND

ROPER INDUSTRIES, INC.

DATED AS OF JUNE 21, 1999

TABLE OF CONTENTS

	Page
ARTICLE I Purchase and Sale of Shares.....	1
1.1. Purchase of Shares.....	1
1.2. Preparation of Closing Date Schedule.....	1
1.3. Adjustment of Purchase Price.....	2
ARTICLE II REPRESENTATIONS AND WARRANTIES.....	3
2.1. Representations and Warranties of Seller.....	3
2.2. Representations and Warranties of Parent and Buyer...	14
ARTICLE III CLOSING; CONDITIONS OF CLOSING AND TERMINATION..	16
3.1. Closing.....	16
3.2. Conditions to Obligations of Buyer.....	16
3.3. Conditions to Obligations of Seller.....	17
ARTICLE IV INDEMNIFICATION.....	17
4.1. Indemnification of Parent and Buyer.....	17
4.2. Indemnification of Seller.....	18
4.3. Survival.....	18
4.4. Claims.....	19
4.5. Limitations.....	19
ARTICLE V CERTAIN POST CLOSING MATTERS.....	21
5.1. Certain Tax Matters.....	21
5.2. Tax Sharing Arrangements.....	21
5.3. Access to Records After Closing.....	21
5.4. Covenant Not to Compete.....	22
5.5. Cooperation on Claims.....	23
ARTICLE VI MISCELLANEOUS.....	23
6.1. Further Actions.....	23
6.2. Brokerage.....	24
6.3. Expenses.....	24
6.4. Entire Agreement.....	24
6.5. Descriptive Headings.....	24
6.6. Notices.....	24
6.7. Governing Law.....	25
6.8. Assignability.....	25
6.9. Waivers and Amendments.....	25
6.10. Third Party Rights.....	25
6.11. Illegality.....	26
6.12. Release.....	26

STOCK PURCHASE AGREEMENT

STOCK PURCHASE AGREEMENT dated as of June 21, 1999 (this "Agreement"), by and among VARLEN CORPORATION, a Delaware corporation ("Seller"), WALTER HERZOG GmbH, a German limited liability company (the "Company"), and ROPER INDUSTRIES, INC., a Delaware corporation ("Parent"), and ROPER INDUSTRIES DEUTSCHLAND GmbH i. Gr., a German corporation in formation ("Buyer"). Seller, the Company, Parent and Buyer will be sometimes referred to herein as a "Party" and collectively as the "Parties".

The Company is engaged in the design, manufacture and sale of petroleum analytical instrumentation products and related services (the "Business"). Seller owns and has the legal right and authority to sell, transfer, assign and deliver one hundred percent (100%) of the share capital (the "Shares") of the Company, and Seller desires to sell, and Buyer desires to purchase, all the Shares upon the terms and conditions set forth in this Agreement. This Agreement only creates contractual obligations, and the transfer of the Shares shall be made pursuant to a Share Assignment Agreement, which shall be notarized in Germany and governed by German law. In addition, simultaneously with the execution and delivery of this Agreement, (i) Seller is entering into an agreement with Roper Industries, Inc., a Delaware corporation ("Roper") with respect to the sale by Seller to Roper of all the outstanding capital stock of Varlen Instruments, Inc., a Delaware corporation (the "U.S. Sales Agreement"), and (ii) Seller and Acieries de Ploermel, a French corporation, are entering into an agreement with Parent and Instrumentation Scientifique de Laboratoire with respect to the sale of a 99% partnership interest of Herzog Varlen Instruments (the "French Sales Agreement").

NOW, THEREFORE, in consideration of the mutual benefits to be derived and of the mutual promises, covenants, representations, warranties and agreements herein contained, and intending to be legally bound hereby, Seller, the Company and Buyer hereby agree as follows:

ARTICLE I  
PURCHASE AND SALE OF SHARES

1.1. Purchase of Shares.  
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Upon the terms and subject to the conditions set forth in this Agreement and the representations and warranties herein made by each of the Parties to the other, Seller agrees to sell to Buyer, free and clear of Liens (as defined in Section 2.1(h)), and Buyer agrees to purchase from Seller, on the Closing Date (as hereinafter defined), the Shares for a purchase price of \$16,029,513, subject to adjustment as hereinafter provided (the "Purchase Price"), payable in cash at closing by wire transfer to an account designated by Seller to Buyer two days prior to the Closing Date.

1.2. Preparation of Closing Date Schedule.  
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(a) Within two (2) days following the Closing Date, Buyer shall be responsible for the taking of a physical inventory of all inventories of the Company as of the

close of business on the Effective Date; no goods or items in inventory shall be moved while the physical inventory is being conducted. Promptly after the Closing, Buyer shall prepare a schedule showing the working capital of the Company as of the Close of business on the Effective Date (the "Closing Date Schedule"). Amounts on the Closing Date Schedule with respect to inventories shall be derived from the physical inventory taken by Buyer. The Closing Date Schedule shall be prepared with the accounting principles and procedures used in the preparation of the Financial Statements described in Section 2.1(f) hereof, except as noted in Section 2.1(f) of the Disclosure Schedule. Buyer agrees to use all reasonable efforts to cause the Closing Date Schedule to be prepared and delivered to Seller within 90 days after the Closing.

(b) Seller and its authorized representatives and designees, at Seller's expense, shall have the right to observe the physical inventory. Seller and its authorized representatives and designees, at Seller's expense, shall have the right to review the Closing Date Schedule and perform other review procedures, including a review of any working papers with respect to its preparation.

(c) Seller shall be deemed to have accepted the Closing Date Schedule unless within thirty (30) days after delivery thereof to Seller, Seller gives written notice to Buyer of Seller's objection to any item therein. In the event Seller gives such written notice of objection, and Buyer and Seller have been unable to resolve such dispute by a date twenty (20) days after delivery of such notice of objection, either party may require that such dispute be resolved by arbitration under the rules, but not the jurisdiction, of the American Arbitration Association by one arbitrator (the "Arbitrator") who shall be a certified public accountant and a partner in the Dallas, Texas, office of Price Waterhouse Coopers.

(d) The Arbitrator shall have access to all documents and facilities necessary to perform its function as Arbitrator. The Arbitrator's determination with respect to any dispute shall be final and binding upon the parties hereto. Seller and Buyer shall each pay one-half of the fees and expenses of the Arbitrator for such services.

### 1.3. Adjustment of Purchase Price.

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(a) Within thirty (30) days after delivery of the Closing Date Schedule to Seller pursuant to Section 1.2 hereof, or, if disputed, within ten (10) days after the final resolution of such dispute pursuant to Section 1.2(c), the Purchase Price shall be adjusted as follows. For the purposes of this adjustment, Pro Forma Working Capital shall mean the working capital of the Company calculated in the same manner as the working capital on the Financial Statements described in Section 2.1(f) hereof, except as noted in Section 2.1(f) of the Disclosure Schedule, but shall include all indebtedness of the Company (including indebtedness to Seller existing on the Effective Date) without regard to whether such indebtedness is classified as working capital under United States generally accepted accounting principles ("GAAP"). To the extent there is a liability which Seller has assumed or agreed to indemnify Buyer for, the accrual for such item shall not be counted in the determination of the Pro Forma Working Capital on the Closing Date Schedule.

(b) If Pro Forma Working Capital as set forth on the Closing Date Schedule exceeds \$4,145,000, the Purchase Price will be increased by, and Buyer will pay to Seller, the amount of such excess.

(c) If Pro Forma Working Capital as set forth on the Closing Date Schedule is less than \$4,145,000, the Purchase Price will be decreased by, and Seller will pay to Buyer, the amount of such deficiency.

(d) All payments to be made pursuant to this Section shall (i) be made by wire transfer of immediately available funds to an account designated by the recipient at least two business days prior to the transfer, except that payments of less than \$10,000 may be made by check subject to collection and (ii) be accompanied by a payment of interest thereon at the "Prime Rate" from time to time in effect on such amount from the Closing Date until paid. As used in this Agreement, "Prime Rate" means the rate of interest equal to the "Prime Rate" reported from time to time in the "Money" column of The Wall Street Journal, and

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shall change from time to time effective with any changes in the reporting of such rate. The Closing Date Schedule shall value currency at the rate of 1.058 Euro to the US Dollar.

ARTICLE II  
REPRESENTATIONS AND WARRANTIES

Simultaneously with the execution and delivery of this Agreement, Seller is delivering to Buyer the Disclosure Schedule referred to herein.

2.1. Representations and Warranties of Seller.  
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Except as and to the extent set forth in the specific section of the Disclosure Schedule to which such representation and warranty relates, Seller represents and warrants to Parent and Buyer, as of the Effective Date, as follows:

(a) Organization and Standing.  
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(i) Seller is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder. Seller is qualified to transact business as a foreign corporation in each jurisdiction where it is required to qualify in order to conduct its business as presently conducted.

(ii) The Company is a limited liability company ("Gesellschaft mit beschränkter Haftung") duly organized, validly existing and in good standing under the laws of Germany and has all requisite power and authority to execute and deliver this Agreement, to perform its obligations hereunder and to carry on its business as it is now being conducted.

(b) Consents, Authorizations and Binding Effect. Each of Seller and  
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the Company has full corporate power and authority to execute, deliver and perform its respective obligations under this Agreement without the necessity of obtaining any consent, approval, authorization, advice or waiver or giving any notice, except for such consents, approvals, authorizations, advice or waivers (individually a "Consent" and collectively "Consents") which

have been obtained and are unconditional and in full force and effect and such notices (individually a "Notice" and collectively "Notices") which have been duly given, all of which are listed on Section 2.1(b) of the Disclosure Schedule, and except for Consents and Notices which are required under immaterial contracts the absence of which would not have a material adverse effect on the assets, business, financial condition or results of operations of the Company or Seller. The board of directors of each of Seller and the Company have duly authorized the execution, delivery and performance of this Agreement by Seller and the Company. This Agreement has been duly executed and delivered by each of Seller and the Company and constitutes their respective legal, valid and binding obligations, enforceable against them in accordance with its terms, except as may be limited by bankruptcy, reorganization, insolvency and similar laws of general application relating to or affecting the enforcement of rights of creditors. The execution, delivery and performance of this Agreement by Seller and the Company, and the consummation of the transactions contemplated thereby will not:

(i) conflict with, result in the breach of, or constitute a default under, or the acceleration of any contract, agreement, commitment, undertaking, restriction or instrument to which Seller or the Company is a party or by which either of them may be bound or affected;

(ii) constitute a violation of any statute, judgment, order, decree, regulation or rule of any court, governmental authority or arbitrator applicable or relating to or binding upon Seller or the Company; or

(iii) violate any provision of the Articles of Incorporation or Bylaws of Seller or the Articles of Association of the Company.

(c) Shares. Seller has good title to the Shares, and has the right,

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title, power and authority to sell to Buyer the Shares. The Shares are owned by Seller, and will be sold by Seller to Buyer, free and clear of all Liens (as defined in Section 2.1(h)), other than customary restrictions under applicable securities laws. There are no options, proxies, voting trusts or other agreements or understandings with respect to the issuance, transfer or voting of the Shares. All issuances, sales and repurchases of equity interests by the Company have been effected in compliance with all applicable laws, including, without limitation, applicable federal and state securities laws.

(d) Capitalization of the Company.  
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(i) The Company's share capital is DM 1,000,000, 100% of which is owned by Seller. The Note has been duly authorized and validly issued.

(ii) There are no authorized, outstanding or existing:

(A) proxies or other agreements or understandings with respect to the voting of any capital stock of the Company;

(B) depositary receipts of shares issued by the Company;



(C) securities convertible into or exchangeable for any capital stock of the Company (including notes, bonds or debentures);

(D) options, warrants or other rights to purchase or subscribe for any capital stock of the Company (other than this Agreement), or securities convertible into or exchangeable for any capital stock of the Company;

(E) agreements of any kind relating to the sale or issuance of any capital stock of the Company, any such convertible or exchangeable securities or any such options, warrants or rights; or

(F) agreements of any kind which may obligate the Company to sell, issue or purchase any of its securities.

Subsequent to January 31, 1999, the Company has not declared or paid, and has no obligation to declare or pay, any dividends that are payable after the Effective Date, and as of the Effective Date, the Company has no obligation to make, any distribution or payment to the stockholders of the Company or its affiliates, except that the Company is indebted to Seller as described in Section 3.3(g).

(e) The Company. The Company is engaged only in the Business and has no subsidiaries, except as set forth in Section 2.1(e) of the Disclosure Schedule. Copies of the Articles of Association of the Company have heretofore been delivered to Buyer or Buyer's counsel and are correct and complete and reflect all amendments or changes in effect.

(f) Financial Statements and Financial Condition. Attached as Section 2.1(f) of the Disclosure Schedule are the following financial statements:

(i) the unaudited balance sheets of the Company as of December 31, 1997 and 1998 and statement of income of the Company for the fiscal years ended December 31, 1997 and 1998 (collectively, the "Annual Financial Statements"); and

(ii) the unaudited balance sheet of the Company as of April 30, 1999, and statement of income of the Company for the period then ended (the "Interim Financial Statements" and together with the Annual Financial Statements, sometimes collectively referred to herein as the "Financial Statements").

The Financial Statements have been prepared in accordance with GAAP consistently applied (except such deviations described in Section 2.1(f) of the Disclosure Schedule) and the amounts set forth therein were used by Seller in connection with the preparation of its financial statements. The Financial Statements are consistent with the books and records of the Company. The Financial Statements present fairly the financial condition and results of operations of the Company at the dates and for the periods specified, except as otherwise noted therein and subject, in the case of Interim Financial Statements, to recurring year-end adjustments that are not expected to be material in amount.

As of the date hereof, the Company has no obligations or liabilities other than:

(A) those set forth or reserved against in the Financial Statements;

(B) those incurred since April 30, 1999 in the ordinary course of business in arms-length transactions and consistent in nature and scope with past practice, which liabilities will not have, in the aggregate, a material adverse effect upon the business, operations or financial condition of the Company as it exists on the Effective Date;

(C) those under the executory portion of contracts and agreements to which the Company is a party or by which it is bound that are listed in the Disclosure Schedule or are not required by the terms of this Agreement to be listed in the Disclosure Schedule; and

(D) those incurred in the ordinary course of business and consistent in nature and scope with past practice, which liabilities are not required by GAAP to be shown on a balance sheet (other than in notes thereto) and which liabilities, individually and in the aggregate, are not material.

The Company has maintained its books of account and other records in accordance with applicable laws, rules and regulations, and such books and records are and, during the periods covered by the Financial Statements and from April 30, 1999, through the Effective Date were, correct and complete in all material respects, and provide or provided a fair and accurate basis for the preparation of the Financial Statements and the Closing Date Schedule and reflect all material transactions to which the Company has been a party.

(g) Absence of Certain Changes. Etc. Since December 31, 1998, there

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has been no material adverse change in the business, operations, financial condition or assets, of the Company. Without limiting the generality of the foregoing, since December 31, 1998, except as set forth on the Disclosure Schedule, the Company has not:

(i) issued, sold or delivered any shares of capital stock or notes, bonds or other debt instruments of the Company, or granted any rights calling for the issuance, sale or delivery of any thereof (including without limitation options, warrants, convertible securities, stock appreciation rights or similar rights);

(ii) made any payments or distribution of assets (other than in cash or as otherwise described in this Agreement) in the form of management fees or otherwise to Seller or any Affiliate of Seller or of the Company. (As used herein, the term "Affiliate" means a person or entity which controls, is controlled by or is under common control with the person with respect to which the determination is being made. "Control" means the power to direct or cause the direction of the management and policies of a person or entity through voting securities, by contract or otherwise.)

(iii) purchased or redeemed any share capital of the Company;

- (iv) subdivided, combined, reclassified or recapitalized any of the share capital of the Company;
- (v) amended the Articles of Association of the Company or changed the Company's corporate name or permitted the use thereof by any other person;
- (vi) agreed to merge or consolidate the Company with any other entity or to acquire any corporation, association, partnership, joint venture or other entity;
- (vii) changed the methods of accounting or accounting principles or practices of the Company from those set forth in or reflected by the Financial Statements or increased or experienced any adverse change in any assumption underlying any method of calculating contingencies or other reserves from that reflected in the Financial Statements;
- (viii) cancelled or waived a claim of substantial value or sold, transferred or otherwise disposed of (or agreed to sell, transfer or otherwise dispose of) any assets of the Company, except for sales of inventory in the ordinary course of business consistent with past practices or as otherwise set forth on the Disclosure Schedule;
- (ix) failed to maintain in full force and effect with respect to the assets, employees and business of the Company all insurance coverage of the types and in the amounts as were in effect on and as of December 31, 1998;
- (x) made any legally binding commitment for additions to property, plant or equipment having an individual cost in excess of \$25,000 or an aggregate cost of \$75,000 for all such items taken together;
- (xi) disposed of or permitted to lapse any right listed or described on the Disclosure Schedule pursuant to Section 2.1(p);
- (xii) made or agreed to make any increase in the compensation payable to any of the officers, directors or employees of the Company, other than in accordance with continuing obligations disclosed in the Disclosure Schedule;
- (xiii) entered into or amended any Company Plan (as that term is defined in Section 2.1(k));
- (xiv) suffered any significant casualty, damage, destruction or loss, or interruption in use, of any significant asset or property (whether or not covered by insurance), on account of fire, flood, riot, strike or other hazard or act of God;
- (xv) hired or terminated any employee who has an annual salary in excess of \$30,000;
- (xvi) imposed or permitted any Liens upon any of its assets, tangible or intangible;

(xvii) without limitation by the enumeration of any of the foregoing, entered into any agreement or transaction other than in the usual and ordinary course of business in accordance with past practices, except for actions taken in connection with the transactions contemplated by this Agreement; or

(xviii) agreed, whether in writing or not, to do any of the foregoing.

(h) Title and Condition of Assets. The Company has good and

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marketable title to all of its assets (other than leased assets), free and clear of all Liens. The Company's tangible assets, taken as a whole, are in good operating condition, ordinary wear and tear excepted and constitute all of the assets necessary to conduct the Business of the Company as the same is presently conducted. As used herein, "Liens" shall mean any mortgage, pledge, lien, encumbrance, charge or other security interest, other than (a) mechanic's, materialmen's and similar liens, (b) liens for Taxes (as defined in Section 2.1(1)) not yet due and payable or for Taxes that the taxpayer is contesting in good faith through appropriate proceedings, (c) purchase money liens and liens securing rental payments under capital lease arrangements, and (d) other liens arising in the ordinary course of business and not incurred in connection with the borrowing of money.

(i) Litigation; Compliance With Laws.  
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(i) Except as set forth in the Disclosure Schedule, there are no suits, actions, claims, arbitrations, administrative or legal or other proceedings, whether in equity or at law, or governmental or administrative investigations pending (i.e., where Seller or the Company has received service of process or other formal action to commence such a proceeding) or, to the best of Seller's knowledge, threatened (A) against or related to (x) Seller with respect to the transactions contemplated by this Agreement, (y) the Company or (z) any material asset or property owned, leased or used by the Company, or (B) which question or challenge the validity of this Agreement or any action taken or to be taken pursuant to this Agreement. Except as set forth on the Disclosure Schedule and except for routine claims for benefits, no actions, suits or claims are pending or, to the best of Seller's knowledge, threatened with respect to any Employee Benefit Plan and no material product liability claim is pending or, to the best of Seller's knowledge, threatened against the Company with respect to the products of the Company. The Disclosure Schedule lists all product liability claims with respect to the products or services of the Company arising out of occurrences from January 1, 1995 through the date of this Agreement.

(ii) The Company is in compliance with Federal or local governmental or judicial laws, ordinances, permits, requirements, decrees, rules, regulations, arbitration awards and orders applicable to the Company or the business, operations or properties of the Company, except where noncompliance would not have a material adverse effect on the Company. There is no order, writ, injunction, judgment or decree of any court or Federal or local department, official, commission, authority, board/bureau, agency, or other instrumentality issued or pending against the Company. The Company has duly filed all reports and returns required to be filed by it with governmental authorities and obtained all governmental permits and licenses and other governmental consents which are required in connection with the businesses and operations of the Company; all of such permits, licenses and consents are in full

force and effect, and no proceedings for the suspension or cancellation of any of them are pending or threatened, except where any of the above would not have a material adverse effect on the Company.

(j) Company Contracts. Except as set forth on the Disclosure  
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Schedule, all Company Contracts (as defined herein) are valid, subsisting, in full force and effect and binding upon the parties thereto in accordance with their terms, subject to the qualifications that enforcement of the rights and remedies created thereby is subject to (A) bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting the rights and remedies of creditors and (B) general principles of equity (regardless of whether such enforcement is considered in a proceeding in equity or at law), and the Company is not in default under any of them, nor does any condition exist that with notice or lapse of time or both would constitute such a default. To the knowledge of the Seller, no other party to any such Company Contract is in default thereunder, nor does any condition exist that with notice or lapse of time or both would constitute such a default. Subject to obtaining any consents required under the terms of the Company Contracts, all of the Company's rights under such Company Contracts will remain in full effect upon consummation of the transactions contemplated by this Agreement. For purposes of this Agreement, the term "Company Contracts" means and includes, and the Disclosure Schedule lists, all contracts, mortgages, debt instruments, security agreements, licenses, commitments, guaranties, leases, charters, franchises, powers of attorney and agency and other agreements to which the Company is a party or by which it is bound (excluding purchase and sale orders, inventory acquisition agreements and product distribution agreements, in each case made in the ordinary course of business in arms-length transactions and consistent in nature and scope with prior practices of the Company) as of the date of this Agreement and that:

(i) involve or would involve the payment by the Company of in excess of \$25,000 during any fiscal year, unless cancelable by the Company with notice of less than six (6) months and premium or penalty of less than \$10,000;

(ii) relate to the payment of royalties with respect to any products sold by the Company;

(iii) guarantee, indemnify or otherwise cause the Company to be liable for the obligations or liabilities of another;

(iv) involve the borrowing or lending of money, or the granting of any Lien;

(v) involve an agreement with any bank, finance company or similar organization for the sale of any products of the Company on credit;

(vi) involve the sale by or to the Company of products on consignment;

(vii) are or contain a power of attorney;

(viii) contain any renegotiation or redetermination provision;

(ix) require or are otherwise contingent upon the payment of commissions or compensation to any person not a party to such Company Contract;

(x) concern the formation of a partnership or joint venture;

(xi) impose material noncompetition or confidentiality obligations on the Company with respect to a third party;

(xii) involve any significant license agreement or arrangement;

or

(xiii) require the Company to supply any other party with such party's requirements for products or services.

The Disclosure Schedule specifically describes the arrangements (formal and informal, written or oral) between the Company and any Related Party (as defined below) (including Seller) and the services or functions (administrative or otherwise) provided to the Company by any Related Party. No Related Party owns any assets which are used in the Company's business, and no Related Party which is under the control of the Seller is engaged in any business which competes with the Business. As used herein, the term "Related Party" means (A) Seller or any Affiliate (as defined below) of Seller or the Company, or (B) any corporation, partnership, association, limited liability company or other entity (other than the Company), in which any of the foregoing persons has any relation by blood or marriage, has any material interest, direct or indirect. As used herein, "Affiliate" shall mean any person, firm, corporation, partnership, association or entity that directly or indirectly or through one or more intermediaries controls, is controlled by or is under common control with another person, firm, corporation, partnership, association or entity.

(k) Pension and Other Employee Plans and Agreements.  
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(i) As used in this Agreement, "Company Plan" shall mean each employment, severance, salary continuation or other contract, stock purchase plan, stock option plan, stock appreciation plan, vacation, sick leave or other fringe benefit plan, incentive plan, insurance plan arrangement, bonus plan and any deferred compensation arrangement, plan, policy or funding arrangement sponsored, maintained or to which contributions are made by the Company or with respect to which the Company or any of its subsidiaries has any potential liability.

(ii) Each Company Plan has been administered in all material respects in accordance with its terms and is in compliance in all material respects with the applicable provisions of applicable German law. All reports, returns and similar documents required to be filed with any governmental agency or distributed to any participant of each Company Plan have been duly and timely filed or distributed in all material respects.

(iii) No actions, suits or claims (other than routine claims for benefits in the ordinary course) are pending or, to the best of Seller's knowledge, threatened with respect to any Company Plan and no event or condition exists or may be reasonably expected to occur which would result in the Company having any liability in respect of any Company Plan not reflected on the Financial Statements.

(iv) The Company has made all contributions or payments to or under each Company Plan required by law or by the terms of such Company Plan.

(l) Tax Matters.  
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(i) As used in this Agreement, the following terms shall have the following meanings: (A) the term "Taxes" means all Federal, local, foreign and other net income, gross income, gross receipts, sales, use, ad valorem, transfer, franchise, profits, license, lease, service, withholding, payroll, employment, excise, severance, stamp, occupation, premium, property, windfall profits, customs, duties or other taxes, including without limitation German taxes as defined in Section 3, paragraph 1 of the German General Tax Code, together with any interest and any penalties, additions to tax or additional amounts with respect thereto, including without limitation supplementary taxes as defined in Section 3, paragraph 3 of the German General Tax Code; (B) the term "Returns" means all returns, declarations, reports, statements and other documents required to be filed in respect of Taxes; and (C) the term "Sales and Use Tax" means all sales taxes, use taxes, retailer's occupation taxes and other taxes commonly understood to be sales or use taxes. Any reference in this Section to the Company includes a reference to a person or entity acting on behalf of or with respect to the Company (including, without limitation, Seller). The Company has duly and timely filed all Returns required to have been filed by it prior to the Effective Date. All Taxes and Sales and Use Taxes required to have been paid prior to the Effective Date, or accruing with respect to the period ending on the Effective Date, have been fully paid on or prior to the due date thereof, or will be fully accrued on the Closing Date Schedule. Except for this Agreement, there are no tax sharing agreements to which the Company is a party or by which the Company is affected.

(ii) The Company is not a party to or bound by any tax indemnity, tax sharing or tax allocation agreement.

(m) Environmental.  
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(i) The Company has complied with all Environmental Laws (as defined herein), the failure to comply with which could result in Damages (as defined herein) in excess of \$25,000, and no action, suit, proceeding, hearing, charge, complaint, claim, demand, or notice, and no investigation has been filed or commenced against the Company alleging such failure.

(ii) Except (i) to the extent accrued in the Closing Balance Sheet and (ii) liabilities for storage, handling, transportation, use and disposal of Hazardous Substances (as defined herein) which are incurred by the Company in the ordinary course of business, the Company has no liability for Hazardous Substances (and has not handled, used, stored, recycled or disposed of any Hazardous Substance (as defined herein), arranged for the disposal of any Hazardous Substance, exposed any employee or other individual to any Hazardous Substance or condition, or owned or operated any property or facility, in any manner that could reasonably be expected to form the basis for any present or future action, suit, proceeding, hearing, investigations, charge, complaint, claim or demand giving rise to any liability for Hazardous Substances which could result in Damages in excess of \$25,000 for any reason under any Environmental Laws.

(iii) Except (i) to the extent accrued in the Closing Balance Sheet and (ii) liabilities for storage, handling, transportation, use and disposal of Hazardous Substances which are incurred by the Company in the ordinary course of business, all properties and equipment used in the Business are free of any amounts of Hazardous Substances, the use and disposal of which could result in Damages (as defined herein) in excess of \$25,000.

(iv) There are no in service or out of service underground storage tanks located in or on real property owned by the Company or, to the extent the Company is responsible for such tanks or any environmental damage resulting therefrom, real property leased by the Company.

(v) The Company has not received notice and has no knowledge of any reasonably likely claim under any Environmental Laws regarding the Business, or any real property owned or leased by the Company.

(vi) As used herein, the term Environmental Laws shall mean all federal and local laws, statutes, ordinances, rules, regulations, decrees, orders and settlements regarding the protection of human health, safety and the environment and pollution, in effect as of the date of this Agreement and applicable to the Facilities and the operations conducted thereon, as amended, and any regulations promulgated thereunder, as they existed on the date hereof.

"Hazardous Substances" shall mean materials, substances or wastes defined by or regulated by applicable Environmental Laws.

(n) Receivables. To the knowledge of Seller, all of the accounts  
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receivable of the Company arose in the ordinary course of business, and are good and collectable in the ordinary course of business, net of reserves therefor in the Financial Statements.

(o) Inventories. The inventory of the Company consists of raw  
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materials and supplies, manufactured and purchased parts, goods in process and finished goods, all of which is merchantable and fit for the purpose for which it was procured or manufactured. The inventories of the Company have been valued in the Financial Statements at the lower of average cost or market and in a consistent manner with respect to all periods covered thereby. Section 2.1(o) of the Disclosure Schedule sets forth the Company's practices and procedures with respect to the valuation of inventories which are consistent with those used in the preparation of the Financial Statements (and will be used in the preparation of the Closing Balance Sheet). The Company is not under any liability or obligation with respect to the return of inventory or merchandise in the possession of wholesalers, distributors, retailers or other customers. Except as described on Section 2.1(o) of the Disclosure Schedule, no inventory of the Company is on consignment.

(p) Intangible Assets. The Disclosure Schedule lists all material  
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patents, trademarks and service marks, patent, trademark and service mark registrations and applications, trade names, copyrights, copyright registrations and applications, and licenses with respect thereto owned by the Company or used by the Company in its business operations (collectively, "Intellectual Property"). Intellectual Property which is owned by a third party and used by the Company has been duly licensed to the Company and the Company has sufficient rights to use



such Intellectual Property to conduct its business as presently conducted. There is no material item of Intellectual Property not owned by or licensed to the Company which is necessary for the conduct of the Company's business as presently conducted. There are no claims, demands or proceedings instituted, pending or, to the best of Seller's knowledge, threatened pertaining to or challenging the right of the Company to use any of the Intellectual Property or alleging that any of the Intellectual Property infringes or otherwise violates the patent, trade name, trademark, copyright or other rights of any other person. Except as set forth in the Disclosure Schedule, the Company has not granted any licenses or other rights under, or authorized or permitted anyone else to use, any of the Intellectual Property.

(q) Customers. To the best of Seller's knowledge, since May 31,

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1999, there has not been any termination, cancellation or material limitation, modification or change in the business relationship of the Company with any significant customer of the Company.

(r) Employees. With respect to employees of the Company: (i) there

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is no pending, or to the best of Seller's knowledge threatened, unfair labor practice charge or employee grievance charge; (ii) there is no request for union representation, labor strike, dispute, slowdown or stoppage pending, or to the best of Seller's knowledge threatened, against or directly affecting the Company and (iii) no grievance or arbitration proceeding arising out of or under collective bargaining agreements is pending and no claims therefor exist. Within the last 90 days, no key employee of the Company has advised Seller that he intends to terminate his employment with the Company and Seller has not encouraged any employee of the Company to terminate his employment with the Company.

(s) Real Estate.

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(i) Section 2.1(s) of the Disclosure Schedule contains a true and correct list of all real property owned by the Company (the "Real Property"). The Company has good and marketable title to the Real Property, free and clear of all Liens.

(ii) The Disclosure Schedule lists and describes briefly all real property leased to the Company. The Company has delivered to the Buyer correct and complete copies of the leases listed in the Disclosure Schedule. With respect to each lease listed in the Disclosure Schedule:

(A) the lease or sublease is legal, valid, binding, enforceable, and in full force and effect in accordance with its terms.

(B) the Company is not, and to the knowledge of the Company, no party to the lease or sublease is, in breach or default, and no event has occurred and is continuing which, with notice or lapse of time, would constitute a breach or default or permit termination, modification, or acceleration thereunder;

(C) there are no disputes, oral agreements, or forbearance programs in effect as to the lease;

(D) the Company has not assigned, transferred, conveyed, mortgaged, deeded in trust, or encumbered any interest in the leasehold; and

(E) all facilities leased thereunder have received all approvals of governmental authorities (including licenses and permits) required in connection with the operation thereof and have been operated and maintained in all material respects in accordance with applicable laws, rules, and regulations.

(t) No Other Representations and Warranties by Seller; Specific  
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Disclosure.  
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(i) Seller shall not be deemed to have made to Buyer any representation or warranty other than as expressly made by Seller in this Section 2.1.

(ii) Without limiting the generality of the foregoing, but subject to the express representations and warranties made by Seller in Section 2.1, Seller is not making any representation and warranty with respect to:

(A) any projections, estimates or budgets of future revenues, expenses or expenditures, results of operations (or any component thereof) or financial condition (or any component thereof) of the Company, or

(B) any other information or documents made available to Buyer or any of its representatives or investors with respect to the Company.

(iii) For purposes of this Agreement, references to the "knowledge of Seller", "Seller's knowledge" or "Seller's awareness" or words of similar import shall mean and include the actual knowledge of Seller after due inquiry of the individuals listed on Section 2.1(t) of the Disclosure Schedule with respect to the indicated matters.

(iv) A disclosure in one section of the Disclosure Schedule shall not be effective with respect to another representation and warranty unless such section is specifically cross-referenced.

2.2. Representations and Warranties of Parent and Buyer.  
-----

Parent and Buyer hereby represent and warrant, jointly and severally, to Seller, as of the Effective Date, as follows:

(a) Organization and Good Standing of Buyer. Buyer is a corporation  
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in formation, and all efforts are being undertaken to have Buyer registered.

(b) Organization and Good Standing of Parent. Parent is a corporation  
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duly organized, validly existing, and in good standing under the laws of the State of Delaware and has all requisite power and authority to execute and deliver this Agreement and to perform its

obligations hereunder. Parent is qualified to do business as a foreign corporation in each jurisdiction where it is required to qualify in order to conduct its business as presently conducted.

(c) Consents, Authorizations and Binding Effect. Each of Parent and

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Buyer has full corporate power and authority to execute, deliver and perform its obligations under this Agreement without the necessity of obtaining any Consent or giving any Notice, except for such Consents which have been obtained and are unconditional and in full force and effect and such Notices which have been duly given. The board of directors of Parent has duly authorized the execution, delivery and performance of this Agreement by Parent. This Agreement has been duly executed and delivered by each of Parent and Buyer and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, except as may be limited by bankruptcy, reorganization, insolvency and similar laws of general application relating to or affecting the enforcement of rights of creditors. The execution, delivery and performance of this Agreement by each of Parent and Buyer will not:

(i) conflict with, result in the breach of or constitute a default under or the acceleration of any contract, agreement commitment, undertaking, restriction or instrument to which Parent or Buyer is a party or by which Parent or Buyer may be bound or affected, or

(ii) constitute a violation of any statute, judgment, order, decree, regulation or rule of any court, governmental authority or arbitrator applicable or relating to or binding upon Parent or Buyer, or

(iii) violate any provision of the Charter or Bylaws of Parent or Buyer.

(d) Acquisition of Shares for Investment. Buyer acknowledges that in

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acquiring the Shares under this Agreement, Buyer has relied solely on its own due diligence investigation, the representations and warranties set forth in Section 2.1, including the information in the Disclosure Schedule related thereto and the documents and information referred to therein, and the other covenants and statements of Seller set forth in this Agreement, and not upon any other representations, warranties, covenants or statements of any kind. Buyer is an "accredited investor", as defined in Rule 501 of Regulation D under the Securities Act of 1933, as amended (the "Securities Act"), and has sufficient knowledge, experience and sophistication to enable it properly and fully to evaluate and understand the merits and risks associated with its acquisition of the Shares. Buyer is acquiring the Shares for its own account for investment and with no present intention of distributing or reselling such Shares or any part thereof in any transaction which would constitute a "distribution" within the meaning of the Securities Act. Buyer understands that the Shares have not been registered under the Securities Act or any state securities laws and may not be sold or transferred except in compliance therewith or pursuant to an exemption thereunder and are being transferred to Buyer, in part, in reliance on the foregoing representation and warranty.

ARTICLE III  
CLOSING; CONDITIONS OF CLOSING AND TERMINATION

3.1. Closing.  
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The Closing and the sale, purchase and transfer of the Shares will take place at the offices of Powell, Goldstein, Frazer & Murphy LLP, 16/th/ Floor, 191 Peachtree Street, N.E., Atlanta, Georgia 30303, on June 21, 1999 (the "Closing Date"), effective as of the close of business on June 18, 1999 (the "Effective Date").

3.2. Conditions to Obligations of Buyer.  
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The obligations of Buyer to consummate the sale and purchase under this Agreement are subject to the satisfaction of the following conditions, each of which may be waived by Buyer.

(a) Representations and Warranties; Performance of Obligations. The  
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representations and warranties of Seller set forth in this Agreement shall be true and correct in all material respects. Seller shall have performed in all material respects the covenants and obligations necessary to be performed by it under this Agreement prior to the Closing Date.

(b) Authorization of Agreement. All action necessary to authorize  
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the execution, delivery and performance of this Agreement by Seller shall have been duly and validly taken, and Seller shall have full right, power and authority to consummate the transactions contemplated hereby on the terms provided herein.

(c) Security Interests, Encumbrances, Liens, etc. Buyer shall have  
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received written advice to the effect that a search of the public records has disclosed that no Liens, other than those reflected in Section 2.1(f) of the Disclosure Schedule, have been filed or recorded with respect to the Company, and all Liens requested by Buyer to have been released or satisfied shall have been released or satisfied.

(d) Suits or Proceedings. No suit, proceeding or investigation shall  
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have been commenced or threatened by any governmental authority to restrain, enjoin or hinder, or to seek material damages on account of, the consummation of the transactions herein contemplated.

(e) Corporate Matters. Buyer shall have received (i) such  
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resignations of the directors and officers of the Company as it may have requested, such resignations to be effective as of immediately following the Closing and (ii) the minute books and corporate seal of the Company.

(f) Other Agreements. The sellers under the U.S. Sales Agreement and  
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under the French Sales Agreement are closing the transactions contemplated under such agreements simultaneously with the Closing.

(g) Shares. Buyer shall have received an undertaking from Seller to  
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execute, promptly after the date hereof, such additional documents as shall be necessary to effect the transfer to Buyer of the Shares in accordance with the terms of this Agreement.

(h) Opinion. Buyer shall have received a legal opinion from Seller's  
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General Counsel containing customary opinions with respect to the Company and  
the transactions contemplated hereby.

3.3. Conditions to Obligations of Seller.  
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The obligations of Seller to consummate the sale and purchase under this  
Agreement are subject to the satisfaction of the following conditions, each of  
which may be waived by Seller:

(a) Representations and Warranties; Performance of Obligations. The  
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representations and warranties of Buyer set forth in this Agreement shall be  
true and correct in all material respects. Buyer shall have performed in all  
material respects the covenants and obligations necessary to be performed by it  
under this Agreement prior to the Closing Date.

(b) Authorization of Agreement. All action necessary to authorize  
-----  
the execution, delivery and performance of this Agreement by Buyer shall have  
been duly and validly taken and Buyer shall have full right, power and authority  
to consummate the transactions contemplated hereby on the terms provided herein.

(c) Suits or Proceedings. No suit, proceeding or investigation shall  
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have been commenced or threatened by any governmental authority to restrain,  
enjoin or hinder, or to seek material damages on account of, the consummation of  
the transactions herein contemplated.

(d) Other Agreements. The buyers under the U.S. Sales Agreement and  
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under the French Sales Agreement are closing the transactions contemplated under  
such agreements simultaneously with the Closing.

(e) Purchase Price. Seller shall have received the Purchase Price.  
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(f) Opinion. Seller shall have received a legal opinion from Buyer's  
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counsel with respect to Parent and the transactions contemplated by this  
Agreement.

(g) Intercompany Repayment. The intercompany Note from the Company  
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to Seller in the aggregate amount (principal and interest) of DM 10,762,000  
shall be paid in full by payment of US \$5,720,487 within one day following the  
Closing Date in full satisfaction of intercompany indebtedness of the Company.

ARTICLE IV  
INDEMNIFICATION

4.1. Indemnification of Parent and Buyer.  
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Subject to the terms and conditions of this Article IV, Seller shall  
defend, at its own expense, and shall indemnify Parent, Buyer and Company  
against, and hold Parent, Buyer and Company harmless from, any and all loss,  
damage or liability, and all expenses, including without limitation reasonable  
legal fees and costs of investigation, remediation or other response action and  
other costs (collectively "Damages"), asserted against or incurred by Parent,  
Buyer and Company arising out of:

(a) a breach of the representations and warranties made by Seller in this Agreement or in any certificate or other instrument furnished or to be furnished to Parent or Buyer hereunder;

(b) the non-fulfillment of any agreement or covenant made by Seller in or pursuant to this Agreement or in any certificate or other instrument furnished or to be furnished to Parent or Buyer hereunder;

(c) any liability or obligation of the Company arising out of or in connection with the conduct of the Business prior to the Effective Date, except to the extent such liability or obligation (i) is described in Paragraphs (A), (B), (C) or (D) of Section 2.1(f) (without regard to any materiality qualifier contained therein) or (ii) results in an indemnifiable claim for a breach of representation and warranty for which Buyer otherwise recovers under Section 4.1(a) above.

#### 4.2. Indemnification of Seller. -----

Subject to the terms and conditions of this Article IV, Parent and Buyer shall defend, at their own expense, and shall indemnify Seller against, and hold Seller harmless from, any and all Damages asserted against or incurred by Seller arising out of:

(a) any breach of the representations and warranties made by Parent or Buyer in this Agreement or in any certificate or other instrument furnished or to be furnished to Seller hereunder,

(b) the non-fulfillment of any agreement or covenant made by Parent or Buyer in or pursuant to this Agreement, or

(c) the operations of the Company following the Effective Date.

#### 4.3. Survival. -----

All representations and warranties contained herein or made pursuant hereto, whether by Seller or Parent, shall survive the closing hereunder until the second anniversary of the Closing Date, except that:

(a) the representations and warranties of Seller contained in or made pursuant to Sections 2.1(a) (other than the last sentence thereof), 2.1(b), 2.1(c) and 2.1(d), and of Buyer contained in Sections 2.2(a), 2.2(b), 2.2(c) and 2.2(d) shall survive the Closing hereunder without any limitation as to time; and

(b) the representations and warranties of Seller contained in or made pursuant to Section 2.1(l) hereof or otherwise with respect to Tax matters shall survive the Closing until six months after the date on which the right to file any claim in respect of such matters by the appropriate governmental or administrative authority or any other Person has expired.

The expiration of any representation and warranty or any indemnification obligation hereunder shall not affect any claim made by the giving of written notice by a Party to the other in the

manner provided by this Agreement, prior to the date of such expiration. All covenants, indemnities and agreements shall survive the Closing forever.

#### 4.4. Claims.

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(a) Promptly after receipt by an indemnified party of written notice of the commencement of any investigation, claim, proceeding or other action in respect of which indemnity may be sought from the indemnitor (an "Action"), such indemnified party shall notify the indemnitor in writing of the commencement of such Action; but the omission to so notify the indemnitor shall not relieve it from any liability that it may otherwise have to such indemnified party, except to the extent that the indemnitor is materially prejudiced or forfeits substantive rights or defenses as a result of such failure. In connection with any Action in which the indemnitor and any indemnified party are parties, the indemnitor shall be entitled to participate therein, and may assume the defense thereof. So long as the indemnifying party is diligently defending in good faith any such Action, the indemnifying party may control the defense thereof; in such event, the indemnified party may participate in the defense of the Action at its own expense. Neither the indemnifying party nor the indemnified party will settle or compromise the Action without the consent of the other, which consent will not be unreasonably withheld.

(b) In the event a Party should have a claim for indemnification that does not involve a claim or demand being asserted by a third party, the Party seeking indemnification shall promptly send notice of such claim to the Party from whom indemnification is sought. If the latter does not dispute such claim, the latter shall pay such claim in full within 10 business days. If the latter disputes such claim, such dispute shall be resolved by agreement of the Parties or in any other manner available under law.

(c) The indemnified party shall make available to the indemnifying party or its representatives all records and other materials reasonably required by them for use in connection with any such claim and shall cooperate with the indemnifying party in the defense of all third party claims.

#### 4.5. Limitations.

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Any claims for breach of any representation or warranty made hereunder shall be subject to the following limitations and adjustments:

(a) indemnification under Section 4.1(a) and 4.1(c) shall only be required to be provided by Seller when the aggregate amount of all claims for which indemnification is sought from Seller under Sections 4.1(a) and 4.1(c) of this Agreement, the U.S. Sales Agreement and the French Sales Agreement exceeds US \$250,000, in which case Seller shall be liable for all such amounts in excess thereof;

(b) no individual claim for indemnity under Section 4.1(c) may be brought unless the aggregate Damages in respect of such claim exceeds US \$20,000, but in such event Damages shall be recoverable without regard to such US \$20,000 threshold, subject to any other limitations imposed under this Section 4.5;

(c) no claim for indemnity under Sections 4.1 or 4.2 shall be effective unless noticed, pursuant to Section 4.4, within the survival period specified under Section 4.3;

(d) in no event shall Seller's indemnification obligation with respect to a breach of representations and warranties under Section 4.1(a) (but excluding Sections 2.1(a), except the last sentence thereof, 2.1(b), 2.1(c) and 2.1(d)) of this Agreement, the U.S. Sales Agreement and the French Sales Agreement exceed the amount of US \$4,200,000. The indemnification obligations of either Seller or Buyer respectively, for representations and warranties set forth in Sections 2.1(a), 2.1(b), 2.1(c) and 2.1(d) and Sections 2.2(a), 2.2(b), 2.2(c) and 2.2(d) of this Agreement, the U.S. Sales Agreement and the French Sales Agreement shall not exceed the aggregate purchase price under this Agreement, the U.S. Sales Agreement and the French Sales Agreement;

(e) in no event shall either Seller's or Buyer's and Parent's respective indemnification obligations under Section 4.1(c) or 4.2(c) exceed the amount of US \$5,000,000.

(f) under no circumstances shall any Party be liable to another Party for punitive, consequential or non-compensatory damages;

(g) any indemnifiable claim shall be reduced by the amounts actually recovered by the indemnified party from insurance carriers and any amount recovered by the indemnified party subsequent to the payment by the indemnitor with respect to the same claim shall be remitted to the indemnitor, provided that such remittance shall not exceed the amount of such indemnification payment by the indemnitor; and

(h) Notwithstanding the foregoing, the provisions of this Section 4.5 shall not apply to any indemnification obligations arising out of the indemnities contained in Sections 4.1(b) or 4.2(b) of this Agreement, but all such indemnification obligations of either party shall be limited to and shall not exceed the aggregate purchase price under this Agreement, the U.S. Sales Agreement and the French Sales Agreement.

(i) the Parties agree that the sole liability and the sole remedy of Seller, Buyer and the Company for any claim with respect to the transactions contemplated under this Agreement (including without limitation under Environmental Laws) shall be limited to indemnification under Article IV of this Agreement, and in connection therewith each Party waives any and all statutory and common law rights and remedies (including without limitation rights of indemnification and contribution) which any such Party may have against another Party (except equitable remedies such as injunction and specific performance).

(j) For purposes of this Section 4.5, any amount paid as Damages under this Agreement or the French Sales Agreement in foreign currency shall be valued at the US exchange rate on the Effective Date.



ARTICLE V  
CERTAIN POST CLOSING MATTERS

5.1. Certain Tax Matters.  
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Following the Closing, Buyer and the Company agree that the Company will not:

(a) pay any dividends (including without limitation deemed dividends under Sections 304 and 956 of the US Internal Revenue Code) or make any distributions to its shareholder during calendar year 1999;

(b) enter into any transaction outside the ordinary course of business that could generate "Subpart F income" for the Company or Seller within the meaning of the US Internal Revenue Code; or

(c) elect to treat the transactions contemplated under this Agreement as an asset acquisition under Section 338 of the US Internal Revenue Code.

5.2. Tax Sharing Arrangements.  
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All tax sharing arrangements and any other contracts with respect to Taxes between Seller (and its affiliates) and the Company, if any, are terminated as of the Effective Date.

5.3. Access to Records After Closing.  
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(a) Following the Closing, Buyer shall give to Seller, without charge, reasonable access to (and the right to make copies at the expense of Seller of) the books, files, records and tax returns of the Company to the extent that such relate to the business and operations of the Company on or prior to the Effective Date and are in the Company's possession on the Closing Date or subsequently come into Buyer's possession, but any access pursuant to this Section 5.3 shall be conducted by Seller in good faith, with a reasonable purpose and in such manner as not to interfere unreasonably with the operations of Buyer following the Closing. Buyer shall also use reasonable diligence to provide all information requested by Seller with respect to the period ending December 31, 1999, for tax purposes. For a period of five years after the Closing, Buyer shall maintain such books, files, records and tax returns and thereafter, prior to destroying or disposing of any of them, Buyer shall give, or shall cause the Company to give, 30 days' advance notice to Seller of their intended destruction or disposition, and during such 30-day period Seller shall have the right to take possession of the same or to make copies of the same, all at Seller's expense.

(b) Following the Closing, Seller shall give to Buyer, without charge, reasonable access to (and the right to make copies at the expense of Buyer of) the books, files, records and tax returns of Seller to the extent that such relate to the business and operations of the Company on or prior to the Effective Date and are in Seller's possession on the Closing Date or subsequently come into Seller's possession, but any access pursuant to this Section 5.3 shall be conducted by Buyer in good faith, with a reasonable purpose and in such manner as not to interfere unreasonably with the operations of Seller following the Closing. For a period of five years after the Closing, Seller shall maintain such books, files, records and tax returns and

thereafter, prior to destroying or disposing of any of them, Seller shall give, 30 days' advance notice to Buyer of their intended destruction or disposition, and during such 30-day period Buyer shall have the right to take possession of the same or to make copies of the same, all at Buyer's expense.

(c) For a period of one hundred twenty (120) days following the Closing, Buyer shall cause to be prepared and delivered to Seller (to the extent not already prepared and delivered) in the normal time frame followed by Seller and the Company consistent with past practice and in all events within fifteen (15) days after it shall have been requested by Seller, the financial reporting package for the Company (but only in respect of periods ending on or prior to the Closing Date) for (i) the quarterly Closing for Seller's fiscal quarter ending July 31, 1999, and (ii) Seller's fiscal year ending January 31, 2000. After such one hundred twenty (120) day period, Buyer shall cooperate and use reasonable diligence to provide Seller with all information requested by Seller to assist Seller in preparing a financial reporting package for the Company (but only in respect of periods ending on or prior to the Closing Date) for (i) the quarterly closing for Seller's fiscal quarter ending July 31, 1999, and (ii) Seller's fiscal year ending January 31, 2000.

#### 5.4. Covenant Not to Compete. -----

As an inducement for Buyer to enter into this Agreement, Seller agrees that:

(a) Non-Compete. For a period of three (3) years after the Closing,  
-----

Seller shall not do, and shall cause any Affiliate of Seller controlled by it not to do, any one or more of the following, directly or indirectly:

(i) engage, manage, operate, finance, control or participate, as an owner, partner, shareholder, member, consultant, or (without limitation by the specific enumeration of the foregoing) otherwise, in any business whose products or activities compete, in whole or in part, with the products or activities which the Company manufactures or distributes (which products or activities include those currently sold and under active development on the Effective Date (any such business is referred to herein as a "Competitive Business"). For purposes of this Section, "active development" shall mean efforts for which resources have been committed by the Company having a value in excess of \$50,000.

(ii) solicit or attempt to solicit, with respect to a Competitive Business, any customer of Buyer which has been a customer of the Company within the past three (3) years; or

(iii) except as set forth in the Disclosure Schedule, induce or attempt to induce any person or entity that is an employee or agent of the Company on the Effective Date to terminate his, her or its relationship with, or employment by, the Company.

(b) Limitation. Notwithstanding the foregoing, the provisions of  
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Section 5.4(a) hereof shall not be deemed to prohibit or restrict in any manner (i) the acquisition by Seller or any Affiliate of Seller of any company partially engaged in a Competitive Business, provided that if such Competitive Business accounts for more than the lesser of \$10,000,000 or five percent (5%) of the net revenues of the acquired company, Seller or such Affiliate shall use

commercially reasonable efforts promptly after the consummation of the acquisition to divest itself of the Competitive Business within eighteen (18) months after such consummation, or (ii) acquisition or ownership by Seller or any Affiliate of Seller of up to five percent (5%) of the debt or equity interest in any company partially engaged in a Competitive Business whose securities are traded on a national securities exchange or NASDAQ, so long as such Competitive Business does not account for more than the lesser of \$10,000,000 or five percent (5%) of the net revenues of such company and neither Seller nor an Affiliate of Seller is an Affiliate of such company.

(c) Modifications. Seller recognizes that the time and scope

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limitations set forth in this Section 5.4 are reasonable and are required for the protection of Buyer and in the event that any such territorial, time or scope limitation is deemed to be unreasonable by a court of competent jurisdiction, Buyer and Seller agree to the reduction of either of such time or scope limitations to a period or scope as such court shall deem reasonable under the circumstances.

(d) Injunctive Relief. The Parties specifically recognize that any

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breach of Section 5.4(a) may cause irreparable injury and that actual damages may be difficult to ascertain, and in any event, may be inadequate. Accordingly (and without limiting the availability of legal or equitable, including injunctive, remedies under any other provisions of this Agreement), each Party agrees that in the event of any such breach, the other Party shall be entitled to injunctive relief in addition to such other legal and equitable remedies that may be available.

5.5. Cooperation on Claims.

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Without limiting the generality of any other provision of this Agreement, with respect to any claim of any kind for which Seller has retained liability under this Agreement, (i) Buyer will not settle or compromise any such claim without the consent of Seller, (ii) Buyer will make available to Seller, its insurer and their respective representatives all records and other materials as may be reasonably requested by them for use in handling any such claim and (iii) Buyer will reasonably cooperate, and will use its best efforts to cause its employees to cooperate, with Seller, its insurer and their respective representatives in the handling of all such claims.

ARTICLE VI  
MISCELLANEOUS

6.1. Further Actions.

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From time to time, as and when requested by Buyer and at Buyer's expense, Seller shall execute and deliver, or cause to be executed and delivered, all such documents and instruments and shall take, or cause to be taken, all such further or other actions as Buyer may reasonably deem necessary or desirable to carry out the intent and purposes of this Agreement, to convey, transfer, assign and deliver on the Closing Date to Buyer, and its successors and assigns, the Shares (or to evidence the foregoing) and to consummate the other transactions contemplated hereby.

6.2. Brokerage.

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Seller represents and warrants to Buyer that Seller has no obligation or liability to any broker or finder by reason of the transactions which are the subject of this Agreement; Seller shall indemnify Buyer and the Company against, and shall hold Buyer and the Company harmless from, at all times after the date hereof, any and all liabilities (including without limitation legal fees), and shall pay any final judgment obtained by any person claiming brokerage commissions or finder's fees, or rights to similar compensation, on account of services purportedly rendered on behalf of Seller, or prior to Closing the Company, in connection with this Agreement or the transactions contemplated hereby. Buyer represents and warrants to Seller that Buyer has no obligation or liability to any broker or finder by reason of the transactions which are the subject of this Agreement; Buyer shall indemnify Seller against, and shall hold Seller harmless from, at all times after the date hereof, any and all liabilities (including without limitation legal fees), and shall pay any final judgment obtained by any person claiming brokerage commissions or finder's fees, or rights to similar compensation, on account of services purportedly rendered on behalf of Buyer, or after Closing the Company, in connection with this Agreement or the transactions contemplated hereby.

6.3. Expenses.

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Each of Buyer and Seller shall pay their respective expenses in connection with the negotiation, execution, delivery and performance of this Agreement.

6.4. Entire Agreement.

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This Agreement, which includes the Schedules and Exhibits hereto and the other documents, agreements and instruments executed and delivered pursuant to or in connection with this Agreement, contains the entire agreement between Buyer, the Company and Seller with respect to the transactions contemplated by this Agreement and supersedes all prior arrangements or understandings with respect thereto.

6.5. Descriptive Headings.

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The descriptive headings of this Agreement are for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement.

6.6. Notices.

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All notices and other communications which are required or permitted hereunder shall be in writing and sufficient if delivered personally or sent by overnight delivery service or by registered or certified mail, postage prepaid, addressed as follows:

If to Seller, or pre-Closing to the Company:

Varlen Corporation  
55 Shuman Boulevard  
P.O. Box 3089  
Naperville, Illinois 60566-7089  
Attn: Vicki Casmere  
General Counsel

If to Buyer, or post-Closing to the Company:

Roper Industries, Inc.  
160 Ben Burton Road  
Bogart, Georgia 30622  
Attn: President

Any party may by notice change the address to which notices or other communications to it are to be delivered or mailed.

6.7. Governing Law.  
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This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware. The transfer of the Shares pursuant to the Share Transfer Agreement shall be governed by German law. Each of the parties hereto irrevocably submits to the jurisdiction of the Courts of the State of Delaware, and of any Federal Court located in the State of Delaware, in connection with any action or proceeding arising out of or relating to, or breach of, this Agreement or of any document or instrument delivered pursuant to or in connection with this Agreement.

6.8. Assignability.  
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This Agreement shall not be assignable otherwise than by operation of law by any Party without the prior written consent of the other Parties, and any purported assignment by any Party without the prior written consent of the other Parties shall be void. This Agreement shall inure to the benefit of and be binding upon the Parties hereto and their respective successors and permitted assigns.

6.9. Waivers and Amendments.  
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Any waiver of any term or condition, or any amendment or supplementation, of this Agreement shall be effective only if in writing. A waiver of any breach of any of the terms or conditions of this Agreement shall not in any way be construed as a waiver of any subsequent breach.

6.10. Third Party Rights.  
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This Agreement shall be effective only as between the Parties hereto, their successors and permitted assigns.

6.11. Illegality.

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In the event that any one or more of the provisions contained in this Agreement shall be determined to be invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in any other respect and the remaining provisions of this Agreement shall not, at the election of the Party for whom the benefit of the provision exists, be in any way impaired.

6.12. Release.

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As of the Effective Date, the Company hereby releases, acquits and forever discharges each officer, director and stockholder of the Company from any and all liabilities, obligations, claims, demands, actions and causes of action which the Company ever had, now has or hereafter may have based upon, relating to or arising out of any event, occurrence, act, omission or condition occurring or existing as of or prior to the Effective Date in any way connected with such officer's, director's or stockholder's status as such or actions taken in such capacity. Buyer consents to the foregoing release. Seller and Buyer agree that this release shall not in any manner limit or otherwise affect the rights and obligations of Seller and Buyer under this Agreement.

[REMAINDER OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK]

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

Seller:

VARLEN CORPORATION

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

The Company:

WALTER HERZOG GmbH

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Buyer:

ROPER INDUSTRIES DEUTSCHLAND  
GmbH i. Gr.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Parent:

ROPER INDUSTRIES, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

AGREEMENT TO PURCHASE PARTNERSHIP INTEREST  
BY AND AMONG  
VARLEN CORPORATION,  
ACIERIES de PLOERMEL,  
HERZOG-VARLEN INSTRUMENTS,  
INSTRUMENTATION SCIENTIFIQUE DE LABORATOIRE  
AND  
ROPER INDUSTRIES, INC.  
DATED AS OF JUNE 21, 1999



TABLE OF CONTENTS

	Page
ARTICLE I PURCHASE AND SALE OF INTEREST.....	1
1.1. Purchase of Interest.....	1
1.2. Preparation of Closing Date Schedule.....	1
1.3. Adjustment of Purchase Price.....	2
ARTICLE II REPRESENTATIONS AND WARRANTIES.....	3
2.1. Representations and Warranties of Seller and Varlen...	3
2.2. Representations and Warranties of Buyer and Roper.....	15
ARTICLE III CLOSING; CONDITIONS OF CLOSING AND TERMINATION...	16
3.1. Closing.....	16
3.2. Conditions to Obligations of Buyer and Roper.....	17
3.3. Conditions to Obligations of Seller and Varlen.....	18
ARTICLE IV INDEMNIFICATION.....	18
4.1. Indemnification of Buyer and Roper.....	18
4.2. Indemnification of Seller and Varlen.....	19
4.3. Survival.....	19
4.4. Claims.....	20
4.5. Limitations.....	20
ARTICLE V CERTAIN POST CLOSING MATTERS.....	22
5.1. Certain Tax Matters.....	22
5.2. Tax Sharing Arrangements.....	22
5.3. Access to Records After Closing.....	22
5.4. Covenant Not to Compete.....	23
5.5. Cooperation on Claims.....	24
ARTICLE VI MISCELLANEOUS.....	24
6.1. Further Actions.....	24
6.2. Brokerage.....	25
6.3. Expenses.....	25
6.4. Entire Agreement.....	25
6.5. Descriptive Headings.....	26
6.6. Notices.....	26
6.7. Governing Law.....	26
6.8. Assignability.....	26
6.9. Waivers and Amendments.....	27
6.10. Third Party Rights.....	27
6.11. Illegality.....	27
6.12. Release.....	27

AGREEMENT TO PURCHASE PARTNERSHIP INTEREST

AGREEMENT TO PURCHASE PARTNERSHIP INTEREST dated as of June 18, 1999 (this "Agreement"), by and among (i) VARLEN CORPORATION, a Delaware corporation ("Varlen"), (ii) ACIERIES de PLOERMEL, a French Societe Anonyme (the "Seller"), (iii) HERZOG-VARLEN INSTRUMENTS, a French Societe en Nom Collectif (the Company), (iv) INSTRUMENTATION SCIENTIFIQUE DE LABORATOIRE, a French Societe Anonyme (the "Buyer"), and ROPER INDUSTRIES, INC., a Delaware corporation ("Roper"). Varlen, Seller, the Company, Buyer and Roper will be sometimes referred to herein as a "Party" and collectively as the "Parties".

The Company is engaged in the assembly and sale of petroleum analytical instrumentation products and related services (the "Business"). Seller owns and has the legal right and authority to sell, transfer, assign and deliver a ninety-nine percent (99%) equity interest corresponding to 99 equity interests (the "Interest") in the Company, and Seller desires to sell, and Buyer desires to purchase, all the Interest upon the terms and conditions set forth in this Agreement. In addition, simultaneously with the execution and delivery of this Agreement, (i) Varlen is entering into an agreement with Roper with respect to the sale by Varlen to Roper Industries Deutschland GmbH i. Gr. of all the outstanding capital stock of Walter Herzog GmbH ("Herzog"), a German corporation (the "German Sales Agreement"), and (ii) Varlen and Roper are entering into an agreement with respect to the sale of all of the outstanding capital stock of Varlen Instruments Inc., a Delaware corporation (the "U.S. Sales Agreement").

NOW, THEREFORE, in consideration of the mutual benefits to be derived and of the mutual promises, covenants, representations, warranties and agreements herein contained, and intending to be legally bound hereby, Varlen, Seller, the Company, Buyer and Roper hereby agree as follows:

ARTICLE I  
PURCHASE AND SALE OF INTEREST

1.1. Purchase of Interest.  
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Upon the terms and subject to the conditions set forth in this Agreement and the representations and warranties herein made by each of the Parties to the other, Seller agrees to sell to Buyer, free and clear of Liens (as defined in Section 2.1(i)), and Buyer agrees to purchase from Seller, on the Closing Date (as hereinafter defined), the Interest for a purchase price of \$2,796,994, subject to adjustment as hereinafter provided (the "Purchase Price"), payable in cash at Closing by wire transfer to an account designated by Seller to Buyer two days prior to the Closing Date.

1.2. Preparation of Closing Date Schedule.  
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(a) Within two (2) days following the Closing Date, Buyer shall be responsible for the taking of a physical inventory of all inventories of the Company as of the close of business on the Closing Date; no goods or items in inventory shall be moved while the

physical inventory is being conducted. Promptly after the Closing, Buyer shall prepare a schedule showing the working capital of the Company as of the close of business on the Closing Date (the "Closing Date Schedule"). Amounts on the Closing Date Schedule with respect to inventories shall be derived from the physical inventory taken by Buyer. The Closing Date Schedule shall be prepared with the accounting principles and procedures used in the preparation of the Financial Statements described in Section 2.1(g) hereof, except as noted in Section 2.1(g) of the Disclosure Schedule. Buyer agrees to use all reasonable efforts to cause the Closing Date Schedule to be prepared and delivered to Seller within 90 days after the Closing.

(b) Seller and its authorized representatives and designees, at Seller's expense, shall have the right to observe the physical inventory. Seller and its authorized representatives and designees, at Seller's expense, shall have the right to review the Closing Date Schedule and perform other review procedures, including a review of any working papers with respect to its preparation.

(c) Seller shall be deemed to have accepted the Closing Date Schedule unless within thirty (30) days after delivery thereof to Seller, Seller gives written notice to Buyer of Seller's objection to any item therein. In the event Seller gives such written notice of objection, and Buyer and Seller have been unable to resolve such dispute by a date twenty (20) days after delivery of such notice of objection, either party may require that such dispute be resolved by arbitration under the rules, but not the jurisdiction, of the American Arbitration Association by one arbitrator (the "Arbitrator") who shall be a certified public accountant and a partner in the Dallas, Texas, office of Price Waterhouse Coopers.

(d) The Arbitrator shall have access to all documents and facilities necessary to perform its function as Arbitrator. The Arbitrator's determination with respect to any dispute shall be final and binding upon the parties hereto. Seller and Buyer shall each pay one-half of the fees and expenses of the Arbitrator for such services.

### 1.3. Adjustment of Purchase Price.

(a) Within thirty (30) days after delivery of the Closing Date Schedule to Seller pursuant to Section 1.2 hereof, or, if disputed, within ten (10) days after the final resolution of such dispute pursuant to Section 1.2(c), the Purchase Price shall be adjusted as follows. For the purposes of this adjustment, Pro Forma Working Capital shall mean the working capital of the Company calculated in the same manner as the working capital on the Financial Statement described in Section 2.1(g) hereof, except as noted in Section 2.1(g) of the Disclosure Schedule, but shall include all indebtedness of the Company without regard to whether such indebtedness is classified as working capital under United States and French generally accepted accounting principles ("GAAP"). To the extent there is a liability which Seller has assumed or agreed to indemnify Buyer for, the accrual for such item shall not be counted in the determination of the Pro Forma Working Capital on the Closing Date Schedule.

(b) If Pro Forma Working Capital as set forth on the Closing Date Schedule exceeds \$732,000, the Purchase Price will be increased by, and Buyer will pay to Seller, the amount of such excess.

(c) If Pro Forma Working Capital as set forth on the Closing Date Schedule is less than \$732,000, the Purchase Price will be decreased by, and Seller will pay to Buyer, the amount of such deficiency.

(d) All payments to be made pursuant to this Section shall (i) be made by wire transfer of immediately available funds to an account designated by the recipient at least two business days prior to the transfer, except that payments of less than \$10,000 may be made by check subject to collection and (ii) be accompanied by a payment of interest thereon at the "Prime Rate" from time to time in effect on such amount from the Closing Date until paid. As used in this Agreement, "Prime Rate" means the rate of interest equal to the "Prime Rate" reported from time to time in the "Money" column of The Wall Street Journal, and ----- shall change from time to time effective with any changes in the reporting of such rate.

(e) Upon any adjustment to the Purchase Price, the Parties agree to execute any necessary documents required by the French competent tax authorities in order to allow, as the case may be, (i) Buyer to obtain the refund of any registration duty unduly paid as a result of any decrease in the Purchase Price or (ii) Buyer to pay any additional registration duty payable in the event of any increase in the Purchase Price. In the event of a decrease in the Purchase Price and should the French tax authorities refuse to refund Buyer for any reason whatsoever, Seller shall pay to Buyer half of the amount of the registration duty unduly paid.

ARTICLE II  
REPRESENTATIONS AND WARRANTIES

Simultaneously with the execution and delivery of this Agreement, Varlen and Seller are delivering to Buyer and Roper the Disclosure Schedule referred to herein.

2.1. Representations and Warranties of Seller and Varlen.  
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Except as and to the extent set forth in the specific section of the Disclosure Schedule to which such representation and warranty relates, Seller and Varlen jointly and severally represent and warrant to Buyer and Roper, as of the Effective Date, as follows:

(a) Organization and Standing.  
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(i) Varlen is a corporation duly organized, validly existing and in good standing under the laws of the State of Delaware and has all requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder. Seller is a Societe Anonyme duly organized, validly existing and in good standing under the laws of France, registered with the Commercial and Companies Registry of VANNES under number 542 064 639, and has all requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder. Seller and Varlen are qualified to transact business as a foreign corporation in each jurisdiction where they are required to qualify in order to conduct their business as presently conducted.

(ii) The Company is a Societe en Nom Collectif duly organized, validly existing and in good standing under the laws of France, registered with the Commercial and Companies Registry of CAEN under number 399 556 778, and has all requisite power and

authority to execute and deliver this Agreement, to perform its obligations hereunder and to carry on its business as it is now being conducted.

(iii) Neither Varlen, Seller nor the Company are in a state of insolvency, bankruptcy or in suspension of payments and are and have ever been subject to a judicial reorganization or liquidation proceedings or any other conciliation or collective bankruptcy proceedings provided for under applicable laws, nor have they requested a payment extension period under applicable laws to the extent any of same would have a material adverse effect on the transactions contemplated by this Agreement.

(b) Consents, Authorizations and Binding Effect. Each of Varlen and

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Seller and the Company has full corporate power and authority to execute, deliver and perform its respective obligations under this Agreement without the necessity of obtaining any consent, approval, authorization, advice or waiver or giving any notice, except for such consents, approvals, authorizations, advice or waivers (individually a "Consent" and collectively "Consents") which have been obtained and are unconditional and in full force and effect and such notices (individually a "Notice" and collectively "Notices") which have been duly given, all of which are listed on Section 2.1(b) of the Disclosure Schedule, and except for Consents and Notices which are required under immaterial contracts the absence of which would not have a material adverse effect on the assets, business, financial condition or results of operations of the Company or Seller. The board of directors of Seller, Varlen and Herzog have duly authorized the execution or counter-signature, delivery and performance of this Agreement by Varlen, Seller, Herzog and the Company. After having been informed of the intended transfer of the Interest by the Seller to Buyer, Herzog, sole other equity holder of the Company, intervenes to this Interest Purchase Agreement and hereby approves said transfer and Buyer is a new equity holder of the Company. This Agreement has been duly executed and delivered by each of Varlen, Seller, Herzog and the Company and constitutes their respective legal, valid and binding obligations, enforceable against them in accordance with its terms, except as may be limited by bankruptcy, reorganization, insolvency and similar laws of general application relating to or affecting the enforcement of rights of creditors. The execution, delivery and performance of this Agreement by Varlen, Seller and the Company, and the consummation of the transactions contemplated thereby will not:

(i) conflict with, result in the breach of, or constitute a default under, or the acceleration of any contract, agreement, commitment, undertaking, restriction or instrument to which either Varlen, Seller or the Company is a party or by which either of them may be bound or affected;

(ii) constitute a violation of any statute, judgment, order, decree, regulation or rule of any court, governmental authority or arbitrator applicable or relating to or binding upon either Varlen, Seller or the Company; or

(iii) violate any provision of the Articles of Incorporation or Bylaws of either Varlen or Seller or the Company.

(c) Interest. Seller has good and valid title to the Interest, and

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has the right, title, power and authority to sell and transfer to Buyer the Interest. The Interest is owned by

Seller, and is being transferred by Seller to Buyer, free and clear of all Liens (as defined in Section 2.1(i)), other than customary restrictions, if any, under applicable securities laws. There are no options, proxies, voting trusts or other agreements or understandings with respect to the issuance, transfer or voting of the Interest. All issuances, sales and repurchases of equity interests by the Company have been effected in compliance with the Bylaws of the Company and all applicable laws, including, without limitation, applicable securities laws.

(d) Capitalization of the Company.  
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(i) The Company's capital amounts to FRF 1,000 and consists of equity interests, of which ninety-nine percent (99%) (99 interests out of 100 of a par value of FRF to each) are owned by Seller and one percent (1%) is owned by Herzog.

(ii) There are no authorized, outstanding or existing:

(A) proxies or other agreements or understandings with respect to the voting of any equity interest of the Company;

(B) depositary receipts of equity interests issued by the Company;

(C) securities convertible into or exchangeable for any equity interests of the Company (including notes, bonds or debentures);

(D) options, warrants or other rights to purchase or subscribe for any equity interests of the Company (other than this Agreement), or securities convertible into or exchangeable for any equity interests of the Company;

(E) agreements of any kind relating to the sale or issuance of any equity interests of the Company, any such convertible or exchangeable securities or any such options, warrants or rights; or

(F) agreements of any kind which may obligate the Company to sell, issue or purchase any of its equity interests.

Subsequent to December 31, 1998, the Company has not declared or paid, and has no obligation to declare or pay, any dividends that are payable after the Effective Date, and as of the Effective Date, the Company has no obligation to make, any distribution or payment to the equity holders of the Company or its affiliates.

(e) The Company. The Company is engaged only in the Business and has  
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no subsidiaries, except as set forth in Section 2.1(e) of the Disclosure Schedule. Copies of the Bylaws of the Company has heretofore been delivered to Buyer or Buyer's counsel and are correct and complete and reflect all amendments or changes in effect.

(f) Minute Book, Corporate Documents and Management. The Bylaws,  
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minute book of the equity holders' meetings and other corporate documents of the Company

have been duly and timely updated and adapted in order to fully comply with any changes in applicable law, except to the extent the same would not have a material adverse effect on the Company. The minute book of the equity holders' meetings and other corporate records of the Company contain an accurate and up-to-date record of all meetings and other corporate action of its equity holders and other governing bodies or persons and give a true and accurate account of the activities of the Company, except to the extent the same would not have a material adverse effect on the Company. The Company's filings with the competent Commercial and Companies Registry or other competent bodies and authorities are complete and up-to-date in all respects and have been timely made as required by applicable laws, except to the extent the same would not have a material adverse effect on the Company.

The sole legal representative of the Company is its gerant (manager), i.e., Mr. Andre-Yves Cottereau, who has not granted any delegation of his powers as gerant to any third party and which would still be effective on the Effective Date.

(g) Financial Statements and Financial Condition. Attached as  
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Section 2.1(g) of the Disclosure Schedule are the following financial statements:

(i) the unaudited balance sheets of the Company as of December 31, 1997 and 1998 and statements of income of the Company for the fiscal years ended December 31, 1997 and 1998 (collectively, the "Annual Financial Statements"), and

(ii) the unaudited balance sheet of the Company as of April 30, 1999, and statement of income of the Company for the period then ended (the "Interim Financial Statements" and together with the Annual Financial Statements, sometimes collectively referred to herein as the "Financial Statements").

The Financial Statements have been prepared in accordance with United States GAAP consistently applied (except such deviations described in Section 2.1(g) of the Disclosure Schedule) and the amounts set forth therein were used by Seller in connection with the preparation of its financial statements. The Financial Statements are consistent with the books and records of the Company. The Financial Statements present fairly the financial condition and results of operations of the Company at the dates and for the periods specified, except as otherwise noted therein and subject, in the case of Interim Financial Statements, to recurring year-end adjustments that are not expected to be material in amount.

As of the date hereof, the Company has no obligations or liabilities other than:

(A) those set forth or reserved against in the Financial Statements;

(B) those incurred since April 30, 1999 in the ordinary course of business in arms-length transactions and consistent in nature and scope with past practice, which liabilities will not have, in the aggregate, a material adverse effect upon the business, operations or financial condition of the Company as it exists on the Closing Date;

(C) those under the executory portion of contracts and agreements to which the Company is a party or by which it is bound that are listed in the Disclosure Schedule or are not required by the terms of this Agreement to be listed in the Disclosure Schedule; and

(D) those incurred in the ordinary course of business and consistent in nature and scope with past practice, which liabilities are not required by GAAP to be shown on a balance sheet (other than in notes thereto) and which liabilities, individually and in the aggregate, are not material.

The Company has maintained its books of account and other records in accordance with applicable laws, rules and regulations, and such books and records are and, during the periods covered by the Financial Statements and from April 30, 1999, through the Effective Date were, correct and complete in all material respects, and provide or provided a fair and accurate basis for the preparation of the Financial Statements and the Closing Date Schedule and reflect all material transactions to which the Company has been a party. The Company has, each year, regularly and timely filed its annual accounts and other accounting documents with the competent Commercial Court, except to the extent it would not have a material adverse effect on the Company. The Company does not have any statutory auditor.

(h) Absence of Certain Changes. Etc. Since December 31, 1998, there

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has been no material adverse change in the business, operations, financial condition or assets, of the Company. Without limiting the generality of the foregoing, since December 31, 1998, except as set forth on the Disclosure Schedule, the Company has not:

(i) issued, sold or delivered any of its equity interests or notes, bonds or other debt instruments of the Company, or granted any rights calling for the issuance, sale or delivery of any thereof (including without limitation options, warrants, convertible securities, stock appreciation rights or similar rights);

(ii) made any payments or distribution of assets (other than in cash or as otherwise described in this Agreement) in the form of management fees or otherwise to Seller or any Affiliate of Seller or of the Company. (As used herein, the term "Affiliate" means a person or entity which controls, is controlled by or is under common control with the person with respect to which the determination is being made. "Control" means the power to direct or cause the direction of the management and policies of a person or entity through voting securities, by contract or otherwise.)

(iii) purchased or redeemed any of the equity interests of the Company;

(iv) subdivided, combined, reclassified or recapitalized any of the equity interests of the Company;

(v) amended the Bylaws of the Company or changed the Company's name or permitted the use thereof by any other person;



(vi) agreed to merge or consolidate the Company with any other entity or to acquire any corporation, association, partnership, joint venture or other entity;

(vii) changed the methods of accounting or accounting principles or practices of the Company from those set forth in or reflected by the Financial Statements or increased or experienced any adverse change in any assumption underlying any method of calculating contingencies or other reserves from that reflected in the Financial Statements;

(viii) cancelled or waived a claim of substantial value or sold, transferred or otherwise disposed of (or agreed to sell, transfer or otherwise dispose of) any assets of the Company, except for sales of inventory in the ordinary course of business consistent with past practices or as otherwise set forth on the Disclosure Schedule;

(ix) failed to maintain in full force and effect with respect to the assets, employees and business of the Company all insurance coverage of the types and in the amounts as were in effect on and as of December 31, 1998;

(x) made any legally binding commitment for additions to property, plant or equipment having an individual cost in excess of \$25,000 or an aggregate cost in excess of \$75,000 for all such items taken together;

(xi) disposed of or permitted to lapse any right listed or described on the Disclosure Schedule pursuant to Section 2.1(q);

(xii) made or agreed to make any increase in the compensation payable to any of the gerant (manager) or employees of the Company, other than in accordance with continuing obligations disclosed in the Disclosure Schedule;

(xiii) entered into or amended any collective agreements and supplementary benefit plans;

(xiv) suffered any significant casualty, damage, destruction or loss, or interruption in use, of any significant asset or property (whether or not covered by insurance), on account of fire, flood, riot, strike or other hazard or act of God;

(xv) hired or terminated any employee who has an annual salary in excess of US \$30,000;

(xvi) imposed or permitted any Liens upon any of its assets, tangible or intangible;

(xvii) without limitation by the enumeration of any of the foregoing, entered into any agreement or transaction other than in the usual and ordinary course of business in accordance with past practices, except for actions taken in connection with the transactions contemplated by this Agreement; or

(xviii) agreed, whether in writing or not, to do any of the foregoing.

(i) Title and Condition of Assets. The Company has good and

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marketable title to all of its assets (other than leased assets), free and clear of all Liens. The Company's tangible assets, taken as a whole, are in good operating condition, ordinary wear and tear excepted and constitute all of the assets necessary to conduct the Business of the Company as the same is presently conducted. As used herein, "Liens" shall mean any mortgage, pledge, lien, encumbrance, charge or other security interest, other than (a) mechanic's, materialmen's and similar liens, (b) liens for Taxes (as defined in Section 2.1(m)) not yet due and payable or for Taxes that the taxpayer is contesting in good faith through appropriate proceedings, (c) purchase money liens and liens securing rental payments under capital lease arrangements, and (d) other liens arising in the ordinary course of business and not incurred in connection with the borrowing of money.

(j) Litigation; Compliance With Laws.

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(i) Except as set forth in the Disclosure Schedule, there are no suits, actions, claims, arbitrations, administrative or legal or other proceedings, whether in equity or at law, or governmental or administrative investigations pending (i.e., where Seller or the Company has received service of process or other formal action to commence such a proceeding) or, to the best of Seller's knowledge, threatened (A) against or related to (x) Seller with respect to the transactions contemplated by this Agreement, (y) the Company or (z) any material asset or property owned, leased or used by the Company, or (B) which question or challenge the validity of this Agreement or any action taken or to be taken pursuant to this Agreement. Except as set forth on the Disclosure Schedule and except for routine claims for benefits, no actions, suits or claims are pending or, to the best of Seller's knowledge, threatened with respect to any collective agreement applied by the Company and no material product liability claim is pending or, to the best of Seller's knowledge, threatened against the Company with respect to the products of the Company. The Disclosure Schedule lists all product liability claims with respect to the products or services of the Company arising out of occurrences from January 1, 1995 through the date of this Agreement.

(ii) The Company is in compliance with French federal, national or local governmental or judicial laws, ordinances, permits, requirements, decrees, rules, regulations, arbitration awards and orders applicable to the Company or the business, operations or properties of the Company, except where noncompliance would not have a material adverse effect on the Company. There is no order, writ, injunction, judgment or decree of any court or federal, national or local department, official, commission, authority, board/bureau, agency, or other instrumentality issued or pending against the Company. The Company has duly filed all reports and returns required to be filed by it with governmental authorities and obtained all governmental permits and licenses and other governmental consents which are required in connection with the businesses and operations of, and the products sold by the Company; all of such permits, licenses and consents are in full force and effect, and no proceedings for the suspension or cancellation of any of them are pending or threatened as a result of the transfer of the Interest, except where any of the above would not have a material adverse effect on the Company.

(k) Company Contracts. Except as set forth on the Disclosure Schedule,

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all Company Contracts (as defined herein) are valid, subsisting, in full force and effect and binding

upon the parties thereto in accordance with their terms, subject to the qualifications that enforcement of the rights and remedies created thereby is subject to (A) bankruptcy, insolvency, reorganization, moratorium and other laws of general application affecting the rights and remedies of creditors and (B) general principles of equity (regardless of whether such enforcement is considered in a proceeding in equity or at law), and the Company is not in default under any of them, nor does any condition exist that with notice or lapse of time or both would constitute such a default. To the knowledge of the Seller, no other party to any such Company Contract is in default thereunder, nor does any condition exist that with notice or lapse of time or both would constitute such a default. Subject to obtaining any consents required under the terms of the Company Contracts, all of the Company's rights under such Company Contracts will remain in full effect upon consummation of the transactions contemplated by this Agreement. For purposes of this Agreement, the term "Company Contracts" means and includes, and the Disclosure Schedule lists, all contracts, mortgages, debt instruments, security agreements, licenses, commitments, guaranties, leases, charters, franchises, powers of attorney and agency contracts and other agreements to which the Company is a party or by which it is bound (excluding purchase and sale orders, inventory acquisition agreements, in each case made in the ordinary course of business in arms-length transactions and consistent in nature and scope with prior practices of the Company) as of the date of this Agreement and that:

(i) involve or would involve the payment by the Company of in excess of \$25,000 during any fiscal year, unless cancelable by the Company with notice of less than six (6) months and premium or penalty of less than \$10,000;

(ii) relate to the payment of royalties with respect to any products sold by the Company;

(iii) guarantee, indemnify or otherwise cause the Company to be liable for the obligations or liabilities of another;

(iv) involve the borrowing or lending of money, or the granting of any Lien;

(v) involve an agreement with any bank, finance company or similar organization for the sale of any products of the Company on credit;

(vi) involve the sale by or to the Company of products on consignment;

(vii) are or contain a power of attorney;

(viii) contain any renegotiation or redetermination provision;

(ix) require or are otherwise contingent upon the payment of commissions or compensation to any person not a party to such Company Contract;

(x) concern the formation of a partnership or joint venture;

(xi) impose material noncompetition or confidentiality obligations on the Company with respect to a third party;

(xii) involve any significant license agreement or arrangement;  
or

(xiii) require the Company to supply any other party with such party's requirements for products or services.

The Disclosure Schedule specifically describes the arrangements (formal and informal, written or oral) between the Company and any Related Party (as defined below) (including Seller) and the services or functions (administrative or otherwise) provided to the Company by any Related Party. No Related Party owns any assets which are used in the Company's business, and no Related Party which is under the control of the Seller is engaged in any business which competes with the Business. As used herein, the term "Related Party" means (A) Seller or any Affiliate (as defined below) of Seller or the Company, or (B) any corporation, partnership, association, limited liability company or other entity (other than the Company), in which any of the foregoing persons has any relation by blood or marriage, has any material interest, direct or indirect. As used herein, "Affiliate" shall mean any person, firm, corporation, partnership, association or entity that directly or indirectly or through one or more intermediaries controls, is controlled by or is under common control with another person, firm, corporation, partnership, association or entity.

(1) Personnel.

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The Company has satisfied, and continues to satisfy, all its obligations pursuant to French labor law. All of the employees of the Company are subject to the appropriate collective bargaining and other collective agreements applicable to them under French labor law as regards the main activities carried out by the Company presently and in the past.

There are no individual compensation arrangements which may be due for whatsoever reason or cause (including termination of employment agreement) deviating in any material respect from the standard employment agreement applicable to employees of the Company.

None of the employees and manager of the Company is entitled to any benefits that are unusual in the light of prevailing industry standards in the place of employment of such employee and/or manager. None of the employees of the Company has made it known that he/she intends to terminate his/her employment agreement and Varlen, Seller and/or the Company have not encouraged any employee of the Company to terminate his/her employment with the Company.

There is no Workers' Committee, or other employees representative bodies or persons in the Company and the Company is not required by law or otherwise to organize for the election of such a Workers' Committee or other employees representative body or person.

There have been no requests for union representation, strikes, lock-outs, sit-ins or other action at any of the premises of the Company during the twelve months prior to the date hereof and no such industrial action is threatened or pending.

There is no pending or threatened litigation with a current or former employee of the Company, in particular, without limitation, with respect to unfair labor practice charge or employee grievance charge.

(m) Tax Matters.  
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(i) As used in this Agreement, the following terms shall have the following meanings: (A) the term "Taxes" means all federal, national, state, local, foreign and other net income, gross income, gross receipts, direct or indirect sales, use, ad valorem, transfer, franchise, profits, license, lease, service, withholding, excise, severance, stamp, occupation, property, customs, duties or other taxes, as well as any social contributions, including without limitation, social security contributions, contributions to be paid to unemployment insurance agencies, contributions to any complementary or supplementary retirement plans, contributions to any medical, life and disability plans supplementary to the social security plans, and in general any taxes, withholding or contributions assessed in whole or in part on wages, salaries, and compulsory levies of all kinds, together with any interest and any penalties, additions to tax or additional amounts with respect thereto, and (B) the term "Returns" means all returns, declarations, reports, statements and other documents required to be filed in respect of Taxes. All citations to the Code, or to the Treasury Regulations promulgated thereunder, shall include any amendments or any substitute or successor provisions thereto. Any reference in this Section to the Company includes a reference to a person or entity acting on behalf of or with respect to the Company (including, without limitation, Seller). The Company has duly and timely filed all Returns required to have been filed by it prior to the Effective Date. All Taxes required to have been paid prior to the Effective Date, or accruing with respect to the period ending on the Effective Date, have been fully paid by the Company or, as the case may be, by Seller and Herzog, on or prior to the due date thereof, or will be fully accrued on the Closing Date Schedule. Except for this Agreement, there are no tax sharing agreements to which the Company is a party or by which the Company is affected.

(ii) The Company shall not incur any tax burden as a result of the cessation, due to the sale of all or part of the Interest, of any tax consolidation regime applicable to it.

(n) Environmental.  
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(i) The Company has complied with all Environmental Laws (as defined herein), the failure to comply with which could result in Damages (as defined herein) in excess of \$25,000, and no action, suit, proceeding, hearing, charge, complaint, claim, demand, or notice, and no investigation has been filed or commenced against the Company alleging such failure.

(ii) Except (i) to the extent accrued in the Closing Balance Sheet and (ii) liabilities for storage, handling, transportation, use and disposal of Hazardous Substances (as defined herein) which are incurred by the Company in the ordinary course of business, the Company has no liability for Hazardous Substances (and has not handled, used, stored, recycled or disposed of any Hazardous Substance (as defined herein)), arranged for the disposal of any Hazardous Substance, exposed any employee or other individual to any Hazardous Substance or condition, or owned or operated any property or facility, in any manner that could reasonably be expected to form the basis for any present or future action, suit, proceeding, hearing, investigations, charge, complaint, claim or demand giving rise to any liability for Hazardous

Substances which in each case could result in Damages in excess of \$25,000 for any reason under any Environmental Laws.

(iii) Except (i) to the extent accrued in the Closing Balance Sheet and (ii) liabilities for storage, handling, transportation, use and disposal of Hazardous Substances which are incurred by the Company in the ordinary course of business, all properties and equipment used in the Business are free of any amounts of Hazardous Substances, the use and disposal of which could result in Damages (as defined herein) in excess of \$25,000.

(iv) There are no in service or out of service underground storage tanks located in or on real property owned by the Company or, to the extent the Company is responsible for such tanks or any environmental damage resulting therefrom, real property leased by the Company.

(v) The Company has not received notice and has no knowledge of any reasonably likely claim under any Environmental Laws regarding the Business, or any real property owned or leased by the Company.

(vi) As used herein, the term Environmental Laws shall mean all federal, national, state, European Union and local laws, statutes, ordinances, rules, regulations, decrees, orders and settlements regarding the protection of human health, safety and the environment and pollution, in effect as of the date of this Agreement and applicable to the Facilities and the operations conducted thereon, as amended, and any regulations promulgated thereunder, as they existed on the date hereof.

"Hazardous Substances" shall mean materials, substances or wastes defined by or regulated by applicable Environmental Laws.

(o) Receivables. To the knowledge of Seller, all of the accounts -----  
receivable of the Company arose in the ordinary course of business, and are good and collectable in the ordinary course of business, net of reserves therefor in the Financial Statements.

(p) Inventories. The inventory of the Company consists of raw -----  
materials and supplies, manufactured and purchased parts, goods in process and finished goods, all of which is merchantable and fit for the purpose for which it was procured or manufactured. The inventories of the Company have been valued in the Financial Statements at the lower of cost or market and in a consistent manner with respect to all periods covered thereby. Section 2.1(p) of the Disclosure Schedule sets forth the Company's practices and procedures with respect to the valuation of inventories which are consistent with those used in the preparation of the Financial Statements (and will be used in the preparation of the Closing Balance Sheet). The Company is not under any liability or obligation with respect to the return of inventory or merchandise in the possession of wholesalers, distributors, retailers or other customers. Except as described on Section 2.1(p) of the Disclosure Schedule, no inventory of the Company is on consignment.

(q) Intangible Assets. The Disclosure Schedule lists all material -----  
patents, trademarks and service marks, patent, trademark and service mark registrations and applications, trade names, copyrights, copyright registrations and applications, and licenses with respect thereto owned by the Company or used by the Company in its business operations (collectively,

"Intellectual Property"). Intellectual Property which is owned by a third party and used by the Company has been duly licensed to the Company and the Company has sufficient rights to use such Intellectual Property to conduct its business as presently conducted. There is no material item of Intellectual Property not owned by or licensed to the Company which is necessary for the conduct of the Company's business as presently conducted. There are no claims, demands or proceedings instituted, pending or, to the best of Seller's knowledge, threatened pertaining to or challenging the right of the Company to use any of the Intellectual Property or alleging that any of the Intellectual Property infringes or otherwise violates the patent, trade name, trademark, copyright or other rights of any other person. Except as set forth in the Disclosure Schedule, the Company has not granted any licenses or other rights under, or authorized or permitted anyone else to use, any of the Intellectual Property.

(r) Customers. To the best of Seller's knowledge, since May 31,  
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1999, there has not been any termination, cancellation or material limitation, modification or change in the business relationship of the Company with any significant customer of the Company.

(s) Real Estate.  
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(i) The Company does not own any real estate.

(ii) The Disclosure Schedule lists and describes briefly all real property leased to the Company. With respect to each lease listed in the Disclosure Schedule:

(A) the lease or sublease is legal, valid, binding, enforceable, and in full force and effect in accordance with its terms and shall not be affected by the transfer of Interest and this Agreement;

(B) the Company is not, and to the knowledge of the Company, no party to the lease or sublease is, in breach or default, and no event has occurred and is continuing which, with notice or lapse of time, would constitute a breach or default or permit termination, modification, or acceleration thereunder;

(C) there are no disputes, oral agreements, or forbearance programs in effect as to the lease;

(D) the Company has not assigned, transferred, conveyed, mortgaged, deeded in trust, or encumbered any interest in the leasehold; and

(E) all facilities leased thereunder have received all approvals of governmental authorities (including licenses and permits) required in connection with the operation thereof and have been operated and maintained in all material respects in accordance with applicable laws, rules, and regulations.

(t) No Other Representations and Warranties by Varlen and Seller;  
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Specific Disclosure.  
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(i) Varlen and Seller shall not be deemed to have made to Roper and Buyer any representation or warranty other than as expressly made by Varlen and Seller in this Section 2.1.

(ii) Without limiting the generality of the foregoing, but subject to the express representations and warranties made by Varlen and Seller in Section 2.1, Seller and Varlen are not making any representation and warranty with respect to:

(A) any projections, estimates or budgets of future revenues, expenses or expenditures, results of operations (or any component thereof) or financial condition (or any component thereof) of the Company, or

(B) any other information or documents made available to Buyer and Roper or any of their representatives or investors with respect to the Company.

(iii) For purposes of this Agreement, references to the "knowledge of Seller", "Seller's knowledge" or "Seller's awareness" or words of similar import shall mean and include the actual knowledge of Seller after due inquiry of the individuals listed on Section 2.1(t) of the Disclosure Schedule, including without limitation Andre-Yves Cottereau, with respect to the indicated matters.

(iv) A disclosure in one section of the Disclosure Schedule shall not be effective with respect to another representation and warranty unless such section is specifically cross-referenced.

2.2. Representations and Warranties of Buyer and Roper.  
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Roper and Buyer hereby represent and warrant, jointly and severally, to Seller and Varlen, as of the Effective Date, as follows:

(a) Organization and Good Standing of Buyer. Buyer is a Societe  
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Anonyme duly organized, validly existing, and in good standing under the laws of France and has all requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder. Buyer is qualified to do business as a foreign corporation in each jurisdiction where it is required to qualify in order to conduct its business as presently conducted.

(b) Organization and Good Standing of Roper. Roper is a corporation  
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duly organized, validly existing, and in good standing under the laws of the State of Delaware and has all requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder. Roper is qualified to do business as a foreign corporation in each jurisdiction where it is required to qualify in order to conduct its business as presently conducted.

(c) Consents, Authorizations and Binding Effect. Each of Roper and  
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Buyer has full corporate power and authority to execute, deliver and perform its obligations under this Agreement without the necessity of obtaining any Consent or giving any Notice, except for such Consents which have been obtained and are unconditional and in full force and effect and such Notices which have been duly given. The board of directors of Roper has duly authorized the



execution, delivery and performance of this Agreement by Roper. This Agreement has been duly executed and delivered by each of Roper and Buyer and constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, except as may be limited by bankruptcy, reorganization, insolvency and similar laws of general application relating to or affecting the enforcement of rights of creditors. The execution, delivery and performance of this Agreement by Roper and Buyer will not:

(i) conflict with, result in the breach of or constitute a default under or the acceleration of any contract, agreement commitment, undertaking, restriction or instrument to which Roper and Buyer are a party or by which Roper and Buyer may be bound or affected, or

(ii) constitute a violation of any statute, judgment, order, decree, regulation or rule of any court, governmental authority or arbitrator applicable or relating to or binding upon Roper and Buyer, or

(iii) violate any provision of the Articles of Incorporation or Bylaws of Buyer and Roper.

(d) Acquisition of Interest for Investment. Buyer acknowledges that

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in acquiring the Interest under this Agreement, Buyer has relied solely on the representations and warranties set forth in Section 2.1, including the information in the Disclosure Schedule related thereto and the documents and information referred to therein, and the other covenants and statements of Seller set forth in this Agreement, and not upon any other representations, warranties, covenants or statements of any kind. Buyer has sufficient knowledge, experience and sophistication to enable it properly and fully to evaluate and understand the merits and risks associated with its acquisition of the Interest. Buyer is acquiring the Interest for its own account for investment and with no present intention of distributing or reselling such Interest or any part thereof in any transaction which would constitute a "distribution" within the meaning of the Securities Act. Buyer understands that the Interest has not been registered under the Securities Act or any state securities laws and may not be sold or transferred except in compliance therewith or pursuant to an exemption thereunder and are being transferred to Buyer, in part, in reliance on the foregoing representation and warranty.

ARTICLE III  
CLOSING; CONDITIONS OF CLOSING AND TERMINATION

3.1. Closing.  
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The Closing and the sale, purchase and transfer of the Shares will take place at the offices of Powell, Goldstein, Frazer & Murphy LLP, 16/th/ Floor, 191 Peachtree Street, N.E., Atlanta, Georgia 30303, on June 21, 1999 (the "Closing Date"), effective as of the close of business on June 18, 1999 (the "Effective Date").

3.2. Conditions to Obligations of Buyer and Roper.

The obligations of Buyer and Roper to consummate the sale and purchase under this Agreement are subject to the satisfaction of the following conditions, each of which may be waived by Buyer and Roper.

(a) Representations and Warranties; Performance of Obligations. The

representations and warranties of Varlen and Seller set forth in this Agreement shall be true and correct in all material respects. Seller and Varlen shall have performed in all material respects the covenants and obligations necessary to be performed by it under this Agreement prior to the Closing Date.

(b) Authorization of Agreement. All action necessary to authorize

the execution, delivery and performance of this Agreement by Seller and Varlen shall have been duly and validly taken, and Seller and Varlen shall have full right, power and authority to consummate the transactions contemplated hereby on the terms provided herein.

(c) Security Interests, Encumbrances, Liens, etc. Roper and Buyer

shall receive written advice to the effect that a search of the public records has disclosed that no Liens, other than those reflected in Section 2.1(i) of the Disclosure Schedule, have been filed or recorded with respect to the Company's assets, Interest and the remaining equity interest, and all Liens requested by Roper and Buyer to have been released or satisfied shall have been released or satisfied.

(d) Suits or Proceedings. No suit, proceeding or investigation shall

have been commenced or threatened by any governmental authority to restrain, enjoin or hinder, or to seek material damages on account of, the consummation of the transactions herein contemplated.

(e) Corporate Matters. If requested, Buyer and Roper shall have

received (i) the resignation letter of the gerant (manager) of the Company, and of any other legal representative, if any, such resignation to be effective as of immediately following the Closing and (ii) the minute book of the meetings of the equity holders of the Company.

(f) Other Agreements. The sellers under the German Sales Agreement

and under the U.S. Sales Agreement are closing the transactions contemplated under such agreements simultaneously with the Closing.

(g) Interest. Buyer and Roper shall have received from Seller all

the duly executed originals of the "Acte de Cession de Parts" relative to the transfer of the Interest to Buyer (as provided in Section 6.4 below), together with an undertaking from Varlen and Seller to execute, promptly after the date hereof, such additional documents as shall be necessary to more fully effect the transfer to Buyer of the Interest under French law in accordance with the terms of this Agreement.

(h) Opinion. Buyer shall have received a legal opinion from Seller's

General Counsel containing customary opinions with respect to the Company and the transactions contemplated hereby.

3.3. Conditions to Obligations of Seller and Varlen.  
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The obligations of Seller and Varlen to consummate the sale and purchase under this Agreement are subject to the satisfaction of the following conditions, each of which may be waived by Seller and Varlen:

(a) Representations and Warranties; Performance of Obligations. The  
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representations and warranties of Roper and Buyer set forth in this Agreement shall be true and correct in all material respects. Roper and Buyer shall have performed in all material respects the covenants and obligations necessary to be performed by them under this Agreement prior to the Closing Date.

(b) Authorization of Agreement. All action necessary to authorize  
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the execution, delivery and performance of this Agreement by Roper and Buyer shall have been duly and validly taken and Roper and Buyer shall have full right, power and authority to consummate the transactions contemplated hereby on the terms provided herein.

(c) Suits or Proceedings. No suit, proceeding or investigation shall  
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have been commenced or threatened by any governmental authority to restrain, enjoin or hinder, or to seek material damages on account of, the consummation of the transactions herein contemplated.

(d) Other Agreements. The buyers under the German Sales Agreement  
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and under the U.S. Sales Agreement are closing the transactions contemplated under such agreements simultaneously with the Closing.

(e) Purchase Price. Seller shall have received the Purchase Price.  
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(f) Opinion. Varlen and Seller shall have received a legal opinion  
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from Roper's counsel with respect to Roper and the transactions contemplated by this Agreement.

ARTICLE IV  
INDEMNIFICATION

4.1. Indemnification of Buyer and Roper.  
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Subject to the terms and conditions of this Article IV, Seller and Varlen shall defend, at their own expense, and shall jointly and severally indemnify Roper, Buyer and/or Company at Roper or Buyer's option, against, and hold Roper, Buyer and Company harmless from, any and all loss, damage or liability, and all expenses, including without limitation reasonable legal fees and costs of investigation, remediation or other response action and other costs (collectively "Damages"), asserted against or incurred by Roper, Buyer and/or the Company arising out of:

(a) a breach of the representations and warranties made by Seller or Varlen in this Agreement or in any certificate or other instrument furnished or to be furnished to Buyer hereunder;

(b) the non-fulfillment of any agreement or covenant made by Seller or Varlen in or pursuant to this Agreement or in any certificate or other instrument furnished or to be furnished to Buyer hereunder;

(c) any liability or obligation of the Company arising out of or in connection with the conduct of the Business prior to the Effective Date, except to the extent such liability or obligation (i) is described in Paragraphs (A), (B), (C) or (D) of Section 2.1(g) (without regard to any materiality qualifier contained therein); or (ii) results in an indemnifiable claim for a breach of representation and warranty for which Roper, Buyer or the Company otherwise recovers under Section 4.1(a) above.

4.2. Indemnification of Seller and Varlen.  
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Subject to the terms and conditions of this Article IV, Roper and Buyer shall defend, at their own expense, and shall indemnify Varlen and/or Seller against, and hold Varlen and/or Seller harmless from, any and all Damages asserted against or incurred by Varlen and/or Seller arising out of:

(a) any breach of the representations and warranties made by Buyer and Roper in this Agreement or in any certificate or other instrument furnished or to be furnished to Varlen and Seller hereunder,

(b) the non-fulfillment of any agreement or covenant made by Roper and Buyer in or pursuant to this Agreement, or

(c) the operations of the Company following the Effective Date.

4.3. Survival.  
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All representations and warranties contained herein or made pursuant hereto, whether by Varlen, Seller or Buyer, and the indemnification provided under Sections 4.1(a) and 4.1(c) shall survive the closing hereunder until the second anniversary of the Closing Date, except that:

(a) the representations and warranties of Varlen and Seller contained in or made pursuant to Sections 2.1(a) (other than the last sentence thereof), 2.1(b), 2.1(c) and 2.1(d), and of Roper and Buyer contained in Sections 2.2(a), 2.2(b), 2.2(c) and 2.2(d) shall survive the Closing hereunder without any limitation as to time; and

(b) the representations and warranties of Varlen or Seller contained in or made pursuant to Section 2.1(m) hereof, or otherwise with respect to Tax matters, shall survive the Closing until six months after the date of expiration of any applicable statute of limitations and on which the right to file any claim in respect of such matters by the appropriate governmental or administrative authority or any other Person has expired.

The expiration of any representation and warranty or any indemnification obligation hereunder shall not affect any claim made by the giving of written notice by a Party to the other in the manner provided by this Agreement, prior to the date of such expiration. All covenants,

indemnities and agreements shall survive the Closing forever, subject to applicable time periods and limitations specified in this Agreement.

#### 4.4. Claims.

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(a) Promptly after receipt by an indemnified party of written notice of the commencement of any investigation, claim, proceeding or other action in respect of which indemnity may be sought from the indemnitor (an "Action"), such indemnified party shall notify the indemnitor in writing of the commencement of such Action; but the omission to so notify the indemnitor shall not relieve it from any liability that it may otherwise have to such indemnified party, except to the extent that the indemnitor is materially prejudiced or forfeits substantive rights or defenses as a result of such failure. In connection with any Action in which the indemnitor and any indemnified party are parties, the indemnitor shall be entitled to participate therein, and may assume the defense thereof. So long as the indemnifying party is diligently defending in good faith any such Action, the indemnifying party may control the defense thereof; in such event, the indemnified party may participate in the defense of the Action at its own expense. Neither the indemnifying party nor the indemnified party will settle or compromise the Action without the consent of the other, which consent will not be unreasonably withheld.

(b) In the event a Party should have a claim for indemnification that does not involve a claim or demand being asserted by a third party, the Party seeking indemnification shall promptly send notice of such claim to the Party from whom indemnification is sought. If the latter does not dispute such claim, the latter shall pay such claim in full within 10 business days. If the latter disputes such claim, such dispute shall be resolved by agreement of the Parties or in any other manner available under law.

(c) The indemnified party shall make available to the indemnifying party or its representatives all records and other materials reasonably required by them for use in connection with any such claim and shall cooperate with the indemnifying party in the defense of all third party claims.

#### 4.5. Limitations.

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Any claims for breach of any representation or warranty made hereunder shall be subject to the following limitations and adjustments:

(a) indemnification under Section 4.1(a) and 4.1(c) shall only be required to be provided by Varlen or Seller when the aggregate amount of all claims for which indemnification is sought from Roper or Seller under Sections 4.1(a) and 4.1(c) of this Agreement, the German Sales Agreement and the U.S. Sales Agreement exceeds \$250,000, in which case Varlen or Seller shall be liable for all such amounts in excess thereof; provided, however, that this requirement shall not apply to any medical or casualty claims which arise prior to Closing that are reported after the Closing.

(b) no individual claim for indemnity under Section 4.1(c) may be brought unless the aggregate Damages in respect of such claim exceeds \$20,000, but in such event Damages shall be recoverable without regard to such \$20,000 threshold, subject to any other limitations imposed under this Section 4.5;

(c) no claim for indemnity under Sections 4.1 or 4.2 shall be effective unless noticed, pursuant to Section 4.4, within the survival period specified under Section 4.3;

(d) in no event shall Seller's indemnification obligation with respect to a breach of representations and warranties under Section 4.1(a) (but excluding Sections 2.1(a), except the last sentence thereof, 2.1(b), 2.1(c) and 2.1(d)) of this Agreement, the German Sales Agreement and the U.S. Sales Agreement exceed the amount of \$4,200,000. The indemnification obligations of either Seller and Varlen or Buyer respectively, for representations and warranties set forth in Sections 2.1(a), except the last sentence thereof, 2.1(b), 2.1(c) and 2.1(d) and Sections 2.2(a), 2.2(b), 2.2(c) and 2.2(d) of this Agreement, the German Sales Agreement and the U.S. Sales Agreement shall not exceed the aggregate purchase price under this Agreement, the German Sales Agreement and the U.S. Sales Agreement;

(e) in no event shall either Seller's, Varlen's or Buyer's respective indemnification obligations under Section 4.1(c) or 4.2(c) exceed the amount of \$5,000,000.

(f) under no circumstances shall any Party be liable to another Party for punitive, consequential or non-compensatory damages;

(g) any indemnifiable claim shall be reduced by the amounts actually recovered by the indemnified party from insurance carriers and any amount recovered by the indemnified party subsequent to the payment by the indemnitor with respect to the same claim shall be remitted to the indemnitor, provided that such remittance shall not exceed the amount of such indemnification payment by the indemnitor;

(h) notwithstanding the foregoing, the provisions of this Section 4.5 shall not apply to any indemnification obligations arising out of the indemnities contained in Sections 4.1(b) or 4.2(b) of this Agreement, but all such indemnification obligations of either party shall be limited to and shall not exceed the aggregate purchase price under this Agreement, the German Sales Agreement and the U.S. Sales Agreement; and

(i) the Parties agree that the sole liability and the sole remedy of Varlen, Seller, Buyer and the Company for any claim with respect to the transactions contemplated under this Agreement (including without limitation under Environmental Laws) shall be limited to indemnification under Article IV of this Agreement, and in connection therewith each Party waives any and all statutory and common law rights and remedies (including without limitation rights of indemnification and contribution) which any such Party may have against another Party (except equitable remedies such as injunction and specific performance).

(j) for purposes of this Section 4.5, any amounts paid as Damages under this Agreement, U.S. Sales Agreement or the German Sales Agreement in foreign currency shall be valued at the US exchange rate on the Effective Date.

ARTICLE V  
CERTAIN POST CLOSING MATTERS

5.1. Certain Tax Matters.  
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Following the Closing, Buyer and the Company agree that the Company will not:

(a) pay any dividends (including without limitation deemed dividends under Sections 304 and 956 of the U.S. Internal Revenue Code) or make any distributions to its equity holder during calendar year 1999;

(b) enter into any transaction during 1999 outside the ordinary course of business that could generate "Subpart F income" for the Company or Seller within the meaning of the U.S. Internal Revenue Code; or

(c) elect to treat the transactions contemplated under this Agreement as an asset acquisition under Section 338 of the U.S. Internal Revenue Code.

5.2. Tax Sharing Arrangements.  
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All tax sharing arrangements and any other contracts with respect to Taxes between Seller (and its affiliates) and the Company, if any, are terminated as of the Effective Date.

5.3. Access to Records After Closing.  
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(a) Following the Closing, Buyer shall give to Seller, without charge, reasonable access to (and the right to make copies at the expense of Seller of) the books, files, records and tax returns of the Company to the extent that such relate to the business and operations of the Company on or prior to December 31, 1999, and are in the Company's possession on the Closing Date or subsequently come into Buyer's possession, but any access pursuant to this Section 5.3 shall be conducted by Seller in good faith, with a reasonable purpose and in such manner as not to interfere unreasonably with the operations of Buyer following the Closing. Buyer shall also use reasonable diligence to provide all information requested by Seller with respect to the period ending December 31, 1999, for tax purposes. For a period of five years after the Closing, Buyer shall maintain such books, files, records and tax returns and thereafter, prior to destroying or disposing of any of them, Buyer shall give, or shall cause the Company to give, 30 days' advance notice to Seller of their intended destruction or disposition, and during such 30-day period Seller shall have the right to take possession of the same or to make copies of the same, all at Seller's expense.

(b) Following the Closing, Seller shall give to Buyer, without charge, reasonable access to (and the right to make copies at the expense of Buyer of) the books, files, records and tax returns of Seller to the extent that such relate to the business and operations of the Company on or prior to the Closing Date and are in Seller's possession on the Closing Date or subsequently come into Seller's possession, but any access pursuant to this Section 5.3 shall be conducted by Buyer in good faith, with a reasonable purpose and in such manner as not to interfere unreasonably with the operations of Seller following the Closing. For a period of five years after the Closing, Seller shall maintain such books, files, records and tax returns and

thereafter, prior to destroying or disposing of any of them, Seller shall give, 30 days' advance notice to Buyer of their intended destruction or disposition, and during such 30-day period Buyer shall have the right to take possession of the same or to make copies of the same, all at Buyer's expense.

(c) For a period of one hundred twenty (120) days following the Closing, Buyer shall cause to be prepared and delivered to Seller (to the extent not already prepared and delivered) in the normal time frame followed by Seller and the Company consistent with past practice and in all events within fifteen (15) days after it shall have been requested by Seller, the financial reporting package for the Company (but only in respect of periods ending on or prior to the Closing Date) for (i) the quarterly Closing for Seller's fiscal quarter ending July 31, 1999, and (ii) Seller's fiscal year ending January 31, 2000. After such one hundred twenty (120) day period, Buyer shall cooperate and use reasonable diligence to provide Seller with all information requested by Seller to assist Seller in preparing a financial reporting package for the Company (but only in respect of periods ending on or prior to the Closing Date) for (i) the quarterly closing for Seller's fiscal quarter ending July 31, 1999, and (ii) Seller's fiscal year ending January 31, 2000.

#### 5.4. Covenant Not to Compete. -----

As an inducement for Buyer to enter into this Agreement, Seller agrees that:

(a) Non-Compete. For a period of three (3) years after the Closing,  
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Seller shall not do, and shall cause any Affiliate of Seller controlled by it not to do, any one or more of the following, directly or indirectly:

(i) engage, manage, operate, finance, control or participate, as an owner, partner, shareholder, member, consultant, or (without limitation by the specific enumeration of the foregoing) otherwise, in any business whose products or activities compete, in whole or in part, with the products or activities which the Company manufactures or distributes (which products or activities include those currently sold and under active development) on the Effective Date (any such business is referred to herein as a "Competitive Business"). For purposes of this Section, "active development" shall mean efforts for which resources have been committed by the Company having a value in excess of \$50,000.

(ii) solicit or attempt to solicit, with respect to a Competitive Business, any customer of Buyer which has been a customer of the Company within the past three (3) years; or

(iii) except as set forth in the Disclosure Schedule, induce or attempt to induce any person or entity that is an employee or agent of the Company on the Effective Date to terminate his, her or its relationship with, or employment by, the Company.

(b) Limitation. Notwithstanding the foregoing, the provisions of  
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Section 5.4(a) hereof shall not be deemed to prohibit or restrict in any manner (i) the acquisition by Seller or any Affiliate of Seller of any company partially engaged in a Competitive Business, provided that if such Competitive Business accounts for more than the lesser of \$10,000,000 or five percent (5%) of the net revenues of the acquired company, Seller or such Affiliate shall use



commercially reasonable efforts promptly after the consummation of the acquisition to divest itself of the Competitive Business within eighteen (18) months after such consummation, or (ii) acquisition or ownership by Seller or any Affiliate of Seller of up to five percent (5%) of the debt or equity interest in any company partially engaged in a Competitive Business whose securities are traded on a national securities exchange or NASDAQ, so long as such Competitive Business does not account for more than the lesser of \$10,000,000 or five percent (5%) of the net revenues of such company and neither Seller nor an Affiliate of Seller is an Affiliate of such company.

(c) Modifications. Seller recognizes that the time and scope

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limitations set forth in this Section 5.4 are reasonable and are required for the protection of Buyer and in the event that any such territorial, time or scope limitation is deemed to be unreasonable by a court of competent jurisdiction, Buyer and Seller agree to the reduction of either of such time or scope limitations to a period or scope as such court shall deem reasonable under the circumstances.

(d) Injunctive Relief. The Parties specifically recognize that any

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breach of Section 5.4(a) may cause irreparable injury and that actual damages may be difficult to ascertain, and in any event, may be inadequate. Accordingly (and without limiting the availability of legal or equitable, including injunctive, remedies under any other provisions of this Agreement), each Party agrees that in the event of any such breach, the other Party shall be entitled to injunctive relief in addition to such other legal and equitable remedies that may be available.

5.5. Cooperation on Claims.

-----  
Without limiting the generality of any other provision of this Agreement, with respect to any claim of any kind for which Varlen and Seller have retained liability under this Agreement, (i) Roper and Buyer will not settle or compromise any such claim without the consent of Varlen or Seller, (ii) Buyer and Roper will make available to Varlen and Seller, their insurer and their respective representatives all records and other materials as may be reasonably requested by them for use in handling any such claim and (iii) Buyer and Roper will reasonably cooperate, and will use their best efforts to cause their employees to cooperate, with Varlen and Seller, their insurer and their respective representatives in the handling of all such claims.

ARTICLE VI  
MISCELLANEOUS

6.1. Further Actions.

-----  
From time to time, as and when requested by Roper or Buyer and at Roper or Buyer's expense, Varlen and Seller shall execute and deliver, or cause to be executed and delivered, all such documents and instruments and shall take, or cause to be taken, all such further or other actions as Roper and Buyer may reasonably deem necessary or desirable to carry out the intent and purposes of this Agreement, to convey, transfer, assign and deliver on the Closing Date to Buyer, and its successors and assigns, the Interest (or to evidence the foregoing) and to consummate the other transactions contemplated hereby. As soon as practicable, Roper shall

cause the Company to change its name to a name that does not include the name "Varlen." Roper shall have filed any necessary documents within sixty (60) days from the date hereof.

#### 6.2. Brokerage.

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Varlen and Seller represents and warrants to Roper and Buyer that Seller has no obligation or liability to any broker or finder by reason of the transactions which are the subject of this Agreement; Varlen and Seller shall indemnify Roper and Buyer and the Company against, and shall hold Roper and Buyer and the Company harmless from, at all times after the date hereof, any and all liabilities (including without limitation legal fees), and shall pay any final judgment obtained by any person claiming brokerage commissions or finder's fees, or rights to similar compensation, on account of services purportedly rendered on behalf of Varlen and Seller, or prior to Closing the Company, in connection with this Agreement or the transactions contemplated hereby. Roper and Buyer represent and warrant to Varlen and Seller that Roper and Buyer have no obligation or liability to any broker or finder by reason of the transactions which are the subject of this Agreement; Roper and Buyer shall indemnify Varlen and Seller against, and shall hold Varlen and Seller harmless from, at all times after the date hereof, any and all liabilities (including without limitation legal fees), and shall pay any final judgment obtained by any person claiming brokerage commissions or finder's fees, or rights to similar compensation, on account of services purportedly rendered on behalf of Roper and Buyer, or after Closing the Company, in connection with this Agreement or the transactions contemplated hereby.

#### 6.3. Expenses.

-----

Each of Roper, Buyer, Varlen and Seller shall pay their respective expenses in connection with the negotiation, execution, delivery and performance of this Agreement. The 4.80% registration duty on the Purchase Price payable to the French tax authorities shall be paid by Buyer and Buyer shall take all necessary actions to register the present transfer of the Interest with the French tax authorities within one month following the Closing Date as required by French law.

#### 6.4. Entire Agreement.

-----

This Agreement, which includes the Schedules and Exhibits hereto and the other documents, agreements and instruments executed and delivered pursuant to or in connection with this Agreement, contains the entire agreement between Buyer, the Company and Seller with respect to the transactions contemplated by this Agreement and supersedes all prior arrangements or understandings with respect thereto. As provided in Section 3.2(g) above, Seller and Buyer entered on the Closing Date into an Acte de Cession de Parts which has been executed only for the purposes of the tax registration with the French tax authorities and other notifications to be made to third parties. The Parties expressly agree that in the event of any difference in interpretation and/or inconsistency between this Agreement and the Acte de Cession de Parts, this Agreement shall prevail.

6.5. Descriptive Headings.  
-----

The descriptive headings of this Agreement are for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement.

6.6. Notices.  
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All notices and other communications which are required or permitted hereunder shall be in writing and sufficient if delivered personally or sent by overnight delivery service or by registered or certified mail, postage prepaid, addressed as follows:

If to Varlen and Seller, or pre-Closing to the Company:

Acieries de Ploermel  
Varlen Corporation  
55 Shuman Boulevard  
P.O. Box 3089  
Naperville, Illinois 60566-7089  
Attn: Vicki Casmere  
General Counsel

If to Roper and Buyer, or post-Closing to the Company:

Instrumentation Scientifique de Laboratoire  
Roper Industries, Inc.  
160 Ben Burton Road  
Bogart, Georgia 30622  
Attn: President

Any party may by notice change the address to which notices or other communications to it are to be delivered or mailed.

6.7. Governing Law.  
-----

This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware. Each of the parties hereto irrevocably submits to the jurisdiction of the Courts of the State of Delaware, and of any Federal Court located in the State of Delaware, in connection with any action or proceeding arising out of or relating to, or breach of, this Agreement or of any document or instrument delivered pursuant to or in connection with this Agreement, save as provided in Section 1.2(c) above.

6.8. Assignability.  
-----

This Agreement (including the indemnification provisions) shall not be assignable otherwise than by operation of law by any Party without the prior written consent of the other Parties, which shall not be unreasonably withheld, and any purported assignment by any Party without the prior written consent of the other Parties shall be void. This Agreement shall inure to

the benefit of and be binding upon the Parties hereto and their respective successors and permitted assigns.

6.9. Waivers and Amendments.  
-----

Any waiver of any term or condition, or any amendment or supplementation, of this Agreement shall be effective only if in writing. A waiver of any breach of any of the terms or conditions of this Agreement shall not in any way be construed as a waiver of any subsequent breach.

6.10. Third Party Rights.  
-----

This Agreement shall be effective only as between the Parties hereto, their successors and permitted assigns.

6.11. Illegality.  
-----

In the event that any one or more of the provisions contained in this Agreement shall be determined to be invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in any other respect and the remaining provisions of this Agreement shall not, at the election of the Party for whom the benefit of the provision exists, be in any way impaired.

6.12. Release.  
-----

As of the Effective Date, the Company hereby releases, acquits and forever discharges each gerant (manager) and equity holder of the Company from any and all liabilities, obligations, claims, demands, actions and causes of action which the Company ever had, now has or hereafter may have based upon, relating to or arising out of any event, occurrence, act, omission or condition occurring or existing as of or prior to the Closing in any way connected with such gerant's or equity holder's status as such or actions taken in such capacity. Buyer and Roper consents to the foregoing release. Varlen, Seller, Roper and Buyer agree that this release shall not in any manner limit or otherwise affect the rights and obligations of Varlen, Seller, Roper and Buyer under this Agreement.

[REMAINDER OF THIS PAGE HAS BEEN INTENTIONALLY LEFT BLANK]

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

Varlen:

VARLEN CORPORATION

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Seller:

ACIERIES de PLOERMEL

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

The Company:

HERZOG VARLEN INSTRUMENTS

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

Buyer:

INSTRUMENTATION SCIENTIFIQUE DE LABORATOIRE

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

ROPER:

ROPER INDUSTRIES, INC.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

COUNTERSIGNED BY:

WALTER HERZOG GmbH

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

ASSET PURCHASE AGREEMENT

among

EASTMAN KODAK COMPANY

and

ROPER INDUSTRIES, INC.

and

ROPER ACQUISITION SUBSIDIARY, INC.

dated as of November 4, 1999

TABLE OF CONTENTS

	page
	----
ARTICLE I. DEFINITIONS.....	1
Section 1.1 Certain Definitions.....	1
Section 1.2 Interpretation.....	6
ARTICLE II. PURCHASE AND SALE.....	7
Section 2.1 Purchase and Sale of Business and Assets.....	7
Section 2.2 Excluded Assets.....	9
Section 2.3 License of Certain Rights.....	10
Section 2.4 Inability to Deliver Assets.....	11
Section 2.5 Assumption of Liabilities.....	12
Section 2.6 Excluded Liabilities.....	12
Section 2.7 Purchase Price.....	13
Section 2.8 Post-Closing Adjustment.....	14
Section 2.9 Closing.....	15
Section 2.10 Purchase by Parent's Affiliates; Guaranty.....	15
Section 2.11 Staged Closings.....	16
ARTICLE III. REPRESENTATIONS AND WARRANTIES OF SELLER.....	17
Section 3.1 Organization and Power.....	17
Section 3.2 Corporate Authorization.....	17
Section 3.3 Approvals.....	18
Section 3.4 Non-Contravention.....	18
Section 3.5 Binding Effect.....	18
Section 3.6 Certain Financial Statements.....	18
Section 3.7 Assets; Title.....	19
Section 3.8 Compliance With Laws.....	20
Section 3.9 Litigation and Claims.....	20
Section 3.10 Intellectual Property.....	20
Section 3.11 Employee Benefits.....	22
Section 3.12 Environmental Matters.....	22
Section 3.13 Labor Matters.....	23
Section 3.14 Assumed Contracts.....	24
Section 3.15 Finders' Fees.....	24
Section 3.16 Subsequent Changes.....	24
Section 3.17 Assumed Leases.....	25
Section 3.18 Product Warranty.....	26
Section 3.19 Year 2000 Compliance.....	26
Section 3.20 Buyer's Representations and Warranties.....	26
ARTICLE IV. REPRESENTATIONS AND WARRANTIES OF BUYER.....	26
Section 4.1 Organization and Power.....	27



Section 4.2 Corporate Authorization.....	27
Section 4.3 Approvals.....	27
Section 4.4 Non-Contravention.....	27
Section 4.5 Binding Effect.....	28
Section 4.6 Financing.....	28
Section 4.7 Litigation and Claims.....	28
Section 4.8 Finders' Fees.....	28
Section 4.9 Seller's Representations and Warranties.....	28
ARTICLE V. CERTAIN COVENANTS.....	28
Section 5.1 Access.....	28
Section 5.2 Conduct of Business.....	29
Section 5.3 Reasonable Efforts; Further Assurances.....	30
Section 5.4 Antitrust and Competition Laws.....	31
Section 5.5 Ancillary Agreements.....	31
Section 5.6 Corporate Trademarks and Other Intellectual Property.....	32
Section 5.7 Confidentiality.....	34
Section 5.8 Public Disclosure.....	35
Section 5.9 Bulk Sales.....	35
Section 5.10 Taxes.....	35
Section 5.11 Determination and Allocation of Consideration.....	37
Section 5.12 Exclusivity.....	37
Section 5.13 Pre-Closing Inventory Count.....	37
Section 5.14 Non-Competition.....	37
ARTICLE VI. COVENANTS AS TO EMPLOYMENT MATTERS.....	39
Section 6.1 Employees.....	39
Section 6.2 Buyer's Offers of Employment.....	39
Section 6.3 Severance Obligations.....	40
Section 6.4 Buyer's Obligations to Transferred Employees.....	42
Section 6.5 Seller's Obligations to Transferred Employees.....	42
Section 6.6 Consultation.....	43
Section 6.7 Compliance with WARN, Etc.....	43
Section 6.8 Non-Solicitation.....	44
Section 6.9 Family and Medical Leaves.....	44
ARTICLE VII. CONDITIONS TO CLOSING.....	44
Section 7.1 Conditions to the Obligations of Buyer and Seller.....	44
Section 7.2 Further Conditions to the Obligation of Buyer.....	45
Section 7.3 Further Conditions to the Obligation of Seller.....	46
ARTICLE VIII. INDEMNIFICATION; REMEDIES.....	46
Section 8.1 Indemnification by Seller.....	46
Section 8.2 Indemnification by Buyer.....	48
Section 8.3 Indemnification Procedures.....	49
Section 8.4 Sole Remedy.....	50
Section 8.5 No Consequential Damages.....	50

ARTICLE IX. TERMINATION.....	50
Section 9.1 Termination.....	50
Section 9.2 Effect of Termination.....	51
ARTICLE X. IN GENERAL.....	51
Section 10.1 Notices.....	51
Section 10.2 Amendment; Waiver.....	52
Section 10.3 No Assignment or Benefit to Third Parties.....	52
Section 10.4 Survival.....	53
Section 10.5 Return of Information.....	53
Section 10.6 Expenses.....	53
Section 10.7 Schedules.....	53
Section 10.8 Dispute Resolution.....	54
Section 10.9 Governing Law; Submission to Jurisdiction; Selection of Forum.....	55
Section 10.10 Inferences.....	55
Section 10.11 Severability.....	55
Section 10.12 Entire Agreement.....	56
Section 10.13 Headings.....	56
Section 10.14 Counterparts.....	56
TABLE OF EXHIBITS AND SCHEDULES.....	58
INDEX OF DEFINED TERMS.....	59

ASSET PURCHASE AGREEMENT

THIS AGREEMENT is made as of November 4, 1999 by and among EASTMAN KODAK COMPANY, a New Jersey corporation ("Seller"), and ROPER INDUSTRIES, INC., a Delaware corporation ("Parent"), and ROPER ACQUISITION SUBSIDIARY, INC., a Delaware corporation ("Sub")

WHEREAS, Seller and the Seller Affiliates are engaged in the business and operations of Seller's Motion Analysis Systems Division as currently conducted ("MASD"), including, variously, the design, manufacture, marketing, distribution, service and support of (i) high speed image capturing equipment for motion analysis and (ii) high resolution industrial cameras (collectively, the "Business"); and

WHEREAS, Sub is the wholly-owned subsidiary of Parent; and

WHEREAS, the parties desire that Seller sell, transfer, assign and license to Sub, and that Sub purchase, license and assume from Seller, the Business and the assets and specified liabilities comprising the Business, all as more specifically provided herein;

NOW, THEREFORE, in consideration of the premises and the mutual representations, warranties, covenants and undertakings contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE I. DEFINITIONS

Section 1.1 Certain Definitions.

In addition to the other definitions contained in this Agreement, the following terms will, when used in this Agreement, have the following respective meanings:

"Affiliates" means, with respect to any Person, any Persons directly or indirectly controlling, controlled by, or under common control with, such other Person at any time during the period for which the determination of affiliation is being made. For purposes of this definition, the term "control" means, with respect to any Person, the possession, directly or indirectly, of the power to direct or cause the direction of management policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

"Agreement" means this Asset Purchase Agreement, as the same may be amended or supplemented from time to time in accordance with the terms hereof.

"Ancillary Agreements" means, collectively, those agreements and instruments, substantially in the forms of Exhibits A-1 through F, to be entered  
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into at Closing by Buyer and Seller, as more fully described in Section 5.5.

"Antitrust Laws" means and includes the Sherman Act, as amended, the Clayton Act, as amended, the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, the Federal Trade Commission Act, as amended, EU competition Laws, national competition Laws and all other U.S. or non-U.S. Laws that are designed or intended to prohibit, restrict or regulate actions having the purpose or effect of monopolization or restraint of trade.

"Books and Records" means books, ledgers, files, reports, operating records, accounting records, price lists, correspondence and other forms of information relating in any manner to the business, operations or financial or statistical history of a Person, whether in written, electronic or magnetic form, in each case to the extent that the same is not Intellectual Property or proprietary business information.

"Buyer" means, collectively and jointly and severally, Parent and Sub, and has the further meaning set forth in Section 2.10.

"Claim" means any pending contest, claim, demand, assessment, action, cause of action, complaint, litigation, proceeding, hearing or notice involving any Person.

"Closing" means the closing and consummation of the Transaction, but does not include any subsequent closings contemplated by Section 2.11.

"Closing Balance Sheet" means the unaudited balance sheet of the Business as of the Closing Date which consists of only the following items of working capital (as such terms are used in the September Balance Sheet): (a) Accounts Receivable-San Diego; (b) Inventory-San Diego; (c) Inventory-Europe; (d) Inventory Reserve; (e) Other Current Assets; (f) Accounts Payable-San Diego; (g) Deferred Revenue-U.S.; (h) Deferred Revenue-U.K.; (i) Accrued Expenses; (j) Accrued Vacation 1999 and prior (U.S.); and (k) Accrued Vacation 2000 (U.S.). For purposes of this definition, the term "Accrued Expenses" includes all Liabilities required to be accrued under GAAP with respect to the Assumed Contracts (including any customer service agreements) and accrued Liabilities with respect to the Transferred Employees, except that neither the term "Accrued Expenses" nor the Closing Balance Sheet will include: (i) any assets of or Liabilities under the Transferred Benefit Plans or (ii) any accrued vacation in respect of non-U.S. employees.

"Closing Documents" means (a) with respect to Seller, all agreements, documents and instruments, including the Ancillary Agreements, required to be delivered by Seller or a Seller Affiliate at Closing, as set forth in Section 7.2, and (b) with respect to Buyer, all agreements, documents and instruments, including the Ancillary Agreements, required to be delivered by Buyer at Closing, as set forth in Section 7.3.

"Code" means the Internal Revenue Code of 1986, as amended.

"Continuation Coverage" means group health coverage required by section 4980B of the Code.

"Delivery" means, as the case may be, (a) the sale, assignment, transfer, conveyance or delivery to Buyer of any Transferred Asset, (b) the license to Buyer of any Seller-

Licensed Intellectual Property, or (c) the license back to Seller of any Buyer-Licensed Intellectual Property; and "Deliver" means to effect a Delivery.

"Encumbrances" means liens, charges, encumbrances, security interests, options or any other restrictions or third party rights.

"Environmental Law" means any Law relating to (a) the protection of human health or the environment (including air, water vapor, surface water, groundwater, drinking water supply, and surface or subsurface land), or (b) the exposure to, or the use, storage, recycling, treatment, generation, transportation, processing, handling, labeling, management, release, investigation, remediation, removal or disposal of, Hazardous Substances.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"EU" means the European Union.

"Financial Statements" means the unaudited summary financial information of the Business as of and for the fiscal years ended December 31, 1997 and December 31, 1998, which comprise Schedule 3.6(c).  
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"GAAP" means generally accepted accounting principles, methods and practices set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants, and statements and pronouncements of the Financial Accounting Standards Board or of such other Person as may be approved by a significant segment of the U.S. accounting profession, in each case as of the date or period at issue.

"Governmental Authorizations" means all licenses, permits, certificates and other authorizations and approvals of any Governmental Entity required under any Law to carry on the Business as currently conducted in the Ordinary Course.

"Governmental Entity" means any U.S. or non-U.S. local, state, federal or other government, including each of their respective branches, departments, agencies, courts, instrumentalities or other subdivisions.

"Hazardous Substance" means any matter or material containing any substance, whether solid, liquid or gaseous, (a) that is listed, defined, designated or classified as hazardous or toxic under any applicable Environmental Law, (b) the presence of which may require investigation or remediation under any Environmental Law, or (c) is otherwise legally regulated by a Governmental Entity which enforces such applicable Environmental Laws.

"Indemnified Parties" means, as appropriate in the context, either the Buyer Indemnified Parties or the Seller Indemnified Parties.

"Indemnifying Party" means a party providing indemnification pursuant to Article VIII.

"Intellectual Property" means patents, inventions, trade secrets, know-how, copyrights (whether registered or unregistered), works of authorship, trademarks (whether registered or unregistered), service marks (whether registered or unregistered), mask works, trade names, trade dress, product names, slogans, logos and internet domain names, including registrations and applications of any of the foregoing, software, firmware, specifications, processes, drawings, designs, technology, methods, techniques, formulae and proprietary information and documents incorporating any similar rights, including technical reports, laboratory books and notebooks.

"Law" means any applicable law, statute, ordinance, rule, regulation, code, order, judgment, injunction, decree or judicial or administrative doctrine that is legally promulgated or issued by any Governmental Entity.

"Leased Real Property" means the real property, fixtures and improvements (inclusive of warranties, guaranties, permits and licenses in connection therewith) that are the subject of the Assumed Leases.

"Liability" means any direct or indirect indebtedness, liability, Claim, damage, deficiency, obligation or responsibility, fixed or unfixed, choate or inchoate, liquidated or unliquidated, secured or unsecured, accrued, absolute, contingent or otherwise.

"Losses" means Liabilities, losses, charges, actions, suits, proceedings, interest, penalties and reasonable costs and expenses associated therewith (including reasonable attorneys' fees, litigation costs, fines, penalties and expenses of investigation), in each case subject to the provisions of Section 8.5.

"Material Adverse Effect" means an effect that is materially adverse to the financial condition or results of operations of the Business taken as a whole.

"Ordinary Course" means the conduct of the Business in accordance with the normal and customary practices and procedures of the Business.

"Permitted Encumbrances" means: (a) Encumbrances that secure or constitute an Assumed Liability that is recorded on the Books and Records of Seller as of the Closing Date; (b) liens for Taxes, assessments and other governmental charges not yet due and payable or due but not delinquent or being contested in good faith by appropriate proceedings; (c) mechanics', carriers', workers', repairmen's, statutory or common law liens being contested in good faith by appropriate proceedings; (d) conditional sales or title retention agreements (if any) to which any of the capital assets comprising the Transferred Assets are subject, which agreements are set forth on Schedule 2.1(e); and (e) the  
-----  
previously granted licenses referred to in Section 2.1(f).

"Person" means an individual, a corporation, a partnership, a limited liability company, an association, a trust or any other entity or organization.

"Primarily Related to the Business" means an asset that is used, or a circumstance that exists, or a Person or thing that relates, more than 80 percent of the time in or to the operation of the Business as conducted in the Ordinary Course.

"Product Warranty Claims" means Claims of customers of the Business or other end users with respect to products manufactured, sold, leased or delivered, or services provided, by the Business on or before the Closing Date, including Claims which (a) are based on Seller's and the Seller Affiliates' written product warranties disclosed to Buyer, and (b) are for the repair or replacement or reimbursement remedies expressed in such written product warranties.

"Required Approvals" means, collectively, the consents, approvals, waivers, authorizations, novations, notices and filings which are necessary for the consummation of the Transaction or the effective Delivery of any Transferred Asset and are listed on Schedule 1.1(a).

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"Seller Affiliates" means Kodak Ltd., Kodak Nederland BV and Kodak AG.

"September Balance Sheet" means the unaudited balance sheet of the Business as of September 30, 1999, including the notes thereto, which comprises Schedule 3.6(b).

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"TAP" means Seller's Termination Allowance Plan effective January 1, 1999, as amended January 12, 1999.

"Taxes" means all taxes levied or imposed by any Governmental Entity, including income, gross receipts, windfall profits, value added, severance, production, sales, use, license, excise, franchise, employment, environmental, real property, personal property, transfer, alternative minimum, estimated, withholding or other taxes, together with any interest, additions or penalties with respect thereto and any interest in respect of such additions or penalties, whether or not disputed or contested.

"Tax Returns" means all U.S. and non-U.S. reports and returns required to be filed with respect to Taxes, including all attachments thereto.

"Transaction" means, collectively, the purchase and sale of the Business and the Transferred Assets, the assumption of the Assumed Liabilities and the execution and delivery of the Closing Documents, all as herein provided.

"Transferred Benefit Plans" means only those employee benefit plans (or portions thereof) of Seller or a Seller Affiliate, including severance obligations of any type, of Seller or a Seller Affiliate to EU Employees, which Buyer is required by non-U.S. Law to assume or continue after Closing.

"Transfer Time" means 12:01 a.m. local time on the date following (a) the Closing Date, or (b) in the case of any subsequent closing contemplated by Section 2.11, the date the closing is effected in the applicable Deferred Country.

"U.S." means the United States of America.

#### SECTION 1.2 Interpretation.

In this Agreement, unless the express context otherwise requires:

(a) the words "herein," "hereof" and "hereunder" and words of similar import refer to this Agreement as a whole and not to any particular provision of this Agreement;

(b) references to "Article" or "Section" are to the respective Articles and Sections of this Agreement, and references to "Exhibit" or "Schedule" are to the respective Exhibits and Schedules annexed hereto;

(c) references to a "party" means a party to this Agreement and include references to such party's successors and permitted assigns;

(d) references to a "third party" means a Person not party to this Agreement;

(e) references to a party's "knowledge" or any similar phrase means: (i) in the case of Seller, the collective actual knowledge of (A) the senior management personnel of MASD listed on Schedule 1.2(e) after due inquiry with -----  
respect to the relevant matter, or (B) with respect to Intellectual Property, the Persons listed on Schedule 1.2(e); or (ii) in the case of Buyer, the -----  
collective actual knowledge of the senior management personnel of Parent after due inquiry with respect to the relevant matter;

(f) the terms "dollars" and "\$" means U.S. dollars;

(g) terms defined in the singular have a comparable meaning when used in the plural, and vice versa;

(h) the masculine pronoun includes the feminine and the neuter, and vice versa, as appropriate in the context; and

(i) wherever the word "include," "includes" or "including" is used in this Agreement, it will be deemed to be followed by the words "without limitation."

## ARTICLE II. PURCHASE AND SALE

### Section 2.1 Purchase and Sale of Business and Assets.

On the terms and subject to the conditions set forth herein, at Closing Seller will, and will cause the Seller Affiliates to, sell, convey, transfer, assign and deliver to Sub, and Sub will purchase from Seller and the Seller Affiliates, the Business and all of Seller's and the Seller Affiliates' respective right, title and interest in and to all assets that are Primarily Related to the Business (except for those assets or classes of assets which are defined in Section 2.2 as Excluded Assets), including those set forth below and in each case as the same exists on the Closing Date (collectively, the "Transferred Assets"):

(a) all inventories that are Primarily Related to the Business, including those that are of a type reflected on the September Balance Sheet;



(b) all capital assets of the Business, including those that are reflected on the September Balance Sheet, those that are Primarily Related to the Business and all that are located in the San Diego facility of the Business;

(c) all accounts receivable reflected on the accounting system maintained in the San Diego facility of the Business, but excluding any intercompany accounts receivable;

(d) all credits, prepaid expenses, deferred charges, advance payments, security deposits, prepaid items and duties exclusively related to the Business, and all "Other" current assets, in each case including those that are of a type reflected on the September Balance Sheet;

(e) the following contracts and instruments (collectively, including the Assumed Leases, the "Assumed Contracts"): (i) those leases and subleases of real property premises which are listed on Schedule 2.1(e) (the "Assumed Leases"); (ii) all purchase orders (including all backlog) incurred in the Ordinary Course, to the extent Primarily Related to the Business; (iii) all product warranties incurred in the Ordinary Course which are Primarily Related to the Business; and (iv) those other agreements, contracts, subcontracts, leases and subleases of personal property, arrangements, commitments, licenses and sublicenses (other than those with respect to rights in Intellectual Property), with customers, suppliers, resellers, distributors, employees, works councils, employee groups or other third parties, to which the Transferred Assets are subject or which are Primarily Related to the Business, which are set forth on Schedule 2.1(e);

(f) only the following Intellectual Property (collectively, the "Transferred Intellectual Property"), in each case subject to all existing licenses heretofore granted by Seller and subject to the license back to Seller and its Affiliates contemplated by Section 2.3(b):

(i) the U.S. patents and patent applications that are set forth on Schedule 2.1(f)(i), together with any division, continuation, continuation-in-part, revival, reissue, extension or substitution of any thereof, and any corresponding patents and patent applications in other countries (collectively, the "Transferred Patents");

(ii) the trademarks that are set forth on Schedule 2.1(f)(ii) (the "Transferred Trademarks");

(iii) the product development projects Primarily Related to the Business that are set forth on Schedule 2.1(f)(iii);

(iv) the software and firmware Primarily Related to the Business which are set forth on Schedule 2.1(f)(iv), together with the copyrights related thereto;

(v) all other Intellectual Property (other than patents, patent applications, trademarks, trade names, trade dress, service marks, product names, slogans, logos,

internet domain names and applications therefor, product development projects and software, firmware and related copyrights) that is owned by Seller and Primarily Related to the Business; and

(vi) the licenses granted to Seller of rights in software and firmware owned by third parties and Primarily Related to the Business, which licenses are set forth on Schedule 2.1(f)(vi) (collectively, the "Transferred  
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Licenses");

(g) subject to the provisions of Section 5.7, all Books and Records (other than personnel files and employee medical records), and all proprietary and non-proprietary business information, including marketing and sales materials and publications, product literature, reports, plans, records, pricing, cost and other manuals, advertising materials, catalogues, mailing lists and customer lists and records (but excluding any Intellectual Property, which is instead the subject of Section 2.1(f)) which are either (i) located in the San Diego facility of the Business or (ii) Primarily Related to the Business and located at another facility of Seller or a Seller Affiliate;

(h) to the extent their transfer is permitted by Law, all Governmental Authorizations which are required for the conduct of the Business or Primarily Related to the Business, and all applications therefor;

(i) all assets of all Transferred Benefit Plans;

(j) all internet, intranet and World Wide Web content, sites and pages which are Primarily Related to the Business, and all HTML and other code related thereto;

(k) all goodwill and similar intangible property Primarily Related to the Business; and

(l) the assets, if any, that are set forth on Schedule 2.1(l).  
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#### Section 2.2 Excluded Assets.

Notwithstanding anything herein to the contrary, from and after Closing, Seller and the Seller Affiliates will retain all of their respective existing right, title and interest in and to, and there will be excluded from the sale, conveyance, assignment or transfer to Sub hereunder, and the Transferred Assets will not include, the following, in each case as the same exists on the Closing Date (collectively, the "Excluded Assets"):

(a) all assets, agreements, contracts, leases, purchase orders, arrangements, commitments, licenses and rights which are not Primarily Related to the Business;

(b) all cash and cash equivalents, and all capital stock or other equity interests or securities, whether or not Primarily Related to the Business or related to any Transferred Asset;

(c) all accounts receivable not reflected on the accounting system maintained in the San Diego facility of the Business, and all intercompany accounts receivable;

(d) all employee benefit plans of Seller or a Seller Affiliate, other than the Transferred Benefit Plans, applicable to employees of the Business;

(e) independent contractor, consulting and similar agreements with former employees of the Business;

(f) other than the leasehold or possessory interests created by the Assumed Leases or the Ancillary Agreements, all real property, including land, buildings, structures and improvements thereon, appurtenances thereto and interests therein, and all fixtures constituting part of such real property;

(g) the following Intellectual Property:

(i) the Corporate Trademarks;

(ii) the Seller-Licensed Intellectual Property (other than the license interests created pursuant to Section 2.3(a));

(iii) all product development projects other than those that are set forth on Schedule 2.1(f)(iii);  
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(iv) all agreements, contracts, licenses and sublicenses with respect to rights in Intellectual Property owned by third parties, other than the Transferred Licenses; and

(v) all other Intellectual Property that is not the Transferred Intellectual Property;

(h) all parts, subassemblies and other internally sourced components customarily supplied to the Business by Seller or its Affiliates and, as of the Closing Date, not yet purchased by the Business in the Ordinary Course, and all tooling, raw materials and supplies related to such components;

(i) all assets that are used: (i) to manufacture parts, subassemblies, tooling supplies and other internally sourced components customarily supplied to the Business by Seller or its Affiliates; (ii) in Seller's or its Affiliates' product service and support operations other than those such operations Primarily Related to the Business; or (iii) for administrative purposes other than those Primarily Related to the Business (except for those such assets located at the San Diego facility of the Business);

(j) all refunds, overpayments and prepayments of Taxes and duties paid by Seller or a Seller Affiliate;

(k) all Tax Returns of Seller and its Affiliates and all other Books and Records (including work papers) related thereto;

(l) all Books and Records which are: (i) personnel files or employee medical records; or (ii) human resources manuals, training materials and similar documents not Primarily Related to the Business;

(m) except for the items specified in Section 2.1(j), all internet, intranet and World Wide Web content, addresses, sites and pages, and all HTML and other code, plug-ins, scripting, computer hardware and software related thereto;

(n) all assets used in the Business that are located in the Ordinary Course in Japan or Korea; and

(o) the assets, if any, that are set forth on Schedule 2.2(o).  
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Section 2.3 License of Certain Rights.

(a) On the terms and subject to the conditions set forth herein, at Closing Seller will license to Buyer and its Affiliates, pursuant to the terms of one or more Intellectual Property Licenses in the form of Exhibit A-1 or

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Exhibit A-2, rights to the following Intellectual Property owned by Seller  
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(collectively, the "Seller-Licensed Intellectual Property"):

(i) the patents owned by Seller and set forth on Schedule

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2.3(a)(i);  
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(ii) the software and firmware owned by Seller and set forth on Schedule 2.3(a)(ii); and  
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(iii) the other Intellectual Property described in Exhibit A-1.  
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(b) On the terms and subject to the conditions set forth herein, at Closing Buyer will license back to Seller and its Affiliates, pursuant to the terms of one or more Intellectual Property Licenses in the form of Exhibit B;

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rights to the Transferred Intellectual Property described in Exhibit B  
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(collectively, the "Buyer-Licensed Intellectual Property").

Section 2.4 Inability to Deliver Assets.

(a) Notwithstanding anything to the contrary contained in this Agreement or in any Closing Document, to the extent that the Delivery or attempted Delivery of any Transferred Asset, or any Claim, right or benefit arising thereunder or resulting therefrom, is prohibited by any Law, or would require any consent, approval, waiver, authorization or novation by a Governmental Entity or other Person and such consent, approval, waiver, authorization or novation has not been obtained prior to Closing, or

with respect to which any attempted Delivery would be ineffective or would materially adversely affect the rights of Seller or its Affiliates thereunder or therein, then this Agreement will not constitute a Delivery or attempted Delivery thereof and the same will not be Delivered at Closing.

(b) Both prior and subsequent to Closing, the parties will use commercially reasonable efforts, and cooperate with each other, to obtain promptly all Required Approvals and all other consents, approvals, waivers, authorizations, novations, notices and filings which are necessary for the effective assignment to Buyer of any Assumed Contract or Transferred License. Buyer and Seller will bear in equal portions the cost of all filing, recordation and similar fees and Taxes incurred after the date hereof and payable to Governmental Entities in connection with Delivery of the Transferred Assets, and any additional fees or charges (howsoever denominated) required by any Persons other than Governmental Entities in connection with the Delivery of any Transferred Asset or obtaining any Required Approval or any other consent, approval, waiver, authorization, novation, notice or filing in connection therewith.

(c) To the extent that any consent, approval, waiver, authorization, novation, notice or filing which is necessary for the effective assignment to Buyer of any Assumed Contract or Transferred License cannot be obtained or made and, as a result, the full benefits of use of such Assumed Contract or Transferred License cannot be provided to Buyer following Closing otherwise in accordance with this Agreement, then Buyer and Seller will cooperate with each other and enter into such mutually agreeable, reasonable and lawful arrangements (including subcontracting, subleasing or sublicensing, if permitted) to provide to the parties the economic (taking into account all burdens and benefits, including Tax costs and benefits) and operational equivalent, to the extent permitted, of obtaining or making such necessary consent, approval, waiver, authorization, novation, notice or filing, as the case may be, and the performance by Buyer of Seller's obligations under such Assumed Contract or Transferred License; provided, however, that Buyer and Seller will not enter into such an arrangement with respect to any Assumed Contract or Transferred License under which the Business has no further rights. Seller will pay to Buyer, when received, all income, proceeds and other monies received by Seller from third parties to the extent related to Buyer's intended rights under any Assumed Contract or Transferred License, as contemplated by this Section 2.4(c). Once any such necessary consent, approval, waiver, authorization, novation, notice or filing, as the case may be, is obtained or made, Seller will assign such Assumed Contract or Transferred License to Buyer at no additional cost. Any expenses incurred by Seller, and any reasonable expenses incurred by Buyer, in connection with the arrangements contemplated by this Section 2.4(c) will be borne by Seller.

#### Section 2.5 Assumption of Liabilities.

On the terms and subject to the conditions set forth herein, at Closing Buyer will assume, and discharge or perform when due, the following Liabilities of Seller and the Seller Affiliates (collectively, the "Assumed Liabilities"):

(a) all accounts payable and other Current Liabilities which are reflected on the accounting system maintained at the San Diego facility of the Business and on the Closing Balance Sheet, consistent with the September Balance Sheet, except for accrued payroll (excluding vacation) payable through the Closing Date to U.S. or non-U.S. employees;

(b) all Liabilities arising under the Assumed Contracts and the Transferred Licenses;

(c) all Product Warranty Claims and product liability Claims for products manufactured, sold, leased or delivered, or services provided, by the Business on or before the Closing Date, to the extent of the reserve therefor set forth on the Closing Balance Sheet (except that such limitation will not apply to the extent that any such Claim arises out of Buyer's provision of warranty service or other acts or omissions after the Closing Date); and

(d) the following Liabilities arising under the Transferred Benefit Plans: (i) all Liabilities outstanding on the Closing Date for accrued vacations in respect of non-U.S. employees; (ii) all other such Liabilities that arose on or before the Closing Date, to the extent of the assets of the Transferred Benefit Plans that constitute Transferred Assets; and (iii) all such Liabilities that arise from and after the Closing Date.

#### Section 2.6 Excluded Liabilities.

Notwithstanding any other provision of this Agreement, neither Buyer nor any Affiliate of Buyer will assume or agree to pay, perform or discharge any of the Liabilities of Seller or any of its Affiliates that are not Assumed Liabilities (collectively, the "Excluded Liabilities"), including:

(a) all Current Liabilities not reflected on the Closing Balance Sheet and not constituting Assumed Liabilities;

(b) all Liabilities to the extent related to or arising out of the Excluded Assets, other than (i) those Liabilities arising out of or caused by Buyer's use of the Seller-Licensed Intellectual Property following Closing, and (ii) those Liabilities of Buyer arising under the Ancillary Agreements;

(c) all Liabilities arising out of or relating to any employee benefit plans or programs maintained by Seller or its Affiliates, other than (i) Liabilities to the extent arising out of or relating to the Transferred Benefit Plans, and (ii) those Liabilities arising out of Buyer's covenants contained in Article VI;

(d) all Liabilities arising out of or relating to Taxes incurred by the Business prior to Closing, except to the extent reflected as Current Liabilities on the Closing Balance Sheet;

(e) all Liabilities arising out of that certain inquiry of the Federal Trade Commission with respect to the Business which is pending on the date hereof;

(f) all Liabilities for accrued payroll (excluding vacation) payable through the Closing Date to U.S. or non-U.S. employees, which Seller will satisfy either by payment directly to one or more employees or by means of the adjustment to the Purchase Price provided by Section 2.8; and

(g) all other Liabilities of Seller not comprising the Assumed Liabilities and arising out of or in connection with the conduct of the Business prior to Closing.

#### Section 2.7 Purchase Price.

(a) The purchase price for the Business will be \$51,000,000 adjusted, as applicable, by the Increase Amount or the Reduction Amount (as so adjusted, the "Purchase Price"). The Purchase Price will be allocated as provided by Section 5.11.

(b) On the terms and subject to the conditions set forth herein, at Closing Buyer will pay to Seller the amount determined as provided by Section 2.7(c) (the "Estimated Purchase Price"), and the balance of the Purchase Price will be determined and paid after Closing as provided by Section 2.8.

(c) No later than ten days prior to the Closing Date, Seller will deliver to Buyer the regularly prepared monthly financial statements of the Business for the calendar period ending not more than 31 days prior to the Closing Date, prepared in accordance with GAAP, together with a separate statement calculating the Estimated Purchase Price as of the date of such financial statements. Buyer will have two days from its receipt thereof to review such statement and calculations and, following such review, the amount of the Estimated Purchase Price set forth therein will be the Estimated Purchase Price for purposes contemplated by Section 2.7(b).

#### Section 2.8 Post-Closing Adjustment.

(a) The Closing Balance Sheet will be prepared and finally determined as provided by this Section 2.8, whereupon all references herein to the "Closing Balance Sheet" will mean the same as so finally determined. Within 45 days following Closing, Buyer will prepare the Closing Balance Sheet and deliver the same to Seller. Buyer will cause the Closing Balance Sheet to be derived from the Books and Records of Seller and the Seller Affiliates, and to present fairly the Transferred Assets, the Assumed Liabilities and the results of the Pre-Closing Inventory Count as of the Closing Date, in accordance with GAAP and, to the extent consistent with GAAP, Seller's policies, except as noted in such footnotes to the Closing Balance Sheet as are consistent with the footnotes to the September Balance Sheet; provided, however, that the Closing Balance Sheet will not reflect any Liability for accrued payroll payable through the Closing Date to U.S. or non-U.S. employees to the extent that Seller or any of its Affiliates has (whether before or after the Closing Date) made payment therefor directly to any employee.

(b) Within 60 days after the delivery of the Closing Balance Sheet, the parties will mutually agree on the contents of the Closing Balance Sheet, which will then be final and binding upon the parties for all purposes. Failing such mutual agreement within such period, either party may submit the Closing Balance Sheet, or the resolution of only such item(s) thereof as are in dispute, to Ernst & Young LLP or such other nationally recognized firm of independent public accountants agreed upon by Seller and Buyer, for computation, verification or resolution in accordance with the provisions of this Agreement. Buyer and Seller will make readily available to such firm all relevant Books and Records (including work papers of a party's independent public accountants) as such firm reasonably requests. Such firm's computation or verification of the Closing Balance Sheet or resolution of such disputed item(s) thereof (as the case may be), which Buyer and Seller will instruct such firm to deliver to them within 30 days after submission to such firm, will be final and binding upon the parties for all purposes, and such firm's fees and expenses therefor will be borne by the non-prevailing party or, in the event that each party prevails on some of the issues in dispute, will be shared proportionately, as determined by such firm. The Closing Balance Sheet, as so finally determined, will be annexed hereto as Schedule 2.8 subsequent to the Closing Date.

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(c) If the amount of Total Current Assets, less the amount of Total Current Liabilities, shown on the Closing Balance Sheet as so finally determined (the "Net Current Asset Value") exceeds \$12,942,000, then the amount of such excess (the "Increase Amount") will be added to the Estimated Purchase Price to result in the Purchase Price, and Buyer will, within ten days after such final determination, pay the Increase Amount to Seller by wire transfer of federal funds to an account designated by Seller.

(d) If the Net Current Asset Value is less than \$12,942,000, then the amount of such deficiency (the "Reduction Amount") will be subtracted from the Estimated Purchase Price to result in the Purchase Price, and Seller will, within ten days after such final determination, refund the Reduction Amount to Buyer by wire transfer of federal funds to an account designated by Buyer.

#### Section 2.9 Closing.

Closing will take place at the offices of counsel to Seller, Harter, Secrest & Emery LLP, 700 Midtown Tower, Rochester, New York 14604, at 9:00 a.m., local time, on a mutually agreed date, on or before November 30, 1999, after the conditions set forth in Article VII have been satisfied or waived, or on such other date, or at such other time or place, as the parties may mutually agree. The date in the U.S. on which Closing occurs is called the "Closing Date". The required deliveries at Closing are set forth in Article VII.

#### Section 2.10 Purchase by Parent's Affiliates; Guaranty.

Parent may elect, by notice given to Seller within a reasonable time prior to Closing, to have any of the Transferred Assets Delivered to, or any of the Assumed Liabilities assumed by, or any of the Transferred Employees employed by, one or more of Parent's Affiliates (including Sub), provided, however, that in such event:



(a) all references in this Agreement to "Buyer" will mean and include each such Affiliate of Parent;

(b) such election will not result in any net greater cost (including reasonable attorneys' fees) or obligation than Seller would otherwise have had, nor relieve Parent of any of its obligations to Seller and its Affiliates hereunder with respect to the Purchase Price, the Assumed Liabilities or otherwise; nor modify the allocation of risk and responsibility between Seller and Parent, to the net detriment of Seller;

(c) Parent will cause, and hereby fully and unconditionally guarantees to Seller, the full and prompt performance of all of the obligations of Parent's Affiliates (including Sub), and of any and all of such Affiliates' successors and permitted assigns, under this Agreement, and the execution and delivery by, and the full and prompt performance of all of the covenants and other obligations of, each such Affiliate (and of any and all of such Affiliate's successors and permitted assigns) under each Closing Document to which such Affiliate is a party, including any such Affiliate's assumption of any Assumed Liabilities; and

(d) Parent will execute and deliver such other agreements, documents and instruments as may be reasonably required to evidence further the provisions of this Section 2.10. Any discharge or limitation of the obligations of an Affiliate of Parent (including Sub) under this Agreement or any Closing Document by operation of Law or otherwise will not discharge or limit Parent's obligations under this Section 2.10.

#### Section 2.11 Staged Closings.

(a) Notwithstanding anything to the contrary contained herein, in the event that the conditions to Closing set forth in Article VII have been satisfied (or waived), but the time required by local Law or contract for the parties' performance of their obligations of notification and consultation contemplated by Sections 6.2(b) and 6.6 (the "Notification Time") has not then expired in one or more countries other than the U.S. (collectively, the "Deferred Countries"), then: (i) Closing will nevertheless be effected with respect to that portion of the Transferred Assets, the Assumed Liabilities, the Business and the Employees located in the U.S. and in each other country in which the Notification Time has then expired (collectively, the "Closing Countries"); and (ii) so long as such party has performed its obligations of notification and consultation contemplated by Sections 6.2(b) and 6.6 with respect to a Deferred Country, either Buyer or Seller will have the option of deferring closing in such Deferred Country as provided by this Section 2.11. If either Buyer or Seller so elects to defer closing, then the conditions to Closing set forth in Sections 7.2(e) and 7.3(e) will only be required to be satisfied to the extent that they relate to the Closing Countries.

(b) One or more subsequent closings will occur as soon as practicable following expiration of the Notification Time in each Deferred Country and, in connection therewith, the conditions to Closing set forth in Sections 7.2(e) and 7.3(e) will only be required to be satisfied to the extent that they relate to such Deferred Country.

The parties will use commercially reasonable efforts, and cooperate with each other, to satisfy promptly their obligations of notification and consultation contemplated by Sections 6.2(b) and 6.6 in each Deferred Country.

Notwithstanding any other provision hereof, closing with respect to each Deferred Country will be effected within 90 days after the Closing Date.

(c) Pending closing with respect to any Deferred Country, Seller will, with any necessary cooperation from Buyer, operate the Business in such Deferred Country for the account of Buyer. In connection therewith: (i) Buyer will bear the after-Tax costs, if any, for the portion of the Business operated in such Deferred Country, and will receive the after-Tax cash benefit, if any, derived from the Business as operated in such Deferred Country; (ii) Seller will pay to Buyer, or Buyer will pay to Seller, as the case may be, and will deliver appropriate documentation with respect to, any other contribution made or received by Seller for the Business as operated in such Deferred Country so that, as between Seller and Buyer, the operations will have been for the account of Buyer on an after-Tax basis; and (iii) the Employees physically located in such Deferred Country will continue to be employees of Seller, and the provisions of Article 6 will apply to such Employees only as of a Transfer Time based on the subsequent closing in such Deferred Country. The net amount of all amounts required by this Section 2.11(c) to be paid by each party to the other with respect to any Deferred Country will be paid by the appropriate party at or within 30 days following closing in such Deferred Country. To the extent permitted by Law, all amounts paid by Seller or Buyer, as the case may be, under this Section 2.11(c) will be treated as adjustments to the Purchase Price for Tax purposes.

(d) To the extent that Buyer is required by Law to pay at a subsequent closing cash consideration for the Transferred Assets located in a Deferred Country, Seller will remit to Buyer, in immediately available funds, the amount of the Purchase Price allocated to such Deferred Country in accordance with Section 5.11 and previously paid at Closing, and Buyer will pay such consideration to Seller at such subsequent closing. In the event that Buyer so requests, Seller will, in conjunction with any subsequent closing with respect to a Deferred Country, remit to Buyer, in immediately available funds, the amount of the Purchase Price allocated to such Deferred Country in accordance with Section 5.11 and previously paid at Closing against payment by Buyer of such amount in the local currency in such Deferred Country, the local currency equivalent to such amount (based on the rate published in the Wall Street Journal three business days prior to the subsequent closing in such Deferred Country).

#### ARTICLE III. REPRESENTATIONS AND WARRANTIES OF SELLER

Seller represents and warrants to Buyer as follows:

##### Section 3.1 Organization and Power.

Seller is a corporation duly organized, validly existing and in good standing under the laws of New Jersey. Seller and each Seller Affiliate has all requisite corporate power and authority to own or lease and operate the Transferred Assets and to carry on the Business

as currently conducted. Seller and each Seller Affiliate is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction where its ownership or operation of the Transferred Assets or its conduct of the Business requires such qualification, except for failures to be so qualified or in good standing, as the case may be, that would not have a Material Adverse Effect or prevent consummation of the Transaction.

#### Section 3.2 Corporate Authorization.

Seller and each Seller Affiliate, as the case may be, has full corporate power and authority to execute and deliver this Agreement and each Closing Document to which it is a party, and to perform its obligations hereunder and thereunder. The execution, delivery and performance by Seller of this Agreement and, in the case of Seller and each Seller Affiliate, each Closing Document to which it is a party, have been duly and validly authorized, and no additional corporate authorization or consent is required in connection therewith.

#### Section 3.3 Approvals.

Except for the Required Approvals, and except for consents, approvals, waivers, authorizations, novations, notices and filings required under the contracts or instruments identified in Schedule 3.3, no consent, approval, waiver,

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authorization or novation is required to be obtained by Seller or any Seller Affiliate from, and no notice or filing is required to be given by Seller or any Seller Affiliate to or made by Seller or any Seller Affiliate with, any Governmental Entity or other Person in connection with the execution, delivery and performance by Seller of this Agreement and, in the case of Seller and each Seller Affiliate, each Closing Document to which it is a party.

#### Section 3.4 Non-Contravention.

The execution, delivery and performance by Seller of this Agreement and, in the case of Seller and each Seller Affiliate, each Closing Document to which it is a party, and the consummation of the Transaction, do not and will not: (a) violate any provision of the articles of incorporation, bylaws or other organizational documents of Seller or any Seller Affiliate; (b) assuming the receipt or making of all necessary consents, approvals, waivers, authorizations, novations, notices and filings, conflict with, or result in the breach of, or constitute a default under, or result in the termination, cancellation or acceleration (whether after the filing of notice or the lapse of time or both) of any right or obligation of Seller under, or a loss of any benefit to which Seller is entitled under, any Assumed Contract or any Transferred License, or result in the creation of any Encumbrance (other than a Permitted Encumbrance) upon any of the Transferred Assets; or (c) assuming receipt of all Required Approvals, violate or result in a breach of or constitute a default under any Law, judgment, injunction, order, decree or other restriction of any Governmental Entity to which Seller or any Seller Affiliate is subject; except for, in the cases of the foregoing clauses (b) and (c), conflicts, breaches, terminations, defaults, cancellations, accelerations, losses, violations or Encumbrances

that would not have a Material Adverse Effect or prevent consummation of the Transaction.

Section 3.5 Binding Effect.

This Agreement and each Closing Document, when executed and delivered by Buyer, will constitute valid and legally binding obligations of Seller and each Seller Affiliate party thereto, enforceable against Seller and each Seller Affiliate party thereto in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

Section 3.6 Certain Financial Statements.

(a) [intentionally omitted]

(b) Annexed hereto as Schedule 3.6(b) is the September Balance Sheet.

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The September Balance Sheet has been derived from the Books and Records of Seller and the Seller Affiliates maintained in the Ordinary Course, and fairly presents the financial position of the Business as of September 30, 1999, and reflects adequate reserves for all known Liabilities, including all vacation Liability earned, as of September 30, 1999, in accordance with GAAP and, to the extent consistent with GAAP, Seller's policies, except as noted in the footnotes to the September Balance Sheet.

(c) Annexed hereto as Schedule 3.6(c) are each of the Financial

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Statements. Except to the extent that the Financial Statements present only summary financial information, the Financial Statements fairly present the financial position and the results of the operations of the Business for the respective periods therein stated, and reflect adequate reserves for all known Liabilities, including all vacation Liability earned, as of the respective dates therein stated, in accordance with GAAP and, to the extent consistent with GAAP, Seller's policies, except as noted in the footnotes to the Financial Statements.

(d) The Business does not have any Liability of any nature that is not reflected or reserved against on the September Balance Sheet except for: (i) Liabilities of a similar nature as those reflected or reserved against on the September Balance Sheet that were incurred in the Ordinary Course since September 30, 1999; (ii) Liabilities of any nature that are not required by GAAP to be so reflected or reserved against; and (iii) those Liabilities set forth on Schedule 3.6(d). Accounts payable reflected in the Financial Statements and the

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September Balance Sheet have arisen from bona fide transactions. Except as set forth on Schedule 3.6(d), all Liabilities of the Business incurred after

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September 30, 1999 were incurred in the Ordinary Course, arose from bona fide transactions, and are usual and normal in amount both individually and in the aggregate. Except as set forth in the Financial Statements or the September Balance Sheet, all Liabilities of the Business can be prepaid without penalty at any time.

Section 3.7 Assets; Title.

(a) The Transferred Assets, when taken together with the Seller-Licensed Intellectual Property and the Excluded Assets, constitute all properties, assets and leasehold estates, real, personal and mixed, tangible and intangible, comprising or employed in the operation of the Business on the date hereof and immediately prior to Closing, except for those assets that are part of Seller's administrative support not unique to the Business.

(b) Seller and the Seller Affiliates, in the aggregate, have and will have at Closing: (i) good title to all tangible property included in the Transferred Assets, free and clear of all Encumbrances except for Permitted Encumbrances; and (ii) all right, title and interest in and to all intangible property included in the Transferred Assets, free and clear of all Encumbrances except for Permitted Encumbrances and, in the case of the Assumed Contracts and the Transferred Licenses, subject to the rights of third parties thereunder.

Section 3.8 Compliance With Laws.

The Business has been and is being conducted in compliance with all Laws, and the Business has all Governmental Authorizations necessary for the conduct of the Business as currently conducted, except for those failures of compliance or lack of Governmental Authorizations which would not have a Material Adverse Effect (it being understood that nothing in this Section 3.8 is intended to address any matter of compliance that is the subject of any other representation or warranty set forth herein).

Section 3.9 Litigation and Claims.

Except as set forth on Schedule 3.9(a), there is no civil, criminal or

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administrative Claim or, to the knowledge of Seller, investigation pending or, to the knowledge of Seller, overtly threatened, against Seller with respect to or relating to the Business or any of the Transferred Assets or Seller-Licensed Intellectual Property, in which the amount at issue relating to the Business exceeds \$10,000. Except as set forth on Schedule 3.9(b), neither the Business

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nor any of the Transferred Assets or Seller-Licensed Intellectual Property is subject to any order, writ, judgment, award, injunction or decree of any Governmental Entity of competent jurisdiction or any arbitrator which would either prevent consummation of the Transaction or have a Material Adverse Effect.

Section 3.10 Intellectual Property.

(a) Seller owns or has the right to use pursuant to license, sublicense, agreement or permission all of the Transferred Intellectual Property and Seller-Licensed Intellectual Property. Subject to the receipt or making of all necessary consents, approvals, waivers, authorizations, novations, notices and filings under any contracts or instruments identified in Schedule 3.3, each item

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of Transferred Intellectual Property will be owned or available for use by Buyer immediately subsequent to Closing, without the

payment of any additional amounts to any third party (except as may be required subsequent to Closing by the terms of any Transferred License).

(b) Except as set forth in Schedule 3.10(b), Seller with respect to the

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Business has not interfered with, infringed upon, misappropriated or otherwise violated any Intellectual Property rights of third parties, and has not received any Claim alleging any such interference, infringement, misappropriation or violation (including any Claim that Seller must license or refrain from using any Intellectual Property rights of any third party). To the knowledge of Seller, no third party has interfered with, infringed upon, misappropriated or otherwise violated any rights of Seller with respect to the Transferred Intellectual Property and the Seller-Licensed Intellectual Property.

(c) Schedule 2.1(f)(i), Schedule 2.1(f)(ii) and Schedule 2.3(a)(i)

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identify each patent, patent registration, patent application and trademark comprising, respectively, the Transferred Intellectual Property and the Seller-Licensed Intellectual Property. Seller has made available to Buyer correct and complete copies of all such items of Transferred Intellectual Property and Seller-Licensed Intellectual Property (as amended to date) and has made available to Buyer correct and complete copies of all other written documentation evidencing ownership and prosecution (if applicable) of each such item. With respect to each such item of Transferred Intellectual Property and Seller-Licensed Intellectual Property:

(i) the item is not subject to any outstanding injunction, judgment, order, decree, ruling, or charge nor, to the knowledge of Seller, is any of the foregoing threatened;

(ii) no Claim or, to the knowledge of Seller, investigation is pending or, to the knowledge of Seller, threatened, which challenges the legality, validity, enforceability, use or ownership of the item; and

(iii) Seller has not agreed to indemnify any Person for or against any interference, infringement, misappropriation or other violation with respect to the item.

(d) Schedule 2.1(f)(vi) identifies each license, sublicense, agreement

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and permission by which Seller uses Intellectual Property owned by a third party and Primarily Related to the Business. Seller has made available to Buyer correct and complete copies of all Transferred Licenses (as amended to date). With respect to each Transferred License:

(i) the Transferred License is legal, valid, binding, enforceable and in full force and effect with respect to Seller and, to the knowledge of Seller, any other party thereto, subject to the qualifications that enforcement of the rights and remedies created thereby is subject to (A) bankruptcy, insolvency, reorganization, moratorium and other Laws of general application affecting the rights and remedies of creditors, and (B) general principles of equity (regardless of whether such enforcement is considered in a proceeding in equity or at law);

(ii) the Transferred License will continue to be legal, valid, binding, enforceable and in full force and effect with respect to Buyer and, to the knowledge of Seller, any other party thereto following the consummation of the Transaction, subject to the qualifications set forth in Section 3.10(d)(i) and subject to the receipt or making of all necessary consents, approvals, waivers, authorizations, novations, notices and filings under any contracts or instruments identified in Schedule 3.3;

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(iii) subject to the receipt or making of all necessary consents, approvals, waivers, authorizations, novations, notices and filings under any contracts or instruments identified in Schedule 3.3, neither Seller nor, to the knowledge of Seller, any other party to the Transferred License is in breach or default, and no event has occurred which with notice of lapse of time would constitute a breach or default or permit termination, modification or acceleration thereunder;

(iv) neither Seller nor, to the knowledge of Seller, any other party to the Transferred License has repudiated any material provision thereof;

(v) to the knowledge of Seller, with respect to each sublicense constituting a Transferred License, the representations and warranties set forth in Sections 3.10(d)(i) through 3.10(d)(iv) are true and correct with respect to the underlying license;

(vi) to the knowledge of Seller, the Intellectual Property underlying the Transferred License is not subject to any outstanding Claim; and

(vii) no Claim or, to the knowledge of Seller, investigation is pending or, to the knowledge of Seller, threatened, which challenges the legality, validity or enforceability of the Intellectual Property underlying the Transferred License.

#### Section 3.11 Employee Benefits.

(a) Schedule 3.11(a) lists all material formal or informal, written or -----  
unwritten employee benefit plans or arrangements of Seller which cover U.S. Employees, including: (i) "employee benefit plans" within the meaning of section 3(3) of ERISA; (ii) incentive compensation (whether cash or equity), commission, severance or other similar compensation arrangements; and (iii) all other benefit obligations of any type made available by Seller to any current U.S. Employee with respect to services performed by him on behalf of the Business (collectively, "U.S. Plans"). Copies of all written U.S. Plans and written descriptions of all unwritten U.S. Plans have been provided or made available to Buyer.

(b) All U.S. Plans to the extent subject to ERISA and the Code are in substantial compliance with ERISA and the Code. Each U.S. Plan that is an "employee pension benefit plan" within the meaning of section 3(2) of ERISA (a "Pension Plan") and that is intended to be qualified under section 401(a) of the Code has received a favorable determination letter from the Internal Revenue Service. Except as disclosed on Schedule -----

3.11(b), there is no material litigation pending or, to the knowledge of Seller,  
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overtly threatened against Seller relating to any U.S. Plan.

(c) All employee benefit plans or arrangements of Seller or the Seller  
Affiliates covering EU Employees comply in all material respects with all Laws.

(d) Buyer will not have any Liability to contribute to any "multiemployer  
plan," as defined in section 3(37) of ERISA, on behalf of any current or former  
U.S. employee or other U.S. Person with respect to services performed by such  
Person on behalf of the Business on or before the Closing Date.

#### Section 3.12 Environmental Matters.

(a) The Business has complied with all Environmental Laws, the failure to  
comply with which could reasonably be expected to result in Losses after the  
Closing Date in amounts in excess of \$10,000 individually or in the aggregate,  
and no Claim or, to Seller's knowledge, investigation has been filed or  
commenced against the Business alleging such failure.

(b) Except as set forth in Schedule 3.12, and except for Liabilities that  
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could not reasonably be expected to result in Losses after the Closing Date in  
amounts in excess of \$10,000 individually or in the aggregate, the Business does  
not have any Liability (and the Business has not handled, used, stored, recycled  
or disposed of any Hazardous Substance, arranged for the disposal of any  
Hazardous Substance, exposed any employee or other Person to any Hazardous  
Substance or hazardous condition, or owned or operated any property or facility  
in any manner that could reasonably be expected to form the basis for any  
present or future Claim or investigation giving rise to any such Liability) for  
damage or remediation to any site, location or body of water (surface or  
subsurface), or for any illness of or personal injury to any employee or other  
Person, under any Environmental Law.

(c) All properties and equipment owned by Seller or any Seller Affiliate  
and used in the Business are free of any amounts of Hazardous Substances the  
presence of which could reasonably be expected to result in Losses after the  
Closing Date in amounts in excess of \$10,000 individually or in the aggregate.

(d) Neither Seller nor any Seller Affiliate has placed any in service or  
out of service underground storage tanks in or on the Leased Real Property.

#### Section 3.13 Labor Matters.

(a) Except as set forth on Schedule 3.13(a): (i) the Business is not a  
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party to or bound by any collective bargaining agreement; (ii) during the three-  
year period preceding the date hereof, the Business has not experienced any  
strikes, grievances or Claims of unfair labor practice; (iii) Seller has no  
knowledge of any organizational effort presently being made or threatened by or  
on behalf of any labor union with respect to the



employees of the Business; (iv) during the three-year period preceding the date hereof, there has not been, and there is not presently pending or existing or, to the knowledge of Seller, threatened, any strike, work stoppage, labor arbitration or proceeding in respect of the grievance of any employee, any application or complaint filed by an employee or union with the National Labor Relations Board or any comparable state or local agency, organizational activity or other labor dispute against the Business or its premises; (v) no application for certification of a collective bargaining agent is pending or, to the knowledge of Seller, threatened; (vi) there is no lockout of any employees by the Business; (vii) there are no Claims currently pending against Seller with respect to employees of the Business alleging the violation of any Laws relating to employment, equal employment opportunity, nondiscrimination, immigration, wages, hours, benefits, collective bargaining, the payment of social security and similar Taxes, occupational safety and health and plant closing (collectively, "Employment Laws"); and (viii) the Business has not been found liable for the payment of Taxes, fines, penalties or other amounts, however designated, for failure to comply with any Employment Laws. Except for the Assumed Contracts, there are no contracts of employment applicable to any Employees, including EU Employees.

(b) [intentionally omitted]

#### Section 3.14 Assumed Contracts.

Schedule 2.1(e) sets forth a list of each Assumed Contract other than purchase orders and product warranties incurred in the Ordinary Course. Except for those which expired by their terms prior to the date hereof or prior to the Closing Date, each Assumed Contract is a valid and binding obligation of Seller or a Seller Affiliate and is in full force and effect. Except for any default that would be caused by the assignment or novation thereof to Buyer without the consent, approval, waiver or authorization of a third party, there is no default by Seller or any Seller Affiliate under any Assumed Contract that has not been cured or waived. Except as set forth on Schedule 2.1(e), neither Seller nor any

Seller Affiliate is party to any written or, to Seller's knowledge, oral agreement or arrangement that would materially modify or affect the economic terms of any Assumed Contract, except for those modifications or effects which would not have a Material Adverse Effect. To the knowledge of Seller, no other party to any Assumed Contract is in default thereunder, nor does any condition exist that with notice or lapse of time or both would constitute such a default.

#### Section 3.15 Finders' Fees.

There is no investment banker, broker, finder or other intermediary who has been retained by or is authorized to act on behalf of Seller or any Affiliate of Seller who might be entitled to any fee or commission from Buyer or any Affiliate of Buyer in connection with the Transaction.

Section 3.16 Subsequent Changes.

Since July 31, 1999, there has not been any change in the Business, or in the financial condition, operations or results of operations of the Business, that could reasonably be expected to have a Material Adverse Effect. Without limiting the generality of the foregoing, since July 31, 1999, except as set forth on Schedule 3.16, the Business has not:

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- (a) sold, leased, transferred or assigned any of the Transferred Assets outside the Ordinary Course;
  - (b) entered into any agreement, contract, lease or license (or series of related agreements, contracts, leases, and licenses) other than Ordinary Course sales and purchase orders;
  - (c) accelerated, terminated, modified or canceled any Assumed Contract except in the Ordinary Course, or materially modified the Business's backlog; and to the knowledge of Seller, no other party has done so as a result of any default by Seller;
  - (d) made any capital expenditure (or series of related capital expenditures) either involving more than \$50,000 or outside the Ordinary Course;
  - (e) made any capital investment in, any loan to, or any acquisition of the securities or assets of, any other Person;
  - (f) issued any note, bond or other debt security or created, incurred, assumed or guaranteed any indebtedness for borrowed money or capitalized lease obligation;
  - (g) delayed or postponed the payment of accounts payable or other Liabilities outside of the Ordinary Course;
  - (h) canceled, compromised, waived or released any material right or Claim (or series of related rights and Claims) outside the Ordinary Course;
  - (i) granted any license or sublicense of any rights under or with respect to any Transferred Intellectual Property outside of the Ordinary Course;
  - (j) experienced any material damage, destruction or loss to the Transferred Assets not covered by insurance;
  - (k) granted any increase in the base compensation of any of the Employees or made any other material change in employment terms for any of the Employees, except for normal compensation increases made in the Ordinary Course; or
  - (l) entered into any commitment to do any of the foregoing.

Section 3.17 Assumed Leases.

Seller has made available to Buyer correct and complete copies of the Assumed Leases (as amended to date). With respect to each Assumed Lease:

(a) the Assumed Lease is legal, valid, binding and enforceable on Seller or a Seller Affiliate, and in full force and effect in accordance with its terms;

(b) except for any breach or default that would be caused by the assignment or novation thereof to Buyer without the consent, approval, waiver or authorization of a third party, neither Seller nor any Seller Affiliate is, and to the knowledge of Seller no other party to the Assumed Lease is, in breach or default thereof, and no event has occurred and is continuing which, with notice or lapse of time, would constitute a breach or default thereof or permit termination, modification or acceleration thereunder;

(c) to the knowledge of Seller, there are no disputes, oral agreements or forbearance programs in effect as to the Assumed Lease that would have a Material Adverse Effect;

(d) Seller has not assigned, transferred, conveyed, mortgaged, deeded in trust or encumbered any interest in the leasehold represented by the Assumed Lease; and

(e) Seller or a Seller Affiliate has obtained all Governmental Authorizations (including licenses and permits) required to be obtained by it in connection with its operation of the Business at the premises leased under the Assumed Lease, and has operated and maintained such premises in all material respects in accordance with applicable Laws.

Section 3.18 Product Warranty.

Except to the extent of the warranty reserve set forth on the September Balance Sheet, each product manufactured, sold, leased or delivered by the Business on or before the date hereof has been in conformity with written commitments and express and implied warranties of Seller. As of September 30, 1999, the Business had no Liability for replacement or repair of such products or other damages in connection therewith, except to the extent of the warranty reserve set forth on the September Balance Sheet. No product manufactured, sold, leased or delivered by the Business is subject to any contractual guaranty, warranty or other indemnity of the Business beyond the applicable standard terms and conditions of sale or lease. Seller has heretofore made available to Buyer copies of the standard terms and conditions of sale or lease of the Business (containing applicable guaranty, warranty and indemnity provisions).

Section 3.19 Year 2000 Compliance.

The Business: (a) has undertaken an assessment of all computer and automated systems that are part of the Transferred Assets (collectively, "Transferred Systems") that could be

adversely affected by a failure to be Year 2000 Compliant; (b) has developed a plan for rendering such Transferred Systems Year 2000 Compliant, a copy of which plan is annexed as Schedule 3.19; and (c) to date, has implemented such plan as

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set forth therein. As used herein, "Year 2000 Compliant" means that the Transferred Systems will record, store, process and present calendar dates falling on or after January 1, 2000, in the same manner and with the same functionality as the Transferred Systems record, store, process and present calendar dates falling on or before December 31, 1999.

Section 3.20 Buyer's Representations and Warranties.

Seller acknowledges that except for the representations and warranties contained in Article IV or in any Ancillary Agreement, neither Buyer nor any other Person makes any other express or implied representation or warranty on behalf of Buyer.

ARTICLE IV. REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller as follows:

Section 4.1 Organization and Power.

Buyer is a corporation duly organized, validly existing and in good standing under the laws of Delaware and has all requisite corporate power and authority to own or lease and operate its properties and assets and to carry on its business as currently conducted. Buyer is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction where its ownership or operation of its properties and assets or the conduct of its business requires such qualification, except for failures to be so qualified or in good standing, as the case may be, that would not prevent consummation of the Transaction or materially impair the ability of Buyer to perform its obligations hereunder.

Section 4.2 Corporate Authorization.

Buyer has full corporate power and authority to execute and deliver this Agreement and each Closing Document, and to perform its obligations hereunder and thereunder. The execution, delivery and performance by Buyer of this Agreement and each Closing Document have been duly and validly authorized and no additional corporate authorization or consent is required in connection therewith.

Section 4.3 Approvals.

Except for the Required Approvals, no consent, approval, waiver, authorization or novation is required to be obtained by Buyer from, and no notice or filing is required to be given by Buyer to or made by Buyer with, any Governmental Entity or other Person in connection with the execution, delivery and performance by Buyer of this Agreement and each Closing Document.

#### Section 4.4 Non-Contravention.

The execution, delivery and performance by Buyer of this Agreement and each Closing Document, and the consummation of the Transaction, do not and will not: (a) violate any provision of the articles of incorporation, bylaws or other organizational documents of Buyer; (b) assuming receipt of all Required Approvals, conflict with, or result in the breach of, or constitute a default under, or result in the termination, cancellation or acceleration (whether after the filing of notice or the lapse of time or both) of any right or obligation of Buyer under, any agreement, contract, lease, sublease, arrangement, commitment or license to which Buyer is a party or by which any of its assets is bound; or (c) assuming receipt of all Required Approvals, violate or result in a breach of or constitute a default under any Law, judgment, injunction, order, decree or other restriction of any Governmental Entity to which Buyer is subject; except for, in the cases of the foregoing clauses (b) and (c), conflicts, breaches, terminations, defaults, cancellations, accelerations, or violations that would not prevent consummation of the Transaction or materially impair the ability of Buyer to perform its obligations hereunder.

#### Section 4.5 Binding Effect.

This Agreement and each Closing Document, when executed and delivered by Seller and by each Seller Affiliate party thereto, will constitute valid and legally binding obligations of Buyer, enforceable against Buyer in accordance with their respective terms, subject to bankruptcy, insolvency, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

#### Section 4.6 Financing.

On the Closing Date, Buyer will have sufficient funds to consummate the Transaction and to perform its obligations hereunder.

#### Section 4.7 Litigation and Claims.

There is no civil, criminal or administrative Claim or, to the knowledge of Buyer, investigation pending or, to the knowledge of Buyer, overtly threatened, against Buyer except for those that would not prevent consummation of the Transaction or materially impair the ability of Buyer to perform its obligations hereunder. Buyer is not subject to any order, writ, judgment, award, injunction or decree of any Governmental Entity of competent jurisdiction or any arbitrator, except for those that would not prevent consummation of the Transaction or materially impair the ability of Buyer to perform its obligations hereunder.

#### Section 4.8 Finders' Fees.

There is no investment banker, broker, finder or other intermediary that has been retained by or is authorized to act on behalf of Buyer or any Affiliate of Buyer who might be entitled to any fee or commission from Seller or any Affiliate of Seller in connection with the Transaction.

Section 4.9 Seller's Representations and Warranties.

Buyer acknowledges that except for the representations and warranties contained in Article III or in any Ancillary Agreement, neither Seller nor any other Person makes any other express or implied representation or warranty on behalf of Seller, and that any implied warranties of merchantability or fitness for any particular purpose are expressly disclaimed.

ARTICLE V. CERTAIN COVENANTS

Section 5.1 Access.

(a) Prior to Closing, Seller and the Seller Affiliates will permit Buyer and its representatives to have access, during regular business hours and upon reasonable advance notice, to the Books and Records of Seller relating to the assets, Liabilities and operations of the Business, to the Employees and to the locations at which the Business is conducted or at which such Books and Records are located, subject to reasonable security regulations of Seller and any Laws. Seller and the Seller Affiliates will furnish, or cause to be furnished, to Buyer any financial and operating data and other information that is available with respect to the Business as Buyer from time to time reasonably requests (it being understood that in no event will Buyer have access to any Tax Returns or Seller or its Affiliates), and will instruct its employees, counsel, independent accountants and financial advisors to cooperate with Buyer in its investigation of the Business.

(b) For seven years following the Closing Date (or for such longer period as may be required by Section 5.10(b)), Buyer will keep and maintain all Books and Records pertaining to the Business in existence on the Closing Date, and Seller or the Seller Affiliates will keep and maintain all Books and Records pertaining to the Business that are not Transferred Assets; provided, however, that prior to expiration of such period, either party may dispose of such Books and Records after reasonable notice offering the same to the other party.

(c) For the period provided by Section 5.1(b), and upon the request of the other party, Seller and the Seller Affiliates, on the one hand, or Buyer, on the other hand, will, to the extent permitted by Law and confidentiality obligations existing on the Closing Date, grant to the other party and its representatives (with reimbursement of the granting party's reasonably documented reasonable and necessary out-of-pocket expenses incurred in complying with such request) reasonable access, during normal business hours and upon reasonable notice, to inspect and copy the Books and Records referred to in Section 5.1(b). Such right of access will be subject to the reasonable security requirements of the granting party and in no event will either party have access to the Tax Returns of the other party.

Section 5.2 Conduct of Business.

During the period from the date hereof to Closing, except as otherwise contemplated by this Agreement or as Buyer otherwise consents in writing, Seller and the Seller Affiliates will conduct the Business in the Ordinary Course and will not permit the Business to:

- (a) incur any indebtedness for borrowed money;
- (b) knowingly incur, create or assume any Encumbrance (other than a Permitted Encumbrance) on any Transferred Assets, other than in the Ordinary Course;
- (c) dispose of any assets Primarily Related to the Business, other than in the Ordinary Course;
- (d) make any change of accounting or accounting practice, procedure or policy with respect to the Transferred Assets;
- (e) enter into any agreement, contract, lease or license (or series of related agreements, contracts, leases, and licenses) other than Ordinary Course sales and purchase orders;
- (f) accelerate, terminate, modify or cancel any Assumed Contract except in the Ordinary Course, or materially modify the Business's backlog;
- (g) make any capital expenditure (or series of related capital expenditures) either involving more than \$50,000 or outside the Ordinary Course;
- (h) make any capital investment in, any loan to, or any acquisition of the securities or assets of, any other Person;
- (i) issue any note, bond or other debt security or create, incur, assume or guarantee any indebtedness for borrowed money or capitalized lease obligation;
- (j) delay or postpone the payment of accounts payable or other Liabilities outside of the Ordinary Course;
- (k) cancel, compromise, waive or release any material right or Claim (or series of related rights and Claims) outside the Ordinary Course;
- (l) grant any license or sublicense of any rights under or with respect to any Transferred Intellectual Property outside of the Ordinary Course;
- (m) grant any increase in the base compensation of any of the Employees or make any other material change in employment terms for any of the Employees, except for normal compensation increases made in the Ordinary Course; or

(n) enter into any commitment to do any of the foregoing.

Section 5.3 Reasonable Efforts; Further Assurances.

(a) During the period from the date hereof to Closing, Seller and Buyer will each cooperate and use commercially reasonable efforts to fulfill the conditions precedent to its own and the other party's obligations hereunder, including taking or causing to be taken all actions necessary, proper or advisable to obtain as promptly as practicable all Required Approvals; provided, however that subject to the provisions of Section 2.4, Seller need not request or make any Required Approval or any other consent, approval, waiver, authorization, novation, notice or filing from or with any Governmental Entity or other Person if Seller reasonably believes that such action would materially endanger, injure or otherwise harm Seller's relationship with such Governmental Entity or other Person with respect to any of Seller's businesses other than the Business. Without limiting the generality of the foregoing, Buyer and Seller will cooperate fully with each other to file promptly documentary materials required by or necessary to obtain approval or clearance in connection with the matters contemplated by Article VI.

(b) Seller and Buyer will cooperate and use their respective commercially reasonable efforts to comply with all Laws in furtherance of the Transaction, including the execution of additional agreements, instruments and documents that may be required by local Law. Subject to the provisions hereof, from time to time before and after the Closing Date, each party will promptly execute, acknowledge and deliver any other assurances or documents reasonably requested by the other party and necessary for the other party to satisfy its obligations hereunder or to obtain the benefits contemplated hereby.

Section 5.4 Antitrust and Competition Laws.

(a) Without limiting the generality of Section 5.3, Seller and Buyer will use their respective commercially reasonable efforts to take promptly all actions and to do all other things necessary, proper or advisable to avoid or eliminate each and every impediment under any Antitrust Law that may be asserted by any Governmental Entity or any other Person to the consummation of the Transaction by Seller and Buyer in accordance with the terms of this Agreement.

(b) Subject to confidentiality obligations imposed by Law, Seller and Buyer will use their respective commercially reasonable efforts to include the other party in all conversations, discussions, hearings or other meetings, whether in person or by telephone, that it or its representatives has with any Governmental Entity with respect to the Transaction, and ensure that the other party promptly receives all notifications, letters, facsimiles or other written documentation sent to or by any Governmental Entity to the extent that they relate to the Transaction.



Section 5.5 Ancillary Agreements.

At Closing, Seller or its Affiliates and Buyer or its Affiliates will enter into various business relationships pursuant to the Ancillary Agreements, as follows:

(a) the license by Seller to Buyer and its Affiliates of the Seller-Licensed Intellectual Property pursuant to one or more Intellectual Property Licenses substantially in the forms of Exhibit A-1 and Exhibit A-2;  
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(b) the license back by Buyer to Seller and its Affiliates of the Buyer-Licensed Intellectual Property pursuant to one or more Intellectual Property Licenses substantially in the form of Exhibit B;  
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(c) the supply by Seller's MTD Division to Buyer of certain product components pursuant to one or more Sensor Supply Agreements substantially in the form of Exhibit C;  
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(d) the distribution by Seller or its Affiliates of products of the Business in Japan and Korea pursuant to one or more Transition Distribution Agreements substantially in the form of Exhibit D and containing other customary terms and conditions, including those necessary under local Law;  
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(e) the license by Seller or its Affiliates of certain premises to Buyer pursuant to a Master License Agreement containing the terms summarized in Exhibit E and other customary terms and conditions; and  
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(f) the development by Seller's MTD Division for Buyer of certain product components pursuant to one or more Development Agreements containing the terms summarized in Exhibit F and other customary terms and conditions.  
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From and after the date hereof, Buyer and Seller will negotiate in good faith all of the terms and conditions of the Ancillary Agreements contemplated by Exhibit D, Exhibit E and Exhibit F. At Closing, Buyer and Seller and their respective Affiliates, as appropriate, will execute and deliver each of the Ancillary Agreements and Closing Documents.

Section 5.6 Corporate Trademarks and Other Intellectual Property.

(a) By virtue of this Agreement, Seller is not Delivering to Buyer, the terms "Transferred Assets" and "Seller-Licensed Intellectual Property" do not include, and neither Buyer nor any of its Affiliates will have, whether by virtue of this Agreement or otherwise, any right, title or interest in or to, or any right to use, any of Seller's Intellectual Property except as specifically and expressly set forth herein or in any Ancillary Agreement. Buyer acknowledges that, except as expressly provided by Section 2.1(f), this Section 5.6 or any Ancillary Agreement, no right, interest, ownership or privilege of use in or to any of Seller's trade dress, trade names, trademarks, service

marks, logos, identification, names, slogans or internet domain names is accorded to Buyer or any of its Affiliates by reason of this Agreement. Neither Buyer nor any of its Affiliates will at any time use or attempt to register any trade dress, trade name, trademark or service mark confusingly similar to any trade dress, trade name, trademark, service mark, logo, identification, name, slogan or internet domain name of Seller, including Seller's trade dress yellow color. Without limiting the generality of the foregoing, neither Buyer nor any Affiliate of Buyer will at any time, without Seller's prior written consent, use a name, trade name or logo containing the letter combinations EK or KO.

(b) Without limiting the generality of Section 5.6(a), neither Buyer nor any Affiliate of Buyer will at any time have any rights to use any of the following names or symbols: KODAK, the Kodak corporate symbol, the KODAK Service logo and all other trade names of Seller or its Affiliates that are not Transferred Assets (collectively, the "Corporate Trademarks").

(c) Notwithstanding anything to the contrary contained herein, Seller and its Affiliates will retain at all times after Closing its right, title and interest in or to, and the non-exclusive right to use, all trade secrets, know-how, processes and proprietary information, and copies of documents incorporating any similar rights, constituting Transferred Intellectual Property and existing on the Closing Date which is or has been used by Seller or any of its Affiliates in business operations other than the Business.

(d) Notwithstanding anything to the contrary contained herein, Seller will at all time have the sole and exclusive right to prosecute, defend, settle or otherwise control any Claim relating to the Seller-Licensed Intellectual Property, except as may be otherwise provided by any Ancillary Agreement or to the extent such Claim is one between Buyer and Seller.

(e) Buyer may use in connection with its operation of the Business: (i) for up to 30 days after the Closing Date, inventory existing on the Closing Date of preprinted business forms bearing any Corporate Trademarks; (ii) for up to six months after the Closing Date, inventory existing on the Closing Date, or reprints thereof, of sales and promotional material bearing any Corporate Trademarks; (iii) for up to six months after the Closing Date, signs bearing any Corporate Trademarks; and (iv) for up to six months after the Closing Date, inventory existing on the Closing Date of finished goods bearing any Corporate Trademarks; provided, however, that (A) with respect to all goods and materials referred to in this Section 5.6(e), Buyer will take such reasonable steps as are necessary to notify third parties that the products of the Business are no longer marketed by Seller, but are instead marketed by Buyer, and (B) on all materials referred to in the foregoing clauses (i), (ii) and (iii), Buyer will use commercially reasonable efforts to replace, as soon as practicable after Closing, such existing materials bearing Corporate Trademarks with materials bearing Buyer's own corporate identity. If any business forms require a signature, Buyer will sign such forms in its own name, and not in the name of Seller or any of its Affiliates.

(f) As used herein, the term "Licensed Trademarks" means the trademarks of Seller listed on Schedule 5.6(f). Seller hereby grants to Buyer a non-

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exclusive, royalty free, limited right and license to use the Licensed Trademarks, for a period of 18 months following the Closing Date, in connection with the products of the Business as they exist on the Closing Date; provided, however, that if Buyer makes any changes to any of the products of the Business, Buyer will immediately remove the Licensed Trademarks from each such changed product and cease use of the Licensed Trademarks in connection therewith. If at any time Seller notifies Buyer that the quality of any product of the Business bearing a Licensed Trademark is unacceptable to Seller, or that Buyer has changed such product since the Closing Date, Buyer will, within five business days of Seller's written request, remove all Licensed Trademarks from such product and cease use of the Licensed Trademarks in connection therewith. Buyer may not use any stylization or special fonts for the Licensed Trademarks, nor may Buyer use in connection therewith the Kodak corporate symbol or any elements of Seller's trade dress, including Seller's trade dress yellow color. All rights and licenses granted to Buyer in this Section 5.6(f) will terminate and be of no further force or effect, without further action of the parties, on the date that is 18 months after the Closing Date; provided, however, that Seller may extend such rights and licenses upon Buyer's written request.

(g) If subsequent to the date hereof Buyer or Seller discovers any Intellectual Property (other than the Corporate Trademarks) that is (i) owned by or licensed to Seller or its Affiliates, (ii) used in the Business as of the date hereof or as of the Closing Date, and (iii) not included as part of the Transferred Intellectual Property or the Seller-Licensed Intellectual Property, then Seller will: (A) in the case of such Intellectual Property that is owned by Seller or its Affiliates and Primarily Related to the Business as of the date hereof or as of the Closing Date, cause the same to be transferred to Buyer under the terms of this Agreement; and (B) in the case of all other such Intellectual Property, cause the same to be licensed to Buyer, on a non-exclusive, royalty-free basis, subject to the rights of third parties therein; provided, however, that with respect to any of such Intellectual Property that is licensed to Seller or its Affiliates, Seller will be obligated to license the same to Buyer only to the extent that Seller or its Affiliates has the right so to do, and has no obligation to pay consideration to any third party in connection therewith (or, at Buyer's election, such consideration has been paid by Buyer).

#### Section 5.7 Confidentiality.

(a) At all times after the date hereof, Seller will treat as confidential and will safeguard any and all information, knowledge and data included in the Transferred Assets, by using the same degree of care, but no less than a reasonable standard of care, to prevent the unauthorized use, dissemination or disclosure of such information, knowledge and data as Seller used with respect thereto prior to the execution of this Agreement; provided, however, that nothing contained in this Section 5.7(a) will prevent any use of Transferred Intellectual Property as contemplated by Section 5.6(c).

(b) At all times after the date hereof, Buyer will treat as confidential and will safeguard any and all information, knowledge or data included in the Seller-Licensed

Intellectual Property or relating to the business of Seller and its Affiliates, whether or not related to the Business, that has become or becomes known to Buyer as a result of the transactions contemplated by this Agreement or any Ancillary Agreement, or Buyer's due diligence investigations in connection therewith, except in each case as expressly agreed to by Seller in writing. If for any reason the Transaction is not consummated, the foregoing obligation of Buyer will also pertain to all information, knowledge or data relating to the Business and, subject to the provisions of Section 5.7(c), Buyer will neither use nor disclose any of such information, knowledge or data. With respect to all such information, knowledge or data, (i) Buyer will use the same degree of care, but no less than a reasonable standard of care, to prevent the unauthorized use, dissemination or disclosure of such information, knowledge and data as Buyer uses in the protection of other proprietary information of Buyer, and (ii) nothing contained in this Section 5.7(b) will prevent the disclosure of any such information, knowledge or data to any directors, officers, employees, agents and representatives of Buyer to whom such disclosure is necessary or desirable in the conduct of the Business if such Persons are informed by Buyer of the confidential nature of such information and are directed by Buyer to comply with the provisions of this Section 5.7(b).

(c) Nothing contained in this Section 5.7 will in any way restrict or impair the right of either party or its Affiliates (collectively, the "Receiving Party") to use, disclose or otherwise deal with information of the other party or its Affiliates (collectively, the "Disclosing Party") which: (i) is or becomes a matter of public knowledge through no fault of the Receiving Party or its agents or representatives; (ii) was already in the Receiving Party's possession at the time of disclosure of the information to the Receiving Party, and was not acquired, directly or indirectly, under any obligation of confidentiality to the Disclosing Party or to any other Person; (iii) is rightfully received by the Receiving Party from a Person having no duty of confidentiality to the Disclosing Party; (iv) was disclosed by the Disclosing Party to another Person having no duty of confidentiality to the Disclosing Party; (v) is independently developed by the Receiving Party; (vi) is disclosed pursuant to legal process after prior notice to the Disclosing Party; or (vii) is disclosed by the Receiving Party with the Disclosing Party's prior written consent. The Receiving Party will have the burden of proving the applicability of any provision of this Section 5.7(c) to any particular set of facts.

#### Section 5.8 Public Disclosure.

Notwithstanding anything herein to the contrary, each of the parties agrees that, except as may be required to comply with the requirements of any Law and the rules and regulations of each stock exchange upon which the securities of either of the parties is listed, no press release or similar public announcement or communication will, whether prior or subsequent to Closing, be made or caused to be made concerning the execution or performance of this Agreement unless specifically approved in advance by Seller and Buyer.

Section 5.9 Bulk Sales.

To the extent, if any, that the same are applicable to the Transaction, Seller and Buyer hereby waive compliance with article 6 of the Uniform Commercial Code as adopted in each jurisdiction in which any of the Transferred Assets are located, as well as section 1141(c) of the New York Tax Law and any similar Laws in other jurisdictions.

Section 5.10 Taxes.

(a) Responsibility for the preparation and filing of Tax Returns and the payment of Taxes incurred as a result of the sale and transfer of the Transferred Assets and the Assumed Liabilities hereunder will be as follows:

(i) Buyer and Seller will each prepare and file such Tax Returns as may be, respectively, required of them in connection with all excise, sales, use, value added, transfer, stamp, documentary, filing, recordation or other similar Taxes incurred as a result of the sale and transfer of the Transferred Assets and the Assumed Liabilities hereunder in accordance with the form of the Transaction or as may otherwise be required by a Governmental Entity; provided, however, that the cost of all such Taxes will be borne by Buyer and Seller in equal portions.

(ii) Seller will be responsible for the preparation and filing of any required income Tax Returns and the payment of all of Seller's income Taxes incurred as a result of the sale and transfer of the Transferred Assets and the Assumed Liabilities hereunder.

(iii) Seller will be responsible for the preparation and filing of all Tax Returns and the payment of all other Taxes of any nature incurred in the Business or relating to the Transferred Assets or the Assumed Liabilities for the period up to and including the Closing Date.

(iv) Buyer will be responsible for the preparation and filing of all Tax Returns and the payment of all other Taxes of any nature incurred in the Business or relating to the Transferred Assets or the Assumed Liabilities for the period after the Closing Date.

(b) Buyer and Seller will provide each other with such cooperation and information as either of them reasonably may request of the other in connection with filing any Tax Return, amended return or Claim for refund, determining a Liability for Taxes or a right to refund of Taxes or preparation for litigation or investigation of Claims or in connection with any audit. Such cooperation and information will include providing copies of all relevant Tax Returns, and other documents and records, or portions thereof, relating to the Business. Each of Buyer and Seller will retain all Tax Returns, schedules and work papers and all material records or other documents relating to Tax matters of the Business for the taxable year of Seller ending after the Closing Date and for all previous years, until the expiration of the statute of limitations of the taxable years to

which such Tax Returns and other documents relate (and, to the extent notified by the other party in writing, any extensions thereof). Any information obtained under this Section 5.10(b) will be kept confidential as contemplated by Section 5.7, except as may be otherwise necessary in connection with the filing of Tax Returns or Claims for refund or in conducting an audit or other proceeding.

(c) If in order to prepare properly documents required to be filed with Governmental Entities or its financial statements, it is necessary that either Buyer or Seller be furnished with additional information relating to the Transferred Assets or the Assumed Liabilities and such information is in the possession of the other party, such other party will use its reasonable efforts to furnish such information in a timely manner to the party reasonably requiring such information, at the cost and expense of the party requiring such information.

(d) Seller will provide to Buyer, with respect to all U.S. Employees, all information required to be reported on IRS Form W-2 for that portion of calendar year 1999 ending on the Closing Date.

(e) Seller and Buyer will file or provide to each other such Tax Returns, forms and other documents as may be required or necessary to minimize or obtain an exemption from any excise, sales, use, value added, transfer, stamp, documentary, filing, recordation or other similar Taxes that arise with respect to the Transferred Assets or the Assumed Liabilities. Without limiting the generality of the foregoing, on or before the Closing Date Buyer will provide Seller with all required sales Tax exemption certificates.

(f) Notwithstanding any other provision of this Section 5.10, no party will have access to the other party's federal, state or foreign income Tax Returns or Books and Records relating thereto.

#### Section 5.11 Determination and Allocation of Consideration.

Within 60 days following the Closing Date, the parties will determine the amount of and allocate the total consideration transferred by Buyer to Seller pursuant to this Agreement (the "Consideration") in accordance with the fair market value of the Transferred Assets and Assumed Liabilities transferred, taking into account those Liabilities that properly may be accrued for federal income Tax purposes as of Closing and other relevant items. Seller and Buyer will prepare and file an IRS Form 8594 in a timely fashion in accordance with the rules under section 1060 of the Code and the provisions of this Section 5.11. The determination and allocation of the Consideration made pursuant to this Section 5.11 will be binding on Seller and Buyer for all Tax reporting purposes. In the event that Seller and Buyer cannot agree on any determination or allocation required under this Section 5.11, such determination or allocation will be made by Ernst & Young LLP, or such other nationally recognized firm of independent public accountants agreed upon by Seller and Buyer, whose decision will be final and binding and whose expenses will be shared equally by Seller and Buyer.

Section 5.12 Exclusivity.

Unless this Agreement is terminated as provided by Section 9.1, Seller will not, directly or indirectly, solicit, initiate, negotiate or assist any proposal or offer from any Person to acquire all or any substantial part of the Transferred Assets or the Business.

Section 5.13 Pre-Closing Inventory Count.

After the date hereof but prior to the Closing Date, Seller, at its expense, will conduct and complete a physical inventory count of the inventory of the Business located in the U.S. (the "Pre-Closing Inventory Count"). Buyer will have the right to observe, at its own expense, each aspect of the Pre-Closing Inventory Count; provided that, in so doing, Buyer will use reasonable efforts to minimize any interference with the ongoing operations of the Business.

Section 5.14 Non-Competition.

(a) As used herein, the following terms will have the following respective meanings:

(i) "Area Image Sensor" means any integrated circuit having a two-dimensional array of picture elements (pixels) used to detect image patterns of radiant energy.

(ii) "Industrial Camera" means a device that (A) is externally powered and rigidly mounted during use, (B) is housed in an industrial strength enclosure with no viewfinder, either optical or an attached electronic equivalent, (C) utilizes an Area Image Sensor as well as drive electronics, and (D) captures and immediately outputs digital images via a cable interface.

(iii) "Motion Analysis Camera" means a device that (A) utilizes an Area Image Sensor as well as drive electronics, (B) captures motion images of radiant energy at a minimum of 100 images per second, and (C) is primarily designed to analyze the motion of manufacturing processes or of products under test.

(b) For a period of seven years following the Closing Date, Seller will not, directly or indirectly through any of its Affiliates: (i) engage in the manufacturing, marketing (including any Seller branding), distribution or sale of Motion Analysis Cameras or Industrial Cameras, or kits for the assembly of Motion Analysis Cameras or Industrial Cameras; or (ii) own, manage, operate, control or have a material equity interest (as a partner, stockholder or investor) in any Person that engages in any of the activities set forth in Section 5.14(b)(i).

(c) Notwithstanding the provisions of Section 5.14(b):

(i) nothing contained herein will prevent Seller or any of its Affiliates from engaging in the manufacturing, marketing, distribution and/or sale of: (A) Area Image Sensors; (B) optical components used in Motion Analysis Cameras or Industrial Cameras; (C) document or film scanners using Area Image Sensors; (D) medical cameras other than cameras sold to third party systems manufacturers on an OEM (non-Kodak branded) basis; (E) satellite or aerial surveillance cameras; (F) motion or still cameras used to produce portraits, event photography, advertising, sales or marketing materials or entertainment programming; (G) microscopy cameras selling for less than \$5,000 each, whether sold as a stand-alone product or as a component of a system (irrespective of the sales price of the system), but excluding cameras for electron microscopes; (H) cameras designed and marketed for consumer applications; and/or (I) Industrial Cameras selling for less than \$2,000 each, whether sold as a stand-alone product or as a component of a system (irrespective of the sales price of the system); and

(ii) nothing contained herein will prevent Seller or any of its Affiliates from: (A) owning less than 25 percent in the aggregate of the voting securities of any Person that engages in any of the activities set forth in Section 5.14(b)(i); or (B) participating in venture capital funds, mutual funds or investment funds that hold ownership interests in any Person that engages in any of the activities set forth in Section 5.14(b)(i); in each case so long as no employee of Seller or any of its Affiliates is involved in any way in the management of such Person (other than as a director); provided, however, that if after the Closing Date Seller or any of its Affiliates acquires any Person that engages in any of the activities set forth in Section 5.14(b)(i), Seller or such Affiliate will have a reasonable period of time, not to exceed one year, in which to bring its ownership of such Person within the parameters permitted by this Section 5.14(c)(ii) without thereby being in breach of this Section 5.14.

#### ARTICLE VI. COVENANTS AS TO EMPLOYMENT MATTERS

##### Section 6.1 Employees.

(a) Seller represents and warrants that Schedule 6.1 is a listing, as of -----  
the date hereof, of the names or employee codes of (i) all employees of Seller who are employed in the U.S. and whose duties are Primarily Related to the Business, and (ii) certain employees of Seller or a Seller Affiliate who are employed in a country other than the U.S. and have been identified for purposes of the requirements of this Article VI consistent with local Law. Schedule 6.1 -----  
will be updated, if necessary, immediately prior to Closing.

(b) "Employee" means each employee who (i) is listed by name or employee code on Schedule 6.1 and (ii) at the Transfer Time is either actively employed, -----  
or on an approved vacation or on any family leave, disability leave or other leave status under which the employee is entitled to reinstatement or continued employment.

(c) "EU Employees" means those Employees who are subject to Acquired Rights.



(d) "Acquired Rights" means (i) EU Directive No. 77/187 or any directive replacing or amending the same and the implementing Laws in the relevant countries and (ii) local Laws in other jurisdictions which provide for the automatic transfer of employees and their rights to a purchaser in the event of the sale of a business or other undertaking.

(e) "Transferred Employees" means (i) all EU Employees and (ii) all U.S. Employees who accept employment with Buyer or its Affiliates.

(f) "U.S. Employees" or "U.S. Transferred Employees" means those Employees or Transferred Employees, as the case may be, who at the Transfer Time are employed in the U.S.

Section 6.2 Buyer's Offers of Employment.

(a) Within seven days after the date hereof, Buyer will offer to each U.S. Employee:

(i) employment, commencing at the Transfer Time (or, in the case of an Employee who is then on disability or medical leave, commencing on the date he becomes willing and able to commence active service), in a position reasonably comparable to that held by such Employee immediately prior to the Transfer Time (but for such leave), and at a location no more than 50 miles from his place of employment at the Transfer Time;

(ii) a salary (including variable pay, if applicable) or hourly wage at least equal to such Employee's salary (including variable pay, if applicable) or hourly wage immediately prior to the Transfer Time (but for such leave); and

(iii) the employee benefit plans, programs, policies and arrangements of Buyer annexed as Schedule 6.2(a) ("Buyer's Employee Benefits").  
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Buyer will give each U.S. Employee at least one week in which to accept or reject such offer of employment, unless a greater period is required by local Law or applicable contract.

(b) Buyer and Seller confirm their understanding that the consummation of the Transaction to the extent located in a member state of the EU or other states with similar Laws will constitute the transfer of an undertaking or business for the purposes of Acquired Rights, and that the contracts of employment or employment relationships of the EU Employees in those states will, at the Transfer Time, automatically transfer to Buyer and will continue thereafter as if made between each EU Employee and Buyer. Seller and Buyer will cooperate to send notification of the proposed transfer to the EU Employees prior to Closing and appropriate confirmation of the transfer of employment to the EU Employees as soon as reasonably practicable after the Transfer Time.

Section 6.3 Severance Obligations.

(a) In the event that Buyer: (i) fails to offer employment to all U.S. Employees on the terms required by Section 6.2(a); or (ii) fails to accept a transfer of all EU Employees; or (iii) transfers any EU Employee on terms which do not satisfy the requirements of local Law or applicable contract with respect to the comparability of employment or the comparability of benefits offered to Employees (including those who accept employment with Buyer); then Buyer will be responsible for the payment of all severance, retention, termination and other similar compensation or benefit payments, damages and costs, and the applicable Taxes related thereto, which are or may become payable, under local Law, applicable contract or (to the extent applicable) TAP, and for the employment of any Employee who is awarded reinstatement by any Governmental Entity.

(b) In the event that Buyer offers employment to any U.S. Employee on the terms required by Section 6.2(a), or accepts a transfer of any EU Employee on terms which satisfy the requirements of local Law and applicable contract with respect to the comparability of employment and the comparability of benefits offered to Employees, but such Employee does not accept such employment or refuses to transfer under Acquired Rights, then upon Seller's termination of such Employee's employment Seller will be responsible for the payment of all severance pay and benefits, if any, and the applicable Taxes related thereto, to the extent payable under TAP as well as all severance, retention, termination and other similar compensation or benefit payments, damages and costs, and the applicable Taxes related thereto, which are or may become payable in that circumstance under local Law or applicable contract.

(c) In the event that severance, retention, termination, change in control or other similar compensation or benefit payments, damages or costs (including those related to actual or constructive termination of employment), or applicable Taxes related thereto, are payable, under local Law or applicable contract or custom, solely by virtue of the consummation of the Transaction (and notwithstanding Buyer's full compliance with the requirements of Section 6.2), then Buyer will be responsible for the payment thereof.

(d) In the event that, within 12 months following the Transfer Time, Buyer:

(i) terminates the employment of any U.S. Transferred Employee, other than for cause, death or disability, under any circumstance that would have entitled such U.S. Transferred Employee to severance benefits under TAP (had TAP been adopted by Buyer); or

(ii) fails to provide a U.S. Transferred Employee with (A) a position reasonably comparable to that held by him immediately prior to the Transfer Time and (B) a salary (including variable pay, if applicable) or hourly wage equal to his salary (including variable pay, if applicable) or hourly wage immediately prior to the Transfer Time, as a result of either of which failures such U.S. Transferred Employee terminates employment with Buyer; or

(iii) requires as a condition to continued employment that a U.S. Transferred Employee relocate more than 50 miles from his place of employment at the Transfer Time, as a result of which such U.S. Transferred Employee terminates employment with Buyer;

then Buyer will provide such U.S. Transferred Employee severance benefits comparable to those that would have been provided him under the circumstances by TAP (had Buyer adopted TAP) ("TAP-Comparable Benefits"); provided, however, that Seller will, with respect to no more than 20 percent of the U.S. Transferred Employees, reimburse Buyer for the amount by which the TAP-Comparable Benefits paid by Buyer to each such U.S. Transferred Employee exceeded the amount that would have been payable to such U.S. Transferred Employee under the severance policies of Buyer included in Buyer's Employee Benefits (after giving such U.S. Transferred Employee credit under such severance policies for all prior service with or credited by Seller). During the 12-month period following the Transfer Time, Buyer will cause the severance policies of Buyer included in Buyer's Employee Benefits to be applicable to the events of employment termination described in this Section 6.3(d).

Section 6.4 Buyer's Obligations to Transferred Employees.

(a) Buyer will maintain Buyer's Employee Benefits for a period of 12 months following the Transfer Time.

(b) Buyer will cause each Transferred Employee and his beneficiaries to be included as of the Transfer Time in the medical, dental, health and life insurance plans included in Buyer's Employee Benefits. Buyer will cause such plans to waive any eligibility periods and pre-existing condition limitations and will honor any deductible and out-of-pocket expenses incurred by each Transferred Employee and his beneficiaries under the medical, dental, health and life insurance plans of Seller and its Affiliates during the expired portion of calendar year 1999, and will waive any proof of good health requirements for life insurance coverage up to the level carried by such Transferred Employee immediately prior to the Transfer Time.

(c) All Liabilities in or under contracts of employment or employment relationships of EU Employees will automatically transfer to Buyer at the Transfer Time in accordance with Acquired Rights.

(d) Buyer will give Transferred Employees credit for all service with or credited by Seller under all employee benefit plans, programs, policies and arrangements of Buyer or its Affiliates in which they become participants for purposes of eligibility, vesting and benefit accrual.

(e) Buyer will assume and honor all vacation benefits of Transferred Employees accrued under Seller's Vacation Plan which have not been used as of the Closing Date. Notwithstanding the preceding sentence, Seller will remain responsible for

all vacation benefits accrued by Transferred Employees under Seller's Vacation Buy Plan.

(f) Effective as of the Transfer Time, Buyer will perform the duties required of a successor employer with respect to Continuation Coverage, including making Continuation Coverage available to U.S. Transferred Employees on and after the Transfer Time upon their termination of employment subsequent to the Transfer Time to the extent required by Law.

(g) Buyer will assume and be responsible for all Liabilities arising out of or related to the Transferred Benefit Plans, as well as all obligations under all non-U.S. Laws relating to the Transferred Employees.

#### Section 6.5 Seller's Obligations to Transferred Employees.

(a) Except as may be required by Law or expressly provided by this Article VI or Acquired Rights, and except for the Transferred Benefit Plans, neither Buyer nor any Affiliate of Buyer will assume or continue any of Seller's employee benefit plans or arrangements, and Seller will retain all Liability under all such other plans.

(b) Effective as of the Transfer Time, all Transferred Employees (and their dependents) who immediately prior to the Transfer Time are participating in employee welfare benefit plans of Seller, including plans, programs, policies and arrangements that provide medical and dental coverage, life and accident insurance, disability coverage and vacation and severance pay (collectively, "Seller's Welfare Plans"), will cease to be covered by Seller's Welfare Plans, except to the extent provided otherwise by the applicable Seller's Welfare Plan. Seller will retain responsibility and Liability (if any) for providing Continuation Coverage under the terms of the health plan maintained by Seller to (i) U.S. employees of Seller who were employed in connection with the Business, terminated employment prior to the Transfer Time, and elected Continuation Coverage, and (ii) U.S. Employees who do not accept Buyer's offer of employment and elect Continuation Coverage after termination of employment.

(c) Seller will retain responsibility and Liability (if any) for all Seller's Welfare Plan claims incurred by Employees (i) under any medical, dental or health plans for treatment or service rendered prior to the Transfer Time, (ii) under any life insurance plans with respect to deaths occurring prior to the Transfer Time, and (iii) with respect to any other payments or benefits owing prior to the Transfer Time under any other Seller's Welfare Plans. For purposes of this Section 6.5(c), a medical, dental or health claim will be deemed to have been incurred on the date on which treatment or service was rendered and not the date of the inception of the related illness or injury or the date of submission of a Claim related thereto.

(d) Except to the extent provided otherwise by any Assumed Contract or local Law, and except for matters arising under any Transferred Benefit Plan, Seller will retain responsibility and Liability (if any) for all employment or benefit-related matters

attributable to any current or former employee or other Person with respect to services performed on behalf of the Business prior to the Transfer Time.

#### Section 6.6 Consultation.

From and after the date hereof, Seller will use commercially reasonable efforts in a timely manner to notify and consult with the respective works councils or other employee representative bodies relating to the EU Employees as and to the extent required by local Law with respect to the transfers of EU Employees contemplated by this Agreement. In the event that Seller is required under Law in any country to provide information to its works councils or other employee representative bodies concerning Buyer or its Affiliates, or any measures that Buyer anticipates will be taken after the Transfer Time with respect to the Business, Buyer will immediately upon Seller's request provide all such information as is required for such purposes and will otherwise cooperate fully with Seller in connection with such consultations.

#### Section 6.7 Compliance with WARN, Etc.

Buyer will in a timely manner give all notices required to be given under the Worker Adjustment and Retraining Notification Act or other similar Laws of any jurisdiction relating to any plant closing or mass layoff or as otherwise required by any such Law. Buyer will be deemed to have caused a mass layoff if the mass layoff would not have occurred but for the failure of Buyer to employ the Employees in accordance with the terms of this Agreement.

#### Section 6.8 Non-Solicitation.

(a) During the six-month period immediately following the Closing Date, without the prior written consent of the other party, each party agrees not to hire or otherwise use or solicit the services of (i) any employee of the other party, or (ii) any former employee of the other party who terminated employment with such other party during the period beginning six months prior to the Closing Date and ending six months after the Closing Date.

(b) In the event that the parties fail for any reason to consummate the Transaction, neither Buyer nor any of Buyer's Affiliates will, on or before July 31, 2001, directly or indirectly solicit for employment or knowingly hire any employee of MASD with whom Buyer had a contact or who had become known to Buyer in connection with Buyer's consideration of the Transaction.

#### Section 6.9 Family and Medical Leaves.

During the first 12 months following the Transfer Time, Buyer, in its sole discretion, will take into consideration Seller's policy under the Family and Medical Leave Act of 1993 in applying the provisions of its Family and Medical Leave policy to any U.S. Transferred Employee.

ARTICLE VII. CONDITIONS TO CLOSING

Section 7.1 Conditions to the Obligations of Buyer and Seller.

The obligations of Buyer and of Seller to effect Closing are subject to the satisfaction or waiver prior to Closing of each of the following conditions:

(a) Antitrust Laws. All filings under U.S. Antitrust Laws will have been made and any required waiting period under such Laws applicable to the Transaction will have expired or been earlier terminated, and any other Governmental Entity that has power or authority to enforce such Laws will have approved, cleared and/or not intervened or attempted to prevent or modify the material terms of the Transaction.

(b) No Injunctions. No U.S. Governmental Entity of competent jurisdiction will have enacted, issued, promulgated, enforced or entered any statute, rule, regulation, or non-appealable judgment, decree, injunction or other order that is in effect on the Closing Date and prohibits Closing or the consummation of the Transaction.

(c) Required Approvals. All Required Approvals will have been obtained or accomplished, as the case may be, and the parties will have delivered to each other appropriate evidence of the same.

Section 7.2 Further Conditions to the Obligation of Buyer.

The obligation of Buyer to effect Closing is subject to the satisfaction or waiver prior to Closing of each of the following further conditions:

(a) Representations and Warranties. The representations and warranties of Seller contained herein will have been true and correct in all material respects when made, and will be so true and correct as of Closing as if made as of Closing (except that representations and warranties that are made as of a specific date need be so true and correct only as of such date), and Buyer will have received a certificate to such effect dated the Closing Date and executed by a duly authorized officer of Seller.

(b) Covenants. The covenants and agreements of Seller to be performed prior to Closing will have been duly performed in all material respects, and Buyer will have received a certificate to such effect dated the Closing Date and executed by a duly authorized officer of Seller.

(c) No Material Adverse Change. Between the date hereof and the Closing Date, there will not have occurred any change in the assets, Liabilities, operations or condition of the Business that is materially adverse to the Business taken as a whole, excluding general economic changes, changes in currency exchange rates, changes that may affect the motion analysis camera or industrial camera industries generally, the voluntary or involuntary termination of Employees or independent contractors, and changes attributable to the identity of Buyer or the pendency of the Transaction.

(d) Ancillary Agreements. Seller or an Affiliate of Seller will have duly executed and delivered each Ancillary Agreement.

(e) Additional Closing Deliveries. Subject to the provisions of Sections 2.4 and 2.10, at Closing Seller will have delivered to Buyer the following:

(i) duly executed bills of sale and other appropriate documents of transfer, in form and substance reasonably acceptable to Buyer and Seller, transferring to Buyer all tangible personal property included in the Transferred Assets;

(ii) duly executed assignments, in form and substance reasonably acceptable to Buyer and Seller, Delivering to Buyer all Transferred Intellectual Property;

(iii) duly executed assignments or, where necessary, subcontracts, subleases or sublicenses, in form and substance reasonably acceptable to Buyer and Seller, Delivering to Buyer all Assumed Contracts and all Transferred Licenses; and

(iv) such other instruments or documents, in form and substance reasonably acceptable to Buyer and Seller, as may be necessary to effect Closing.

#### Section 7.3 Further Conditions to the Obligation of Seller.

The obligation of Seller to effect Closing is subject to the satisfaction or waiver prior to Closing of each of the following further conditions:

(a) Representations and Warranties. The representations and warranties of Buyer contained herein will have been true and correct in all material respects when made, and will be so true and correct as of Closing as if made as of Closing (except that representations and warranties that are made as of a specific date need be so true and correct only as of such date), and Seller will have received a certificate to such effect dated the Closing Date and executed by a duly authorized officer of Buyer.

(b) Covenants. The covenants and agreements of Buyer to be performed prior to Closing will have been duly performed in all material respects, and Seller will have received a certificate to such effect dated the Closing Date and executed by a duly authorized officer of Buyer.

(c) Ancillary Agreements. Buyer or an Affiliate of Buyer will have duly executed and delivered each Ancillary Agreement.

(d) Payment. Buyer will have caused the Estimated Purchase Price to be delivered to Seller at Closing in federal funds by wire transfer to an account or accounts designated by Seller prior to Closing.

(e) Additional Closing Deliveries. Subject to the provisions of Sections 2.10, at Closing Buyer will have delivered to Seller the following:

(i) such duly executed instruments of assumption and other instruments or documents, in form and substance reasonably acceptable to Seller and Buyer, as may be necessary to effect the assumption by Buyer of the Assumed Liabilities; and

(ii) such other instruments or documents, in form and substance reasonably acceptable to Seller and Buyer, as may be necessary to effect Closing.

#### ARTICLE VIII. INDEMNIFICATION; REMEDIES

##### Section 8.1 Indemnification by Seller.

(a) Subject to the further provisions of this Article VIII, Seller will indemnify, defend and hold harmless Buyer, Buyer's Affiliates, and their respective directors, officers, shareholders, partners, attorneys, accountants, agents and employees (other than the Transferred Employees), and their heirs, successors and assigns (collectively, the "Buyer Indemnified Parties"), from, against and in respect of all Losses imposed on, sustained, incurred or suffered by or asserted against any of the Buyer Indemnified Parties, directly or indirectly relating to or arising out of any of the following (collectively, "Buyer Losses"):

(i) any fact or circumstance that constitutes a breach of any representation or warranty of Seller contained herein;

(ii) any act or omission that constitutes a breach of any covenant or agreement of Seller contained herein;

(iii) any act or omission of Seller prior to Closing that constituted a breach of its obligations under any Assumed Contract or Transferred License;

(iv) any act or omission of Seller prior to Closing that creates Liability to a third party other than as contemplated by Section 8.1(a)(iii);

(v) any Excluded Liability; or

(vi) that certain inquiry of the Federal Trade Commission with respect to the Business which is pending on the date hereof.

(b) As used herein, "Special Buyer Loss" means a Buyer Loss that arises out of: (i) a breach of the representations and warranties contained in Sections 3.1, 3.2, 3.4, 3.5, 3.7 or 3.9 (but not any other representation or warranty); (ii) any Excluded Liability; or (iii) the matter described in Section 8.1(a)(vi). Notwithstanding the provisions of Section 8.1(a):



(i) Seller will not be liable for any Buyer Loss, including a Special Buyer Loss, unless a Buyer Indemnified Party gives Seller notice of a claim for indemnification therefor within the applicable survival period provided by Section 10.4;

(ii) Seller will not be liable for any Buyer Loss, including a Special Buyer Loss, unless the aggregate amount of all Buyer Losses exceeds \$200,000, and then Seller will be liable only in the amount of all Buyer Losses in excess of \$200,000;

(iii) in no event will Seller's aggregate Liability for all Buyer Losses that are not Special Buyer Losses exceed \$10,000,000 (it being understood that the limitation provided by this Section 8.1(b)(iii) does not apply to Special Buyer Losses);

(iv) in no event will Seller's aggregate Liability for all Buyer Losses, including all Special Buyer Losses, exceed the amount of the Purchase Price; and

(v) Seller will not be liable for any Buyer Loss, including a Special Buyer Loss, to the extent that such Buyer Loss is reflected in the Reduction Amount.

#### Section 8.2 Indemnification by Buyer.

(a) Subject to the further provisions of this Article VIII, Buyer will indemnify, defend and hold harmless Seller, Seller's Affiliates, and their respective directors, officers, shareholders, partners, attorneys, accountants, agents and employees, and their heirs, successors and assigns (collectively, the "Seller Indemnified Parties"), from, against and in respect of any Losses imposed on, sustained, incurred or suffered by or asserted against any of the Seller Indemnified Parties, directly or indirectly relating to or arising out of any of the following (collectively, "Seller Losses"):

(i) any fact or circumstance that constitutes a breach of any representation or warranty of Buyer contained herein;

(ii) any act or omission that constitute a breach of any covenant or agreement of Buyer contained herein;

(iii) any Assumed Liability; or

(iv) any Liability (other than an Excluded Liability) related to the Business, the Transferred Assets or the Transferred Employees that arises from and after the Closing Date.

(b) As used herein, "Special Seller Loss" means a Seller Loss that arises out of: (i) a breach of the representations and warranties contained in Sections 4.1, 4.2, 4.3, 4.4 or 4.5 (but not any other representation or warranty); (ii) any Assumed Liability; or (iii) any Liability described in Section 8.2(a)(iv). Notwithstanding the provisions of Section 8.2(a):

(i) Buyer will not be liable for any Seller Loss, including a Special Seller Loss, unless a Seller Indemnified Party gives Buyer notice of a claim for indemnification therefor within the applicable survival period provided by Section 10.4;

(ii) Buyer will not be liable for any Seller Loss, including a Special Seller Loss, unless the aggregate amount of all Seller Losses exceeds \$200,000, and then Buyer will be liable only in the amount of all Seller Losses in excess of \$200,000;

(iii) in no event will Buyer's aggregate Liability for all Seller Losses that are not Special Seller Losses exceed \$10,000,000 (it being understood that the limitation provided by this Section 8.2(b)(iii) does not apply to Special Seller Losses); and

(iv) in no event will Buyer's aggregate Liability for all Seller Losses, including all Special Seller Losses, exceed the amount of the Purchase Price.

### Section 8.3 Indemnification Procedures.

(a) All claims for indemnification by any Indemnified Party will be asserted and resolved as set forth in this Section 8.3. In the event that any written claim or demand for which an Indemnifying Party would be liable to any Indemnified Party hereunder is asserted against or sought to be collected from any Indemnified Party by a third party, such Indemnified Party will promptly, but in no event more than 15 days following such Indemnified Party's receipt of such claim or demand, notify the Indemnifying Party of such claim or demand and the amount or the estimated amount thereof to the extent then feasible (which estimate will not be conclusive of the final amount of such claim or demand) (the "Claim Notice").

(b) The Indemnifying Party will have 90 days from the personal delivery or mailing of the Claim Notice (the "Notice Period") to notify the Indemnified Party (a) whether or not the Indemnifying Party disputes the liability of the Indemnifying Party to the Indemnified Party hereunder with respect to such claim or demand and (b) whether or not it desires to defend the Indemnified Party against such claim or demand. All reasonable costs and expenses incurred by the Indemnifying Party in defending such claim or demand will be a Liability of, and will be paid by, the Indemnifying Party, subject to the respective limitations set forth in Sections 8.1(b) and 8.2(b).

(c) Except as provided in Section 8.3(d), in the event that the Indemnifying Party notifies the Indemnified Party within the Notice Period that it desires to defend the Indemnified Party against such claim or demand, the Indemnifying Party will have the right to defend the Indemnified Party by appropriate proceedings with counsel of the Indemnifying Party's choosing, and will have the sole power to direct and control such defense. If any Indemnified Party desires to participate in any such defense it may do so at its sole cost and expense.

(d) If the Indemnifying Party elects not to defend the Indemnified Party against such claim or demand, whether by not giving the Indemnified Party timely notice as

provided by Section 8.3(a) or otherwise, then the portion of any such claim or demand as to which the defense by the Indemnified Party is unsuccessful (and the reasonable costs and expenses pertaining to such defense) will be the Liability of the Indemnifying Party hereunder, subject to the respective limitations set forth in Sections 8.1(b) and 8.2(b). The Indemnified Party will use commercially reasonable efforts in the defense of all such claims.

(e) The Indemnified Party will not settle a claim or demand without the consent of the Indemnifying Party, which consent will not be unreasonably withheld. The Indemnifying Party will not, without the prior written consent of the Indemnified Party, settle, compromise or offer to settle or compromise any such claim or demand on a basis that would result in the imposition of a consent order, injunction or decree that would restrict the future activity or conduct of the Indemnified Party or any Affiliate thereof.

(f) To the extent that the Indemnifying Party directs, controls or participates in the defense or settlement of any third party claim or demand, the Indemnified Party will give the Indemnifying Party and its counsel, during normal business hours, access to the relevant business records and other documents, and will permit them to consult with the employees and counsel of the Indemnified Party.

(g) All amounts paid by Seller or Buyer, as the case may be, under this Article VIII will be treated as adjustments to the Purchase Price for Tax purposes.

#### Section 8.4 Sole Remedy.

If Closing occurs, the rights and remedies expressly provided by this Article VIII will constitute the sole and exclusive basis for and means of recourse between the parties with respect to the subject matter hereof, and Buyer and Seller each expressly waives any and all other rights or causes of action with respect to the subject matter hereof that it may have against the other party now or in the future under any Law; provided, however, that equitable relief, including the remedies of specific performance and injunction, will be available with respect to any actual or attempted breach of this Agreement occurring before Closing or with respect to the breach of any covenant or agreement to be performed after Closing insofar as and to the extent that such relief would be available under any Law. Without limiting the generality of the foregoing, each party acknowledges that this Article VIII provides its sole remedy with respect to any Losses arising under or in connection with this Agreement or the Transaction. Notwithstanding the foregoing, the remedies and means of recourse between the parties with respect to the subject matter of each Ancillary Agreement is provided by such Ancillary Agreement and not by this Agreement.

#### Section 8.5 No Consequential Damages.

NOTWITHSTANDING ANY OTHER PROVISION HEREOF TO THE CONTRARY, NEITHER PARTY WILL BE LIABLE FOR INCIDENTAL OR CONSEQUENTIAL DAMAGES SUFFERED BY ANY INDEMNIFIED PARTY WITH RESPECT TO ANY PROVISION OR THE SUBJECT MATTER OF THIS AGREEMENT OR ANY ANCILLARY AGREEMENT; PROVIDED, HOWEVER, THAT THIS WAIVER WILL

NOT LIMIT ANY LIABILITY OF EITHER PARTY TO INDEMNIFY ANY INDEMNIFIED PARTY FOR ANY LOSS ARISING FROM DAMAGES OF SUCH TYPE WHICH THE INDEMNIFIED PARTY IS REQUIRED TO PAY TO ANY OTHER UNAFFILIATED PERSON.

ARTICLE IX. TERMINATION

Section 9.1 Termination.

This Agreement may be terminated at any time prior to Closing as follows:

- (a) by mutual agreement of Buyer and Seller;
- (b) by either Buyer or Seller if there is in effect any U.S. Law that prohibits or prevents Closing, or if Closing would violate any non-appealable final order, decree or judgment of any U.S. Governmental Entity having competent jurisdiction;
- (c) by Seller if, as a result of any action or inaction by Buyer or its Affiliates, Closing has not occurred within 30 days following the satisfaction (or waiver) of all the conditions to Closing set forth in Sections 7.1 and 7.2;
- (d) by Buyer if, as a result of any action or inaction by Seller or its Affiliates, Closing has not occurred within 30 days following the satisfaction (or waiver) of all the conditions to Closing set forth in Sections 7.1 and 7.3;  
or
- (e) by either Buyer or Seller, by giving written notice of such termination to the other party, if Closing has not occurred on or prior to March 31, 2000; provided, however, that the terminating party is not in material breach of its obligations under this Agreement.

Section 9.2 Effect of Termination.

In the event of the termination of this Agreement in accordance with Section 9.1, this Agreement will thereupon become void and have no effect, and no party will have any Liability to any other party or their respective Affiliates, directors, officers or employees, except for the obligations of the parties contained in this Section 9.2 and in Sections 5.7 (Confidentiality), 5.8 (Public Disclosure), 10.1 (Notices), 10.5 (Return of Information), 10.6 (Expenses), 10.9 (Governing Law; Submission to Jurisdiction; Selection of Forum) and 10.12 (Entire Agreement) (and any related definitional provisions set forth in Article I), and except that nothing in this Section 9.2 will relieve any party from Liability for any breach of this Agreement that arose prior to such termination, for which Liability the provisions of Article VIII will remain in effect in accordance with the provisions and limitations thereof.

ARTICLE X. IN GENERAL

Section 10.1 Notices.

All notices or other communications given hereunder will be deemed to have been duly given and made if in writing and if served by personal delivery upon the party for whom it is intended, if delivered by registered or certified mail, return receipt requested, or by a national courier service, or if sent by telecopier, provided that the telecopy is promptly confirmed by telephone confirmation thereof, to the party at the address set forth below, or such other address as may be designated in writing hereafter, in the same manner, by such party:

If to Seller: Eastman Kodak Company  
343 State Street  
Rochester, New York 14650-0218  
Attention: General Counsel  
Fax: (716) 724-9549

with a copy to: Harter, Secrest & Emery LLP  
700 Midtown Tower  
Rochester, New York 14604-2070  
Attention: Susan Mascette Brandt, Esq.  
Fax: (716) 232-2152

If to Buyer: Roper Industries, Inc.  
160 Ben Burton Road  
Bogart, Georgia 30622  
Attention: N. Will Crocker, Group Vice President  
Fax: (706) 353-6496

with a copy to: Roper Industries, Inc.  
160 Ben Burton Road  
Bogart, Georgia 30622  
Attention: Shanler D. Cronk, General Counsel  
Fax: (706) 353-6496

Section 10.2 Amendment; Waiver.

Any provision of this Agreement may be amended or waived if such amendment or waiver is in writing and signed, in the case of an amendment, by Parent and Seller, or in the case of a waiver, by the party against whom the waiver is to be effective. No failure or delay by any party in exercising any right, power or privilege hereunder will operate as a waiver thereof nor will any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided will be cumulative and, except as otherwise expressly provided herein, not exclusive of any rights or remedies provided by Law.

Section 10.3 No Assignment or Benefit to Third Parties.

Except as otherwise provided by Section 2.10, neither party may assign any of its rights or delegate any of its obligations under this Agreement, by operation of law or otherwise, without the prior written consent of the other party, and any attempt to assign this Agreement without such consent will be void and of no force or effect. Nothing in this Agreement, express or implied, is intended to confer upon any Person other than Buyer, Seller or the Indemnified Parties, or their respective successors or permitted assigns, any rights or remedies under or by reason of this Agreement. Without limiting the generality of the foregoing, nothing in this Agreement creates any rights in any employees or groups of employees.

Section 10.4 Survival.

All of the respective representations, warranties, covenants and agreements of Seller and Buyer contained in this Agreement, and all indemnification obligations of any party with respect thereto, will survive Closing until April 30, 2001, except that:

(a) the following will survive Closing until expiration of the applicable statute of limitations with respect thereto:

(i) Seller's indemnification obligations pursuant to Section 8.1(a)(v) with respect to Taxes; and

(ii) Seller's indemnification obligations pursuant to Section 8.1(a)(vi); and

(b) any covenant that contains an express term of years extending beyond April 30, 2001, and all indemnification obligations of any party with respect thereto, will survive Closing for such express term.

Notwithstanding the foregoing, if notice of any claim for indemnification has been given (within the meaning of Section 10.1) within the applicable survival period provided by this Section 10.4, such claim for indemnification, and the underlying representations, warranties, covenants or agreements, and the indemnification obligations that are the subject thereof, will survive until such time as such claim is finally resolved.

Section 10.5 Return of Information.

If for any reason whatsoever the Transaction is not consummated, Buyer will promptly return to Seller all Books and Records furnished by Seller, the Business or any of their respective agents, employees, or representatives (including all copies thereof, if any, in any media), and will not use or disclose the information contained in such Books and Records for any purpose or make such information available to any other Person.

#### Section 10.6 Expenses.

Except as otherwise expressly provided by this Agreement, whether or not the Transaction is consummated, all costs and expenses incurred in connection with this Agreement and the Transactions will be borne by the party incurring the same.

#### Section 10.7 Schedules.

(a) Any matter disclosed on any Schedule will only be deemed to be disclosed in connection with (i) the specific representations and warranties to which such Schedule is expressly referenced, (ii) any specific representations and warranties that expressly cross-reference such Schedule, and (iii) any specific representations and warranties or other Schedules to which such Schedule is expressly referenced. The disclosure of any matter in any Schedule will expressly not be deemed to constitute an admission by Seller or Buyer, or otherwise to imply, that any such matter is material for the purposes of this Agreement.

(b) The contents of the Schedules will not vary, change or alter the language or substance of the representations and warranties contained in this Agreement.

(c) Seller will promptly update each Schedule as necessary on or before the Closing Date and deliver the same to Buyer.

(d) Buyer's rights to indemnification or other remedy provided by Article VIII based on any breach by Seller of its representations, warranties, covenants and agreements will not be affected by any investigation conducted with respect to, or any knowledge acquired (or capable of being acquired) by Buyer at any time, whether before or after the execution and delivery of this Agreement or the Closing Date, with respect to the accuracy or inaccuracy of or compliance with, any such representation, warranty, covenant or agreement. The due diligence review conducted by Buyer and/or its representatives will not relieve Seller of any duties concerning its representations, warranties, covenants or agreements contained in this Agreement or in any Ancillary Agreement.

#### Section 10.8 Dispute Resolution.

If any dispute arises between Buyer and Seller regarding this Agreement, any Closing Document or the Transaction (other than a dispute relating to Intellectual Property), the General Counsel of Parent on behalf of Buyer, and the Director of Finance of Seller's Digital and Applied Imaging Division on behalf of Seller, or their respective designees, will attempt in good faith to resolve the dispute. If those Persons have not agreed to a resolution within ten days from the date on which the dispute was first presented to them, any party, by written notice to the other parties, may require that the dispute be submitted for resolution to the Group Vice President of Parent and the President of Seller's Digital and Applied Imaging Division (collectively, the "Business Unit CEOs"). The Business Unit CEOs will meet, in person or by other means mutually satisfactory to them, to

attempt to resolve the dispute within ten days after reference of the matter to them. If the Business Unit CEOs reach a decision within such ten-day period, their decision will be final and binding on the parties for all purposes. If the Business Unit CEOs fail to resolve the dispute within such period, either of the Business Unit CEOs may, on notice to the other, refer the matter to the Chief Executive Officer of Parent and the Director, Business Strategy and Information Technology of Seller (collectively, the "Chief Executives"). The Chief Executives will meet, in person or by other means mutually satisfactory to them, to attempt to resolve the dispute within ten days after reference of the matter to them. If the Chief Executives reach a decision within such ten-day period, their decision will be final and binding on the parties for all purposes. If the Chief Executives fail to resolve the dispute within such period, Buyer and Seller may, if they then so agree, refer the matter for arbitration on such terms as they may then agree or, failing that, proceed to litigation.

**Section 10.9 Governing Law; Submission to Jurisdiction; Selection of Forum.**

This Agreement will be governed by and construed in accordance with the Laws of the State of New York without regard to its principles of conflicts of laws. Each party agrees that it will bring any action or proceeding in respect of any Claim arising out of or related to this Agreement, the Transaction or any Ancillary Agreement, whether in tort or contract or at law or in equity, exclusively in either the U.S. District Court for the Western District of New York, sitting in Monroe County, New York, or the U.S. District Court for the Northern District of Georgia, sitting in Fulton County, Georgia (the "Chosen Courts") and, solely in connection with Claims arising out of or related to this Agreement, the Transaction or any Ancillary Agreement, (a) irrevocably submits to the exclusive jurisdiction of the Chosen Courts, (b) waives any objection to laying venue in any such action or proceeding in the Chosen Courts, (c) waives any objection that the Chosen Courts are an inconvenient forum or do not have jurisdiction over any party, and (d) agrees that service of process in person or by certified or registered U.S. mail to its address set forth in Section 10.1 will constitute valid in personam service upon such party and its successors and assigns in any action or proceeding with respect to any matter as to which it has submitted to jurisdiction hereunder. EACH PARTY HEREBY ACKNOWLEDGES THAT THIS IS A COMMERCIAL TRANSACTION, THAT THE FOREGOING PROVISIONS FOR CONSENT TO JURISDICTION AND SERVICE OF PROCESS HAVE BEEN READ, UNDERSTOOD AND VOLUNTARILY AGREED TO BY SUCH PARTY AND THAT BY AGREEING TO SUCH PROVISIONS SUCH PARTY IS WAIVING IMPORTANT LEGAL RIGHTS.

**Section 10.10 Inferences.**

Inasmuch as this Agreement is the result of negotiations between sophisticated parties of equal bargaining power represented by counsel, no inference in favor of or against either party will be drawn from the fact that any portion of this Agreement has been drafted by or on behalf of such party.



Section 10.11 Severability.

The provisions of this Agreement will be deemed severable and the invalidity or unenforceability of any provision will not affect the validity or enforceability of the other provisions hereof. If any provision of this Agreement, or the application thereof to any Person or any circumstance, is invalid or unenforceable, (a) a suitable and equitable provision will be substituted therefor in order to carry out, so far as may be valid and enforceable, the intent and purpose of such invalid or unenforceable provision, and (b) the remainder of this Agreement and the application of such provision to other Persons or circumstances will not be affected by such invalidity or unenforceability, nor will such invalidity or unenforceability affect the validity or enforceability of such provision, or the application thereof, in any other jurisdiction.

Section 10.12 Entire Agreement.

This Agreement, including the Exhibits, the Schedules, the Ancillary Agreements and the other Closing Documents, contains the entire agreement between the parties with respect to the subject matter hereof and supersedes all prior agreements and understandings, oral or written, with respect to such matters.

Section 10.13 Headings.

The heading references herein and the tables hereto are for convenience purposes only, do not constitute a part of this Agreement and will not be deemed to limit or affect any of the provisions hereof.

Section 10.14 Counterparts.

This Agreement may be executed in one or more counterparts, each of which will be deemed an original, and all of which will constitute one and the same Agreement.

[signature page follows]

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

EASTMAN KODAK COMPANY

By: \_\_\_\_\_  
Its:

ROPER INDUSTRIES, INC.

By: \_\_\_\_\_  
Its:

ROPER ACQUISITION SUBSIDIARY, INC.

By: \_\_\_\_\_  
Its:

TABLE OF EXHIBITS AND SCHEDULES

Exhibit A-1	Form of Patent License (Seller to Buyer)
Exhibit A-2	Form of Software License (Seller to Buyer)
Exhibit B	Form of Intellectual Property License (Buyer to Seller)
Exhibit C	Form of Sensor Supply Agreement
Exhibit D	Form of Transition Distribution Agreement
Exhibit E	Term Sheet for Master License Agreement
Exhibit F	Term Sheet for Development Agreement

Schedule 1.1(a)	Required Approvals
Schedule 1.2(e)	Persons Having Knowledge on Behalf of Seller
Schedule 2.1(e)	Assumed Leases and Assumed Contracts
Schedule 2.1(f)(i)	Transferred Patents
Schedule 2.1(f)(ii)	Transferred Trademarks
Schedule 2.1(f)(iii)	Transferred Product Development Projects
Schedule 2.1(f)(iv)	Transferred Software and Firmware
Schedule 2.1(f)(vi)	Transferred Licenses
Schedule 2.1(l)	Certain Transferred Assets
Schedule 2.2(n)	Certain Excluded Assets
Schedule 2.3(a)(i)	Seller-Licensed Intellectual Property: Patents
Schedule 2.3(a)(ii)	Seller-Licensed Intellectual Property: Software
Schedule 2.8	Closing Balance Sheet
Schedule 3.3	Consents Other Than Required Approvals
Schedule 3.6(b)	September Balance Sheet
Schedule 3.6(c)	Financial Statements
Schedule 3.6(d)	Certain Liabilities
Schedule 3.9(a)	Litigation and Claims
Schedule 3.9(b)	Orders and Judgments
Schedule 3.10(b)	Intellectual Property: Infringement
Schedule 3.11(a)	Employee Benefits: U.S. Plans
Schedule 3.11(b)	Employee Benefits: Litigation
Schedule 3.12	Environmental Matters
Schedule 3.13(a)	Labor Matters
Schedule 3.16	Subsequent Changes
Schedule 3.19	Year 2000 Compliance Plan
Schedule 5.6(f)	Licensed Trademarks
Schedule 6.1	Employees
Schedule 6.2	Buyer's Employee Benefits

INDEX OF DEFINED TERMS

Acquired Rights.....	39
Affiliates.....	1
Agreement.....	1
Ancillary Agreements.....	1
Antitrust Laws.....	2
Article.....	6
Assumed Contracts.....	7
Assumed Leases.....	7
Assumed Liabilities.....	12
Books and Records.....	2
Business.....	1
Business Unit CEOs.....	54
Buyer.....	2
Buyer Indemnified Parties.....	47
Buyer Losses.....	47
Buyer's Employee Benefits.....	40
Buyer-Licensed Intellectual Property.....	11
Chief Executives.....	55
Chosen Courts.....	55
Claim.....	2
Claim Notice.....	49
Closing.....	2
Closing Balance Sheet.....	2, 14
Closing Countries.....	16
Closing Date.....	15
Closing Documents.....	2
Code.....	2
Consideration.....	37
Continuation Coverage.....	2
Corporate Trademarks.....	32
Deferred Countries.....	16
Delivery.....	3
Disclosing Party.....	35
dollars, \$.....	6
Employee.....	39
Employment Laws.....	23
Encumbrances.....	3
Environmental Law.....	3
ERISA.....	3
Estimated Purchase Price.....	13
EU.....	3
EU Employees.....	39
Excluded Assets.....	9

Excluded Liabilities.....	13
Exhibit.....	6
Financial Statements.....	3
GAAP.....	3
Governmental Authorizations.....	3
Governmental Entity.....	3
Hazardous Substance.....	3
herein, hereof, hereunder.....	6
include, includes, including.....	6
Increase Amount.....	15
Indemnified Parties.....	4
Indemnifying Party.....	4
Intellectual Property.....	4
knowledge.....	6
Law.....	4
Leased Real Property.....	4
Liability.....	4
Licensed Trademarks.....	33
Losses.....	4
MASD.....	1
Material Adverse Effect.....	4
Net Current Asset Value.....	15
Notice Period.....	49
Notification Time.....	16
Ordinary Course.....	4
Parent.....	1
party.....	6
Pension Plan.....	22
Permitted Encumbrances.....	4
Person.....	5
Pre-Closing Inventory Count.....	37
Primarily Related to the Business.....	5
Product Warranty Claims.....	5
Purchase Price.....	13
Receiving Party.....	35
Reduction Amount.....	15
Required Approvals.....	5
Schedule.....	6
Section.....	6
Seller.....	1
Seller Affiliates.....	5
Seller Indemnified Parties.....	48
Seller Losses.....	48
Seller's Welfare Plans.....	43
Seller-Licensed Intellectual Property.....	10
September Balance Sheet.....	5

## AGREEMENT AND PLAN OF MERGER

This Agreement and Plan of Merger ("Agreement") is entered into on November \_\_\_\_, 1999, by and among PMCB ACQUISITION CORP., a Delaware corporation (the "Buyer"), ROPER INDUSTRIES, INC., a Delaware corporation and parent of Buyer ("Parent"), REDLAKE IMAGING CORPORATION, a California corporation (the "Company") and the Stephen W. Ferrell Revocable Family Trust dated July 27, 1992, a trust established under the laws of the State of California and represented herein by its trustee, Stephen W. Ferrell (the "Trust"), Stephen W. Ferrell, Galen Collins, Marlin Collins, John Foley, Donald Thomas, Bruce Bastl, Deborah Robinson and Garrett Garrettsen, each individual residents of the state of California (each of the latter individuals as well as the Trust, a "Stockholder"). The Buyer, Parent, the Company and the Stockholders are referred to collectively herein as the "Parties."

This Agreement contemplates a transaction in which Buyer shall merge with the Company, with Buyer being the surviving corporation and in connection therewith, the Stockholders will receive certain consideration in the form of cash.

Now, therefore, in consideration of the premises and the mutual promises herein made, and in consideration of the representations, warranties, and covenants herein contained, the Parties agree as follows:

1. Definitions.

"Adverse Consequences" means all actions, suits, proceedings, hearings, investigations, charges, complaints, claims, demands, injunctions, judgments, orders, decrees, rulings, damages, penalties, fines, costs, amounts paid in settlement, Liabilities, obligations, Taxes, liens, losses, expenses, and fees, including court costs and reasonable attorneys' fees and expenses; provided, however, that "Adverse Consequences" shall not include any of the foregoing attributable to an Indemnified Party's conduct which occurs other than in its exercise of its reasonable business judgment or in the good faith defense or contesting of any of the foregoing.

"Affiliated Group" means any affiliated group within the meaning of Code Sec. 1504(a) (or any similar group defined under a similar provision of state, local, or foreign law).

"Applicable Rate" means the corporate base rate of interest announced from time to time by Bank of America.

"Basis" means any past or present fact, situation, circumstance, status, condition, activity, practice, occurrence, event, incident, action, failure to act, or transaction that forms or would probably form the basis for any specified consequence.

"Business" means the business conducted by the Company on and as of the Closing Date.

"Buyer" has the meaning set forth in the preface above.

"California Act" shall mean the General Corporations Law of the State of California.

"Closing" has the meaning set forth in (S) 2(e) below.

"Closing Date" has the meaning set forth in (S) 2(e) below.

"Code" means the Internal Revenue Code of 1986, as amended.

"Company" has the meaning set forth in the preface above.

"Company Disclosure Schedule" has the meaning set forth in (S) 3 below.

"Company Loans" means any and all loans of the Company for borrowed money.

"Company Plans" has the meaning set forth in (S) 3(x)(ii) below.

"Company Shares" means share(s) of the Common Stock, no par value, of the Company.

"Confidential Information" means: (a) confidential data and confidential information relating to the business of any Party (the "Protected Party") which is or has been disclosed to another Party (the "Recipient") or of which the Recipient became aware as a consequence of or through its relationship with the Protected Party and which has value to the Protected Party and is not generally known to its competitors and which is designated by the Protected Party as confidential or otherwise restricted; and (b) information of the Protected Party, without regard to form, including, but not limited to, Intellectual Property, technical or nontechnical data, algorithms, formulas, patents, compilations, programs, devices, methods, techniques, drawings, processes, financial data, financial plans, product or service plans or lists of customers or suppliers which is not commonly known or available to the public and which information (i) derives economic value from not being generally known to, and not being readily ascertainable by proper means by, other Persons who can obtain economic value from its disclosure or use, and (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy. Notwithstanding anything to the contrary contained herein, Confidential Information shall not include any data or information that (v) has been voluntarily disclosed to the public by the Protected Party, (w) has been independently developed and disclosed to the public by others, (x) otherwise enters the public domain through lawful means, (y) was already known by Recipient prior to such disclosure or was lawfully and rightfully disclosed to Recipient by another Person, or (z) that is required to be disclosed by law or order.

"Controlled Group of Corporations" has the meaning set forth in Code Sec. 1563.

"Delaware Act" shall mean the General Corporation Law of the State of Delaware, as amended.

"Employee Benefit Plan" means any (a) nonqualified deferred compensation or retirement plan or arrangement which is an Employee Pension Benefit Plan (as defined in ERISA Sec. 3(2)), (b) qualified defined contribution retirement plan or arrangement which is an Employee Pension Benefit Plan, (c) qualified defined benefit retirement plan or arrangement which is an Employee Pension Benefit Plan (including any Multiemployer Plan), or (d) Employee Welfare Benefit Plan (as defined in ERISA Sec. 3(1)) or material fringe benefit plan or program.

"Environmental, Health, and Safety Laws" means the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Resource Conservation and Recovery Act of 1976, and the Occupational Safety and Health Act of 1970, each as amended, together with all other laws (including rules, regulations, state law rulings, codes, plans, permits, injunctions, judgments, orders, decrees, rulings, and charges thereunder) of federal, state, local and foreign governments (and all agencies thereof) concerning pollution or protection of the environment, natural resources, public health and safety, or employee health and safety, including, but not limited to, laws relating to emissions, discharges, releases, or threatened releases of Hazardous Substances in ambient air, surface water, drinking water, wetlands, ground water, or lands or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, recycling, transport, or handling of pollutants, contaminants, or chemical, industrial, hazardous, or toxic materials or wastes.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Escrow Agent" means SunTrust Bank, Atlanta.

"Escrow Agreement" means the Escrow Agreement dated the Closing Date, entered into among the Parties and the Escrow Agent with respect to the indemnification obligations of the Stockholders under (S) 8 of this Agreement, the form of which is set forth as Exhibit A.

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"Extremely Hazardous Substance" has the meaning set forth in Sec. 302 of the Emergency Planning and Community Right-to-Know Act of 1986, as amended.

"Fiduciary" has the meaning set forth in ERISA Sec. 3(21).

"Financial Statements" has the meaning set forth in (S) 3(g)(ii) below.

"GAAP" means United States generally accepted accounting principles as in effect as of the date hereof.

"Hazardous Substance" means any substance regulated under or defined by Environmental, Health, and Safety Laws, including, but not limited to, any pollutant,



contaminant, hazardous substance, hazardous constituent, hazardous waste, special waste, solid waste, industrial waste, petroleum derived substance or waste, or toxic substance.

"Indemnified Party" has the meaning set forth in (S) 8(d) below.

"Indemnifying Party" has the meaning set forth in (S) 8(d) below.

"Intellectual Property" means, with respect to the Business:

(a) all inventions (whether patentable or unpatentable and whether or not reduced to practice), all improvements thereto, and all patents, patent applications, and patent disclosures, together with all reissuances, continuations, continuations-in-part, revisions, extensions, and reexaminations thereof;

(b) all trademarks, service marks, trade dress, logos, trade names and corporate names, together with all translations, adaptations, derivations, and combinations thereof and including all goodwill associated therewith, and all applications, registrations, and renewals in connection therewith;

(c) all copyrightable works, all copyrights, and all applications, registrations, and renewals in connection therewith;

(d) all mask works and all applications, registrations, and renewals in connection therewith;

(e) all trade secrets and confidential business information (including ideas, research and development, know-how, formulas, compositions, manufacturing and production processes and techniques, technical data, designs, drawings, specifications, customer and supplier lists, pricing and cost information, and business and marketing plans and proposals);

(f) all computer software (including data and related documentation);

(g) all other proprietary rights; and

(h) all copies and tangible embodiments thereof (in whatever form or medium).

"Knowledge" means knowledge of the Stockholders, after due inquiry of the Company employees with management responsibility in the area of the Company operations with respect to which the applicable representation or warranty applies.

"Leased Real Property" has the meaning set forth in (S) 3(l) below

"Liability" means any liability (whether known or unknown, whether asserted or unasserted, whether absolute or contingent, whether accrued or unaccrued, whether liquidated or unliquidated, and whether due or to become due), including any liability for Taxes.

"Merger" has the meaning set forth in (S) 2(a) below.

"Merger Consideration" shall have the meaning set forth in (S) 2(c)(i) hereof.

"Multiemployer Plan" has the meaning set forth in ERISA Sec. 3(37).

"Option" shall have the meaning set forth in Section 7(e) hereof.

"Ordinary Course of Business" means the ordinary course of business consistent with past custom and practice (including with respect to quantity and frequency).

"Party" has the meaning set forth in the preface above.

"PBGCC" means the Pension Benefit Guaranty Corporation.

"Person" means an individual, a partnership, a corporation, an association, a joint stock company, a trust, a joint venture, an unincorporated organization, or a governmental entity (or any department, agency, or political subdivision thereof).

"Principal Stockholders" shall mean Stephen Ferrell, Galen Collins, Marlin Collins, Donald Thomas and John Foley.

"Process Agent" has the meaning set forth in (S) 9 below.

"Product Warranty Claims" means claims of the Company customers and/or users made at any time following Closing in the Ordinary Course of Business with respect to products sold, manufactured, leased or delivered by the Company on or prior to the Closing Date which (i) are based solely on the Company's written product warranties disclosed to Buyer, and (ii) are only for the refund, repair or replacement remedies expressed in such written product warranties.

"Prohibited Transaction" has the meaning set forth in ERISA Sec. 406 and Code Sec. 4975.

"Reportable Event" has the meaning set forth in ERISA Sec. 4043.

"Securities Act" means the Securities Act of 1933, as amended.

"Securities Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Security Interest" means any mortgage, pledge, lien, encumbrance, charge, or other security interest, other than (a) mechanic's, materialmen's, and similar liens, (b) liens for Taxes not yet due and payable or for Taxes that the taxpayer is contesting in good faith through appropriate proceedings, (c) purchase money liens and liens securing rental payments under capital lease arrangements, and (d) other liens arising in the Ordinary Course of Business and not incurred in connection with the borrowing of money.

"September Balance Sheet" has the meaning set forth in Section 3(g)(i) below.

"Stockholder(s)" has the meaning set forth in the preface above.

"Subsidiary" means any corporation with respect to which a specified Person (or a Subsidiary thereof) owns a majority of the common stock or has the power to vote or direct the voting of sufficient securities to elect a majority of the directors.

"Tax" means any federal, state, local, or foreign income, gross receipts, license payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code Sec. 59A), customs duties, capital stock, franchise profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alternative or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

"Tax Return" means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"Trust" has the meaning set forth in the preface above.

## 2. Merger.

(a) At the Effective Time (as hereinafter defined) and subject to the terms and conditions of this Agreement, Buyer shall be merged with and into the Company (the "Merger"), in accordance with the relevant provisions of the California Act and the Delaware Act, the separate corporate existence of the Company shall cease and the Buyer shall continue as the surviving corporation (the "Surviving Corporation"). The Merger shall otherwise have the effect set forth in the Delaware Act and the California Act.

(b) At the Closing, the parties hereto shall cause the Merger to be consummated by delivering articles of merger to the Secretary of State of California and the Secretary of State of Delaware executed in accordance with relevant provisions of the California Act and the Delaware Act for filing thereby (the time of such filing being the "Effective Time"). The Articles of Incorporation and Bylaws, respectively, of the Buyer as in effect immediately prior to the Effective Time, shall be the Articles of Incorporation and Bylaws of the Surviving Corporation; provided, however, that the name of the

Surviving Corporation shall be Redlake Imaging Corporation. The officers and directors of Buyer immediately prior to the Effective Time shall be the officers and directors of the Surviving Corporation, in each case, until their respective successors are duly elected and qualified.

(c) At the Effective Time, by virtue of the Merger and without any action on the part of the holders thereof:

(i) all of the Company Shares shall be converted into, and represent the right to receive in the manner provided in (S) 2(d) and (S) 2(e) below, cash in the amount of Seven Million Seven Hundred Four Thousand Six Hundred Dollars and Eighty Three Cents (\$7,704,600.83) (the "Merger Consideration");

(ii) each share of capital stock of the Company that is held in the treasury of the Company, if any, shall be cancelled and retired and cease to exist and no consideration shall be issued in exchange therefor; and

(iii) each issued and outstanding share of capital stock of Buyer shall be converted into and become one fully paid and non-assessable share of common stock of the Surviving Corporation.

(d) At the Closing Date, the Merger Consideration shall be allocated among the Stockholders pro rata based on the number of Company shares held by each as shall be paid as follows:

(i) One Million Five Hundred Thousand Dollars \$1,500,000.00 shall be paid to the Escrow Agent pursuant to the Escrow Agreement to be held and disbursed as provided in (S) 8 hereof and the Escrow Agreement, which amount shall be contributed solely by the Principal Stockholders pro rata based on the number of Company shares held by each in accordance with the allocation schedule set forth as Section 2(d) of the Company Disclosure Schedule (the "Allocation Schedule"); and

(ii) the balance of the Merger Consideration shall be paid to the Stockholders, Rosenblum, Parrish and Isaacs, Professional Corporation and Alliant Partners as set forth on the Allocation Schedule.

(e) The Closing. The closing of the transactions contemplated by this Agreement (the "Closing") shall take place at the offices of Powell, Goldstein, Frazer & Murphy LLP at noon, on November 1, 1999 or such other date and time as the Parties may agree (the "Closing Date").

(f) Deliveries at the Closing. (i) At the Closing, the Company will deliver to the Buyer the various certificates, instruments, and documents referred to in (S) 5(a) below; (ii) the Buyer will deliver to the Company the various certificates, instruments, and

documents referred to in (S) 5(b) below; (iii) the Company and the Stockholders will execute, acknowledge (if appropriate), and deliver to the Buyer (A) a consent and estoppel with respect to the Leased Real Property in the forms attached hereto as Exhibit B and (B) such other documents as

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the Buyer and its counsel may reasonably request; (iv) the Buyer will execute, acknowledge (if appropriate), and deliver to the Company (A) such documents as the Company and the Stockholders and their counsel reasonably may request; and (v) the Buyer will deliver to the Company the Merger Consideration.

3. Representations and Warranties of the Stockholders. The Stockholders jointly and severally represent and warrant to the Buyer and Parent that the statements contained in this (S) 3 are correct and complete as of the Closing Date, except as specified to the contrary in the disclosure schedule prepared by the Company accompanying this Agreement and initialed by the Company and the Buyer (the "Company Disclosure Schedule"). The Company Disclosure Schedule will be arranged in paragraphs corresponding to the lettered and numbered paragraphs contained in this (S) 3.

(a) Organization of the Company. The Company is a corporation duly organized, validly existing, and in good standing under the laws of the jurisdiction of its incorporation and is duly qualified to conduct business in every jurisdiction where such qualification is required. The Company Shares are held of record and beneficially by the Stockholders as described in (S) 3(a) of the Company Disclosure Schedule.

(b) Authorization of Transaction. The Company and each Stockholder has full power and authority (including, with respect to the Company, full corporate power and authority, and with respect to the Stockholder which is a trust, full power and authority under the trust agreement and the laws governing such trust) to execute and deliver this Agreement and to perform its or his obligations hereunder. Without limiting the generality of the foregoing, the board of directors of the Company and the stockholders of the Company have duly authorized the execution, delivery, and performance of this Agreement by the Company. This Agreement constitutes the valid and legally binding obligation of the Company, enforceable in accordance with its terms and conditions. The Company and the stockholders do not need to give any notice to, make any filing with, or obtain any authorization, consent, or approval of any governmental agency in order for the Parties to consummate the transactions contemplated by this Agreement.

(c) Noncontravention. Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby, will (i) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which the Company or any Stockholder is subject or any provision of the charter or bylaws of the Company, or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which the Company or any Stockholder is a party or

by which it is bound or to which any of its assets is subject (or result in the imposition of any Security Interest upon any of its assets).

(d) Brokers' Fees. Except as set forth on (S) 3(d) of the Company Disclosure Schedule, neither the Company nor any Stockholder has any Liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement.

(e) Title to Assets. Each Stockholder has the right to convey, and upon the transfer of the Company Shares to the Buyer, each Stockholder will have conveyed, good title and interest in and to the Company Shares free and clear of all Security Interests. The Company has good title to all of the assets of the Company free and clear of any Security Interest.

(f) The Company Shares. The Company Shares constitute all of the issued and outstanding capital stock of the Company, are validly issued, fully paid and non-assessable and owned, beneficially and of record, by the Stockholders and no the Company Shares are subject to, nor have any been issued in violation of, pre-emptive or similar rights. All issuances, sales and repurchases of equity interests by the Company have been effected in compliance with all applicable laws, including, without limitation, applicable federal and state securities laws. The Stockholders have good title to the Company Shares, free and clear of any Security Interest or restriction on transfer. The stock ledger and other corporate records of the Company contain a complete and correct record of all issuance and transfer of equity interests of the Company. There are no preemptive or similar rights on the part of any holder of any Company Shares. Except for the options which are set forth on Section 3(f) of the Company Disclosure Schedule, no options, warrants, conversion or other rights, agreements, commitments, arrangements or understandings of any kind obligating the Company, contingently or otherwise, to issue or sell any shares of its common stock or any securities convertible into or exchangeable for any such shares or any other securities, are outstanding, and no authorization therefor has been given.

(g) Financial Statements.

(i) Attached hereto as Exhibit C-1 is the unaudited balance sheet

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of the Company as of September 30, 1999 (the "September Balance Sheet"). The September Balance Sheet has been derived from the books and records of the Company maintained in the Ordinary Course of Business, and fairly presents the financial position and the results of operations of the Company, and reflects adequate reserves for all known liabilities as of September 30, 1999, in accordance with GAAP and, to the extent consistent with GAAP, Seller's policies (except that there are no statements of change in financial position or equity and there are no footnotes).

(ii) Attached hereto as Exhibit C-2 are each of the unaudited

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income statements and balance sheets of the Company as of and for the fiscal years ended December 31, 1997 and December 31, 1998 (the "Financial Statements"). The Financial Statements fairly present the financial position and the results of the operations of the Company, and reflect adequate reserves for all known liabilities, for the respective periods therein stated, in accordance with GAAP consistently applied, and, to the extent consistent with GAAP, Seller's policies, except as noted in the footnotes to the Financial Statements (except that there are no statements of change in financial position or equity and there are no footnotes).

(iii) The Company does not have any debt, Liability or obligation of any nature, whether accrued, absolute, contingent or otherwise, and whether due or to become due, that is not reflected or reserved against in the September Balance Sheet. Accounts payable reflected in the Financial Statements and the September Balance Sheet have arisen from bona fide transactions. All debts, Liabilities and obligations of the Company incurred after the date of the September Balance Sheet were incurred in the Ordinary Course, arose from bona fide transactions, and are usual and normal in amount both individually and in the aggregate. The Company is not, directly or indirectly, liable to or obligated to provide funds in respect of or to guaranty or assume any obligation of any person except to the extent reflected and fully reserved against in the Financial Statements and the September Balance Sheet. Except as set forth in the Financial Statements and the September Balance Sheet, all Liabilities of the Company can be prepaid without penalty at any time.

(h) Subsequent Events.

(i) Since September 30, 1999, there has not been any material adverse change in the business, financial condition, operations, or results of operations of the Company. Without limiting the generality of the foregoing, except as listed on (S) 3(h)(i) of the Company Disclosure Schedule, since that date, the Company:

(A) has not sold, leased, transferred, or assigned any of its assets, tangible or intangible outside the Ordinary Course of Business;

(B) has not entered into any agreement, contract, lease, or license (or series of related agreements, contracts, leases, and licenses) either involving more than \$5,000 or outside the Ordinary Course of Business;

(C) has not, and to the Knowledge of the Company or any Stockholder no party has, accelerated, terminated, modified, or canceled any agreement, contract, lease, or license (or series of related agreements,

contracts, leases, and licenses) involving more than \$5,000 to which the Company is a party or by which it is bound;

(D) has not imposed or permitted any Security Interest upon any of its assets, tangible or intangible;

(E) has not made any capital expenditure (or series of related capital expenditures) either involving more than \$5,000 or outside the Ordinary Course of Business;

(F) has not made any capital investment in, any loan to, or any acquisition of the securities or assets of, any other Person;

(G) has not issued any note, bond, or other debt security or created, incurred, assumed, or guaranteed any indebtedness for borrowed money or capitalized lease obligation;

(H) has not delayed or postponed the payment of accounts payable or other Liabilities outside of the Ordinary Course of Business;

(I) has not canceled, compromised, waived, or released any right or claim (or series of related rights and claims) outside the Ordinary Course of Business;

(J) has not granted any license or sublicense of any rights under or with respect to any Intellectual Property;

(K) has not changed or authorized any change in its charter or bylaws;

(L) has not experienced any material damage, destruction, or loss (whether or not covered by insurance) to its property;

(M) has not made any loan to, or entered into any other transaction with, any of its directors, officers, and employees;

(N) has not entered into any employment contract or collective bargaining agreement, written or oral, or modified the terms of any existing such contract or agreement;

(O) has not granted any increase in the base compensation of any of its directors, officers, and employees;

(P) has not adopted, amended, modified or terminated any bonus, profit-sharing incentive, severance, or other plan, contract, or



commitment for the benefit of any of its directors, officers, and employees (or taken any such action with respect to any other Employee Benefit Plan);

(Q) has not made any other change in employment terms for any of its directors, officers, and employees;

(R) has not made or pledged to make any charitable or other capital contribution;

(S) has not suffered or experienced any other occurrence, event, incident, action, failure to act, or transaction outside the Ordinary Course of Business;

(T) has not declared or paid any dividend or other distribution, whether in cash or other property; and

(U) has not committed to any of the foregoing.

(ii) Except as set forth on (S) 3(h)(ii) of the Company Disclosure Schedule, since August 1, 1999, the Company has made no distributions of any kind to any Stockholder, debt holder or other party, except as set forth on Section 3(h)(ii) of the Company Disclosure Schedule.

(i) Undisclosed Liabilities. The Company has no Liability (and there is no Basis for any present or future action, suit, proceeding, hearing, investigation, charge, complaint, claim or demand against the Acquired Companies giving rise to any Liability), except for (i) Liabilities set forth on the face of the Financial Statements or the September Balance Sheet, and (ii) Liabilities which have arisen after the date of the September Balance Sheet in the Ordinary Course of Business (none of which results from, arises out of, or was caused by any breach of contract, breach of warranty claims, product liability, tort, infringement, or violation of law), (iii) Liabilities which will arise from and after the Closing Date under contracts, instruments and similar obligations of the Company to be performed following the Closing Date and (iv) Liabilities set forth on (S) 3(i) of the Company Disclosure Schedule ("Undisclosed Liabilities").

(j) Legal Compliance. The Company has complied with all applicable laws (including rules, regulations, codes, injunctions, judgments, orders, decrees, rulings, and charges thereunder) of federal, state, local, and foreign governments (and all agencies thereof), which the failure to comply with will result in Adverse Consequences the costs of which will exceed \$5,000, and no action, suit, proceeding, hearing, investigation, charge, complaint, claim, demand, or notice has been filed or commenced against the Company alleging any failure so to comply.

(k) Tax Matters.

(i) The Company has filed all Tax Returns that they were required to file and were due. All such Tax Returns were correct and complete in all material respects. All Taxes owed by the Company (whether or not shown on any Tax Return) have been paid. The Company currently is not the beneficiary of any extension of time within which to file any Tax Return. No claim has ever been made by an authority in a jurisdiction where the Company does not file Tax Returns that such Company is or may be subject to taxation by that jurisdiction. There are no Security Interests on any of the assets of any of the Company that arose in connection with any failure (or alleged failure) to pay any Tax. The Company has not been a member of an Affiliated Group that has filed a "consolidated return" within the meaning of Code Sec. 1501, or has filed a combined or consolidated return with another corporation with any other taxing authority.

(ii) The Company has made all withholdings of Taxes required to be made in connection with amounts paid or owing to any employee, independent contractor, creditor, shareholder, or other third party and such withholdings have either been paid to the appropriate governmental agency or set aside in appropriate accounts for such purpose.

(iii) The Company has not received any notice or other indication that any authority is considering assessing any additional Taxes for any period for which Tax Returns have been filed. There is no dispute or claim concerning any Tax Liability of the Company either (A) claimed or raised by any authority in writing or (B) as to which the Company or any Stockholder has knowledge based upon personal contact with any agent or representative of such authority. (S) 3(k) of the Company Disclosure Schedule lists all federal, state, local, and foreign income Tax returns filed with respect to the Company for taxable periods ended on or after December 31, 1995, indicates those Tax Returns that have been audited, and indicates those Tax Returns that currently are the subject of audit. The Company has delivered to the Buyer correct and complete copies of all federal and foreign income Tax Returns, examination reports, and statements of deficiencies assessed against or agreed to by the Company since December 31, 1995.

(iv) The Company has not waived any statute of limitations in respect of Taxes or agreed to any extension of time with respect to a Tax assessment or deficiency.

(v) The Company has not made any payments, is not obligated to make any payments, or is not a party to any agreement that under certain circumstances could obligate it to make any payments that will not be deductible under Code Sec. 280G. The Company is not a party to any Tax allocation or sharing agreement. The Company (A) has not been a member of an Affiliated Group

filing a consolidated federal income Tax Return (other than a group the common parent of which was the Company) or (B) has no Liability for the Taxes of any Person (other than the Company) under Treas. Reg. (S) 1.1502-6 (or any similar provision of state, local, or foreign law), as a transferee or successor, by contract, or otherwise.

(l) Real Property.

(i) The Company does not own, and has never owned, any real property.

(ii) (S) 3(1)(ii) of the Company Disclosure Schedule lists and describes briefly all real property leased to the Company (the "Leased Real Property"). The Company has delivered to the Buyer correct and complete copies of the leases for the Leased Real Property (as amended to date). With respect to each lease for Leased Real Property:

(A) the lease or sublease is legal, valid, binding, enforceable, and in full force and effect;

(B) the Company is not, and to the Knowledge of the Company, no party to the lease or sublease is, in breach or default, and no event has occurred which, with notice or lapse of time, would constitute a breach or default or permit termination, modification, or acceleration thereunder;

(C) the Company is not, and to the Knowledge of the Company, no party to the lease or sublease has, repudiated any provision thereof;

(D) to the Knowledge of the Company, there are no disputes, oral agreements, or forbearance programs in effect as to the lease;

(E) the Company has not assigned, transferred, conveyed, mortgaged, deeded in trust, or encumbered any interest in the leasehold; or

(F) to the Knowledge of the Company, all facilities leased thereunder have received all approvals of governmental authorities (including licenses and permits) required in connection with the operation thereof and have been operated and maintained in all material respects in accordance with applicable laws, rules, and regulations.

(m) Intellectual Property.

(i) The Company owns or has the right to use pursuant to license, sublicense, agreement, or permission of all Intellectual Property necessary for the operation of the Business as presently conducted or as proposed to be conducted. Each Stockholder and other director, officer or employer of the Company has heretofore transferred to the Company all right, title and interest of such person in and to any Intellectual Property used, necessary or desirable for the operation of the Business as presently conducted or as proposed to be conducted. Each item of Intellectual Property included among the assets of the Company or owned or used by the Company or any Stockholder immediately prior to the Closing hereunder will be owned or available for use by the Buyer on identical terms and conditions immediately subsequent to the Closing hereunder.

(ii) To the Knowledge of the Stockholders, neither the Company nor any Stockholder has interfered with, infringed upon, misappropriated, or otherwise come into conflict with any Intellectual Property rights of third parties. Neither the Company nor any Stockholder has ever received any charge, complaint, claim, demand, or notice alleging any such interference, infringement, misappropriation, or violation (including any claim that any of the Company or any Stockholder must license or refrain from using any Intellectual Property rights of any third party). To the Knowledge of the Company or any Stockholder, no third party has interfered with, infringed upon, misappropriated, or otherwise come into conflict with any Intellectual Property rights of the Company.

(iii) (S) 3(m)(iii) of the Company Disclosure Schedule identifies each patent or registration which has been issued or transferred to the Company or any Stockholder with respect to any of its Intellectual Property, identifies each pending patent application for registration which the Company or any Stockholder has made with respect to any of its Intellectual Property, and identifies each license, agreement, or other permission which the Company or any Stockholder has granted to any third party with respect to any of its Intellectual Property. The Company has delivered to the Buyer correct and complete copies of all such patents, registrations, applications, licenses, agreements, and permissions (as amended to date) and has made available to the Buyer correct and complete copies of all other written documentation evidencing ownership and prosecution (if applicable) of each such item. (S) 3(m)(iii) of the Company Disclosure Schedule also identifies each trade name or unregistered trademark used by the Company in connection with the Business. With respect to each item of Intellectual Property required to be identified in (S) 3(m)(iii) of the Company Disclosure Schedule:

(A) the Company possess all right, title, and interest in and to the item, free and clear of any Security Interest, license, or other restriction;

(B) the item is not subject to any outstanding injunction, judgment, order, decree, ruling, or charge;

(C) no action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand is pending or, to the Knowledge of the Company threatened, which challenges the legality, validity, enforceability, use, or ownership of the item; and

(D) Neither the Company nor any Stockholder has ever agreed to indemnify any Person for or against any interference, infringement, misappropriation, or other conflict with respect to the item.

(iv) (S) 3(m)(iv) of the Company Disclosure Schedule identifies each item of Intellectual Property that any third party owns and that the Company uses pursuant to license, sublicense, agreement, or permission. The Company has delivered to the Buyer correct and complete copies of all such licenses, sublicenses, agreements, and permissions (as amended to date). With respect to each item of Intellectual Property required to be identified in (S) 3(m)(iv) of the Company Disclosure Schedule;

(A) the license, sublicense, agreement, or permission covering the item is legal, valid, binding, enforceable, and in full force and effect;

(B) the license, sublicense, agreement, or permission will continue to be legal, valid, binding, enforceable, and in full force and effect on identical terms following the consummation of the transactions contemplated hereby (including the Merger referred to in (S) 2 above);

(C) Neither the Company, nor to the Knowledge of the Company, no other party to the license, sublicense, agreement, or permission, is in breach or default, and no event has occurred which with notice of lapse of time would constitute a breach or default or permit termination, modification, or acceleration thereunder;

(D) The Company has not, and to the Knowledge of the Company, no other party to the license, sublicense, agreement, or permission has, repudiated any provision thereof;

(E) with respect to each sublicense, the representations and warranties set forth in subsections (A) through (D) above are true and correct with respect to the underlying license;

(F) the underlying item of Intellectual Property is not subject to any outstanding injunction, judgment, order, decree, ruling, or charge;

(G) no action, suit, proceeding, hearing, investigation, charge, complaint, claim or demand is pending or, to the Knowledge of the

Company, threatened, which challenges the legality, validity, or enforceability of the underlying item of Intellectual Property; and

(H) The Company has not granted any sublicense or similar right with respect to the license, sublicense, agreement, or permission.

(n) Tangible Assets. The Company owns or leases all buildings, machinery, equipment, and other tangible assets necessary for the conduct of the Business as presently conducted. Each such tangible asset is free from any known material defects, has been maintained in accordance with normal industry practice, is in good operating condition and repair (subject to normal wear and tear), and is suitable for the purposes for which it presently is used.

(o) Inventory. The inventory of the Company consists of raw materials and supplies, manufactured and purchased parts, goods in process, and finished goods, all of which is merchantable and fit for the purpose for which it was procured or manufactured, and none of which is slow-moving (except for parts and components on hand for servicing products already sold), obsolete, damaged, or defective in excess of the amount reserved against inventory on the September Balance Sheet.

(p) Contracts. (S) 3(p) of the Company Disclosure Schedule lists the following contracts and other agreements, written or oral, to which the Company is a party:

(i) all customer orders, and the purchase prices thereof, accepted by the Company and in order backlog as of September 30, 1999;

(ii) any agreement (or group of related agreements) for the lease of personal property to or from any Person providing for lease payments in excess of \$5,000 per annum;

(iii) any agreement (or group of related agreements) for the purchase or sale of raw materials, commodities, supplies, products, or other personal property, or for the furnishing or receipt of services, the performance of which will extend over a period of more than one year, or which to the Knowledge of the Company, will result in a loss to the Company, or which involves consideration, in excess of \$5,000;

(iv) any agreement concerning a partnership or joint venture;

(v) any agreement (or group of related agreements) under which it has created, incurred, assumed, or guaranteed any indebtedness for borrowed money, or any capitalized lease obligation, under which it has imposed a Security Interest on any of its assets, tangible or intangible;

(vi) any agreement concerning confidentiality or noncompetition;

(vii) any agreement involving any Stockholder to which the Company is a party;

(viii) any profit sharing, stock option, stock purchase, stock appreciation, deferred compensation, severance, or other plan or arrangement for the benefit of its current or former directors, officers, and employees;

(ix) any agreement for the employment of any individual on a full-time, part-time, consulting, or other basis providing annual compensation in excess of \$30,000 or providing severance benefits;

(x) any agreement under which it has advanced or loaned any amount to any of its directors, officers, and employees;

(xi) any agreement under which the consequences of a default or termination would have an adverse effect in the amount of \$5,000 or more on the business, financial condition, operations or results of operations of the Company; or

(xii) any other agreement (or group of related agreements) the performance of which involves consideration in excess of \$5,000.

The Company has delivered to the Buyer a correct and complete copy of each written agreement listed in (S) 3(p) of the Company Disclosure Schedule (as amended to date) and a written summary setting forth the terms and conditions of each oral agreement referred to in (S) 3(p) of the Company Disclosure Schedule. With respect to each such agreement: (A) the agreement is legal, valid, binding, enforceable, and in full force and effect, subject to applicable bankruptcy, insolvency, fraudulent conveyance or transfer, reorganization, arrangement, moratorium or other similar laws from time to time affecting creditor's rights generally; (B) to the Knowledge of the Company, the agreement will continue to be legal, valid, binding, enforceable, and in full force and effect on identical terms following the consummation of the transactions contemplated hereby (including the assignments and assumptions referred to in (S) 2 above), subject to applicable bankruptcy, insolvency, fraudulent conveyance or transfer, reorganization, arrangement, moratorium or other similar laws from time to time affecting creditor's rights generally; (C) the Company is not, and to the Knowledge of the Company, no other party, is in material breach or default, and no event has occurred which with notice or lapse of time would constitute a material breach or default, or permit termination, modification, or acceleration, under the agreements; (D) no party has repudiated to the other party any provision of the agreement; and (E) such agreement does not prohibit or require consent in the event of a change of control of the Company. With respect to each customer order listed in (S) 3(p) of the Company Disclosure Schedule, the Company has no Knowledge of any basis for cancellation thereof.

(q) Notes and Accounts Receivable. Notes and accounts receivable of the Company included among the assets are at least in the amounts reflected in the Financial Statements and all such notes and accounts receivable are reflected properly on their books and records, are valid receivables subject to no setoffs or counterclaims, are current and collectible, and will be collected in accordance with their terms at their recorded amounts, subject only to the reserve for bad debts set forth on the face of the Balance Sheet.

(r) Powers of Attorney. There are no outstanding powers of attorney executed on behalf of the Company.

(s) Insurance. (S) 3(s) of the Company Disclosure Schedule sets forth the following information with respect to each insurance policy (including policies providing property, casualty, liability, and workers' compensation coverage and bond and surety arrangements) to which any Company has been a party, a named insured, or otherwise the beneficiary of coverage at any time within the past five years:

(i) the name, address, and telephone number of the agent;

(ii) the name of the insurer, the name of the policyholder, and the name of each covered insured;

(iii) the policy number and the period of coverage;

(iv) the scope (including an indication of whether the coverage was on a claims made, occurrence, or other basis) and amount (including a description of how deductibles and ceilings are calculated and operate) of coverage; and

(v) a description of any retroactive premium adjustments or other loss-sharing arrangements.

With respect to each such insurance policy: (A) all policy premiums due to date have been paid in full, and to the knowledge of the Company, the policy is legal, valid, binding, enforceable, and in full force and effect with respect to the periods for which it purports to provide coverage subject to applicable bankruptcy, insolvency, fraudulent conveyance or transfer, reorganization, arrangement or moratorium or other similar laws from time to time affecting creditor's rights generally; (B) the Company or, to the knowledge of the Company, any other party to the policy is not in breach or default (including with respect to the payment of premiums or the giving of notices), and no event has occurred which, with notice or the lapse of time, would constitute such a breach or default, or permit termination, modification, or acceleration, under the policy; and (C) no party to the policy has repudiated any provision thereof. (S) 3(s) of the Company Disclosure Schedule describes any self-insurance arrangements affecting the Company.



(t) Litigation. The Company (i) is not subject to any outstanding injunction, judgment, order, decree, ruling, or charge and (ii) is not a party nor, to the Knowledge of the Company, is threatened to be made a party to any action, suit, proceeding, hearing, or investigation of, in, or before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction or before any arbitrator.

(u) Product Warranty. Each product manufactured, sold, leased, or delivered by the Company or service provided by the Company has been in conformity with all applicable contractual commitments and all express and implied warranties, and the Company has no Liability (and, to the Knowledge of the Stockholders, there is no Basis for any present or future action, suit, proceeding, hearing, investigation, charge, complaint, claim, or demand against it giving rise to any Liability) for refund, replacement or repair thereof or other damages in connection therewith in excess of the amount reserved against product warranty claims on the September Balance Sheet. Except as otherwise may be provided by applicable law, no product manufactured, sold, leased, or delivered by the Company is subject to any guaranty, warranty, or other indemnity beyond the applicable standard terms and conditions of sale or lease. (S) 3(u) of the Company Disclosure Schedule includes copies of the standard terms and conditions of sale or lease for the Company (containing applicable guaranty, warranty, and indemnity provisions).

(v) Product Liability. There are no existing or, to the Knowledge of the Company, threatened, claims against the Company arising out of any injury to individuals or property as a result of the ownership, possession, or use of any product manufactured, sold, leased, or delivered by the Company which could result in Liability to the Company and neither the Company nor the Stockholders have any knowledge of a reasonable basis for any such claim.

(w) Employees. To the Knowledge of the Company, no executive, key employee, or group of employees has any plans to terminate employment with the Company. The Company is not a party to or bound by any collective bargaining agreement, nor has it experienced any strikes, grievances, claims of unfair labor practice. The Company has no Knowledge of any organizational effort presently being made or threatened by or on behalf of any labor union with respect to its employees. There is no claim outstanding or, to the Knowledge of the Company, threatened or, to the Knowledge of the Stockholders, any Basis for a claim respecting employment of any past or present employee of the Company including, without limitation, claims of personal injury (unless fully covered by worker's compensation, liability or indemnity insurance) discrimination, wage, hours or similar laws or regulations.

(x) Employee Benefits.

(i) No other corporation, trade, business, or other entity, would, together with the Company, now or in the past 5 years, constitute a single employer within the meaning of Code (S) 414.

(ii) (S) 3(x) of the Company Disclosure Schedule contains a true and complete list of all of the Employee Benefit Plans which are presently in effect or which have previously been in effect in the last 5 years for the benefit of current or former employees, officers, directors or consultants of the Company (the "Company Plans").

(iii) Except as set forth in (S) 3(x) of the Company Disclosure Schedule, the Company does not maintain and has never maintained an "employee benefit pension plan," within the meaning of ERISA (S) 3(2), that is or was subject to Title IV of ERISA.

(iv) There is no lien outstanding upon any Assets pursuant to Code (S) 412(n) in favor of any of the Company Plans. No Assets or assets of any Affiliate have been provided as security to any of the Company Plans pursuant to Code (S) 401(a)(29).

(v) Except as set forth in (S) 3(x) of the Company Disclosure Schedule, the Company has no past, present or future obligation or liability to contribute to any Multiemployer Plan.

(vi) The Company has complied in all material respects with the continuation health coverage requirements of Code (S) 4980B and ERISA (S)(S) 601 through 608.

(vii) The Company is not obligated, contingently or otherwise, under any agreement to pay any amount which would be treated as a "parachute payment," as defined in Code (S) 280G(b) (determined without regard to Code (S) 280G(b)(2)(A)(ii)).

(viii) With respect to each of the Company Plans, except as set forth in (S) 3(x) of the Company Disclosure Schedule:

(A) each of the Company Plans has been established, maintained, funded and administered in all material respects in accordance with its governing documents, and any applicable provisions of ERISA, the Code, other applicable law, and all regulations promulgated thereunder;

(B) none of the Company Plans nor any fiduciary has engaged in a prohibited transaction as defined in ERISA (S) 406 or Code (S) 4975 (for which no individual or class exemption exist under ERISA (S) 408 or Code (S) 4975, respectively);

(C) all filings and reports as to each of the Company Plans

required to have been made on or before the Closing Date to the Internal Revenue Service, or to the United States Department of Labor or to the PBGC, have been or will be duly made by that date;

(D) each of the Company Plans which is intended to qualify as a tax-qualified retirement plan under Code (S) 401(a) has received a favorable determination letter(s) from the Internal Revenue Service as to qualification of such Company Plan for the period from its adoption through the Closing Date; nothing has occurred, whether by action or failure to act, which has resulted in or would cause the loss of such qualification; and each trust thereunder is exempt from tax pursuant to Code (S) 501(a);

(E) each of the Company Plans which is required to satisfy Code (S)(S) 401(k)(3) or 401(m)(2) has been tested for compliance with, and has satisfied the requirements of, Code (S)(S) 401(k)(3) and 401(m)(2) for each plan year ending prior to the Closing Date;

(F) no event has occurred and no condition exists relating to any of the Company Plans that would subject the Company to any tax or Liability under IRS (S)(S) 4971, 4972 or 4979, or to any Liability under ERISA (S)(S) 502 or 4071; and

(G) to the extent applicable, each of the Company Plans has been funded in accordance with its governing documents, ERISA and the Code, has not experienced any accumulated funding deficiency (whether or not waived) and has not exceeded its full funding limitation (within the meaning of Code (S) 412) at any time.

(ix) With respect to the Company Plans which provide group health benefits to employees of the Company and are subject to the requirements of Code (S) 4980B and ERISA Title I Part 6 ("COBRA"), such group health plan has been administered in every material respect in accordance with its governing documents and COBRA.

(x) With respect to employee benefit matters generally:

(A) the Company (nor any person, firm or corporation which is or has been under common control within the meaning of Section 4001(b) of ERISA of the Company) does not maintain or contribute to or has ever maintained or contributed to any Company Plan subject to Title IV of ERISA;

(B) except as set forth on (S) 3(x) of the Company Disclosure Schedule, the consummation of the transactions contemplated hereby will

not accelerate or increase any Liability under any of the Company Plans because of an acceleration or increase of any of the rights or benefits to which Company Plan participants or beneficiaries may be entitled thereunder;

(C) except as set forth on (S) 3(x) of the Company Disclosure Schedule, the Company has no obligation to any retired or former employee or any current employee of the Company upon retirement or termination of employment under any Company Plans, other than such obligations imposed by COBRA; and

(D) except as set forth on (S) 3(x) of the Company Disclosure Schedule, any of the Company Plans which is an "employee welfare benefit plan," within the meaning of ERISA (S) 3(1), may be terminated prospectively without Liability to the Company or Parent or Buyer, including, without limitation, Liability for unreported (e.g., run-off) benefit claims, premium adjustments or termination charges of any kind.

(y) Guaranties. The Company is not a guarantor or otherwise liable for any Liability or obligation (including indebtedness) of any other Person.

(z) Environment, Health, and Safety.

(i) The Company has complied with all Environmental, Health, and Safety Laws, the failure to comply with which could result in Adverse Consequences in an amount in excess of \$5,000 individually or in the aggregate, and no action, suit, proceeding, hearing, investigation, charge, complaint, claim, demand, or notice has been filed or commenced against the Company alleging such failure.

(ii) The Company has no Liability (and the Company has not handled, used, stored, treated, recycled or disposed of any Hazardous Substance, arranged for the disposal of any Hazardous Substance, exposed any employee or other individual to any Hazardous Substance or condition, or owned or operated any property or facility in any manner that, to the Knowledge of the Stockholders, could form the Basis for any present or future action, suit, proceeding, hearing, investigations, charge, complaint, claim or demand giving rise to any Liability) for penalties, investigations of or damage to any site, location, body of water (surface or subsurface), or other natural resources, for any illness of or personal injury to any employee or other individual, or for any reason under any Environmental, Health, and Safety Laws.

(iii) Except as set forth in (S) 3(z) of the Company Disclosure Schedule, all properties and equipment used in the Business are and in the past have been free of any amounts of asbestos, PCB's, methylene chloride, trichlorethylene, 1,2

trans-dichloroethylene, dioxins, dibenzofurans, and Extremely Hazardous Substances, the presence of which could result in Adverse Consequences.

(aa) Certain Business Relationships With the Company. Except as set forth in (S) 3(aa) of the Company Disclosure Schedule, none of the Stockholders or their relatives has been involved directly or indirectly in any business arrangement or relationship with the Company within the past 36 months, and, except for the Real Property, none of Stockholders owns any asset, tangible or intangible, which is used in the Business.

(bb) Disclosure. To the Knowledge of the Company, the representations and warranties contained in this (S) 3 (including the Company Disclosure Schedule) do not as of the Closing Date contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statement and information contained in this (S) 3 not misleading.

4. Representations and Warranties of the Buyer. Parent and Buyer, jointly and severally, represent and warrant to the Stockholders that the statements contained in this (S) 4 are correct and complete as of Closing Date.

(a) Organization of the Buyer. Each of Parent and Buyer is a corporation duly organized, validly existing, and in good standing under the laws of the jurisdiction of its incorporation and is duly qualified as a foreign corporation to do business in every jurisdiction where such qualification is required.

(b) Authorization of Transaction. Each of Parent and Buyer has full power and authority (including full corporate power and authority) to execute and deliver this Agreement and to perform its obligations hereunder. This Agreement constitutes the valid and legally binding obligation of Parent and Buyer, enforceable in accordance with its terms and conditions. Parent and Buyer need not give any notice to, make any filing with, or obtain any authorization, consent, or approval of any government or governmental agencies in order for the Parties to consummate the transactions contemplated by this Agreement (including the assignment and assumption referred to in (S) 2 above).

(c) Noncontravention. Neither the execution and the delivery of this Agreement, nor the consummation of the transactions contemplated hereby (including the assignments and assumptions referred to in (S) 2 above) will (i) violate any constitution, state, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Parent or Buyer is subject, or any provision of its charter or bylaws or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice under any agreement, contract, lease, license, instrument, or other arrangement to which Parent or Buyer is a party or by which they are bound or to which any of their assets are subject.

(d) Broker's Fees. Neither Parent nor Buyer has Liability or obligation to pay any fees or commissions to any broker, finder, or agent with respect to the transactions contemplated by this Agreement for which the Stockholders could become liable or obligated.

(e) Investment Decision. Parent and Buyer have had an opportunity to conduct due diligence and ask questions of the Company, and have sufficient knowledge to decide to enter into this Agreement and participate in the Merger.

(f) Disclosure. To the Knowledge of Parent and Buyer, the representations and warranties contained in this (S) 4 do not contain any untrue statements of a material fact or omit to state any material fact necessary in order to make the statements contained in this (S) 4 not misleading.

5. Conditions to Obligation to Close.

(a) Conditions to Obligation of Parent and Buyer. The obligation of Parent and Buyer to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(i) the representations and warranties set forth in (S) 3 above shall be true and correct in all material respects at and as of the Closing Date;

(ii) the Company and the Stockholders shall have performed and complied with all of their covenants hereunder in all material respects through the Closing;

(iii) the Company shall have procured all of the third party consents specified on Exhibit D hereto, including a consent and -----  
estoppel for the transfer of the Leased Real Property;

(iv) no action, suit, or proceeding shall be pending or threatened before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction or before any arbitrator wherein an unfavorable injunction, judgment, order, decree, ruling, or charge would (A) prevent consummation of any of the transactions contemplated by this Agreement (B) cause any of the transactions contemplated by this Agreement to be rescinded following consummation, or (C) affect adversely the right of the Buyer to own the assets of the Company or to operate the Business (and no such injunction, judgment, order, decree, ruling, or charge shall be in effect);

(v) the Company shall have delivered to the Buyer a certificate to the effect that each of the conditions specified above in (S) 5(a)(i)-(iv) is satisfied in all respects;

(vi) each of the Principal Stockholders and Gus Carroll shall have entered into a Noncompetition Agreement with a term of five years prohibiting the manufacture, production or sale of any products which compete with the products manufactured, produced or sold by the Company, in form and substance as set forth in Exhibits E attached

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hereto and the same shall be in full force and effect;

(vii) each of the Principal Stockholders shall have entered into an employment agreement in the form of Exhibit F attached hereto;

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(viii) each holder of Options shall have executed and delivered an acknowledgement and release in form and substance satisfactory to the Buyer;

(ix) the Buyer shall have received from counsel to the Company an opinion in form and substance as set forth in Exhibit G attached  
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hereto, addressed to the Buyer, and dated as of the Closing Date;

(x) the Buyer shall have received a spousal consent from each married Stockholder, in form and substance satisfactory to the Buyer;

(xi) the certificates of merger with respect to the Merger shall have been filed in accordance with the California Act and the Delaware Act; and

(xii) all actions to be taken by the Company in connection with consummation of the transactions contemplated hereby and all certificates, opinions, instruments, and other documents required to effect the transactions contemplated hereby will be reasonably satisfactory in form and substance to the Buyer.

The Buyer may waive any condition specified in this (S) 5(a) if it executes a writing so stating at or prior to the Closing.

(b) Conditions to Obligation of Stockholders. The obligation of Stockholders to consummate the transactions to be performed by it in connection with the Closing is subject to satisfaction of the following conditions:

(i) the representations and warranties set forth in (S) 4 above shall be true and correct in all material respects at and as of the Closing Date;

(ii) Parent and Buyer shall have performed and complied with all of its covenants hereunder in all material respects through the Closing;

(iii) no action, suit, or proceeding shall be pending or threatened before any court or quasi-judicial or administrative agency of any federal, state, local, or foreign jurisdiction or before any arbitrator wherein an unfavorable injunction, judgment, order, decree, ruling, or charge would (A) prevent consummation of

any of the transactions contemplated by this Agreement or (B) cause any of the transactions contemplated by this Agreement to be rescinded following consummation (and no such injunction, judgment, order, decree, ruling, or charge shall be in effect);

(iv) the Buyer shall have delivered to the Company a certificate to the effect that each of the conditions specified above in (S) 5(b)(i)-(iii) is satisfied in all respects;

(v) the Company shall have received from counsel to the Buyer an opinion form and substance as set forth in Exhibit H attached

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hereto, addressed to the Company, and dated as of the Closing Date;

(vi) the certificates of merger with respect to the Merger shall have been filed in accordance with the California Act and the Delaware Act; and

(vii) all actions to be taken by the Buyer in connection with consummation of the transactions contemplated hereby and all certificates, opinions, instruments, and other documents required to effect the transactions contemplated hereby will be reasonably satisfactory in form and substance to the Company.

The Stockholders may waive any condition specified in this (S) 5(b) if it executes a writing so stating at a prior to the Closing.

6. Pre-Closing Covenants. The parties agree as follows with respect to the period prior to the Closing:

(a) Access and Investigation. Between the date hereof and the Closing Date, the Company and the Stockholders will, and will cause their representatives to:

(i) afford the Buyer and its representatives (collectively, "Buyer's Advisors") reasonable access to the Company and its personnel, properties (including for purposes of environmental testing), contracts, books and records, and other documents and data so as to not unreasonably interfere with the conduct of the Business;

(ii) furnish the Buyer with copies of all such contracts, books and records, and other existing documents and data as the Buyer may reasonably request; and

(iii) furnish the Buyer and Buyer's Advisors with such additional financial, operating and other data and information as the Buyer may reasonably request.



(b) Operation of the Businesses of the Company. Between the date hereof and the Closing Date, the Company and the Stockholders will, and the Company will cause its representatives to:

(i) conduct the business of the Company and each Company Subsidiary only in the Ordinary Course of Business or otherwise with the written consent of the Buyer; provided that there shall be no transactions between the Stockholders and the Company without the prior written consent of the Buyer;

(ii) use their best efforts to preserve intact the current business organization of the Company, keep available the services of the current officers, employees, and agents of the Company, and maintain the relations and good will with suppliers, customers, landlords, creditors, employees, agents, and others having business relationships with the Company; and

(iii) confer with the Buyer concerning operational matters of a material nature and the status of business operations and finances.

(c) Negative Covenant. Except as otherwise expressly permitted by this Agreement, between the date of this Agreement and the Closing Date, the Company and the Stockholders will not, without the prior consent of the Buyer, take any affirmative action, or fail to take any reasonable action within their or its control, which would cause or result in an inaccuracy or breach of any of the representations, warranties or covenants of the Company and the Stockholders set forth in this Agreement, including, without limitation, any action specified in (S) 3(h) of this Agreement. Without limiting the generality of the foregoing, the Company agrees that it shall not, and shall cause each of the Company Subsidiaries not to, take any of the following actions without the prior written consent of the Buyer:

(i) amend its Certificate or Articles of Incorporation or Bylaws; make any change in its authorized, issued or outstanding capital stock or any other equity security; issue, sell, pledge, assign or otherwise encumber or dispose of, or purchase, redeem or otherwise acquire, any of its shares of capital stock or other equity securities or enter into any agreement, call or commitment of any character so to do; grant or issue any stock option or warrant relating to, right to acquire, or security convertible into, shares of their capital stock or other equity security; purchase, redeem, retire or otherwise acquire any shares of, or any security convertible into, capital stock or other equity security of their respective companies, or agree to do any of the foregoing;

(ii) propose, declare, set aside or pay any dividend or other distribution in respect of any of its capital stock (including, without limitation, any stock dividend or distribution);

(iii) incur any indebtedness other than normal, Ordinary Course of Business trade payables and accruals;

(iv) make any distribution outside of the Ordinary Course of Business or any distributions in excess of \$5,000; and

(v) commit to any new capital expenditure in excess of \$5,000.

(d) Termination of Plans. Prior to the Closing Date, the Company shall terminate all of its option and equity programs, and all outstanding options shall be terminated. In addition, the Company shall terminate its tax-qualified retirement plan immediately prior to the Closing and as soon as practicable thereafter shall file a request with the appropriate Key District Office of the Internal Revenue Service seeking a favorable determination that such plan continues to satisfy applicable tax-qualification requirements upon termination. The Company shall make all reasonable efforts to secure such a favorable determination from the Internal Revenue Service and, upon obtaining the same, shall provide Parent with a copy thereof.

7. Post-Closing Covenants. The Parties agree as follows with respect to the period following the Closing:

(a) General. In case at any time after the Closing any further action is necessary to carry out the purposes of this Agreement, each of the Stockholders and Buyer will take such further action (including the execution and delivery of such further instruments and documents) as any other Party reasonably may request, at the sole cost and expense of the requesting Party (unless the requesting Party is entitled to indemnification therefor hereunder). The Stockholders acknowledge and agree that from and after the Closing the Buyer will have the right to possession of all documents, books, records (including Tax records), agreements, and financial data of any sort relating to the Company in this Agreement; provided, however, that the Stockholders shall have the right to obtain access to such documents, books, records (including Tax records), agreements, and financial data and make photocopies thereof for a proper purpose, such as in connection with the preparation of their tax returns.

(b) Litigation Support. In the event and for so long as any Party actively is contesting or defending against any action, suit, proceeding, hearing, investigation, charge, complaint, claim or demand in connection with (i) any transaction contemplated under this Agreement or (ii) any fact, situation, circumstance, status, condition, activity, practice, plan, occurrence, event, incident, action, failure to act, or transaction on or prior to the Closing Date involving the Surviving Corporation or any Stockholder, each of the other Parties will reasonably cooperate with the contesting or defending Party and his or its counsel in the contest or defense, make available his or its personnel, and provide such testimony and access to his or its books and records as shall be necessary in connection with the contest or defense, all at the sole cost and expense of the contesting or defending Party (unless the contesting or defending Party is entitled to indemnification therefor under (S) 8 below).

(c) Transition. Each of the Stockholders will use his best efforts not to take any action that is designed or intended to have the effect of discouraging any lessor, licensor, customer, supplier, or other business associate of the Company from maintaining the same business relationships with the Surviving Corporation after the Closing as it maintained with the Company prior to the Closing.

(d) Confidentiality. Each Stockholder will treat and hold as confidential all of the Confidential Information, refrain from using any of the Confidential Information and deliver promptly to the Surviving Corporation or destroy, at the request and option of the Surviving Corporation, all tangible embodiments (and all copies) of the Confidential Information which are in his or its possession. In the event that a Stockholder is requested or required (by oral question or request for information or documents in any legal proceeding, interrogatory, subpoena, civil investigative demand, or similar process) to disclose any Confidential Information, that Party will notify the Surviving Corporation promptly of the request or requirement so that the Surviving Corporation may seek an appropriate protective order or waive compliance with the provisions of this (S) 7(d). If, in the absence of a protective order or the receipt of a waiver hereunder, a Stockholder is, on the advice of counsel, compelled to disclose any Confidential Information to any tribunal or else stand liable for contempt, that Party may disclose the Confidential Information to the tribunal; provided, however, that a Stockholder shall use its reasonable efforts to obtain, at the reasonable request of the Surviving Corporation and at the Surviving Corporation's sole expense, an order or other assurance that confidential treatment will be accorded to such portion of the Confidential Information required to be disclosed as the Surviving Corporation shall designate.

(e) Stock Options. Immediately following the Closing, each then outstanding option to purchase shares of Company Shares (in each case, an "Option"), shall be canceled and in consideration of such cancellation, Parent shall cause the Surviving Corporation to pay to the holders thereof the amounts set forth on Section 7(e) of the Company Disclosure Schedule. Such payment shall be less any required withholding Taxes and without interest.

(f) Tax Matters. Buyer and the Company will provide each other with such cooperation and information as either of them may reasonably require of the other in connection with the filing of any Tax Return, including Tax Returns relating to the application of the successor employer rules for payroll Tax purposes contained in Code (S)(S) 3121(a)(1) and 3306(b)(1), the determination of a liability for Taxes or a right to a refund for Taxes, or the preparation for litigation or investigation of any claim for Taxes or a right to a refund for Taxes, or the preparation for cooperation and information shall include all relevant Tax Returns, and other documents and records, or portions thereof relating to or necessary in connection with the preparation of records, or portions thereof relating to or necessary in connection with the preparation of such Tax Returns or other determination of Tax liability. Each Party shall retain all Tax Returns, schedules, workpapers, and all other materials, records or documents until the expiration of the

statute of limitations for the taxable years to which such Tax Returns and other documents relate. After expiration of the statute of limitations, such party shall notify the other party in writing that it desires to dispose of or destroy the Tax Returns and other documents and shall provide such other party with the right for thirty (30) days after the tendering of such notice to copy or take possession of such Tax Returns and other documents. Any information obtained under this provision shall be kept confidential by the parties, except as may be necessary in connection with the filing of such Tax Returns.

8. Remedies for Breaches of this Agreement.

(a) Survival of Representations and Warranties. All of the representations and warranties contained in (S) 3(g)-(ab), except (S) 3(k) and 3(x) of this Agreement and of Buyer contained in (S) 4(e)-(g) of this Agreement shall survive the Closing and continue in full force and effect for a period of one year thereafter; the representation and warranties contained in (S) 3(k) and (S) 3(x) shall survive the Closing and continue in full force and effect for a period of 90 days following the expiration of the applicable statute of limitations with respect to such matters; and all of the other representations, warranties, covenants, indemnities, and other agreements of the Buyer and the Stockholders contained in this Agreement (including the representations and warranties contained in (S) 3(a)-(f) and (S) 4(a)-(d)) shall survive the Closing and continue in full force and effect forever thereafter, subject to any applicable statutes of limitations. No action, claim, or proceeding may be brought by any Party hereto against any other Party resulting from, arising out of, or caused by a breach of a representation or warranty contained herein, or the failure to perform any covenant or other obligations hereunder, after the time such representation, warranty or covenant ceases to survive pursuant to the preceding sentence, unless written notice of such claim setting forth with specificity the basis for such claim is delivered to the applicable Party prior to such time.

(b) Indemnification Provisions for Benefit of the Parent and the Buyer.

(i) In the event a Stockholder breaches (or in the event any third party alleges facts that, if true, would mean Stockholder has breached) any of its representations, warranties, and covenants contained in this Agreement, and, if there is an applicable survival period pursuant to (S) 8(a) above, provided that the Buyer makes a written claim for indemnification setting forth with specificity the basis for such claim against the Stockholders pursuant to (S) 9(g) below within such survival period, then each of the Stockholders jointly and severally agrees to indemnify Parent, Buyer and the Surviving Corporation, subject to the limitations set forth herein, from and against the entirety of any Adverse Consequences the Parent, the Buyer or the Surviving Corporation may suffer through and after the date of the claim for indemnification (including any Adverse Consequences the Parent, the Buyer or the Surviving Corporation may suffer after the end of any applicable survival period) resulting from, arising out of, or caused by the breach (or the alleged breach); provided, however, that

(A) The Stockholders shall not have any obligation to indemnify the Buyer from and against any Adverse Consequences resulting from, arising out of, or caused by the breach (or alleged breach) of any representation, warranty or covenant contained in (S) 3(g)-(ab) except (S) 3(k) and (S) 3(x) of the Agreement which exceed the Escrow Fund. No such restriction shall be applicable to (I) claims for uncollected accounts receivable in excess of the reserve therefor on the September Balance Sheet; (II) product warranties claims for amounts in excess of the reserve therefor on the September Balance Sheet; and (III) tax liabilities in excess of the amount accrued therefore on the September Balance Sheet;

(B) The Stockholders shall have no such indemnification obligation with respect to such (S) 3(g)-(ab) breaches (or alleged breaches) until the Buyer has suffered Adverse Consequences by reason thereof (i) for any individual claim or series of related claims, until the amount of such claim or claims exceeds \$5,000, and (ii) in the aggregate, until the amount of all claims for breaches exceeds \$50,000. No such restrictions shall be applicable to: (I) claims for breaches of the representation and warranties as contained in (S)(S) 3(a)-(f), (S) 3(k) and (S) 3(x); (II) claims for uncollected accounts receivable in excess of the reserve therefor on the September Balance Sheet; (III) product warranties claims for amounts in excess of the reserve therefor on the September Balance Sheet; or (IV) tax liabilities in excess of the amount accrued therefor on the September Balance Sheet; and

(C) The Stockholders' liability for a breach of the covenants contained in Sections 7(c) and 7(d) shall not be joint and several.

(ii) Each of the Stockholders jointly and severally agrees to indemnify Parent, Buyer and the Surviving Corporation for any worker's compensation claims incurred by any employee, consultant, independent contractor, agent, affiliate or other individual of the Company prior to Closing, including, without limitation any claims for personal injuries, property damages and lost wages, except to the extent coverage is provided for such claims under the Company's applicable insurance policy.

(iii) Each of the Stockholders jointly and severally, agrees to indemnify Parent, Buyer and the Surviving Corporation for any damages (including costs of cleanup, containment, or other remediation) arising, directly or indirectly from or in connection with any Environmental, Health, and Safety Laws arising out of or relating to: (A) the ownership, operation, or condition at any time on or prior to the Closing Date of any facilities or any other properties and assets (whether real, personal, or mixed and whether tangible or intangible) in which the Company has or had an interest, (B) any Hazardous Substances that were present on the Facilities or such other properties and assets at any time on or prior to the Closing

Date, or (C) any Hazardous Substances, wherever located, that were, or were allegedly, used, generated, recycled, disposed, transported, stored, treated, released, or otherwise handled by the Company or by any other person for whose conduct they are or may be held responsible at any time on or prior to the Closing Date.

(iv) As security for the indemnification obligations of Stockholders under this Agreement, Parent, Buyer and the Principal Stockholders shall enter into the Escrow Agreement as of the Closing Date, which shall be funded with \$1,500,000.00 of the Merger Consideration otherwise payable to the Stockholders (the "Escrow Fund"). Parent and Buyer shall seek payment for any indemnification claims hereunder first from the Escrow Fund, however, the Escrow Fund shall be a nonexclusive source of indemnification hereunder and shall not limit the liability of the Stockholders with respect to indemnification under this Agreement. The amount of the Escrow Fund shall be reduced on the first anniversary of the Closing Date to \$250,000 (plus the amount of any then-outstanding claims) which remaining amount shall be used solely to fund claims under (S) 3(k) and (S) 3(x) (and any then-outstanding claims) and shall be held until the second anniversary of the Closing Date.

(v) Each of the Stockholders jointly and severally agrees to indemnify and reimburse the Surviving Corporation upon demand for the full amount of any accounts receivable of the Company which were (A) invoiced more than ninety (90) days prior to the Closing Date and (B) remain uncollected by the Surviving Corporation one hundred eighty (180) days following the Closing Date. Within a reasonable time following such 180 day period, Parent or the Surviving Corporation shall provide the Stockholders with a reconciliation of such accounts receivable and certify to the Stockholders that such receivables remain unpaid. The Stockholders shall pay to the Surviving Corporation or Parent such uncollected amount within ten (10) days following receipt of such reconciliation and certification.

(vi) Notwithstanding any provision of this Agreement to the contrary, each Stockholder's liability shall be limited to the amount of his or her pro rata share of the Merger Consideration; provided, however that Stephen W. Ferrell and the Trust shall be jointly and severally liable to the extent of the pro rata share of the Merger Consideration received by the Trust.

(c) Indemnification Provisions for Benefit of the Stockholders.

In the event Parent or Buyer breaches (or in the event any third party alleges facts that, if true, would mean Parent or Buyer has breached) any of their representations, warranties, and covenants contained in this Agreement, and, if there is an applicable survival period pursuant to (S) 8(a) above or in the event of any third party claim relating to the operation of the business after the Closing, provided that the Stockholders makes a

written claim for indemnification setting forth with specificity the basis for such claim against Parent or Buyer pursuant to (S) 9(g) below within such survival period, then Parent and Buyer jointly and severally agree to indemnify the Stockholders from and against the entirety of any Adverse Consequences (up to but not in excess of the Merger Consideration) the Stockholders may suffer through and after the date of the claim for indemnification (including any Adverse Consequences the Stockholders may suffer after the end of any applicable survival period) resulting from, arising out of, or caused by the breach (or the alleged breach).

(d) Matters Involving Third Parties.

(i) If any third party shall notify any Party (the "Indemnified Party") with respect to any matter ( a "Third Party Claim") which may give rise to a claim for indemnification against any other Party (the "Indemnifying Party") under this (S) 7, then the Indemnified Party shall promptly notify each Indemnifying Party thereof in writing; provided, however, that no delay on the part of the Indemnified Party in notifying any Indemnifying Party shall relieve the Indemnifying Party from any obligation hereunder unless (and then solely to the extent) the Indemnifying Party thereby is prejudiced.

(ii) Any Indemnifying Party will have the right to defend the Indemnified Party against the Third Party Claim with counsel of its choice satisfactory to the Indemnified Party so long as (A) the Indemnifying Party notifies the Indemnified Party in writing within 15 days after the Indemnified Party has given notice of the Third Party Claim that the Indemnifying Party will indemnify the Indemnified Party from and against the entirety of any Adverse Consequences the Indemnified Party may suffer resulting from, arising out of, relating to, in the nature of, or caused by the Third Party Claim, (B) the Indemnifying Party provides the Indemnified Party with evidence reasonably acceptable to the Indemnified Party that the Indemnifying Party will have the financial resources to defend against the Third Party Claim and fulfill its indemnification obligations hereunder, (C) the Third Party Claim involves only money damages and does not seek an injunction or other equitable relief, (D) settlement of, or an adverse judgment with respect to, the Third Party Claim is not, in the good faith judgment of the Indemnified Party, likely to establish a precedential custom or practice materially adverse to the continuing business interest of the Indemnified Party, and (E) the Indemnifying Party conducts the defense of the Third Party Claim actively and diligently.

(iii) So long as the Indemnifying Party is conducting the defense of the Third Party Claim in accordance with (S) 8(d)(ii) above, (A) the Indemnified Party may retain separate co-counsel at its sole cost and expense and participate in the defense of the Third Party Claim, (B) the Indemnified Party will not consent to the entry of any judgment or enter into any settlement with respect to the Third Party

Claim without the prior written consent of the Indemnifying Party (not to be withheld unreasonably).

(iv) In the event any of the conditions in 8(d)(ii) above is or becomes unsatisfied, however, (A) the Indemnified Party may defend against, and consent to the entry of any judgment or enter into any settlement with respect to, the Third Party Claim in any manner it may deem appropriate (and the Indemnified Party need not consult with, or obtain any consent from, any Indemnifying Party in connection therewith), (B) the Indemnifying Parties will reimburse the Indemnified Party promptly and periodically for the costs of defending against the Third Party Claim (including reasonable attorneys' fees and expenses), and (C) the Indemnifying Parties will remain responsible for any Adverse Consequences the Indemnified Party may suffer resulting, arising out of, relating to, in the nature of, or caused by the Third Party Claim to the fullest extent provided in this (S) 8.

(e) Determination of Adverse Consequences. The Parties shall take into account the time cost of money (using the Applicable Rate as the discount rate) in determining Adverse Consequences for purposes of this (S) 8. All indemnification payments under this (S) 8 shall be deemed adjustments to the Merger Consideration.

(f) Post-Closing. Following the Closing, the remedy of the Stockholders, on the one hand, and Parent and the Buyer on the other hand, with respect to any breach or threatened breach of a representation, warranty or covenant contained herein or with respect to any event, circumstance or condition occurring on or before the Closing shall be limited to the enforcement of the indemnification obligations set forth in (S) 8; provided, however, that nothing provided in this (S) 8(f) shall limit the right of any Party to seek any equitable remedy available to enforce his or its rights hereunder in accordance with (S) 9 (n).

#### 9. Miscellaneous.

(a) Press Releases and Public Announcements. Neither the Company nor any Stockholder shall issue any press release or make any public announcement relating to the subject matter of this Agreement without the prior written approval of the Parent. Parent, upon prior notice to the Company, may make any public disclosure it believes in good faith is required or permitted by applicable law or any listing or trading agreement concerning its publicly-traded securities.

(b) No Third-Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any Person other than the Parties and their respective successors and permitted assigns.

(c) Entire Agreement. This Agreement (including the documents referred to herein) constitutes the entire agreement between the Parties and supersedes any prior



understandings, agreements, or representations by or between the Parties, written or oral, to the extent they related in any way to the subject matter hereof.

(d) Succession and Assignment. This Agreement shall be binding upon and inure to the benefit of the Parties named herein and their respective successors and permitted assigns. No Party may assign either this Agreement or any of its rights, interests, or obligations hereunder without the prior written approval of the other Party; provided, however, that the Buyer may (i) assign any or all of its rights and interests hereunder to one or more of its affiliates and (ii) designate one or more of its affiliates to perform its obligations hereunder (in any or all of which cases the Buyer nonetheless shall remain responsible for the performance of all of its obligations hereunder).

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

(f) Headings. The section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement.

(g) Notices. All notices, requests, demands, claims, and other communications hereunder will be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given if (and then two business days after) it is sent by registered or certified mail, return receipt requested, postage prepaid, and addressed to the intended recipient as set forth below:

If to the Company and the Stockholders, to the addresses set forth on Exhibit I  
-----  
hereto.

If to Buyer:

Derrick N. Key  
Roper Industries, Inc.  
160 Ben Burton Road  
Bogart, Georgia 30622  
(706) 369-7170

Copy to: Shanler D. Cronk, Esq.  
Roper Industries, Inc.  
160 Ben Burton Road  
Bogart, Georgia 30622  
(706) 369-7170

Any Party may send any notice, request, demand, claim, or other communication hereunder to the intended recipient at the address set forth above using any other means (including personal delivery, expedited courier, messenger service, telecopy, telex, ordinary mail, or electronic mail), but no such notice, request, demand, claim, or other communication shall be deemed to have been duly given unless and until it actually is received by the intended recipient. Any Party may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other Party notice in the manner herein set forth.

(h) Governing Law. This Agreement shall be governed by and construed in accordance with the domestic laws of the State of California without giving effect to any choice or conflict of law provision or rule (whether of the State of California or any other jurisdiction) that would cause the application of the laws of any jurisdiction other than the State of California.

(i) Amendments and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by each of the Parent, Buyer, the Company and the Stockholders. No waiver by any Party of any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

(j) Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.

(k) Expenses. Buyer and each Stockholder will bear its (his) own costs and expenses (including legal fees and expenses) incurred in connection with this Agreement and the transactions contemplated hereby. The Stockholders shall bear all such expenses incurred by the Company.

(l) Construction. Any reference to any federal, state, local, or foreign statute or law shall be deemed also to refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word "including" shall mean including without limitation. Items set forth in the Company Disclosure Schedule or the Buyer Disclosure Schedule shall be deemed an exception only to the representations and warranties for which they are identified and any other representations or warranties to which the Company Disclosure Schedule or Buyer Disclosure Schedule with respect to representations and warranties contain in appropriate cross-reference.

(m) Incorporation of Exhibits and Schedules. The Exhibits and Schedules identified in this Agreement are incorporated herein by reference and made a part hereof.

(n) Specific Performance. Each of the Parties acknowledges and agrees that the other Party would be damaged irreparably in the event any of the provisions of this Agreement are not performed in accordance with their specific terms or otherwise are breached. Accordingly, each of the Parties agrees that the other Party shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement and to enforce specifically this Agreement and the terms and provisions hereof in any action instituted in any court of the United States or any state thereof having, in accordance with

the terms of this Agreement, jurisdiction over the Parties and the matter, in addition to any other remedy to which it may be entitled, at law or in equity.

(o) Submission to Jurisdiction. Each of the Parties submits to the jurisdiction of any state or federal court sitting in the State of California in any action or proceeding arising out of or relating to this Agreement and agrees that all claims in respect of the action or proceeding may be heard and determined in any such court. Each Party also agrees not to bring any action or proceeding arising out of or relating to this Agreement in any other court. Each of the Parties waives any defense of inconvenient forum to the maintenance of any action or proceeding so brought and waives any bond, surety, or other security that might be required of any other Party with respect thereto. Each Party appoints The Prentice-Hall Corporation System, Inc. (the "Process Agent") as his or its agent to receive on is or its behalf service of copies of the summons and complaint and any other process that might be served in the action or proceeding. Any Party may make service on any other Party by sending or delivering a copy of the process (i) to the Party to be served at the address and in the manner provided for the giving of notices in (S) 9(g) above or (ii) to the Party to be served in care of the Process Agent at the address and in the manner provided for the giving of notices in (S) 9(g) above. Each Party agrees that a final judgment in any action or proceeding so brought shall be conclusive and may be enforced by suit on the judgment or in any other manner provided by law or in equity.

(p) Arbitration. Except as otherwise set forth in this Agreement, all disputes arising out of or under this Agreement shall be settled by arbitration in a location in the State of California mutually acceptable to the Parties before a single arbitrator pursuant to the rules of the American Arbitration Association. Arbitration may be commenced at any time by any of the parties hereto by giving written notice to each other than such dispute has been referred to arbitration under this (S) 9(p). The arbitrator shall be selected by the joint agreement of the Parties, but if they do not so agree within twenty (20) days after the date of receipt of the notice referred to above, the selection shall be made pursuant to the rules from the panels of arbitrators maintained by the American Arbitration Association. Any award rendered by the arbitrator shall be conclusive and binding upon the Parties hereto; provided, however, that any such award shall be accompanied by a written opinion of the arbitrator giving the reason for the award. This provision for arbitration shall be specifically enforceable by the Parties and the decision of the arbitrator in accordance herewith shall be final and binding and there shall be no right of appeal therefrom. The arbitrator shall assess, as part of his award to the prevailing Party, all or such part as the arbitrator deems proper of the arbitration expenses of the prevailing Party (including reasonable attorneys' fees) and of the arbitrator against the Party that is unsuccessful in such claim, defense or objection.

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement on the date first above written.

BUYER  
PMCB Acquisition Corp.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

PARENT  
Roper Industries, Inc.

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

THE COMPANY  
Redlake Imaging Corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

STOCKHOLDERS

THE STEPHEN W. FERRELL REVOCABLE  
FAMILY TRUST

By: \_\_\_\_\_  
Trustee

[signatures continued on following page]

[signatures continued from previous page]

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Galen Collins

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Stephen W. Ferrell

---

Marlin Collins

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John Foley

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Donald Thomas

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Bruce Bastl

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Deborah Robinson

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Garrett Garrettson

-40-

NAME OF SUBSIDIARY -----	STATE OF JURISDICTION OF INCORPORATION -----
Acton Research Corporation	Delaware
Amot Controls Corporation	Delaware
Amot Controls Ltd.	United Kingdom
Amot Controls, S.A.	Switzerland
Amot/Metrix Investment Company	Delaware
Amot Sales Corporation	Delaware
Amot Controls GmbH	Germany
Compressor Controls Corporation (an Iowa Corp)	Iowa
Compressor Controls Corporation (a Delaware Corporation) d/b/a in Iowa as Compressor Controls - CIS/EE)	Delaware
Cornell Pump Company	Delaware
Cornell Pump Manufacturing Corporation	Delaware
Fluid Metering, Inc.	Delaware
FTI Flow Technology, Inc.	Arizona
Gatan International, Inc.	Pennsylvania
Gatan, Inc.	Pennsylvania
Gatan Service Corporation	Pennsylvania
Gatan Limited	United Kingdom
Gatan GmbH	Germany
Herzog-ISL SNC	France
Integrated Designs L.P.	Delaware
ISL Holdings, S.A.	France
ISL International, Inc.	Delaware
ISL Scientifique de Laboratoire - ISL, S.A.	France
Metrix Instrument Co., L.P.	Delaware
Molecular Imaging Corporation	Arizona
Nippon Roper K.K.	Japan
Petrotech, Inc.	Delaware
Petrotech International, Inc.	Louisiana
Petrotech Batam	Indonesia
Petroleum Analyzer Company LP	Delaware
Photometrics GmbH	Germany
Princeton Instruments Limited	United Kingdom
Princeton Instruments SARL	France
Redlake Imaging Corporation	Delaware
Roper Capital Deutschland GmbH	Germany
Roper Fundings KG	Germany
Roper Industries Deutschland GmbH	Germany
Roper Holdings, Inc.	Delaware
Roper Industrial Products Investment Company	Iowa
Roper Industries (Europe) Limited	United Kingdom
Roper Industries Limited	United Kingdom
Roper International, Inc.	Delaware
Roper International Products, LTD	Virgin Islands
Roper Pump Company	Delaware
Roper Scientific B.V.	Netherlands
Roper Scientific MASD, Inc.	Delaware
Roper Scientific, Inc.	Delaware
Turbocontroles de Venezuela	Venezuela
Uson L.P.	Delaware
Walter Herzog GmbH	Germany

[LOGO OF ARTHUR ANDERSEN]

Consent of Independent Public Accountants

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-K, into the Company's previously filed Registration Statement File Nos. 333-36897, 33-71094, 33-77770, 33-78026, and 333-73139.

/s/ Arthur Andersen LLP

Atlanta, Georgia  
January 27, 2000

INDEPENDENT AUDITORS' CONSENT

The Board of Directors  
Roper Industries, Inc.:

We consent to incorporation by reference in the registration statement No.'s 333-36897, 33-71094, 33-77770, 33-78026, and 333-73139 on Form S-8 of Roper Industries, Inc. of our report dated December 4, 1998, relating to the consolidated balance sheet of Roper Industries, Inc. and subsidiaries as of October 31, 1998, and the related consolidated statements of earnings, stockholders' equity and comprehensive earnings, and cash flows for the years ended October 31, 1998 and 1997, and the related schedule for the years ended October 31, 1998 and 1997, which report appears in the October 31, 1999 annual report on Form 10-K of Roper Industries, Inc.

/s/ KPMG LLP

Atlanta, Georgia  
January 24, 2000





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NOV-01-1998  
OCT-31-1999  
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