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To the Honorable Commissioner of Patents and Trademarks: Please receive the attached original documents or copy thereof.

1. Name of conveying party(ies):

1-2-03
Coherent Technologies, Inc.
Lafayette, ColoradoAdditional name(s) of conveying party(ies) attached? ☐ Yes ☒ No

3. Nature of conveyance:

- ☐ Assignment ☐ Merger
☒ Security Agreement ☐ Change of Name
☐ Other _____

Execution Date: December 18, 2002

2. Name and address of receiving party(ies)

Name: First National Bank of Colorado

Internal Address: _____

Street Address: 3033 Iris AvenueCity: Boulder State: CO Zip: 80301-9032Additional name(s) & address(es) attached? ☐ Yes ☒ No

4. Application number(s) or patent number(s):

If this document is being filed together with a new application, the execution date of the application is: _____

A. Patent Application No.(s)

B. Patent No.(s) 5,835,199; 5,815,250;
5,572,541; 5,521,930; 5,237,331Additional numbers attached? ☐ Yes ☒ No

5. Name and address of party to whom correspondence concerning document should be mailed:

Name: John O'Brien, Esq.Internal Address: Kerr Brosseau Bartlett
O'Brien, LLCStreet Address: 1600 Broadway, Suite 1600City: Denver State: CO Zip: 802026. Total number of applications and patents involved: 5

7. Total fee (37 CFR 3.41).....\$ _____

☒ Enclosed☐ Authorized to be charged to deposit account

B. Deposit account number: _____

(Attach duplicate copy of this page if paying by deposit account)

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9. Statement and signature.

To the best of my knowledge and belief, the foregoing information is true and correct and any attached copy is a true copy of the original document.

John O'Brien

Name of Person Signing

[Signature]
SignatureDecember 27, 2002

Date

Total number of pages including cover sheet, attachments, and documents: 53Mail documents to be recorded with required cover sheet information to:
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LOAN AND SECURITY AGREEMENT

BORROWER: Coherent Technologies, Inc., a Colorado Corporation

GUARANTOR: R. Milton Huffaker

LENDER: The First National Bank of Colorado

DATE OF LOAN: December 18, 2002

LOAN AMOUNT: \$5,500,000 Line of Credit
\$1,200,000 Term Loan

**LENDER'S
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LOAN AND SECURITY AGREEMENT

This Loan and Security Agreement ("Agreement") is made and entered into this 18th day of December, 2002, between Coherent Technologies, Inc., a Colorado Corporation whose address is 655 Aspen Ridge Drive, Lafayette, Colorado 80026 ("Borrower"), and the First National Bank of Colorado, whose address is 3033 Iris Avenue, Boulder, Colorado 80301 (the "Bank") collectively, the "Parties").

RECITALS

WHEREAS, Borrower wishes to borrow principal sums from the Bank up to the amount of Six Million Seven Hundred Thousand Dollars (\$6,700,000), and the Bank is willing to lend such sums to Borrower on the terms and conditions herein contained; and

WHEREAS, the Bank has required, and Guarantor has agreed to be a Guarantor of the Liabilities contemplated by this Agreement.

NOW, THEREFORE, in consideration of the foregoing and of the terms and conditions contained in this Agreement, and of any loans or extensions of credit or other financial accommodations heretofore, now, or hereafter made to or for the benefit of Borrower by the Bank, Borrower and the Bank agree as follows:

1. DEFINITIONS.

1.1 General Definitions. When used herein, the following terms shall have the meanings indicated:

"Accounts" shall mean all present and future right to payment of a monetary obligation, whether or not earned by performance, (i) for property that has been or is to be sold, leased, licensed, assigned, or otherwise disposed of, (ii) for services rendered or to be rendered, (iii) for a policy of insurance issued or to be issued, (iv) for a secondary obligation incurred or to be incurred, (v) for energy provided or to be provided, (vi) for the use or hire of a vessel under a charter or other contract, (vii) arising out of the use of a credit or charge card or information contained on or for use with the card, or (viii) as winnings in a lottery or other game of chance operated or sponsored by a State, governmental unit of a State, or person licensed or authorized to operate the game by a State or governmental unit of a State. The term includes health-care-insurance receivables. Accounts shall include the broadest definition permitted under the Code.

"Account Debtor" shall mean the party which is obligated on or under an Account, chattel paper, or a General Intangible.

"Advances" shall mean advances on the Term Note or on the Line of Credit Note, as applicable.

"Affiliate" shall mean any Person (i) the spouse, parent, child, grandchild, or sibling of any individual person, or any relative who lives in the same house with, or who is a

dependent of (under the Internal Revenue Code), such Person (ii) any general or limited partnership or limited liability company in which such Person or any individual identified in clause (i) or entity identified in clauses (iii) or (iv) or (v) is a partner or member or in which any such Person, individual, or entity owns, beneficially or of record, more than 5% of the outstanding membership interest of Borrower; (iii) any corporation in which such Person or any individual identified in clause (i) is a director or officer, or which any such Person, or any individual or entity identified in clause (i) is a director or officer, or in which such Person, or any individual or entity identified in clauses (i), (ii), (iv), or (v) is the owner, beneficially or of record, of 5% or more of the outstanding voting stock; (iv) any trust of which any such Person, or any individual or entity identified in clauses (i), (ii), (iii), or (v) is a trustee or co-trustee or is the holder, beneficially or of record, of a beneficial interest of 5% or more; or (v) any corporation, partnership, limited liability company, trust, or limited partnership or general or other entity controlled by, controlling under, or under common control with, either directly or indirectly, such Person or of the individuals or entities identified in clauses (i) through (iv) above. Affiliate shall also include the Guarantor and all shareholders of Borrower identified in subsection 6.20. Affiliate shall also include, but shall not be limited to all those Persons disclosed in section 6.20.

"Articles of Incorporation" shall mean Borrower's Articles of Incorporation.

"Bank" shall mean the First National Bank of Colorado, its successors and any other person to whom this Agreement may be assigned.

"Borrowing Base" shall mean an amount determined and computed as set forth in subsection 3.4.

"Borrowing Base Certificate" shall mean a certificate in the form attached hereto as Exhibit 1 and made a part hereof, signed as indicated thereon, setting forth the amount of Borrower's Borrowing Base. Borrower acknowledges that the Borrowing Base Certificate form may be modified from time to time as the Bank may require but the substance shall remain the same.

"Business Day" means any day other than (i) a Saturday, Sunday or legal holiday or a day on which banks located in Colorado are required or authorized by law to be closed or (ii) a day on which the New York Stock Exchange is closed.

"Code" unless otherwise provided herein, shall mean the Uniform Commercial Code as adopted in the State of Colorado.

"Collateral" shall mean any and all assets in which the Bank may now or hereafter have a lien or security interest under or pursuant to subsection 5.1 of this Agreement or otherwise to secure the Liabilities.

"Compliance Certificate" means a compliance certificate in substantially the form included in the Borrowing Base Certificate.

"Consolidated Interest Charges" means, for a given period, the total amount of all interest paid by Borrower and any subsidiaries or accrued to Borrower and any subsidiaries, on a

consolidated basis, as reflected on a statement of expenses of the Borrower for such period in accordance with GAAP.

"Consolidated Net Income" means, for any period, the consolidated net income of the Borrower and any subsidiaries, on a consolidated basis, as reflected on a statement of income of the Borrower for such period in accordance with GAAP.

"Consolidated Net Worth" means for any given period the total of the net worth shown on the balance sheet of Borrower and any subsidiaries determined on a consolidated basis in accordance with GAAP.

"CTI Affiliated" shall mean CTI Affiliated, LLC, a Colorado limited liability company, and all of its subsidiaries and divisions.

"CTI Affiliated Intercreditor Agreement" shall mean the Intercreditor Agreement between CTI Affiliated and the Bank of even date with this Agreement and in a form which the Bank shall approve.

"Current Assets" of any Person means the aggregate amount of assets of such Person which in accordance with generally accepted accounting principles may be properly classified as current assets, after deducting adequate reserves where proper, but in no event including any (i) prepaid assets, (ii) amounts receivable from Affiliates of that Person; or (iii) Intangible Assets.

"Current Liabilities" of any Person means (i) all Debt of such Person which is due on demand or within one year from the date of determination thereof, (ii) all amounts due or payable to an Affiliate regardless of when the same shall be due and payable, and (iii) all other items which, in accordance with generally accepted accounting principles, may be properly classified as current liabilities.

"Current Ratio" shall mean, as of any particular date, the ratio of Borrower's consolidated Current Assets, adjusted by deducting prepaid assets, to Borrower's consolidated Current Liabilities which shall include current portion of long-term debt, treating all amounts currently owing to Affiliates as current liabilities, and giving no value as current assets to any amounts currently owing from Affiliates. In determining Current Ratio Intangible Assets shall be treated as having no value. Except as stated herein, Current Ratio shall be determined in accordance with GAAP.

"Debt" means (i) all items of indebtedness or liability which in accordance with generally accepted accounting principles would be included in determining total liabilities as shown on the liabilities side of a balance sheet at the date as of which Debt is to be determined, (ii) indebtedness secured by any mortgage, pledge, lien or security interest existing on property owned by the Person whose Debt is being determined, whether or not the indebtedness secured thereby shall have been assumed, and (iii) guaranties, endorsements (other than for purposes of collection in the ordinary course of business) and other contingent obligations, in respect, or to purchase or otherwise acquired, indebtedness of others.

"Default" shall mean the occurrence or existence of any one or more of the following events:

(a) Borrower fails to pay any principal or interest pursuant to any of the Financing Agreements at the time such principal or interest becomes due or is declared due;

(b) Borrower fails to pay any of the Liabilities when such Liabilities become due or are declared due;

(c) Borrower fails or neglects to perform, keep or observe any of the covenants, conditions, promises or agreements contained in sections 3, 4, 5, 6, 7, 8, 9, or 10 of this Agreement;

(d) Borrower fails or neglects to perform, keep or observe any of the covenants, conditions, promises or agreements contained in this Agreement or in any of the other Financing Agreements;

(e) the amount outstanding under the Line of Credit is in excess of the Borrowing Base for more than ten (10) days after such excess appears on any Borrowing Base Certificate;

(f) any warranty or representation now or hereafter made by or on behalf of Borrower in connection with this Agreement or any of the other Financing Agreements is untrue or incorrect in any material respect, or any schedule, certificate, statement, report, financial data, notice, or writing furnished at any time by or on behalf of Borrower to the Bank is untrue or incorrect;

(g) a judgment in excess of \$100,000 is rendered against Borrower and is not stayed pending appeal;

(h) all or any part of Borrower's assets come within the possession of any receiver, trustee, custodian or assignee for the benefit of creditors of Borrower;

(i) a proceeding under any bankruptcy, reorganization, arrangement of debt, insolvency, readjustment of debt or receivership law or statute is filed against Borrower or any Guarantor of any of the Liabilities or a proceeding under any bankruptcy, reorganization, arrangement of debt, insolvency, readjustment of debt or receivership law or statute is filed by Borrower or any Guarantor of any of the Liabilities, or Borrower or any Guarantor of the Liabilities makes an assignment for the benefit of creditors

(j) Borrower or any Guarantor is enjoined, restrained, or in any way prevented by the order of any court or any administrative or regulatory agency or by the termination or expiration of any permit or license, from conducting all or any material part of Borrower's or Guarantor's business affairs;

(k) Borrower or any Guarantor fails to make any material payment due or otherwise defaults on any other material obligation for borrowed money;

(l) any Guarantor purports to terminate their guaranty or liability or to limit the application thereof to then existing Liabilities; provided, however, that if this is the only Default, the default rate of interest in the Notes shall not apply;

(m) the Bank makes an expenditure under subsection 10.3 of this Agreement which is not repaid by Borrower within five (5) days of demand therefore;

(n) any Guarantor defaults under any of its or his obligation under any Guaranty (including the obligation to provide financial information), security agreement or related document or agreement executed or delivered in connection with this Agreement; and

(o) the Bank in its sole discretion deems itself insecure or that the prospect for repayment of the Liabilities or Borrower's obligations under the Financing Agreements is impaired.

"Documents" shall mean any and all warehouse receipts, bills of lading or similar documents of title relating to goods in which Borrower at any time has an interest, whether now or at any time or times hereafter issued to Borrower or the Bank by any Person, and whether covering Borrower's Inventory or otherwise and shall also mean any Documents as that term is used or defined in the Code.

"EBITDA" means, for any period, Consolidated Net Income for such period before deducting therefrom each of (a) Consolidated Interest Charges for such period, (b) provisions for income taxes, depreciation and amortization in respect of Consolidated Net Income for such period and (c) any other non-cash charges for such period.

"Eligible Accounts" shall have the meaning set forth in subsection 3.2 of this Agreement.

"Eligible Inventory" shall have the meaning set forth in subsection 3.1 of this Agreement.

"Eligible Work in Progress" shall have the meaning set forth in subsection 3.3

"Environmental Laws" shall mean any law, statute, regulation, rule, order, decree, judgment, consent decree, settlement agreement or governmental requirement (including water basin and State Engineer requirements), which relates to or otherwise imposes liability standards of conduct concerning mining or reclamation of mined land or uses of agricultural land, discharges, emissions, releases or threatened releases or noises, odors or any pollutants, contaminants or hazardous or toxic waste, substances or materials, whether as matter or energy, into ambient air, water or land, or otherwise relating to the manufacture, processing, generation, distribution, use, treatment, storage, disposal, cleanup, transport or handling of pollutants, contaminants or hazardous or toxic waste, substances or materials, including (but not limited to) the Comprehensive Environmental Response Compensation and Liability Act of 1976, 42 U.S.C. § 6901, *et seq.*, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended by SARA, 42 U.S.C. §§ 1820 *et seq.*, the Hazardous Materials Transportation

Act, 49 U.S.C. §§ 1810 *et seq.*, the Toxic Substances Control Act, 15 U.S.C. §§ 2601 *et seq.*, the Resource Conservation and Recovery Act, as amended, 42 U.S.C. §§ 9601, *et seq.*, the Clean Water Act, U.S.C. §§ 7412 *et seq.*, the Colorado Hazardous Waste Act, C.R.S. §§ 25-15-101 *et seq.*, the Colorado Underground Storage Tanks Act, C.R.S. §§ 25-18-101 *et seq.*, the Colorado Air Quality Control Act, C.R.S. §§ 25-7-101, *et seq.*, and the Colorado Water Quality Control Act, C.R.S. §§ 25-8-101, *et seq.*, as amended, any "Superfund" or "Superlien" law, the Confined Animal Feeding Operations Control Regulation, any Chemigation Act, any rules and regulations adopted by the Colorado Department of Health, the Colorado Department of Agriculture, the Office of the State Engineer, or by any ground water district or basin, and any other similar federal, state, local and district statute, regulation, rule or ordinance now in effect.

"Environmental Permits" shall mean all permits and licenses required by or pursuant to all applicable Environmental Laws.

"Equipment" shall mean any and all goods, other than Inventory (including, without limitation, equipment, machinery, motor vehicles, implements, tools, parts and accessories) which are now or hereafter owned or acquired by Borrower, together with any and all accessions, parts and appurtenances thereto, and all Equipment as that term is used or defined in the Code.

"Event of Default" shall mean the occurrence or existence of a Default, or the occurrence of a default or event of default under any of the Financing Agreements in existence or hereafter entered into between Borrower, Guarantor, or an Affiliate and the Bank.

"Financing Agreements" shall mean all agreements, instruments and documents, including, without limitation, this Agreement (including all agreements and documents in the forms of exhibits to this Agreement) and all security agreements, loan agreements, promissory notes, letter of credit applications, guaranties, mortgages, deeds of trust, subordination agreements, intercreditor agreements, pledges, powers of attorney, consents, assignments, contracts, notices, leases, financing statements and all other written matter whether heretofore, now, or hereafter executed by or on behalf of Borrower or any Guarantor and delivered to the Bank, together with all amendments, extension, or renewals thereof and modifications thereto, and all agreements and documents referred to therein or contemplated thereby specifically including but not limited to those documents set forth in subsection 5.4.

"Funded Debt/EBITDA" shall mean Borrower's total liabilities excluding accounts arising from the purchase of goods and services in the ordinary course of business, accrued expenses or losses and deferred revenues or gains, less all available cash TO EBITDA (EBITDA is defined above).

"GAAP" shall mean Generally Accepted Accounting Principles.

"General Intangibles" shall mean General Intangibles as that term is used or defined in the Code and all of Borrower's right, title and interest in and to any bank deposit accounts, customer deposit accounts, deposits, rights related to prepaid expenses, negotiable or non-negotiable instruments or securities, chattel paper, causes of action and all other intangible personal property of every kind and nature whether presently owned or hereafter acquired or arising, including, without limitation, corporate or other business records, inventions, designs, patents,

patent applications, trademarks, trade names, trade secrets, goodwill, registrations, copyrights, licenses, franchises, customer lists, tax refunds, tax refund claims, customs claims, guaranty claims, storage agreements or contracts, leasehold interests in real and personal property and any security interests or other security held by or granted to Borrower to secure payment by any Account Debtor of any of the Accounts and all contracts and contract rights.

"Guarantor" shall mean R. Milton Huffaker.

"Hazardous Waste" shall mean hazardous substance, disposal, release, and threatened release, as used in this Agreement, shall have the same meanings as set forth in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. § 9601, *et seq.*, ("CERCLA"), the Superfund Amendments and Reauthorization Act of 1986, Pub. L. No. 99-499 ("SARA"), the Hazardous Materials Transportation Act, 49 U.S.C. § 1801, *et seq.*, the Resource Conservation and Recovery Act, 49 U.S.C. § 6901, *et seq.*, the environmental laws or other applicable state or Federal laws, rules, or regulations adopted pursuant to any of the foregoing.

"Huffaker" shall mean R. Milton Huffaker, an individual.

"Intangible Assets" shall mean goodwill, business records, inventions, designs, patents, patent applications, trademarks, trade names, trade secrets, registrations, copyrights, licenses, franchises, customer lists, co-op memberships, guarantee claims, organization costs, loan costs, tax refunds, tax refund, claims, customs claims, brands, leasehold interests and easements contract rights, and similar intangible assets which have no material realizable value.

"Inventory" shall mean Inventory as that term is used or defined in the Code and any and all goods which shall at any time constitute "Inventory" (as defined in the Code) including, without limitation, goods in transit, wheresoever located, whether now owned or hereafter acquired by Borrower, which from time to time are held for sale or lease, furnished under any contract of service or held as raw materials, work in process or supplies, and all packaging or handling materials (including, without limitation, all pallets, containers, bags, cartons, boxes, wrappers and the like) used or consumed in Borrower's business.

"Investment Property" shall mean all securities, whether certificated or uncertificated, security entitlements, securities accounts, commodity contracts, or commodities accounts. Investment Property shall include the broadest definition permitted by the Code.

"Liabilities" shall mean any and all liabilities, obligations and indebtedness of Borrower to the Bank of any and every kind and nature, whether heretofore, now or hereafter owing, arising, due or payable and howsoever evidenced, created, incurred, acquired or owing, whether primary, secondary, direct, contingent, fixed or otherwise (including obligations of performance) and whether arising or existing under this Agreement or any of the other Financing Agreements, or by operation of law.

"Line of Credit" shall mean the Bank's line of credit loan to Borrower in the original principal amount of \$5,500,000 evidenced by the Line of Credit Note as limited by the requirements of this Agreement and the Financing Agreements.

"Line of Credit Advances" shall mean advances on the Line of Credit Note.

"Line of Credit Note" shall mean the promissory Note in the original principal amount of \$5,500,000 of even date with this Agreement and all extensions and modifications thereto and all renewals thereof.

"Loan Account" shall have the meaning set forth in subsection 2.6.

"Prime Rate" shall mean the Prime Rate quoted for commerce as of 12:00 noon on a given day in the Wall Street Journal.

"Notes" mean the Term Note and the Line of Credit Note, and any extensions and modifications thereto or renewals thereof.

"Person" shall mean any individual, sole proprietorship, partnership, joint venture, trust, unincorporated organization, association, corporation, limited liability company, institution, entity, party or government (whether national, federal, state, provincial, county, city, municipal or otherwise, including, without limitation, any instrumentality, division, agency, body or department thereof).

"Real Property" shall mean the following described real property owned by CTI Affiliated, LLC and located in the County of Boulder, State of Colorado:

Lots 13 and 14, except that portion of said Lot 14 conveyed to the City of Louisville in Deed recorded August 9, 2000 under Reception No. 2068373, Block 1, The Business Centre at C.T.C., County of Boulder, State of Colorado

"Subsidiary" or "Subsidiaries" shall mean, with respect to any Person, a corporation or other entity which shares or similar stock having ordinary voting power to elect a majority of the board of directors or other managers or which shares or similar stock represent a majority of the capital of such corporation or entity are at the time owned, directly or indirectly, through one or more intermediaries, by such person.

"Tangible Net Worth" shall mean, as of a particular date, the difference between (a) Borrower's consolidated Total Assets as they would normally be shown on the balance sheet of Borrower, adjusted by deducting (i) all values attributable to Intangible Assets, and by deducting (ii) Accounts due from Affiliates if the Bank in its sole discretion determines the collection of such accounts to be doubtful or impaired, and (b) Borrower's consolidated total Debts as they would normally be shown on the balance sheet of Borrower, adjusted by adding as liabilities all capitalized leases. The determination of Tangible Net Worth shall be in accordance with GAAP except as stated herein and follows: in determining Tangible Net Worth Intangible Assets shall be treated as having no value.

"Term Loan" shall mean the Bank's loan to Borrower in the original principal amount of \$1,200,000 evidenced by the Term Note as limited by this Agreement and the Financing Agreements.

"Term Note" shall mean the promissory note in the original principal amount of \$1,200,000 of even date with this Agreement and all extensions and modifications thereto and all renewals thereof.

"Term Note Advance" shall mean advances on the Term Note.

"Termination Date" shall mean the date on which all of Borrower's Liabilities have been paid in full and there shall be no further obligation of the Bank to make Advances.

"Total Assets" shall mean, as of a particular date, Borrower's consolidated total assets as they would normally be shown on the balance sheet of Borrower, adjusted by deducting (a) all values attributable to Intangible Assets and by deducting (b) accounts due from Affiliates if the Bank in its sole discretion determines the collection of such accounts to be doubtful or impaired, and by deducting (c) all accumulated depreciation and amortization on Borrower's assets.

"Trailing Twelve Month Fixed Charge Coverage Ratio" shall mean as of any particular date, the ratio of Borrower's total fixed charges to Borrower's total cash flow available averaged over each of the prior twelve months as of the last day of each month, measured in arrears, and giving no value to Intangible Assets.

"Working Capital" shall mean, as of any particular date, the amount of Borrower's consolidated current assets, less Borrower's consolidated current liabilities which shall include current portion of long-term debt, treating all amounts currently owing to Affiliates as current liabilities, and giving no value as current assets to any amounts currently owing from Affiliates if the Bank in its sole discretion determines the collection of such amount to be doubtful or impaired. In determining Working Capital Intangible Assets shall be treated as having no value.

"Work in Progress" shall mean Borrower's uninvoiced work in progress which is the subject of a binding purchase agreement, which is reflected on Borrower's financial statements as "uninvoiced receivables under contract."

1.2 Accounting Terms. Any accounting terms used in this Agreement which are not specifically defined in this Agreement shall have the meanings customarily given them in accordance with generally accepted accounting principles ("GAAP"), as consistently applied as of the date of this Agreement.

1.3 Others Defined in Colorado Uniform Commercial Code. All other terms contained in this Agreement (which are not specifically defined in this Agreement) shall have the meanings set forth in the Code to the extent the same are used or defined therein.

1.4 Interpretation. Unless the context indicates otherwise, words importing the singular include the plural number, and vice versa. Words of any gender include the correlative words of the other genders, unless the sense indicates otherwise.

2. LOANS, LOAN ADVANCES, CREDITS AND FEES.

2.1 Loans and Credits. Subject to all of the terms and conditions contained in this Agreement, the Bank hereby agrees to make the following loans and credits to or for the benefit of Borrower (the "Loans"):

2.1.1 Term Loan. The Term Loan shall be evidenced by and repayable in accordance with the terms of Borrower's Term Note of even date with this Agreement, all terms of which are incorporated herein by this reference. Advances on the Term Note shall be made and shall be used only as follows and only in accordance with the following terms and conditions:

Borrower will use advances under the Term Note only to finance the reasonable and necessary costs to Borrower for long term working capital needs and to finance future reasonable and necessary equipment purchases. Upon request, Borrower will provide the Bank with evidence that the Term Loan Advances are being used in accordance with the purpose stated herein. If the quality and quantity of the equipment purchases are not satisfactory to the Bank in its sole discretion the Bank may not make any additional Term Note Advances. Notwithstanding the foregoing, the Bank will make an initial Term Loan Advance upon Borrower's request in the amount of \$455,000 in reliance upon Borrower's representation and warranty stated in subsection 6.31.

2.1.2 Line of Credit. The Bank hereby agrees to make Line of Credit Note Advances to Borrower from time to time from and after the date of this Agreement, through and including December 18, 2003 (the "Line of Credit Termination Date"), in amounts up to the lesser of (i) Five Million Five Hundred Dollars (\$5,500,000) or (ii) the then current Borrowing Base. The Line of Credit Note Advances shall be evidenced by and repayable in accordance with the terms of Borrower's Line of Credit Note of even date with this Agreement, all terms of which are incorporated herein by this reference. The Bank, in its sole and absolute discretion, may elect to make Line of Credit Note Advances to Borrower in excess of the amounts available pursuant to the terms of this Agreement, and any such Line of Credit Note Advances shall also be governed by the terms hereof, and any such Line of Credit Note Advances shall not be deemed to constitute a waiver of a Default and shall not be construed by Borrower to mean that the Bank has expressly or implicitly agreed to make such Line of Credit Note Advances in the future. The Bank shall also have the option, in its sole discretion and without any obligation to do so, to extend the Line of Credit Termination Date for the making of Line of Credit Note Advances.

2.2 Default Rate. Upon and after an Event of Default Borrower shall, in lieu of the interest rate set forth in the Line of Credit Note and the Term Note to pay the Bank interest from the date of the Event of Default at a per annum rate which is equal to the pre-default rate plus five percentage points (5.000%) ("Default Rate") calculated on the outstanding principal balance of the Liabilities until all of the Liabilities are repaid in full. The triggering of a default rate shall not cure the Default.

2.3 Prepayment. Borrower, may, at any time, prepay any portion or the entire balance of the Liabilities without penalty.

2.4 Purpose. The purpose of the Term Note is to finance long term working capital and to finance equipment purchases. The purpose of the Line of Credit Note is for working capital.

2.5 Loan Fees. Borrower agrees to pay the Bank Twenty Seven Thousand Five Hundred Dollars (\$27,500) for the revolving Line of Credit, and Six Thousand Dollars (\$6,000) for the Term Note, for a total loan fee equal to Thirty Three Thousand Five Hundred Dollars (\$33,500), which shall be fully earned on the date of this Agreement and at the option of the Bank, shall be paid by the Bank initiated Advances pursuant to subsection 2.1 of this Agreement. Borrower shall be responsible for paying all of the Bank's out-of-pocket expenses in connection with the Term Loan and Line of Credit, specifically including, but not limited to all attorneys fees and costs and all other reasonable and necessary loan closing fees and costs.

2.6 Borrower's Loan Account. The Bank shall maintain a loan account ("Loan Account") on its books in which shall be recorded (i) all Line of Credit Note Advances made by the Bank to Borrower pursuant to this Agreement, (ii) all payments made by Borrower on all such Line of Credit Note Advances, (iii) all Term Note Advances made by the Bank to Borrower pursuant to this Agreement, (iv) all payments made by Borrower on all such Term Note Advances and (v) all other appropriate debits and credits as provided in this Agreement, including, without limitation, all fees, charges, expenses and interest. All entries in Borrower's Loan Account shall be made in accordance with the Bank's customary accounting practices as in effect from time to time. Borrower promises to pay the amount reflected as owing by and under its Loan Account and all other obligations hereunder as such amounts become due or are declared due pursuant to the terms of this Agreement.

2.7 Statements. All Term Note Advances and Line of Credit Note Advances to Borrower, and all other debits and credits provided for in this Agreement, shall be evidenced by entries made by the Bank in its internal data control systems showing the date and amount for each such debit or credit. Until such time as the Bank shall have rendered to Borrower written statements of account as provided herein, the balance in Borrower's Loan Account, as set forth on the Bank's most recent printout, shall be rebuttable presumptive evidence of the amounts due and owing the Bank by Borrower. As of the last day of each calendar month or at such other periodic dates which the Bank may determine, the Bank shall, at the Bank's option, mail to Borrower a statement setting forth the balance of Borrower's Loan Account. Each such statement shall be subject to subsequent adjustment by the Bank but shall, absent manifest errors or omissions, be presumed correct and binding upon Borrower and shall constitute an account stated unless, within thirty (30) days after receipt of any statement from the Bank, Borrower shall deliver to the Bank a notice of written objection thereto specifying the error or errors, if any, contained in such statement.

2.8 Commitment Expiration. The Line of Credit shall terminate on December 18, 2003. Any unadvanced portions of the Term Note shall be cancelled on December 18, 2003. However, the Bank may, at its sole option, extend the expiration date without notice to or consent of the Borrower.

2.9 Termination of Agreement. This Agreement will remain in effect unless terminated by the Bank. The Bank shall have the right to terminate this Agreement immediately upon an Event of Default, or upon the repayment in full of all of the Liabilities. Notwithstanding the foregoing, in the event that a proceeding under any bankruptcy, reorganization, arrangement of

debt, insolvency, readjustment of debt or receivership law or statute is filed by or against Borrower or any Guarantor, or Borrower or any Guarantor makes an assignment for the benefit of creditors, the Bank shall have no obligation to make Advances and, subject to the 10 day grace period stated in the Notes all the Liabilities shall be immediately due and payable.

2.10 Repricing. Borrower acknowledges that the rate of interest on the Notes shall be adjusted on January 31, 2003 and as of the end of each three month period thereafter (April 30, July 31, October 31, and January 31) based upon the following as of the immediately preceding 12 month end trailing average:

| <u>Funded Debt/EBITDA</u> | <u>Prime Rate plus the Following:</u> |
|-------------------------------------|---------------------------------------|
| $\geq 3.00:1.00$ | 1% |
| $< 3.00:1.00$, but $\geq 2.5:1.00$ | .5% |
| $2.5:1.00$ | 0% |

3. BORROWING BASE.

3.1 Eligible Inventory. The Bank shall have the right, in the exercise of the Bank's reasonable discretion, to determine whether Inventory is eligible for inclusion in the Borrowing Base at any particular time (such eligible Inventory being hereinafter referred to as "Eligible Inventory"). Without limiting the Bank's right to determine that Inventory does not constitute Eligible Inventory, the following Inventory shall not be Eligible Inventory: (i) Inventory deemed to be out-of-condition or otherwise unmerchantable; (ii) Inventory for which a prepayment has been received, except as permitted by the Bank; (iii) Inventory in the possession of third parties, unless it is Inventory (a) at a location for which the Bank has received a bailee letter satisfactory to the Bank, executed by such third party or (b) covered by negotiable warehouse receipts or negotiable bills of lading issued by either (1) a licensed and bonded warehouseman or (2) a recognized carrier having an office in the United States and in a financial condition reasonably acceptable to the Bank, which receipts or bills of lading designate the Bank directly or by endorsement as the only Person to which or to the order of which the warehouseman or carrier is legally obligated to deliver such goods; and (iv) Inventory which in the Bank's commercially reasonable opinion may be subject to liens or conflicting claims of ownership, whether such liens or conflicting claims are asserted or could be asserted by any Person. In the event that Inventory previously included in the Borrowing Base ceases to be Eligible Inventory, Borrower shall promptly pay to the Bank an amount sufficient to ensure that the Liabilities, other than the Liabilities evidenced by the Term Note and Line of Credit Note, shall at no time exceed the then current Borrowing Base.

3.2 Eligible Accounts. The Bank shall have the right, in the exercise of the Bank's reasonable discretion, to determine whether Accounts are eligible for inclusion in the Borrowing Base at any particular time (such eligible accounts being hereinafter referred to as "Eligible Accounts"). Without limiting the Bank's right to determine that Accounts do not constitute Eligible Accounts, the following Accounts shall not be Eligible Accounts: (i) all Accounts that are unpaid for a period exceeding sixty (60) days after the due date of the original invoice related thereto; (ii) all Accounts owing by an Account Debtor if ten percent (10%) or more of all such Accounts owing by such Account Debtor are at that time unpaid for a period exceeding sixty (60) days after the due date of the original invoice related thereto; (iii) Accounts which arise out of transactions with

Affiliates unless the Bank in its sole discretion has agreed to include that account as an Eligible Account; (iv) Accounts of an Account Debtor that are located outside the United States unless such Accounts are covered by a letter of credit issued or confirmed by a bank acceptable to the Bank; (v) Accounts which are or may be subject to rights of setoff or counterclaim by the Account Debtor to the extent of the setoff or counterclaim; and (vi) Accounts which in the Bank's commercially reasonable opinion may be subject to liens or conflicting claims of ownership, whether such liens or conflicting claims are asserted or could be asserted by any Person. In the event that Accounts previously included in the Borrowing Base cease to be Eligible Accounts, Borrower shall promptly pay to the Bank an amount sufficient to ensure that the Liabilities, other than the Liabilities evidenced by the Term Note shall at no time exceed the then current Borrowing Base.

3.3 Eligible Work in Progress. The Bank shall have the right, in the exercise of the Bank's reasonable discretion, to determine whether Work in Progress are eligible for inclusion in the Borrowing Base at any particular time (such eligible Work in Progress being hereinafter referred to as "Eligible Work in Progress"). Without limiting the Bank's right to determine that Work in Progress does not constitute Eligible Work in Progress, the following Work in Progress shall not be Eligible Work in Progress: (i) all Work in Progress for an Account Debtor if such Account Debtor's obligation to Borrower are at that time unpaid for a period exceeding sixty (60) days after the date of the original invoice related thereto; (ii) Work in Progress which arise out of transactions with Affiliates unless the Bank in its sole discretion has agreed to include that account as an Eligible Account; (iii) Work in Progress which are or may be subject to rights of setoff or counterclaim by the Account Debtor to the extent of the setoff or counterclaim; and (iv) Work in Progress which is not the subject of a binding contract for payment to Borrower by a credit worthy purchaser. In the event that Work in Progress previously included in the Borrowing Base cease to be Eligible Work in Progress, Borrower shall promptly pay to the Bank an amount sufficient to ensure that the Liabilities, other than the Liabilities evidenced by the Term Note shall at no time exceed the then current Borrowing Base.

3.4 Delivery of Borrowing Base Certificates. By the last day of each month, Borrower shall deliver to the Bank a Borrowing Base Certificate as of the last day (or other day acceptable to the Bank) of the immediately preceding month and all Line of Credit Note Advances shall be limited to the Borrowing Base as calculated pursuant to the current Borrowing Base.

3.5 Borrowing Base Calculations. Available Line of Credit Note Advances and the Borrowing Base will be at the following rates:

- | | | |
|----|---|-------------|
| 1. | Accounts Receivable (gross amount) | \$ _____ |
| 2. | Less Ineligible Accounts (greater than 60 days past due date and those under unidentifiable contracts) | \$ _____ |
| 3. | Less Uninsured Foreign Receivables and Foreign Receivables financed (with a lien by a third party lender) | \$(_____) |
| 4. | Eligible Accounts | \$ _____ |
| 5. | Advance Rate 85% | x.85 |

| | | |
|-----|---|-------------|
| 6. | Total Eligible Accounts | A \$ _____ |
| 7. | Eligible U.S. Government Un-invoiced (gross amount) | \$ _____ |
| 9. | Advance Rate 70% | x.70 |
| 10. | Total Eligible U. S. Government Un-invoiced | B \$ _____ |
| 11. | Eligible Commercial and Foreign Governmental Un-invoiced , WIP under contract (gross amount) | \$ _____ |
| 12. | Less Customer Deposits | 0 |
| 13. | Advance Rate 50% | x.50 |
| 14. | Total Eligible Commercial Un-invoiced | C1 \$ _____ |
| 15. | Total Inventory | \$ _____ |
| 16. | Advance Rate 50% | x.50 |
| 17. | Total Eligible Inventory | C2 \$ _____ |
| 18. | Lesser of [Total Eligible Commercial Un-invoiced + | |
| 19. | Total Eligible Inventory] or \$1,500,000 (C1 + C2) | C \$ _____ |
| 20. | TOTAL AVAILABLE COLLATERAL (A+B+C) | \$ _____ |
| 21. | Less: Line of Credit Loan Amount Outstanding | _____ |
| 22. | Remainder Available | _____ |
| 23. | Committed Amount of Line _____ | |

The Bank shall have the right to determine the value of Eligible Inventory, Eligible Accounts, and Eligible Work in Progress which, determination procedure may change from time to time based upon market conditions.

4. CONDITIONS TO ADVANCES.

Notwithstanding any other provisions to the contrary contained in this Agreement, the making of any Term Note Advance or Line of Credit Note Advance shall be conditioned upon the following, and the failure to at all times comply with the following shall constitute a Default:

4.1 The Bank's Execution of Funding Documents. The Bank shall have executed all necessary documents related to the Bank's funding of the Term Loan and the Line of Credit.

4.2 Approval of the Bank's Counsel. Legal matters, if any, relating to each such Advance shall have been reviewed by and shall be satisfactory to counsel for the Bank.

4.3 Compliance. All representations and warranties contained in this Agreement shall be true on and as of the date of the making of such Advance as if such representations and

warranties had been made on and as of such date, and no Event of Default shall have occurred.

4.4 Documentation. Borrower shall have executed and/or delivered to the Bank all of the documents listed in subsection 5.4 and Borrower's Borrowing Base Certificate setting forth the current assets of Borrower eligible for inclusion in the Borrowing Base as of the date of this Agreement. At the time of Borrower's request for a Line of Credit Note Advance, Borrower shall have timely submitted a Borrowing Base Certificate to evidence the increase in Borrower's assets eligible for inclusion in the Borrowing Base and to be supported by the Line of Credit Note Advances.

4.5 Other Conditions Precedent. Borrower shall have satisfied the terms and conditions set forth in section 2 and which require, among other things, a determination by the Bank that Term Note Advances are appropriate in light of the proposed equipment purchases. Term Loan Advances will be made in accordance with the following procedure to which Borrower shall comply: all Equipment purchases shall be made by June 18, 2003, and shall be subject to the requirement of subsection 4.6.

4.6 Loan to Value on Term Loan. Unless waived by the Bank in writing, the amount of the Term Note Advances shall not exceed 70% of the appraised value of new equipment plus 50% of the liquidation value of all other Equipment as reasonably determined by the Bank in its sole discretion.

4.7 Other Conditions Precedent. Borrower shall have satisfied the terms and conditions set forth in section 2 and which require, among other things a determination that Borrower is in compliance with the Borrowing Base.

4.8 Collateral. Borrower shall own all of the Collateral free and clear of all liens and encumbrances.

4.9 Maximum Loan. Unless waived by the Bank in writing, the amount of the Term Note Advances shall not exceed \$1,200,000 and the amount of the Line of Credit Advances will not exceed \$5,500,000.

4.10 Line of Credit Borrowing Base. Line of Credit funding is subject to Borrowing Base limitations set forth in subsection 3.5 less accounts payable drafts in transit, less the amount outstanding on the Line of Credit Note including principal and accrued interest.

4.11 Board of Director's Consent. Borrower shall have obtained and shall have delivered to the Bank Borrower's Board of Director's consent in a form satisfactory to the Bank to approve the Financing Agreements.

4.12 Loan Documents. Borrower and Guarantor shall have executed and delivered to the Bank all loan documents and Financing Agreements requested by the Bank specifically including but not limited to the documents described in subsection 5.4 all of which loan documents and Financing Agreements shall be executed by all parties thereto.

4.13 No Cross Use of Term Note Advances. Advances will be used only for the purposes described in subsection 2.1. Any unused funds of any of the Term Note and Line of Credit Note may not be used, and no advances will be made for any other purpose.

4.14 First Lien. No Term Note Advances or Line of Credit Note Advances will be made unless the Bank has a first perfected lien on all of the Collateral.

4.15 Opinion of Borrower's Counsel. No Term Note advances or Line of Credit advances will be made until the Bank receives an opinion of Borrower's counsel in form and substance acceptable to the Bank in its sole discretion.

5. SECURITY.

5.1 Security Interests and Liens. To secure the payment and performance of the Liabilities, Borrower hereby grants to the Bank (and its successors and assigns) a continuing security interest in and to the following property and interests in property of Borrower, whether now owned or existing or hereafter acquired or arising and wheresoever located:

All Borrower's Accounts, Inventory, Equipment, Contract Rights, General Intangibles, Documents, Investment Property, Instruments, Documents, chattel paper, fixtures, motor vehicles, Deposit Accounts, and all tangible and intangible property whether now owned or hereafter acquired, and wherever located, and all accessions to, substitutions for, and all offspring, replacements, products and proceeds of the foregoing (including, without limitation, proceeds of insurance policies insuring any of the foregoing), all books and records, (including, without limitation, customer lists, credit files, computer programs, printouts and other computer materials and records), and the following specifically described patents:

- (1) Patent No. 5,835,199 for Fiber based ladar transceiver for range/Doppler imaging with frequency comb generator;
- (2) Patent No. 5,815,250 for Doublet pulse coherent laser radar for precision range and velocity measurements;
- (3) Patent No. 5,572,541 for Laser rod assembly for side pumped lasers;
- (4) Patent No. 5,521,930, for Device for injection-seeding, frequency-shifting, and Q-switching a laser source; and
- (5) Patent No. 5,237,331 for Eyesafe Coherent laser radar for velocity and position measurements.

In addition to the foregoing, the Term Note and the Line of Credit Note will also be guarantied by Huffaker. The fixtures will be located on the Real Property.

5.2 Endorsement by the Bank. Borrower hereby authorizes the Bank to endorse, in Borrower's name, any item, however received by the Bank, representing payment on or other proceeds of any of the Collateral.

5.3 Delivery of Warehouse Receipts to the Bank. In the event that any Inventory becomes the subject of a negotiable or non-negotiable warehouse receipt, said warehouse receipt shall be promptly delivered to the Bank with such endorsements and assignments as are necessary to vest title and possession in the Bank. Bank shall return such warehouse receipts to Borrower upon Borrower's request therefor, but only for purposes of negotiation, delivery or exchange in the ordinary course of Borrower's business, and provided, however, that Borrower shall comply with such terms and conditions deemed appropriate by the Bank to secure the return to the Bank of the proceeds of such warehouse receipts, where such return of proceeds would upon payment of an amount equivalent to the value of the Collateral to be sold or removed, such amounts to be paid to the Bank to be applied to Borrower's Liabilities.

5.4 Preservation of Collateral and Perfection of Security Interests Therein. Borrower shall execute and deliver to the Bank, concurrently with the execution of this Agreement, and at any time or times hereafter, and Borrower hereby authorizes Bank to file without Borrower's signature all financing statements or other documents (and pay the cost of filing or recording the same in all public offices deemed necessary by the Bank), as the Bank may request, in a form satisfactory to the Bank, to perfect and keep perfected the Bank's security interest in the Collateral granted by Borrower to the Bank and otherwise to protect and preserve the Collateral and the Bank's security interests therein. Should Borrower fail to do so, the Bank is authorized to sign any and file with or without Borrower's signature such financing statements. Borrower further agrees that a carbon, photographic, photostatic or other reproduction of this Agreement or of a financing statement is sufficient as a financing statement. To perfect the Bank's security interest in any Equipment covered by certificates of title, Borrower shall ensure that all such certificates of title are properly noted or endorsed by the appropriate state officials wherever such notation or endorsement is, in the Bank's sole determination, either permitted or required as a condition to perfection. The loan and security documents and Financing Agreements delivered to the Bank at closing shall include but not be limited to the following all of which shall be properly executed by all parties thereto:

5.4.1. Borrowing Base Certificate dated as of November 30, 2002;

5.4.2 Term Note;

5.4.3 Line of Credit Note;

5.4.4 Financing Statements;

5.4.5 Board of Director's Consent;

5.4.6 United States Department of Commerce U.S. Patent and Trademark Office Form ITO-1595 for each of the 5 patents identified in subsection 5.1;

5.4.7 All Termination of Financing Statements required to terminate any and all liens, rights, and interests of Bank One and its predecessors on, in, or to any of the Collateral;

5.4.8 All other documents which the Bank deems necessary or appropriate to terminate any encumbrances or restrictions on any part of the Collateral; and

5.4.9 An opinion letter of Borrower's counsel directed to the Bank in form and substance acceptable to the Bank in its sole discretion.

Notwithstanding the reference herein to the CTI Affiliated Intercreditor Agreement, the Parties have agreed to not enter into a CTI Affiliated Intercreditor Agreement at this time.

5.5 Loss of Value of Collateral. Borrower shall immediately notify the Bank of any material loss or decrease in the value of the Collateral.

5.6 Collection of Accounts. Upon the Bank's request Borrower shall take all reasonable steps, including the placement of such designations on invoices as may be appropriate, to cause all Account Debtors to make all payments to lockbox at the Bank. Upon an Event of Default, Borrower agrees, upon the Bank's demand, to establish any other lockbox into which Account Debtors shall make payments. Upon an Event of Default, Borrower does hereby irrevocably designate, make, constitute and appoint the Bank (and all Persons designated by the Bank) as Borrower's true and lawful attorney-in-fact, with power, in Borrower's and/or the Bank's name, to: (i) demand payment of Accounts; (ii) enforce payment of Accounts by legal proceedings or otherwise; (iii) exercise all of Borrower's rights and remedies with respect to proceedings brought to collect an Account; (iv) sell or assign any Account upon such terms, for such amount and at such time or times as the Bank deems advisable; (v) settle, adjust, compromise, extend or renew any Account; (vi) discharge and release any Account; (vii) take control in any manner of any item of payment or proceeds of any Account; (viii) prepare, file and sign Borrower's name upon any items of payment or proceeds thereof and deposit the same to the Bank's account on account of the Liabilities; (ix) endorse Borrower's name upon any chattel paper, document, instrument, invoice warehouse receipt, bill of lading, or similar document or agreement relating to any Account or any goods pertaining thereto; (x) sign Borrower's name on any verification of Accounts and notices thereof to Account Debtors; (xi) prepare, file and sign Borrower's name on any proof of claim in bankruptcy or similar proceeding against any Account Debtor; and (xii) do all acts and things which are necessary, in the Bank's sole discretion, to fulfill Borrower's obligations under the Agreement.

5.7 Account Covenants. Borrower shall: (i) promptly upon Borrower's learning thereof, inform the Bank, in writing, of any material delay in Borrower's performance of any of Borrower's obligations to any Account Debtor or of any assertion of any claims, offsets or counterclaims by any Account Debtor; (ii) not permit or agree to any extension, compromise or settlement or make any change or modification of any kind or nature with respect to any Account that results in an adjustment exceeding \$50,000 (including, without limitation, any of the terms relating thereto) without immediately giving notice thereof to the Bank; and (iii) promptly upon Borrower's learning thereof, furnish to and inform the Bank of all material adverse information relating to the financial condition of any Account Debtor if Accounts attributable to such Account Debtor aggregate in excess of \$100,000 or if such information would render such Account no longer an Eligible Account.

5.8 Account Records and Verification Rights. Borrower hereby represents to the Bank that Borrower now keeps and shall at all times hereafter keep correct and accurate records relating to the Accounts and the financial and payment records of the Account Debtors, all of which records shall be available upon demand during Borrower's usual business hours to any of the Bank's officers, employees or agents. Any of the Bank's officers, employees or agents shall have the right at any time or times hereafter, in the Bank's name, to verify the validity, amount or any other matter relating to any Accounts, by mail, telephone, telegraph or otherwise. Borrower shall promptly notify the Bank of any amounts due and owing from an Account Debtor in excess of \$100,000 which are in dispute for any reason.

5.9 Notice to Account Debtors. The Bank may, in the Bank's sole discretion, at any time or times upon or after an Event of Default, and without prior notice to Borrower, notify any or all Account Debtors that the Accounts have been assigned to the Bank and that the Bank has been granted a security interest therein. The Bank may direct any or all Account Debtors to make all payments upon the Accounts directly to the Bank or to a lockbox to be established pursuant to subsection 5.6 of this Agreement.

5.10 Inventory Records. Borrower hereby represents to the Bank that Borrower now keeps and shall at all times hereafter keep correct and accurate records itemizing and describing the kind, type, quality and quantity of Inventory, Borrower's cost therefore and selling price thereof and daily withdrawals therefrom and additions thereto, all of which records shall be available on demand during Borrower's usual business hours to any of the Bank's officers, employees or agents.

5.11 Special Collateral. Immediately upon Borrower's receipt thereof and upon request by the Bank, Borrower shall (except as provided for in subsection 5.3 hereof with regard to warehouse receipts) deliver or cause to be delivered to the Bank, with such endorsements and assignments as are necessary to vest title and possession in the Bank, all chattel paper, instruments and Documents which Borrower now owns or which Borrower may at any time or times hereafter acquire. Borrower shall promptly mark all copies of such chattel paper, instruments and Documents to show that they are subject to the Bank's security interest therein.

5.12 Remittance of Proceeds to the Bank. Except as otherwise provided in subsection 5.6 of this Agreement, in the event any proceeds of any Collateral shall come into the possession of Borrower (or any of Borrower's members, managers, Affiliates, employees, agents or any Persons acting for or in concert with Borrower), Borrower or such Person shall receive, as the sole and exclusive property of the Bank, and as trustee for the Bank, all monies, checks, notes, drafts and all other payments for and/or other proceeds of Collateral, and no later than the first business day following receipt thereof, Borrower shall remit the same (or cause the same to be remitted), in kind, to the Bank or to such agent or agents (at such agent's or agents' designated address or addresses) as are appointed by the Bank for that purpose, to be applied to the Liabilities pursuant to subsection 10.14 of this Agreement.

5.13 Safekeeping of Collateral. Except for conduct constituting willful misconduct, the Bank shall not be responsible for: (i) the safekeeping of the Collateral; (ii) any loss or damage to the Collateral; (iii) any diminution in the value of the Collateral; or (iv) any act or default of any carrier, warehouseman, bailee, forwarding agency or any other Person relating to the Collateral. All

risk of loss, damage, destruction or diminution in value of the Collateral shall be borne by Borrower.

5.14 Sales and Use of Collateral. Except as set forth in this subsection, Borrower shall not sell, lease, transfer or otherwise dispose of any Collateral unless the purchase price for the full value of the Collateral is paid to the Bank and applied to Borrower's Liabilities with the Bank. The Collateral shall not be taken or removed from Borrower's premises, except in the case of Inventory for the purpose of sale, and only if the purchaser thereof pays the purchase price for the full value of the Inventory for application to Borrower's Liabilities. Upon an Event of Default the Collateral shall not be sold or taken or removed from Borrower's premises, except with the prior written consent of the Bank and upon payment of an amount equivalent to the value of the Collateral to be sold or removed, such amounts to be paid to the Bank to be applied to Borrower's Liabilities.

5.15 Cross Collateralization and Cross Defaulted. The Collateral secures the Term Note and the Line of Credit Note such that the Term Note and the Line of Credit Note are cross-collateralized as well as cross defaulted.

6. WARRANTIES.

Borrower represents and warrants that as of the date of the execution of this Agreement, and for so long as there are any Liabilities outstanding, and for so long as the Bank has any obligations under the Loan, and for so long as the Bank has any obligations under the Loan:

6.1 Company Existence and Shares Interests Properly Issued. Borrower is a Colorado corporation duly organized and in good standing under the laws of the State of Colorado, and is duly qualified in Colorado and is duly qualified or in the process of obtaining such qualification as a foreign business and is in good standing in all states where the nature and extent of the business transacted by such Borrower or the ownership of Borrower's assets makes such qualification necessary. All of Borrower's shares have been properly issued, and the issuance of such shares has not violated any member agreement, registration agreement or subscription agreement pertaining to the Borrower. All the outstanding shares which Borrower has issued and which are outstanding are exempt from registration under the Federal Securities Acts of 1933 and 1934 and the rules and regulations promulgated thereunder under Colorado and other applicable states' securities and "Blue Sky" laws. Borrower has the power and authority, and has received the necessary governmental and administrative authority to carry on its business as presently conducted and as proposed to be conducted and to perform this Agreement and the other Financing Agreements and the other material agreements of the Borrower.

6.2 Company Authority. The execution and delivery by Borrower of this Agreement and all of the other Financing Agreements and the performance of Borrower's obligations hereunder and thereunder (i) are within Borrower's powers; (ii) are duly authorized by Borrower's Board of Directors; (iii) are not in contravention of any law or laws, or the terms of Borrower's Articles of Incorporation, or of any indenture, agreement or undertaking to which Borrower is a party or by which Borrower or any of Borrower's property is bound; (iv) do not require any governmental consent, registration or approval not already obtained; (v) do not contravene any contractual or governmental restriction binding upon Borrower; and (vi) will not, except as contemplated or

permitted by this Agreement, result in the imposition of any lien, charge, security interest or encumbrance upon any property of Borrower under any existing indenture, mortgage, deed of trust, loan or credit agreement or other material agreement or instrument to which Borrower is a party or by which Borrower or any of Borrower's property may be bound or affected.

6.3 Binding Effect. This Agreement and all of the other Financing Agreements set forth the legal, valid and binding obligations of Borrower and are enforceable against Borrower in accordance with their respective terms.

6.4 Correctness of Financial Statements. The financial statements delivered by Borrower and Guarantor to the Bank present fairly the financial condition of Borrower and Guarantor, and have been prepared in accordance with generally accepted accounting principles consistently applied. As of the date of such financial statements, and since such date, there has been no material adverse change in the condition or operation of Borrower, nor has Borrower or Guarantor mortgaged, pledged or granted a security interest in or encumbered any of Borrower's or Guarantor's assets or properties since such date except as contemplated by this Agreement. Borrower and Guarantor have no liabilities except as disclosed in their financial statements delivered to the Bank and except as contemplated by this Agreement.

6.5 Litigation and Proceedings. No judgments are outstanding against Borrower or Guarantor, nor is there now pending or threatened any litigation, contested claim, or governmental proceeding by or against Borrower or Guarantor.

6.6 Other Agreements. Upon request Borrower will deliver to the Bank, contains a true and complete list of all written or oral contracts, agreements, commitments, purchase orders, leases, insurance policies and other instruments (including without limitation, all employment agreements) to which Borrower is a party, or to which any Affiliate of the Borrower is a party and which relates to the business of Borrower (such being collectively called the "Contracts"). Borrower has in all respects performed all the obligations required to be performed by it to date and is not in default or alleged to be in default under any of the Contracts and there exists no event, condition or occurrence which, after notice or lapse of time, or both, would constitute a default by it under any of the foregoing. Borrower has furnished to the Bank correct and complete copies of the Contracts. Borrower is not in default under any contract, lease or commitment to which Borrower is a party or by which Borrower is bound. Borrower knows of no dispute, except as previously disclosed to the Bank in writing, relating to any contract, lease, or commitment which is material to the continued financial success and well-being of Borrower. Notwithstanding the foregoing, Borrower shall be under no obligation to deliver copies of contracts which must be kept confidential pursuant to federal law.

6.7 Employee Controversies. There are no controversies pending or threatened between Borrower or any of Borrower's employees.

6.8 Compliance with Laws and Regulations. Borrower is in compliance with all laws, including Environmental Laws, orders, regulations and ordinances of all federal, foreign, state and local governmental authorities relating to the business operations and the assets of Borrower. Borrower has obtained all the necessary licenses, permits and approvals necessary to continue ongoing operations.

6.9 Patents, Copyrights, Trademarks and Trade Names. All of Borrower's patents, copyrights, trademarks and trade names and all of Borrower's applications for any of the foregoing are set forth below, and there is no action, proceeding, claim or complaint pending or threatened to be brought against Borrower by any Person which might jeopardize any of Borrower's interest in any of the foregoing licenses, patents, copyrights, trademarks, trade names or applications:

PATENTS

- (1) Patent No. 5,835,199 for Fiber based ladar transceiver for range/Doppler imaging with frequency comb generator;
- (2) Patent No. 5,815,250 for Doublet pulse coherent laser radar for precision range and velocity measurements;
- (3) Patent No. 5,572,541 for Laser rod assembly for side pumped lasers;
- (4) Patent No. 5,521,930, for Device for injection-seeding, frequency-shifting, and Q-switching a laser source; and
- (5) Patent No. 5,237,331 for Eyesafe Coherent laser radar for velocity and position measurements.

PATENTS PENDING

| <u>TITLE</u> | <u>SUMMARY/SIGNIFICANCE</u> | <u>STATUS</u> |
|--|---|---------------|
| Noncollinearly Pumped Solid-State Raman Laser | Novel method of building solid-state Raman lasers that enables high beam quality output using poor beam quality pump sources. Facilitates the development of compact transmitters. | Filed. |
| Eyesafe Q-Switched Er. Doped Solid-State Laser | Novel method of pumping and building high-energy 1.6 μm Er:YAG (and other material) lasers. | Filed. |
| Power Scalable Waveguide Amplifier and Laser Devices | Self-imaging waveguides are used to build lasers and amplifiers capable of high efficiency, high beam quality, and high energy/power. Enables construction of transmitters that are compact, rugged, and have low parts counts. | Filed. |

| TITLE | SUMMARY/SIGNIFICANCE | STATUS |
|--|---|--|
| Power Scalable Optical System | Second self-imaging waveguide patent that includes both active and passive optical devices. Applications include transmitters, beam transport, and beam pointing. | To be filed in early March, 2003. |
| System for Controlling Optical Linewidth in Nonlinear Processes | Wavelength and linewidth control of optical parametric oscillators and other parametric devices. Useful for applications requiring fixed frequency and tunable infrared output. | To be filed in March, 2003. |
| Optical Displaced Phase Center Antenna | Reduces noise due to Doppler clutter for Doppler radars. | |
| Coherent Laser Radar Atmospheric Turbulence Sensor | Method of detecting and measuring atmospheric turbulence. | Patent filed by AFRL. CTI will have a royalty-free, nonexclusive license to the technology. |
| Hybrid Slab Active Mirror | New design for lasers and amplifiers that uses a very thin active region to minimize thermal gradients and total internal reflection in the gain medium to minimize optical damage. | Patent to be filed by AFRL in March, 2003. CTI will have a royalty-free, nonexclusive license to the technology. |
| Doublet Pulse Coherent Laser Radar for Precision Range and Velocity Measurements | Agile waveform pulsed coherent laser radar. Allows multifunction laser radar systems with extended range performance. Enables range-resolved target vibration and high range resolution winds | PCT application filed. |
| Noncollinearly Pumped Solid-State Raman Laser | Novel method of building solid-state Raman lasers that enables high beam quality output using poor beam quality pump sources. Facilitates the development of compact transmitters. | PCT application in progress. |

6.10 Collateral. Except for the Bank's liens, Borrower owns all of the Collateral free and clear of all security interests, liens, claims, and encumbrances. No goods held by Borrower on consignment or under sale or return contracts have been represented to be Inventory and no accounts receivable by Borrower in respect to the sale of such goods (except markups or commissions which have been fully earned by Borrower) have been represented to be Accounts. Borrower represents that all amounts in the form of ordinary trade payables which are owing to suppliers of any of the Collateral have been paid when due and that none of such suppliers has asserted any interest in the Collateral. Borrower will furnish, at the Bank's request, the names and

addresses of all Persons who supply Inventory or other assets to Borrower or who deliver goods to Borrower on consignment or under sale or return contracts or under grower or growing or feeding agreements.

6.11 Account Warranties. Borrower warrants and represents to the Bank that: (i) except as disclosed to the Bank from time to time in writing, all Accounts which are at any time included in the Borrowing Base or which are reflected on Borrower's financial statements delivered to the Bank pursuant to subsection 7.1 of this Agreement are genuine, in all respects are what they purport to be, have not been reduced to any judgment, are evidenced by not more than one executed original instrument, agreement, contract or document (which, if any, has been delivered to the Bank), and represent undisputed, bona fide transactions completed in accordance with the terms and condition of any document related thereto; (ii) the Accounts have not been sold or pledged to any Person other than the Bank; and (iii) except as disclosed to the Bank from time to time in writing, Borrower has no knowledge of any fact or circumstance which would impair the validity or collectibility of any of the Accounts.

6.12 Location of Assets; Chief Place of Business. The chief operating office of Borrower is located in Boulder County, Colorado, and Borrower's assets (including Inventory and Equipment) are all located in Boulder County, Colorado. As of the execution of this Agreement, the books and records of Borrower, and all of Borrower's chattel paper and records of account are located at the chief administrative office of Borrower located in Boulder County, Colorado. If any change in such location shall occur, Borrower shall promptly notify the Bank of such change.

6.13 Inventory Warranties. Borrower warrants and represents to the Bank that: (i) except for goods covered by Documents which have been delivered to the Bank, and except as promptly disclosed to the Bank from time to time in writing, all Inventory is located on the premises described in subsection 6.12 hereof or is in transit; and (ii) except as promptly disclosed to the Bank from time to time in writing, all Inventory shall be of good and merchantable quality, free from any defects which might affect the market value of such Inventory.

6.14 Solvency. Borrower is solvent, able to pay Borrower's debts generally as such debts mature, and has capital sufficient to carry on Borrower's business and all businesses in which Borrower is about to engage. The saleable value of Borrower's total assets at a fair valuation, and at a present fair saleable value, is greater than the amount of Borrower's total obligations to all Persons. Borrower will not be rendered insolvent by the execution or delivery of this Agreement or of any of the other Financing Agreements or by the transactions contemplated hereunder or thereunder.

6.15 Tax Liabilities. Borrower and Guarantor have filed all federal, state and local tax reports and returns required by any law or regulation to be filed by them and have either duly paid all taxes, duties and charges indicated to be due on the basis of such returns and reports or has made adequate provision for the payment thereof, and the assessment of any material amount of additional taxes in excess of those paid and reported is not reasonably expected. The reserves for taxes reflected on the financial statements of Borrower and Guarantor are adequate for the payment of all Liabilities for all taxes (whether or not disputed) of Borrower and Guarantor accrued through the date of such balance sheet. There are no material unresolved questions or claims concerning any tax liability of Borrower or Guarantor.

6.16 Pension Reform Act. No events, including without limitation, any "Reportable Event" or "Prohibited Transactions," as those terms are defined in the Employee Retirement Income Security Act of 1974, as the same may be amended from time to time (herein, including any and all such amendments, called "ERISA"), have occurred in connection with any defined benefit pension plan (herein called "Pension Plan") of Borrower which might constitute grounds for the termination of any such Pension Plan by the Pension Benefit Guaranty Corporation or for the appointment by the appropriate United States District Court of a trustee to administer any such Pension Plan. All of Borrower's Pension Plans meet, as of the date of the execution hereof, the minimum funding standards of section 302 of ERISA.

6.17 Indebtedness and Payables. Except (i) for the loans from the Bank contemplated by this Agreement; and (ii) as disclosed on the financial statements identified in subsection 7.1 of this Agreement, Borrower has no other indebtedness, contingent obligations or Liabilities, leases, outstanding bonds, letters of credit or acceptances to any other Person or loan commitments from any other Person. Borrower's payables, other than those being contested in good faith by Borrower, are not past due.

6.18 Margin Security. Borrower does not own any margin security and none of the loans advanced hereunder shall be used for the purpose of purchasing or carrying any margin securities or for the purpose of reducing or retiring any indebtedness which was originally incurred to purchase any margin securities or for any other purpose not permitted by Regulations U or G of the Board of Governors of the Federal Reserve System.

6.19 Other Corporate or Fictitious Names. Borrower has not during the preceding five (5) years, been known by any other name except Borrower has done and continues to do business under the trade name "CLR Photonics, Inc."

6.20 Affiliates. Borrower has no Affiliates, other than those Persons disclosed below:

| SHAREHOLDER DISCLOSURE | <u>% OF SHARES</u> | <u>% OF OWNERSHIP</u> |
|---------------------------|--------------------|---------------------------|
| Milton Huffaker | 486,159 | 56.4% |
| Neva Huffaker | 37,947 | 4.4% |
| Vincent Huffaker | 37,947 | 4.4% |
| Sabrina Huffaker | 37,947 | 4.4% |
| Sammy W. Henderson | 91,101 | 10.6% |
| Henderson Family | 37,899 | 4.4% |

BOARD OF DIRECTORS

R. Milton Huffaker
Sammy W. Henderson

6.21 Affiliate and Related Party Disclosures. All Borrower's Affiliates and related parties' business dealings and relationships with Borrower and each other have been disclosed and are as set forth in detail in to the Bank in writing. All Affiliates and related parties' compensation and other income from Borrower during the last 12 months have been disclosed to the Bank in writing. All Affiliates and related parties' anticipated compensation and income from Borrower during the next 12 months have been disclosed to the Bank in writing. Borrower will continuously provide the Bank with ongoing detailed updates of the information concerning Affiliates and related parties immediately upon any request by the Bank. All transactions between Affiliates or related parties and Borrower shall be documented in writing and disclosed in writing in detail to the Bank in advance of the transaction. The disclosure shall provide a detailed description of all relationships directly or indirectly between or concerning Affiliates, including equity and profit interests in or concerning Affiliates by Affiliates, and all profit, compensation, or other transfers paid by Affiliates to Affiliates. No loan proceeds will be paid directly or indirectly to Affiliates or related parties without prior written approval of the Bank. All Borrower's obligations hereunder are continuing. In this regard the Bank acknowledges receipt of the following disclosures: (1) Borrower leases from an Affiliate the premises located at 655 Aspen Drive, Lafayette; (2) Borrower is leasing from an Affiliate the premises located at 135 Taylor Avenue, Louisville; and (3) Borrower has lent \$200,000 to R. Milton Huffaker.

6.22 Survival of Warranties. All representations and warranties contained in this Agreement or any of the other Financing Agreements shall survive the execution and delivery of this Agreement and shall be true from the date of this Agreement until the Liabilities shall be paid in full and the Bank shall cease to be committed to make loans under this Agreement.

6.23 Inventory and Equipment. Descriptions, including serial identification numbers, of all Inventory and Equipment of Borrower, have been disclosed to the Bank in Borrower's financial statements all of which Inventory and Equipment are included in the Bank's Collateral.

6.24 ERISA Plans and Contracts.

(a) Without the Bank's prior written consent, Borrower will not be a party to (or ever maintained or was a party to) any "employee welfare benefit plan," as defined in section 3(1) of the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), or any other written, unwritten, formal or informal plan or agreement involving direct or indirect compensation, other than workers' compensation, unemployment compensation and other government programs, under which the Borrower has any present or future obligation or liability. Borrower does not maintain and is not a party to (or ever maintained or was a party to) any "employee pension benefit plan," as defined in section 3(2) or ERISA, and Borrower does not contribute to (or has ever contributed to) any "multi-employer plan," as defined in section 3(37) of ERISA.

(b) There is no contract, agreement, plan or arrangement covering any employee or former employee of Borrower that, individually or collectively, could give rise to the payment of any amount that would not be deductible by reason of section 280G of the Code.

(c) Upon request, Borrower will disclose to Bank each employment, severance, covenant not to compete, trade secret protection agreement, confidentiality agreement, or other similar contract, arrangement or policy (written or oral) providing for insurance coverage (including any self-insured arrangements), non-statutory workers' compensation, disability benefits, supplemental unemployment benefits, vacation benefits, retirement benefits, deferred compensation, profit-sharing, bonuses, stock options, stock appreciation or other forms of incentive compensation or post-retirement insurance, compensation or benefits entered into, by Borrower.

6.25 Compliance: Licenses, Permits.

(a) Borrower shall have complied and will comply in all respects with the Federal, state, local or foreign laws, ordinances, regulations or orders applicable to the businesses and operations of Borrower. Borrower has all Federal, state, local and foreign governmental licenses and permits which are required for the conduct of the business as presently or previously conducted and as planned to be conducted, which licenses and permits are in full force and effect, and no violations are outstanding or uncured with respect to any such licenses or permits and no proceeding is pending or, to the best knowledge of Borrower threatened to revoke or limit any thereof. Upon the Bank's request, Borrower will disclose to the Bank copies of all federal, state, local, and foreign governmental licenses and permits of Borrower which are used in or relate to the business.

(b) Borrower is not, and will not be under its business plan, in violation of, and none of the facilities or assets of Borrower and the Project as currently used and as contemplated to be used violates, any applicable Environmental Laws and no condition or event has occurred which, with notice or the passage of time or both, would constitute a violation of any Environmental Laws.

(c) Borrower is in possession of all Environmental Permits required under all applicable Environmental Laws for the conduct and operation of the business, and is and will at all times be in compliance with all of the requirements and limitations included in such Environmental Permits.

(d) Borrower is not and will not be responsible, or potentially responsible, for the remediation or cost of remediation of wastes, substances or materials at, on or beneath any facilities or at, on or beneath the Real Property any land adjacent thereto or used in connection therewith.

(e) Borrower is not and will not be the subject of Federal, state, local or private litigation or proceedings involving a demand for damages or other potential liability with respect to violations of Environmental Laws.

(f) Borrower is not and will not be liable, directly or indirectly, in connection with any release of hazardous substance into the environment in violation of

Environmental Laws, nor do there currently exist any facts upon which a finding of such liability could be based.

(g) Borrower has and will comply with the filing and reporting requirements under all applicable Environmental Laws and has maintained all required data, documentation and records under all applicable Environmental Laws.

(h) Borrower will comply with and satisfy all obligations under any spreading and pipe easement agreements, and will not apply effluent upon lands at a rate which could cause any violation of any Environmental Laws.

6.26 Hazardous Substances. Borrower represents and warrants that: (a) During the course of Borrower's business there has been and will be no use, generation, manufacture, storage, treatment, disposal, release or threatened release of any Hazardous Waste or substance by any person on, under, or about any of the Borrower's real property; (b) Borrower has no knowledge of, or reason to believe that there has been or will be, (i) any use, generation, manufacture, storage, treatment, disposal, release, or threatened release of any Hazardous Waste or substance by any occupants of any of the Borrower's real property, or (ii) any actual or threatened litigation or claims of any kind by any person relating to such matters; (c) neither Borrower nor any tenant, contractor, agent or other user of any of the Borrower's real property shall use, generate, manufacture, store, treat, dispose of, or release any Hazardous Waste or substance on, under, or about any of the Borrower's real property; and (d) all activities on, around or pertaining to the Borrower's real property shall be conducted in compliance with all Environmental Laws. Borrower authorizes the Bank and its agents to enter upon the Borrower's real property to make such inspections and tests as the Bank may deem appropriate to determine compliance of the Borrower's real property with this section of the Agreement. Any inspections or tests made by the Bank shall be for the Bank's purposes only and shall not be construed to create any responsibility or liability on the part of the Bank to Borrower or to any other person. The representations and warranties contained herein are based on Borrower's due diligence in investigating the Borrower's real property for Hazardous Waste and compliance with all Environmental Laws. Borrower hereby (a) releases and waives any future claims against the Bank for indemnity or contribution in the event Borrower becomes liable for cleanup or other costs under any Environmental Laws, and (b) agrees to indemnify and hold harmless the Bank against any and all claims, losses, liabilities, damages, penalties, and expenses which the Bank may directly or indirectly sustain or suffer resulting from Borrower's failure to comply with all Environmental Laws or from a breach of this section of the Agreement or as a consequence of any use, generation, manufacture, storage, disposal, release or threatened release occurring prior to or after Borrower's ownership or interest in the Borrower's real property, whether or not the same was or should have been known to Borrower. The provisions of this section of the Agreement, including the obligation to indemnify, shall survive the payment of the indebtedness and the satisfaction of this Agreement and shall not be affected by the Bank's acquisition of any interest in any of the Borrower's real property, whether by foreclosure or otherwise.

6.27 Affiliate Transactions. Except for prior transactions disclosed to the Bank in writing, no current or former Affiliate, stockholder, director, officer, partner or employee of Borrower, is presently, or since the inception of the Borrower has been, directly or indirectly through his, her or its affiliation with any other person, a party to any transaction with the Borrower providing for the furnishing of services by or to, or rental of real or personal property from or to, or

otherwise requiring cash payments to or by any such person unless the Bank has consented thereto in writing.

6.28 Shareholders. All Borrower's Shareholders who own more than five percent of Borrower's outstanding stock and the amount and percent of stock is as set forth in subsection 6.20.

6.29 Cash Flow and Budget. Upon request, Borrower will provide to the Bank Borrower's anticipated Budget for the Borrower's fiscal year commencing on May 1 of each year. Borrower represents and warrants that the cash flow projections are based upon assumptions which the Borrower believes are reasonable. Borrower represents and warrants that it will comply with the Budget at all times.

6.30 Profit Interest. All Persons who have more than a five percent profit interest in Borrower and their share of the profits is as set forth in subsection 6.20.

6.31 Owned Equipment. Borrower represents and warrants that it has carefully reviewed all items of equipment appraised in Roller & Associates' appraisal dated November 6, 2002 resulting in an appraised value of \$910,000, and that all the equipment identified in the appraisal is owned by Borrower free and clear of liens and encumbrances and is not the subject of any equipment leases, similar lease arrangements, purchase money security interests, installment sales contracts, bailments, or similar agreement.

7. AFFIRMATIVE COVENANTS.

Borrower covenants and agrees that so long as any Liabilities remain outstanding and (even if there shall be no Liabilities outstanding) so long as the Bank remains committed to make loans under this Agreement.

7.1 Financial Statements. Except as otherwise expressly provided for in this Agreement, Borrower shall keep proper books of record and account in which full and true entries will be made of all dealings and transactions of or in relation to the business and affairs of Borrower in accordance with generally accepted accounting principles consistently applied. All financial reports to the Bank shall disclose the full amounts of accrued but unpaid dividends or distributions to Borrower's shareholders. Borrower and Guarantor shall cause to be furnished to the Bank and to any participant of the Notes at such addresses as the Bank may from time to time direct, and in a form acceptable to the Bank, such information as the Bank may reasonably request, including, without limitation, the following:

(i) as soon as practicable and in any event within twenty (20) days after the end of each monthly accounting period (a) consolidated and consolidating statements of income and retained earnings of the Borrower, for such monthly period and for the period from the beginning of the then current fiscal year to the end of such monthly period, and a balance sheet of the Borrower as of the end of such monthly period, setting forth in each case, in comparative form, figures for the corresponding periods in the preceding fiscal year, all in reasonable detail and certified as accurate by Borrower or Borrower's agent, subject to changes resulting from normal year-end adjustments, (b) copies of all operating statements for such month prepared by the Borrower, for its internal use, including, without limitation, statements of cash flow, purchases, and

other goods, (c) an aged trial balance of all Accounts and Un-invoiced Accounts Receivable (WIP under contract) of the Borrower indicating which Accounts are thirty (30), sixty (60) and ninety (90) days or greater past due and listing the names of all Account Debtors, and (d) upon the Bank's request, a listing of accounts payable of the Borrower indicating which accounts payable are more than thirty (30) days past due of Borrower;

(ii) as soon as practicable and in any event within ninety (90) days after the end of each fiscal year, audited statements of income, retained earnings and changes in the financial condition of the Borrower for each year, and a balance sheet of the Borrower for such year, setting forth in each case, in comparative form, corresponding figures as of the end of the preceding fiscal year, all in reasonable detail and satisfactory in scope to the Bank and certified to the Bank by such other independent public accountants as are selected by the Borrower and satisfactory to the Bank, whose opinion shall be in scope and substance satisfactory to the Bank:

(iii) as soon as practicable and in any event by the last day of each month a monthly Borrowing Base Certificate for the Borrower computed as of the last day of the preceding month signed by Borrower or Borrower's agent and a Compliance Certificate, provided, however in the event that the Borrowing Base Certificate is not in compliance, Borrower will provide weekly Borrowing Base Certificates as of close of business each Friday, which Certificate will be provided via facsimile transmission and United States mail;

(iv) as soon as practicable and in any event ninety (90) days after the end of each fiscal year, copies of current financial statements for all Guarantors; and

(v) as soon as practicable and in any event thirty (30) days after filing, copies of income tax returns filed by Borrower and Guarantors;

(vi) Borrower and Guarantors shall also provide to the Bank copies of all reports, financial information, applications, registrations, notices, press releases, business plan updates, and all other similar documents contemporaneously when delivered to members, the SEC, or other persons to whom they make such information available; and

(vii) No later than one month prior to the commencement of each fiscal year, Borrower shall provide to the Bank a certificate or certificates of insurance in forms and amounts acceptable to the Bank, and for coverage not less than the types and amounts stated in this Agreement.

7.2 Conduct of Business. Except as contemplated by this Agreement, Borrower shall: (i) maintain Borrower's company's existence and maintain in full force and effect all licenses, bonds, franchises, leases, patents, contracts and other rights necessary or desirable to the profitable conduct of Borrower's business; (ii) continue in, and limit Borrower's operations to, the same general line of business as that presently conducted by Borrower; (iii) comply with all Environmental Laws and with all applicable laws and regulations of any federal, state or local governmental authority; and (iv) keep and conduct Borrower's business separate and apart from the business of Borrower's Affiliates.

7.3 Maintenance of Properties. Borrower shall keep Borrower's real property, leaseholds, equipment and other fixed assets in good condition, repair and working order, normal wear and tear excepted, and shall not allow Borrower's chief place of business or any of the Collateral to be moved from the locations set forth in subsection 6.12 hereof (or to be placed on consignment) without the written consent of the Bank or except in accordance with subsection 5.14. Borrower shall keep the Inventory in good and merchantable condition and shall, as applicable, clean, shelter, store, secure, refrigerate, process and otherwise deal with the Inventory in accordance with the standards and practices adhered to generally by owners, bailees or processors, as applicable, of like properties.

7.4 Borrower's Liability, Fidelity Employee Dishonesty Insurance and Workers' Compensation. Borrower shall maintain, at Borrower's expense, such public liability and property damage insurance as is ordinarily maintained by other companies in similar businesses, specifically including, but not limited to, the following: (a) commercial general liability in an amount not less than \$1,000,000; (b) commercial automotive liability with a limit not less than \$1,000,000 combined single limit and be endorsed to cover owned, hired and non-owned vehicles; and (c) workers' compensation insurance covering all employees in accordance with statutory requirements and including an endorsement for employers' liability coverage. Borrower shall also furnish umbrella liability coverage in excess of the foregoing liability coverage in amounts not less than \$1,000,000 per occurrence and annual aggregate (on a location basis) or such higher limits as the Bank may require. All such policies of insurance shall be in form and with insurers reasonably acceptable to the Bank and copies thereof, together with all amendments and schedules thereto, shall be provided to the Bank within ten (10) days of receipt thereof.

7.5 Borrower's Property Insurance. Borrower shall bear the full risk of loss from any cause of any nature whatsoever in respect to the Collateral. At Borrower's own cost and expense, Borrower shall keep all Collateral insured, with carriers, and in amounts acceptable to the Bank against the hazards of fire, theft, collision, hail, those covered by extended or all risk coverage insurance and such others as may be required by the Bank. Borrower shall cause to be delivered to the Bank, the insurance policies therefore or proper certificates evidencing the same. Such policies shall provide, in manner satisfactory to the Bank, that any losses under such policies shall be payable first to the Bank, as the Bank's interest may appear. Each such policy shall include a provision for thirty (30) days' prior written notice to the Bank of any cancellation or expiration thereof and show the Bank as mortgagee and loss payee as provided in a form of loss payable endorsement in form and substance satisfactory to the Bank. In the event of any loss covered by any such policy, the carrier named in such policy is and shall be directed by Borrower to make payments for such loss to the Bank and not to Borrower. Borrower irrevocably makes, constitutes and appoints the Bank (and all officers, employees or agents designated by the Bank) as Borrower's true and lawful attorney and agent-in-fact for the purpose of making, settling or adjusting claims under such policies of insurance. If payment as a result of any insurance losses shall be paid by check, draft or other instrument payable to the Bank, the Bank may endorse the name of Borrower on such check, draft or other instrument, and may do such other things as the Bank may deem advisable to reduce the same to cash. Except as limited below, all loss recoveries received by the Bank on account of any such insurance may be applied and credited by the Bank to the Liabilities. Borrower hereby assigns all such insurance coverage proceeds to the Bank, as additional collateral security for the Liabilities. Any surplus of insurance proceeds in excess of the Liabilities shall be paid by the Bank to Borrower. Any deficiency reasonably determined by the Bank to exist after

application of insurance proceeds to the Liabilities shall be paid by Borrower to the Bank, on demand. If Borrower fails to procure insurance as provided in this Agreement, or to keep the same in force, or fails to perform any of Borrower's other obligations hereunder, then the Bank may, at the Bank's option, and without obligation to do so, obtain such insurance and pay the premium thereon for the account of Borrower, or make whatever other payments the Bank may deem appropriate to protect the Bank's security for the Liabilities. Any such payment shall be additional Advances and Liabilities of Borrower to the Bank, payable on demand and secured by the Collateral.

7.6 Financial Covenants and Ratios and Capital Expenditures. Borrower shall maintain at all times: (i) a Maximum Debt to Tangible Worth Ratio; (ii) a Minimum Current Ratio; and (iii) a Minimum Trailing Twelve Month Fixed Charge Coverage Ratio in the amounts set forth below:

(a) Maximum Debt to Worth Ratio: Commencing on June 30, 2003 and continuing on each calendar quarter end thereafter Borrower shall maintain a maximum Debt to Worth Ratio of 4:1.

(b) Minimum Current Ratio. Commencing on December 18, 2002 and continuing on each month end thereafter through and until May 30, 2003 Borrower shall maintain a Minimum Current Ratio of 1.1:1. Commencing on June 30, 2003 and continuing on each month thereafter Borrower shall maintain a Minimum Current Ratio of 1.2:1.

(c) Minimum Trailing Twelve Month Fixed Charge Coverage Ratio. Commencing on January 31, 2003 and continuing on the three-month anniversary of each three month period thereafter (May 30, August 31, November 30, and January 31), Borrower shall maintain a Minimum Trailing Twelve Month Fixed Charge Coverage Ratio of 1.25:1 measured quarterly in arrears.

In determining compliance with the foregoing financial covenants: (1) Intangible Assets shall be treated as having no value; and (2) Minimum Trailing Twelve Month Fixed Coverage Charge shall be measured quarterly in arrears.

Borrower shall have until thirty (30) days after quarterly or monthly financial statements are prepared to correct any violations of the maximum Debt to worth ratio and the minimum Trailing Twelve Month Fixed Charge Coverage Ratio financial covenants set forth above.

Borrower shall have until thirty (30) days after the monthly financial statements are prepared to correct any violations of the minimum Current Ratio financial covenant set forth above.

Borrower shall provide to the Bank on a monthly basis (or more often if the Bank shall reasonably request) a certification of continuing compliance with this Agreement and the Financing Agreements and such other certifications, financial information, and production data as the Bank shall reasonably request.

7.7 Pension Plans. Borrower shall: (i) keep in full force and effect any and all Pension Plans which are presently in existence or may, from time to time, come into existence under ERISA, unless such Pension Plans can be terminated without material liability to Borrower in connection with such termination (as distinguished from any continuing funding obligation); (ii) make contributions to all of Borrower's Pension Plans in a timely manner and in an amount sufficient to comply with the requirements of ERISA; (iii) comply with all requirements of ERISA which relate to such Pension Plans; (iv) notify the Bank immediately upon receipt by Borrower of any notice of the institution of any proceeding or other action which may result in the termination of any Pension Plans; and (v) acquire and maintain, when available, the contingent employer liability coverage insurance provided for under section 4023 of ERISA, such insurance to be satisfactory to the Bank in coverage and amount.

7.8 Notice of Suit, Adverse Change in Business or Event of Default. Borrower shall, as soon as possible, and in any event within five (5) days after Borrower learns of the following, give written notice to the Bank of (i) any proceeding being instituted or threatened to be instituted by or against Borrower in any federal, state, local or foreign court or before any commission or other regulatory body (federal, state, local or foreign) for which claimed damages exceed \$100,000; (ii) any material adverse change in the business, assets or condition, financial or otherwise, of Borrower; and (iii) the occurrence of any Event of Default.

7.9 Use of Proceeds. Borrower shall use Advances only for the purposes stated in subsection 2.4 of this Agreement and for no other purpose. No advances will be paid directly or indirectly to Affiliates without the prior written consent of the Bank.

7.10 Hedging Activities. Borrower will have all commodity brokers which maintain accounts for Borrower deliver copies of all regular position reports and all transactional confirmations directly to the Bank in order to substantiate Borrower's hedged position.

7.11 Further Actions. Borrower agrees to take such further actions, including, and without limitation, the execution and delivery of additional documents as may be reasonably necessary to carry out the terms of this Agreement and to permit the Bank to obtain, maintain, or perfect the liens contemplated by this Agreement.

7.12 Consent to Loan Participation. Borrower agrees and consents to the Bank's sale or transfer, whether now or later, of one or more participation interests in the Term Loan and Line of Credit to one or more purchasers, whether related or unrelated to the Bank. The Bank may provide, without any limitation whatsoever, to any one or more purchasers, or potential purchasers, any information or knowledge the Bank may have about Borrower or about any other matter relating to the Loans, and Borrower hereby waives any rights to privacy it may have with respect to such matters. Borrower additionally waives any and all notices of sale of participation interests, as well as all notices of any repurchase of such participation interests. Borrower further waives all rights of offset or counterclaim that it may have now or later against the Bank or against any purchaser of such a participation interest. Borrower unconditionally agrees that any purchaser or assignee of the Bank, may enforce Borrower's obligation under the Loans and all rights under this Agreement, the Financing Agreements, and the Loans.

7.13 Deposit Accounts. Borrower shall maintain all deposit Accounts of any kind or nature at only the Bank. If the Bank shall later consent to Borrower maintaining deposit accounts at other financial institutions, and Borrower shall execute and deliver to the Bank all documents and control agreements as the Bank may require to obtain and maintain a perfected lien thereon with the financial institution.

7.14 Purchase of Materials; Conditional Sales Contracts. No materials, equipment, fixtures, or articles of personal property placed in or incorporated into the Borrower's real property shall be purchased or installed under any security agreement or other agreement whereby the seller reserves or purports to reserve title or the right of removal or repossession, or the right to consider such items as personal property after their incorporation into the Borrower's real property unless otherwise authorized by the Bank in writing. Upon the Bank's request, Borrower shall provide the Bank with a consent from Borrower's landlords to remove the Bank's Collateral from the Borrower's real property.

7.15 Bank's Right of Entry and Inspection. The Bank and its agents shall have at all times the right of entry and free access to the Borrower's real property and the right to inspect the Collateral. the Bank shall have unrestricted access to and the right to copy all records, accounting books, contracts, subcontracts, bills, statements, vouchers, and supporting documents of Borrower relating in any way to the Project and Collateral subject to reasonable biological security restrictions which do not impair the Bank's absolute right to obtain accurate Collateral inspections.

7.16 Indemnity. Borrower shall indemnify and hold the Bank and its assignees harmless from any and all claims asserted against the Bank by any person, entity, or governmental body, or arising out of or in connection with the loans. The Bank shall be entitled to appear in any action or proceeding to defend itself against such claims, and all costs incurred by the Bank in connection with such defense, including attorneys' fees, shall be paid by Borrower to the Bank. The Bank shall, in its sole discretion, be entitled to settle or compromise any asserted claims against it, and such settlement shall be binding upon Borrower for purposes of this indemnification. All amounts paid by the Bank under this paragraph shall be secured by the Collateral, shall be deemed an additional principal Advances under, at the Bank's option, the Term Loan or the Line of Credit payable upon demand, and shall bear interest at the rate applicable to the promissory note under which the advance is made.

7.17 The Bank's Right of Entry and Inspection of Borrower's Administrative Office. The Bank and its agents shall have at all times upon reasonable prior notice the right of entry and free access to the Borrower's administrative offices located in Louisville or Boulder, Colorado and the right to inspect all Collateral. The Bank shall have unrestricted access to and the right to copy all records, accounting books, contracts, subcontracts, bills, statements, vouchers, and supporting documents of Borrower relating in any way to the Collateral.

7.18 Actions. The Bank shall have the right to commence, appear in, or defend any action or proceeding purporting to affect the rights, duties, or liabilities of the parties to this Agreement. In connection with this right, the Bank may incur and pay reasonable costs and expenses, including, but not limited to, attorneys' fees, for both trial and appellate proceedings. Borrower covenants to pay the Bank to on demand all such expenses, together with interest from the date the Bank incurs the expense at the rate specified in the Line of Credit Note, and the Bank is

authorized to make Line of Credit Note Advances for such purposes.

7.19 Regulation U. Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U of the Board of Governors of the Federal Reserve System), and no part of the proceeds of the Loans will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock.

7.20 Other Notices. Borrower shall deliver to Bank the following:

(a) Immediately after the commencement thereof, notice in writing of all litigation where the amount involved is in excess of \$100,000 or seeking injunctive relief and of all proceedings before any governmental or regulatory agency affecting Borrower.

(b) Immediately upon adoption thereof, copies of all amendments to the Bylaws or Articles of Incorporation of Borrower; and

(c) As promptly as practicable (but in any event not later than five (5) calendar days) after Borrower obtains knowledge of the occurrence of any event which constitutes an Event of Default or would constitute an Event of Default with the passage of time.

8. NEGATIVE COVENANTS.

Borrower covenants and agrees that so long as any Liabilities remain outstanding, and (even if there shall be no Liabilities outstanding) so long as the Bank remains committed to make loans under this Agreement.

8.1 Encumbrances. Except for those liens, security interests and encumbrances presently in existence and reflected in Borrower's financial statements referred to in subsection 6.4 hereof and permitted by subsection 6.10, Borrower shall not create, incur, assume or suffer to exist any security interest, mortgage, pledge, lien, levy, assessment, attachment, seizure, writ, distress warrant, or other encumbrance of any nature whatsoever on or with regard to any of Borrower's assets (including, without limitation, the Collateral) other than: (i) liens securing the payment of taxes, either not yet due or the validity of which is being contested in good faith by appropriate proceedings, and as to which Borrower shall, if appropriate under generally accepted accounting principles, have set aside on Borrower's books and records adequate reserves; (ii) liens securing deposits under workmen's compensation, unemployment insurance, social security and other similar laws, or securing the performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases, or securing indemnity, performance or other similar bonds for the performance of bids, tenders, contracts (other than for the repayment of borrowed money) or leases, or securing statutory obligations or surety or appeal bonds, or securing indemnity, performance or other similar bonds in the ordinary course of Borrower's business; (iii) liens and security interests in favor of the Bank; (iv) zoning restrictions, easements, licenses, covenants and other restrictions affecting the use of Borrower's real property, and other liens, security interests and encumbrances on property which are subordinate to the liens and security interests of the Bank and which do not, in the Bank's sole determination (a) materially impair the use of such property or (b) materially

lessen the value of such property for the purposes for which the same is held by Borrower. In particular, and without limitation, Borrower shall not pledge its Accounts to anyone other than the Bank.

8.2 Consolidations, Mergers or Acquisitions, Subsidiaries, Public Offering. Borrower shall not recapitalize or consolidate with, merge with, or otherwise acquire all or substantially all of the assets or properties of any other business or person and shall not create or capitalize any subsidiaries or Affiliates and shall not undertake any Initial Public Offering without the prior written consent of the Bank.

8.3 Deposits, Investments, Advances or Loans. Borrower shall not make or permit to exist deposits, investments, advances or loans (other than loans existing on the date of the execution of this Agreement and disclosed to the Bank in writing) to Affiliates or any other Person, except: (i) investments in negotiable certificates of deposit issued by the Bank, made payable to the order of Borrower; and (ii) demand deposits not to exceed \$100,000 in the aggregate without the prior written consent of the Bank.

8.4 Indebtedness. Except for those obligations and that indebtedness presently in existence and reflected in Borrower's and Guarantor's financial statements Borrower, shall not incur, create, assume, become or be liable in any manner with respect to, or permit to exist, any obligations or indebtedness, direct or indirect fixed or contingent at any time, except: (i) the Liabilities; (ii) obligations secured by liens or security interests permitted under subsection 8.1 hereof; and (iii) trade obligations and normal accruals in the ordinary course of Borrower's business not yet due and payable. Borrower shall not permit to exist any other depository account for the receipt of prepayments of any type whatsoever.

8.5 Guaranties and Other Contingent Obligations. Borrower shall not guaranty, endorse or otherwise in any way become or be responsible for obligations of any other business or Person, whether by agreement to purchase the indebtedness of such business or Person or through the purchase of goods, supplies or services, or maintenance of working capital or other balance sheet covenants or conditions, or by way of stock purchase, capital contribution, advance or loan for the purpose of paying or discharging any indebtedness or obligation of such business or Person or otherwise unless such guaranty is for the use of the Bank or its assigns.

8.6 Disposition of Property. Borrower shall not without the Bank's prior written consent sell, lease, transfer or otherwise dispose of any of its properties, assets or rights, to any Person in excess of \$10,000 in any of their fiscal years, except in the ordinary course of their business and then only in accordance with subsection 5.14.

8.7 Managerial Fees, Compensation of Affiliates. Borrower shall not pay any management or similar fees whatsoever and shall not directly or indirectly pay unreasonable compensation (including salary, bonus, management fees and incentive compensation of any type) to any Affiliate and shall not make any payments after January 31, 2003 under the May 1, 1995 lease with an Affiliate.

8.8 Redemption. With respect to shareholders who are not Affiliates, Borrower shall not directly or indirectly redeem any of Borrower's shareholders' stock in the aggregate amount

exceeding \$100,000 in any calendar year without the prior written consent of the Bank. Borrower shall not redeem any of Borrower's stock owned by Affiliates without the prior written consent of the Bank.

8.9 Loans to Affiliates or Members. Borrower shall not make any loans to any Affiliates or to any of Borrower's members or related parties without the prior written consent of the Bank.

8.10 Dividends, Redemptions, Debt. Borrower shall not directly or indirectly: (i) with respect to shareholders who are not Affiliates, redeem any of Borrower's stock in the aggregate amount exceeding \$100,000 in any calendar year; (ii) declare any dividends or distributions on account of Borrower's stock; (iii) prepay any principal, interest or other payments on or in connection with any indebtedness of Borrower other than the Loans without the prior written consent of the Bank; or (iv) redeem any of Borrower's stock owned by Affiliates without the prior written consent of the Bank.

8.11 Issuance and Transfer of Stock. Borrower's stockholders as stated in subsection 6.20 will not change without the Bank's prior written consent.

8.12 Intentionally Omitted. None.

8.13 Use of Corporate or Fictitious Names. Borrower shall not use any other corporate or fictitious name other than CLR Photonics, Inc.

8.14 Environmental Laws. Borrower shall not cause or contribute to any noncompliance with all applicable Environmental Laws.

8.15 Future Expansion. Except as contemplated in this agreement Borrower shall not engage in building expansion without the prior written consent of the Bank.

8.16 Loans, Acquisitions, Guaranties, Other Businesses. Borrower will not (a) loan money or assets, (b) purchase or acquire any interest in any other enterprise or entity, (c) incur any obligation as surety or guarantor, (d) engage in any business activities substantially different than those in which they are presently engaged, or (e) incur any new debt without the prior written consent of the Bank.

8.17 Payables and Payment of Debt. Borrower will pay all bills and payables in the ordinary course of business.

8.18 Payments to Affiliates. Except for rent payable pursuant to the Lease Agreement between Borrower and CTI Affiliated dated May 1, 1995 and November 24, 2001, Borrower shall make no payments, transfers, dividends, distributions, or draws whatsoever to Affiliates without the prior written consent of the Bank.

9. DEFAULT, RIGHTS AND REMEDIES OF THE BANK.

9.1 Liabilities. Upon an Event of Default, any or all of the Liabilities may, at the

option of the Bank, and without demand or notice of any kind, be declared, and thereupon shall become, immediately due and payable in full, and the Bank shall cease to be committed to make Advances under this Agreement.

9.2 Rights and Remedies Generally. Upon an Event of Default, the Bank shall have, in addition to any other rights and remedies contained in this Agreement or in any of the other Financing Agreements, all of the rights and remedies of a secured party under the Code, state, federal, or other applicable laws, all of which rights and remedies shall be cumulative and non-exclusive, to the extent permitted by law and which rights and remedies shall include but not be limited to the right to sell the Collateral so the net proceeds therefrom can be applied to the Liabilities. In addition, upon an Event of Default the Bank shall be entitled to the appointment of a receiver for all or any portion of the Collateral, and the Bank shall be entitled to the appointment of such receiver without regard to the solvency or insolvency of Borrower and without regard to the value of the Collateral, and such receiver may be appointed by any court of competent jurisdiction upon ex parte application — notice being expressly waived hereby — and all rents, issue, income, profits and proceeds of and from the Collateral shall be paid to the receiver according to the directions of the Court for application toward the Liabilities. In addition to all such rights and remedies, the sale, lease or other disposition of the Collateral, or any part thereof, by the Bank after an Event of Default, may be for cash, credit or any combination thereof, and the Bank may purchase all or any part of the Collateral at public or private sale, and in lieu of actual payment of such purchase price, may setoff the amount of such purchase price against the Liabilities then owing. Any sales of the Collateral may involve the sale of portions of the Collateral at different times, and at different locations, and may, at the Bank's option be held at a site or sites different from the site at which the Collateral (or any part thereof) is located. The Bank may, in its sole discretion, cause the Collateral to remain on Borrower's premises, at Borrower's expense, pending sale or other disposition of the Collateral. The Bank shall have the right to conduct such sales on Borrower's premises, at Borrower's expense, or elsewhere, on such occasion or occasions as the Bank may see fit. The foregoing terms of disposition shall be deemed to be commercially reasonable.

9.3 Entry Upon Premises. Upon an Event of Default, the Bank shall have the right to enter upon the Borrower' real property and other locations of Borrower's business at which any of the Collateral is located (or is believed to be located) without incurring any obligation to pay rent to Borrower or Borrower's landlords, or any other place or places where the Collateral is located (or is believed to be located) and kept, and remove the Collateral therefrom to the premises of the Bank or any agent of the Bank, for such time as the Bank may desire, in order to effectively collect or liquidate the Collateral, or the Bank may require Borrower to assemble the Collateral and make it available to the Bank at a place or places to be designated by the Bank. Borrower expressly agrees that the Bank may, if necessary to gain occupancy to the premises at which Collateral is located (or is believed to be located), without further notice to Borrower: (i) hire Borrower's employees to assist in the loading and transportation of such Collateral; and (ii) utilize Borrower's equipment for use in such operation. Borrower agrees that any such actions authorized by this subsection 9.3 shall be deemed to have been authorized and not a breach of the peace.

9.4 Sale of other Disposition of Collateral by the Bank. Any notice required to be given by the Bank of a sale, lease or other disposition or other intended action by the Bank with respect to any of the Collateral which is deposited in the United States mail, postage prepaid and duly addressed to Borrower at the address specified in subsection 10.19 hereof, at least ten (10)

days prior to such proposed action, shall constitute fair and reasonable notice to Borrower of any such action, provided, however that the Bank shall not be obligated to provide such ten (10) days notice and a sale on less than ten (10) days notice shall not be deemed to not be commercial reasonable. The net proceeds realized by the Bank upon any such sale or other disposition, after deduction for the reasonable expense of retaking, holding, preparing for sale, selling or the like, and the reasonable attorneys' and paralegal fees and legal expenses incurred by the Bank in connection therewith, shall be applied as provided herein toward satisfaction of the Liabilities. Borrower shall remain liable for any deficiency. The commencement of any action, legal or equitable, or the rendering of any judgment or decree for any deficiency, shall not affect the Bank's security interest in the Collateral until the Liabilities shall have been paid in full.

9.5 Waiver of Demand. Demand, presentment, protest and notice of nonpayment are hereby waived by Borrower. Borrower also waives the benefit of all exemption laws.

9.6 Waiver of Notice. Upon an Event of Default, Borrower hereby waives all rights to notice and hearing of any kind prior to the exercise by the Bank of the Bank's rights to repossess the Collateral without judicial process or to replevy, attach or levy upon the Collateral without prior notice or hearing to the extent permitted by applicable law.

9.7 Additional Remedies. Upon the occurrence of any Event of Default, the Bank shall, in addition to all other remedies conferred by law and by the terms of the Financing Agreements, have the right but not the obligation to pursue any one or more of the following remedies, concurrently or successively, it being the intent hereof that all such remedies shall be cumulative and that no such remedy shall be to the exclusion of any other:

(i) Take any action which, in the Bank's sole judgment, is necessary or appropriate to effect observance and performance of the Liabilities, or any of them. Without limiting the generality of the foregoing, and for the purpose aforesaid, upon the occurrence of an Event of Default, Borrower hereby irrevocably appoints and constitutes the Bank its lawful attorney in fact with full power of substitution, and agrees that the Bank shall be entitled to (A) pay, settle or compromise all existing bills and claims the nonpayment of which might result in liens against the Collateral or take such other action as the Bank shall determine to prevent such bills and claims from resulting in liens against the Collateral, (B) execute all applications and certificates which may be required by any of the Financing Agreements, (C) prosecute and defend all actions or proceedings connected with or relating to the Collateral, (D) take possession of and operate the Collateral and (E) do any and every act which Borrower might do in its own behalf, it being understood and agreed that the foregoing power of attorney shall be a power coupled with an interest and cannot be revoked;

(ii) Use and apply the cash collateral, or any part thereof, and any other monies deposited by Borrower under the Financing Agreements, regardless of the purpose for which the same was deposited, to cure any default or to apply on account of any Liabilities under this Agreement or any of the other Financing Agreements which is due and owing to the Bank in such order as the Bank may elect;

(iii) The Bank may offset deposits of Borrower held by the Bank against sums due hereunder or against all Liabilities of Borrower whether or not then due;

(iv) Borrower authorizes the Bank to charge any of Borrower's accounts or other funds in its possession for the payment of our obligations to the Bank under this Agreement. Borrower further authorizes the Bank to debit any of its accounts or other funds in the possession of the Bank's agents, correspondents or Affiliates for the payment of Borrower's obligations to it under this Agreement and hereby holds the Bank and its agents, correspondents and affiliates and all officers thereof, harmless from the consequences or results of such debit.

(v) Exercise or pursue any other right or remedy permitted under this Agreement or any of the other Financing Agreements or conferred upon the Bank by operation of law or in equity.

10. MISCELLANEOUS.

10.1 Timing of Payments. For purposes of determining the outstanding balance of the Liabilities, including the computations of interest which may from time to time be owing to the Bank, the receipt by the Bank of any check or any other item of payment whether through any account or lockbox described in subsection 5.6 of this Agreement or otherwise, shall not be treated as a payment on account of the Liabilities until such check or other item of payment is actually received by the Bank and is paid to the Bank in cash or a cash equivalent. The credit given for any such check subsequently dishonored shall be reversed.

10.2 Attorneys' Fees and Costs. If at any time or times hereafter the Bank employs counsel in connection with protecting or perfecting the Bank's security interest in the Collateral or in connection with any matters contemplated by or arising out of this Agreement, whether: (i) to commence, defend, or intervene in any litigation or to file a petition, complaint, answer, motion or other pleading; (ii) to take any other action in or with respect to any suit or proceeding (bankruptcy or otherwise); (iii) to consult with officers of the Bank to advise the Bank or to draft documents for the Bank in connection with any of the foregoing or in connection with any release of the Bank's claims or security interests or any proposed extension, amendment or refinancing of the Liabilities or in connection with any proposed change in Borrower's corporate structure or existing agreements within its shareholders or the proposed issuance of additional stock by Borrower or any proposed initial public offering by Borrower; (iv) to protect, collect, lease, sell, take possession of, or liquidate any of the Collateral; (v) to attempt to enforce or to enforce any security interest in any of the Collateral, or to enforce any rights of the Bank to collect any of the Liabilities; or (vii) in connection with any additional loans to Borrower by the Bank or any other creditor or potential creditor; then in any of such events, all of the attorneys' fees arising from such services, and any expenses, costs and charges relating thereto, including, without limitation, all fees of all paralegals, legal assistants and other staff employed by such attorneys, together with interest at the Default Rate provided for in subsection 2.2 hereof if an Event of Default has occurred, or at the highest interest rate set forth in the Line of Credit Note, shall constitute additional Liabilities, payable on demand and secured by the Collateral.

10.3 Expenditures by the Bank. In the event that Borrower shall fail to pay taxes, insurance, assessments, costs or expenses which Borrower is, under any of the terms hereof or of any of the other Financing Agreements, required to pay, or fails to keep the Collateral free from other security interests, liens or encumbrances except as permitted herein, the Bank may, in the

Bank's sole discretion and without obligation to do so, make expenditures for any or all of such purposes, and the amount so expensed, together with interest at the Default Rate provided for in subsection 2.2 hereof, shall constitute additional Liabilities, payable on demand and secured by the Collateral.

10.4 The Bank's Costs and Expenses as Additional Liabilities. Borrower shall reimburse the Bank for all reasonable expenses and fees paid or incurred in connection with the documentation, negotiation and closing of the Loans and other financial accommodations described in this Agreement, including, without limitation, filing and recording fees, and the reasonable fees and expenses of the Bank's attorneys. Borrower further agrees to reimburse the Bank for all reasonable expenses and fees paid or incurred in connection with the documentation of any renewal or extension of the Loans, any additional financial accommodations, or any other amendments to this Agreement. All such costs and expenses incurred by the Bank with respect to such negotiation and documentation together with interest at the highest interest rate set forth in the Line of Credit Note, shall constitute additional Liabilities, payable on demand and secured by the Collateral.

10.5 Claims and Taxes. Borrower agrees to indemnify and hold the Bank harmless from and against any and all claims, demands, liabilities, losses, damages, penalties, costs, and expenses (including, without limitation, reasonable attorneys' fees) relating to or in any way arising out of the possession, use, operation or control of any of Borrower's assets. Borrower shall pay or cause to be paid all license fees, bonding premiums and related taxes and charges, and shall pay or cause to be paid all of Borrower's real and personal property taxes, assessments and charges and all of Borrower's franchise, income, unemployment, use, excise, old age benefit, withholding, sales and other taxes and governmental charges assessed against Borrower, or payable by Borrower, at such times and in such manner as to prevent any penalty from accruing or any lien or charge from attaching to Borrower's property.

10.6 Custody and Preservation of Collateral. The Bank shall be deemed to have exercised reasonable care in the custody and preservation of any of the Collateral in the Bank's possession if the Bank takes such action for that purpose as Borrower shall request in writing, but failure by the Bank to comply with any such request shall not of itself be deemed a failure to exercise reasonable care, and no failure by the Bank to preserve or protect any right with respect to such Collateral against prior parties, or to do any act with respect to the preservation of such Collateral not so requested by Borrower, shall of itself be deemed a failure to exercise reasonable care in the custody or preservation of such Collateral.

10.7 Inspection. The Bank (by and through its officers and employees), or any person designated by the Bank in writing, shall have the right, from time to time hereafter, to call at Borrower's place or places of business (or any other place where Collateral or any information relating thereto is kept or located) without hindrance or delay upon reasonable advance notice, to (i) inspect, audit, check and make copies of and extracts from Borrower's books, records, journals, order, receipts and any correspondence and other data relating to Borrower's business or to any transactions between the parties to this Agreement; (ii) make such verification concerning the Collateral as the Bank may consider reasonable under the circumstances; and (iii) review operating procedures, review maintenance of property and discuss the affairs, finances and business of Borrower with Borrower's officers, employees, and customers, vendors and contractors of Borrower. Borrower shall pay, on demand, all reasonable expenses incurred by or on behalf of the

Bank in making inspections under this subsection, including, without limitation, travel and photocopying expenses, which expenses, at the option of the Bank shall be paid by the Bank initiated Advances pursuant to subsection 2.1 of this Agreement.

10.8 Examination of Banking Records. Borrower consents to the examination by the Bank, the Bank's officers, employees and agents, or any of them, whether or not there shall have occurred an Event of Default, of any and all of Borrower's banking records, wherever they may be found, and hereby directs any Person which may be in control or possession of such records (including, without limitation, any bank, other financial institution, accountant or lawyer) to provide such records to the Bank and the Bank's officers, employees, partners, and agents, upon their request. Such examination may be conducted by the Bank with or without notice to Borrower at the option of the Bank, any such notice being hereby waived by Borrower.

10.9 Governmental Reports. Borrower hereby authorizes all duly constituted federal, state and municipal authorities to furnish to the Bank copies of their reports of examinations or inspections of Borrower.

10.10 Reliance by the Bank. All covenants, agreements, representations and warranties made herein by Borrower shall, notwithstanding any investigation by the Bank, be deemed to be material to and to have been relied upon by the Bank.

10.11 Parties. Whenever in this Agreement there is reference made to any of the parties hereto, such reference shall be deemed to include, wherever applicable, a reference to the respective successors and assigns of Borrower and the Bank.

10.12 Applicable Law Severability. This Agreement shall be construed in all respects in accordance with, and governed by, the laws and decisions of the State of Colorado. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Agreement.

10.13 Agreement to Arbitrate. Borrower or the Bank may submit to arbitration any dispute, claim, or other matter in question between or among Borrower and the Bank that arises out of or relates to this Agreement, the Notes, the Loans, and the other Financing Agreements, (Dispute), except as otherwise indicated in this subsection or as Borrower and the Bank agree to in writing. Borrower or the Bank will not arbitrate any Dispute within any "core proceedings" under the United States bankruptcy laws. Borrower and the Bank must consent to arbitrate any Dispute concerning a debt secured by real estate at the time of the proposed arbitration. Borrower may foreclose or exercise any powers of sale against the Collateral securing a debt underlying any Dispute before, during, or after an arbitration. Borrower may also enforce the debt secured by the Collateral and underlying the Dispute before, during or after an arbitration. Borrower or the Bank may seek provisional remedies at any time from a court having jurisdiction to preserve the rights of or to prevent irreparable injury to Borrower or the Bank. Foreclosing or exercising a power of sale, beginning and continuing a judicial action or pursuing self-help remedies will not constitute a waiver of the right to compel arbitration. The arbitrator will determine whether a dispute is

arbitrable. A single arbitrator will resolve any Dispute, whether individual or joint in nature, or whether based on contract, tort, or any other matter at law or in equity. The arbitrator may consolidate any Dispute with any related disputes, claims, or other matters in question not arising out of this Agreement and the other Financing Agreements. Any court having jurisdiction may enter judgment or decree on the arbitrator's award. The judgment or decree will be enforced as any other judgment or decree. Borrower and the Bank acknowledge that the agreements, transactions, or the relationships which result from the Financing Agreements or transactions between and among Borrower and the Bank involve interstate commerce. The United States Arbitration Act will govern the interpretation and enforcement of this section. The American Arbitration Association's Commercial Arbitration Rules, in effect on the date of this Agreement, will govern the section of the arbitrator and the arbitration process, unless otherwise agreed to in this Agreement or another writing.

10.14 Application of Payments Waiver. Notwithstanding any contrary provision contained in this Agreement or in any of the other Financing Agreements, Borrower irrevocably waives the right to direct the application of any and all payments at any time or times hereafter received by the Bank from Borrower and any Guarantor or with respect to any of the Collateral, and Borrower hereby irrevocably agrees that the Bank shall have the continuing exclusive right to apply and reapply any and all payments received at any time or times hereafter, whether with respect to the Collateral or otherwise, against the Liabilities, in such manner as the Bank may deem advisable, notwithstanding any entry by the Bank upon any of the Bank's books and records.

10.15 Marshalling Payments Set Aside. The Bank shall be under no obligation to marshal any assets in favor of Borrower or Guarantor or against or in payment of any or all of the Liabilities. To the extent that Borrower or Guarantor make a payment or payments to the Bank or the Bank receives any payment or proceeds of the Collateral for the benefit of Borrower or Guarantor or enforces the Bank's security interests or exercises the Bank's rights of setoff, and such payment or payments or the proceeds of such Collateral, enforcement or setoff or any part thereof are subsequently invalidated, declared to be fraudulent or preferential, set aside and/or required to be repaid to a trustee, receiver or any other party under any bankruptcy law, state or federal law, common law or equitable cause, then to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such enforcement or setoff had not occurred.

10.16 Section Titles. The section title contained in this Agreement shall be without substantive meaning or content of any kind whatsoever and are not a part of the agreement between the parties.

10.17 Continuing Effect. This Agreement, the Bank's security interests in the Collateral, and all of the other Financing Agreements shall continue in full force and effect so long as any Liabilities shall be owed to the Bank and (even if there shall be no Liabilities outstanding) so long as the Bank remains committed to make Advances under this Agreement.

10.18 No Waiver. The Bank's failure, at any time or times hereafter, to require strict performance by Borrower or Guarantor of any provision of this Agreement shall not waive, affect or diminish any right of the Bank thereafter to demand strict compliance and performance therewith. Any suspension or waiver by the Bank of any Event of Default under this Agreement or

any of the other Financing Agreements, shall not suspend, waive or affect any other Event of Default under this Agreement or any of the other Financing Agreements, whether the same is prior or subsequent thereto and whether of the same or of a different kind or character. None of the undertakings, agreements, warranties, covenants and representations of Borrower or any Guarantor contained in this Agreement or any of the other Financing Agreements and no Event of Default under this Agreement or any of the other Financing Agreements, shall be deemed to have been suspended or waived by the Bank unless such suspension or waiver is in writing signed by an officer of the Bank, and directed to Borrower, and any Guarantor specifying such suspension or waiver. If the Bank shall have waived a requirement of this Agreement or of one or more of the Financing Agreements on one or more occasions, such waiver shall not be construed by Borrower or any Guarantor as the Bank's express or implicit waiver of such requirement or rights of the Bank on a future occasion, and Borrower and the Guarantor agree that they will not employ or utilize any estoppel defense or claim in the event the Bank seeks to enforce any of its rights under this Agreement or under the Financing Agreements. The Bank shall not be deemed to have waived any rights under this Agreement unless such waiver is given in writing and signed by the Bank. No delay or omission on the part of the Bank in exercising any right shall operate as a waiver of such right or any other right. A waiver by the Bank of a provision of this Agreement shall not prejudice or constitute a waiver of the Bank's right otherwise to demand strict compliance with that provision or any other provision of this Agreement. No prior waiver by the Bank, nor any course of dealing between the Bank and Borrower, or between the Bank and any Guarantor, or between the Bank and any Person who contracts or deals with Borrower shall constitute a waiver of any of the Bank's rights or of any obligations of Borrower or of the Guarantor or of any of Borrower's contractors as to any future transactions. Whenever the consent of the Bank is required under this Agreement, the granting of such consent by the Bank in any instance shall not constitute continuing consent in subsequent instances where such consent is required and in all cases such consent may be granted or withheld in the sole discretion of the Bank.

10.19 Notices. Except as otherwise expressly provided herein, any notice required or desired to be served, given or delivered pursuant to this Agreement shall be in writing, and shall be deemed to have been validly served, given or delivered upon deposit in the United States mail, with proper postage prepaid, addressed to the party to be notified as follows:

- (i) If to the Bank:
Roberta Wolff
Vice President
First National Bank of Colorado
3033 Iris Avenue
Boulder, Colorado 80301
- (ii) If to Borrower:
Attention: Chief Executive Officer
Coherent Technologies, Inc.
135 Taylor Avenue, Suite 101-03
Louisville, Colorado 80027
Mailing Address:
P.O. Box 7488
Boulder, CO 80306

or to such other address as each party designates to the other in the manner herein prescribed.

10.20 Maximum Interest. No agreements, conditions, provisions or stipulations contained in this Agreement or in any of the other Financing Agreements, or any Event of Default, or any exercise by the Bank of the right to accelerate the payment of the maturity of principal and interest, or to exercise any option whatsoever, contained in this Agreement or any of the other Financing Agreements, or the arising of any contingency whatsoever, shall entitle the Bank to collect, in any event, interest exceeding the maximum authorized by law, and in no event shall Borrower be obligated to pay interest exceeding such rate, and all agreements, conditions or stipulations, if any, which may in any event or contingency whatsoever operate to bind, obligate or compel Borrower to pay a rate of interest exceeding the maximum allowed by law, shall be without binding force or effect, at law or in equity, to the extent only of the excess of interest over such maximum interest allowed by law. In the event any interest is charged in excess of the maximum allowed by law ("Excess"), Borrower acknowledges and stipulates that any such charge shall be the result of an accidental and bona fide error, and such Excess shall be, first, applied to reduce the principal of any Liabilities due, and, second returned to Borrower, it being the intention of the parties hereto not to enter at any time into a usurious or otherwise illegal relationship. Borrower and the Bank both recognize that, with fluctuations in the variable rate of interest on the Term Loan and the Line of Credit, such an unintentional result could inadvertently occur. By the execution of this Agreement, Borrower covenants that (a) the credit or return of any Excess shall constitute the acceptance by Borrower of such Excess and (b) Borrower shall not seek to pursue any other remedy, legal or equitable, against the Bank based, in whole or in part, upon the charging or receiving of any interest in excess of the maximum authorized by law. For the purpose of determining whether or not any Excess has been contracted for, charged or received by the Bank, all interest at any time contracted for, charged or received by the Bank in connection with Liabilities shall be amortized, prorated, allocated and spread in equal parts during the entire term of this Agreement.

10.21 Additional Advances. All fees, charges, expenses, costs, expenditures, obligations, liabilities, losses, penalties and damages incurred or suffered by the Bank and for which Borrower is bound to indemnify or reimburse the Bank under this Agreement shall, at the option of the Bank be paid by the Bank initiated Advances on, at the Bank's discretion, the Term Note or the Line of Credit Note.

10.22 Relationship to this Agreement. The terms and provisions of this Agreement, the Term Note and the Line of Credit Note and the Financing Agreements supersede any inconsistent terms and conditions of any the Bank's conditional Commitment letter to Borrower provided that all obligations of Borrower under the conditional commitment to pay any fees to the Bank or any costs and expenses relating to the Loans or the conditional commitment shall survive the execution and delivery of this Agreement, the Term Note, the Line of Credit Note, and the Financing Agreements. Any failure of Borrower or Guarantor to perform any such obligation shall constitute a default under this Agreement.

10.23 Right of Setoff. Borrower grants to the Bank a contractual possessory security interest in, and hereby assigns, conveys, delivers, pledges, and transfers to the Bank all Borrower's right, title and interest in and to, Borrower's accounts with the Bank (whether checking, savings, or

some other account), including without limitation all Cash Collateral and all accounts held jointly with someone else and all accounts Borrower may open in the future and the lockbox account, excluding, however, all IRA, Keogh, and trust accounts. Borrower authorizes the Bank, to the extent permitted by applicable law, to charge or setoff all sums owing on the Liabilities against any and all such accounts.

10.24 No Partnership. Nothing in this Agreement shall be construed to constitute the creation of a partnership or joint venture between the Bank and Borrower or any contractor. This Agreement does not create a contractual relationship with and shall not be construed to benefit or bind the Bank in any way with or create any contractual duties by the Bank to any contractor, subcontractor, materialman, laborer, or any other person.

10.25 Authority to File Notices. Borrower appoints and designates the Bank as its attorney-in-fact to file for record any notice that the Bank deems necessary to protect its interest under this Agreement. This power shall be deemed coupled with an interest and shall be irrevocable while any sum or performance remains due and owing under any of the Financing Agreements.

10.26 Exhibits. All exhibits attached hereto are incorporated herein by this reference.

10.27 Counterparts. This Agreement and any of the Financing Agreements may be executed in counterparts.

IN WITNESS WHEREOF, this Agreement has been duly executed as of the day and year first above written.

THE FIRST NATIONAL BANK OF
COLORADO

By: David Bruner, S.V.P.
for Roberta Wolff
Its: Vice President

COHERENT TECHNOLOGIES, INC.

By: R. Milton Huffaker
R. Milton Huffaker
Its: Chief Executive Officer

LIST OF EXHIBITS

1. Borrowing Base Certificate