

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

SCHEDULE 13D  
Under the Securities Exchange Act of 1934

(Amendment No. \_\_\_\_\_)\*

ALCOHOL SENSORS INTERNATIONAL, LTD.

-----  
(Name of Issuer)

COMMON STOCK, \$.001 PAR VALUE

-----  
(Title of Class of Securities)

013876107

-----  
(CUSIP Number)

Kathleen E. Shannon  
Vice President and Secretary  
American International Group, Inc.  
70 Pine Street  
New York, New York 10270  
(212) 770-5123

-----  
(Name, Address and Telephone Number of Person Authorized  
to Receive Notices and Communications)

December 20, 1996

-----  
(Date of Event which Requires Filing of this Statement)

If a filing person has previously filed a statement on Schedule 13G to report the acquisition which is the subject of this Schedule 13D, and is filing this schedule because of Rule 13d-1(b)(3) or (4), check the following box [ ].

Note: Six copies of this statement, including all exhibits, should be filed with the Commission. See Rule 13d-1(a) for other parties to whom copies are to be sent.

\*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter disclosures provided in a prior cover page.

The information required on the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

CUSIP No. 013876107

1 NAME OF REPORTING PERSON  
S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

American International Group, Inc.  
I.R.S. Identification No. 13-2592361

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) [ ]  
(b) [X]

3 SEC USE ONLY

4 SOURCE OF FUNDS

WC

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT  
TO ITEMS 2(d) or 2(e)

[ ]

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Incorporated under the laws of the State of Delaware

7 SOLE VOTING POWER  
0

NUMBER OF  
SHARES  
BENEFICIALLY  
OWNED BY  
EACH  
REPORTING  
PERSON  
WITH

8 SHARED VOTING POWER  
1,388,888

9 SOLE DISPOSITIVE POWER  
0

10 SHARED DISPOSITIVE POWER  
1,388,888

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,388,888

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES [ ]

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

15.8%

14 TYPE OF REPORTING PERSON

HC, CO

CUSIP No. 013876107

1 NAME OF REPORTING PERSON  
S.S. OR I.R.S. IDENTIFICATION NO. OF ABOVE PERSON

American International Insurance Company  
I.R.S. Identification No. 13-3333609

2 CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP

(a) [ ]  
(b) [X]

3 SEC USE ONLY

4 SOURCE OF FUNDS

WC

5 CHECK BOX IF DISCLOSURE OF LEGAL PROCEEDINGS IS REQUIRED PURSUANT  
TO ITEMS 2(d) or 2(e)

[ ]

6 CITIZENSHIP OR PLACE OF ORGANIZATION

Incorporated under the laws of the State of New York

7 SOLE VOTING POWER

0

NUMBER OF  
SHARES  
BENEFICIALLY  
OWNED BY  
EACH  
REPORTING  
PERSON  
WITH

8 SHARED VOTING POWER

1,388,888

9 SOLE DISPOSITIVE POWER

0

10 SHARED DISPOSITIVE POWER

1,388,888

11 AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

1,388,888

12 CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (11) EXCLUDES CERTAIN SHARES [ ]

13 PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (11)

15.8%

14 TYPE OF REPORTING PERSON

IC

Item 1. Security and Issuer.

This statement relates to the Common Stock, \$.001 par value (the "Common Stock"), of ALCOHOL SENSORS INTERNATIONAL, LTD. (the "Company"). The principal executive offices of the Company are located at 11 Oval Drive, Islandia, New York 11722.

Item 2. Identity and Background.

(a) through (c). This statement is being filed by American International Group, Inc., a Delaware corporation ("AIG"), on behalf of AIG and American International Insurance Company, a New York corporation ("AIIC") and a subsidiary of AIG. AIG is a holding company which, through its subsidiaries, is primarily engaged in a broad range of insurance and insurance-related activities and financial services in the United States and abroad. AIIC engages in mass marketing of personal lines coverages, primarily private passenger auto insurance.

Starr International Company, Inc., a private holding company incorporated in Panama ("SICO"), The Starr Foundation, a New York not-for-profit corporation ("The Starr Foundation"), and C.V. Starr & Co., Inc., a Delaware corporation ("Starr"), have the right to vote approximately 16.14%, 3.46% and 2.39%, respectively, of the outstanding common stock of AIG. The principal executive offices of SICO are located at 29 Richmond Road, Pembroke, Bermuda. The principal executive offices of The Starr Foundation and Starr are located at 70 Pine Street, New York, New York 10270. The names of the directors and executive officers ("Covered Persons") of AIG, AIIC, SICO, The Starr Foundation and Starr, their business addresses and principal occupations are set forth in Exhibit 1 attached hereto, which is incorporated herein by reference in its entirety. The business address indicated for each Covered Person is also the address of the principal employer for such Covered Person. Each of the Covered Persons is a citizen of the United States, except for Messrs. Johnson, Manton, Milton, Sullivan, Edmund Tse and Nicholas Walsh, who are British subjects, Messrs. Anderson and Cohen, who are Canadian subjects, and Mr. Da Silva, who is a Brazilian citizen.

(d) and (e). During the last five years, none of AIG, AIIC, SICO, The Starr Foundation or Starr, or any of the Covered Persons, has (i) been convicted in a criminal proceeding (excluding traffic violations or similar misdemeanors) or (ii) been a party to a civil proceeding of a judicial or administrative body of competent jurisdiction and as a result of such proceeding was or is subject to a judgment, decree or final order enjoining future violations of, or prohibiting or mandating activities subject to, Federal or State securities laws or finding any violations with respect to such laws.

Item 3. Source and Amount of Funds or Other Consideration.

Pursuant to a Convertible Preferred Stock and Warrant Purchase Agreement, dated as of December 20, 1996 (the "Stock Purchase Agreement"), the Company issued to AIIC 833,333 shares of Series A Cumulative Non-redeemable Convertible Preferred Stock (the "Convertible Preferred Stock") and 833,333 Common Stock purchase warrants (the "Warrants"). The Convertible Preferred Stock yields a cumulative dividend of 9% per annum based on the stated value of the stock. The shares of Convertible Preferred Stock are convertible at any time into Common Stock based on a conversion price of \$4.50 per share. Based on a stated value of \$3.00 per share on the closing date, the Convertible Preferred Stock would convert into 555,555 shares of Common Stock on the closing date. The Warrants entitle AIIC to purchase 833,333 shares of Common Stock for two years at a purchase price of \$5.50 per share.

AIIC used its available working capital to purchase the Convertible Preferred Stock and the Warrants.

Item 4. Purpose of Transaction.

The purpose of the acquisition of the Convertible Preferred Stock and the Warrants, as described in Item 3 and Item 5 below, was investment. AIG and AIIC will continue to review their respective investments in the Company and, dependent upon their evaluation of market conditions, applicable regulatory requirements, and the Company's business prospects and future developments, may from time to time, determine to increase, decrease or dispose of their equity positions in the Company. Such transactions, if any, may be made through the exercise of conversion rights or warrants, purchases or sales in the open market or otherwise.

Item 5. Interest in Securities of Issuer.

(a) and (b). The information required by these paragraphs is set forth in Items 7 through 11 and Item 13 of each of the cover pages to this Schedule 13D and is based upon the number of shares of Common Stock outstanding on November 7, 1996 as provided to AIIC by the Company.

(c). During the past 60 days AIIC acquired 833,333 shares of Convertible Preferred Stock and 833,333 Warrants pursuant to the terms of the Stock Purchase Agreement.

(d) and (e). Not applicable.

Item 6. Contracts, Arrangements, Understandings or Relationships With Respect to Securities of the Issuer.

The information required by this Item 6 is set forth in Items 3 and 4.

Item 7. Materials to be Filed as Exhibits.

- (a) List of Directors and Executive Officers of AIG, AIIC, SICO, The Starr Foundation and Starr.
- (b) Agreement of Joint Filing.
- (c) Convertible Preferred Stock and Warrant Purchase Agreement
- (d) Shareholders Agreement
- (e) Registration Rights Agreement

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: December 30, 1996

AMERICAN INTERNATIONAL GROUP, INC.

By /s/ Kathleen E. Shannon  
-----  
Name: Kathleen E. Shannon  
Title: Vice President and  
Secretary

AMERICAN INTERNATIONAL INSURANCE  
COMPANY

By /s/ Edward E. Matthews  
-----  
Name: Edward E. Matthews  
Title: Senior Vice President

## EXHIBIT INDEX

Exhibit 1	List of Directors and Executive Officers of AIG, AIIC, SICO, The Starr Foundation and Starr.
Exhibit 2	Agreement of Joint Filing
Exhibit 3	Convertible Preferred Stock and Warrant Purchase Agreement
Exhibit 4	Shareholders Agreement
Exhibit 5	Registration Rights Agreement

## AMERICAN INTERNATIONAL GROUP, INC.

## DIRECTORS

M. Bernard Aidinoff	Sullivan & Cromwell 125 Broad Street New York, New York 10004
Lloyd M. Bentsen	2600 Texas Commerce Tower 600 Travis Street Suite 2600 Houston, Texas 77002
Marshall A. Cohen	Cassels, Brock & Blackwell 40 King Street West, 20th Floor Toronto, Ontario M5H 3C2
Barber B. Conable, Jr.	P.O. Box 218 Alexander, New York 14005
Martin Feldstein	National Bureau of Economic Research, Inc. 1050 Massachusetts Avenue Cambridge, Massachusetts 02138
Leslie L. Gonda	International Lease Finance Corporation 1999 Avenue of the Stars Los Angeles, California 90067
Evan G. Greenberg	American International Group, Inc. 70 Pine Street New York, New York 10270
M. R. Greenberg	American International Group, Inc. 70 Pine Street New York, New York 10270
Carla A. Hills	Hills & Company 1200 19th Street, N.W. - 5th Fl. Washington, DC 20036
Frank Hoenemeyer	7 Harwood Drive Madison, New Jersey 07940

Edward E. Matthews

American International Group, Inc.  
70 Pine Street  
New York, New York 10270

Dean P. Phypers

220 Rosebrook Road  
New Canaan, Connecticut 06840

John J. Roberts

American International Group, Inc.  
70 Pine Street  
New York, New York 10270

Thomas R. Tizzio

American International Group, Inc.  
70 Pine Street  
New York, New York 10270

Edmund S. W. Tse

American International Assurance  
Co., Ltd.  
1 Stubbs Road  
Hong Kong

## AMERICAN INTERNATIONAL GROUP, INC.

## OFFICERS' NAME, TITLE AND BUSINESS ADDRESS

M.R. Greenberg 70 Pine Street New York, New York 10270	Chairman & Chief Executive Officer
Thomas R. Tizzio 70 Pine Street New York, New York 10270	President
Edward E. Matthews 70 Pine Street New York, New York 10270	Vice Chairman - Investments & Financial Services
John J. Roberts 70 Pine Street New York, New York 10270	Vice Chairman - External Affairs
Edwin A.G. Manton 70 Pine Street New York, New York 12070	Senior Advisor
Ernest E. Stempel 70 Pine Street New York, New York 10270	Senior Advisor
Evan G. Greenberg 70 Pine Street New York, New York 10270	Executive Vice President - Foreign General Insurance
Robert B. Sandler 70 Pine Street New York, New York 10270	Executive Vice President & Senior Casualty Actuary & Senior Claims Officer
Howard I. Smith 70 Pine Street New York, New York 10270	Executive Vice President, Chief Financial Officer & Comptroller
Edmund S.W. Tse American International Assurance Co., Ltd. 1 Stubbs Road Hong Kong	Executive Vice President - Life Insurance

Ronald J. Anderson AIU KK CPO Box 953 Tokyo, 100-91	Senior Vice President - Foreign General Insurance
Lawrence W. English 70 Pine Street New York, New York 10270	Senior Vice President - Administration
Axel Freudmann 72 Wall Street New York, New York 10270	Senior Vice President - Human Resources
John G. Hughes 70 Pine Street New York, New York 10270	Senior Vice President - Worldwide Claims
L. Oakley Johnson 1455 Pennsylvania Ave. Suite 900 Washington, DC 20004	Senior Vice President - Corporate Affairs
Kevin H. Kelley Lexington Insurance Company 200 State Street Boston, MA 02109	Senior Vice President - Domestic General Insurance
Win J. Neuger 70 Pine Street New York, New York 10270	Senior Vice President & Chief Investment Officer
R. Kendall Nottingham American Life Insurance Company 1 ALICO Plaza Wilmington, DE 19899	Senior Vice President - Life Insurance
Robert J. O'Connell 70 Pine Street New York, New York 10270	Senior Vice President - Life Insurance
Petros K. Sabatacakis 70 Pine Street New York, New York 10270	Senior Vice President - Financial Services
B. Michael Schlenke 70 Pine Street New York, New York 10270	Senior Vice President - Domestic General Insurance

Martin J. Sullivan 70 Pine Street New York, New York 10270	Senior Vice President - Foreign General Insurance
Stephen Y.N. Tse 70 Pine Street New York, New York 10270	Senior Vice President
Edward Cloonan 70 Pine Street New York, New York 10270	Vice President - Corporate Affairs
Hamilton C. Da Silva 70 Pine Street New York, New York 10270	Vice President - Foreign General Insurance
Florence A. Davis 70 Pine Street New York, New York 10270	Vice President & General Counsel
William N. Dooley 70 Pine Street New York, New York 10270	Vice President & Treasurer
William A. Freda 70 Pine Street New York, New York 10270	Vice President - Foreign General Claims
David M. Hupp 70 Pine Street New York, New York 10270	Vice President - Domestic General Insurance
Thomas G. Kaiser 70 Pine Street New York, New York 10270	Vice President - Foreign General Insurance
Jeffrey M. Kestenbaum 70 Pine Street New York, New York 10270	Vice President - Foreign General Insurance
Robert E. Lewis 70 Pine Street New York, New York 10270	Vice President & Chief Credit Officer
Richard Merski 1455 Pennsylvania Avenue Suite 900 Washington, DC 20004	Vice President - Corporate Affairs

Christian M. Milton 99 John Street New York, New York 10038	Vice President - Reinsurance
Nicholas A. O'Kulich 70 Pine Street New York, New York 10270	Vice President - Life Insurance
Douglas A. Paul 70 Pine Street New York, New York 10270	Vice President - Strategic Planning
Frank Petralito II 70 Pine Street New York, New York 10270	Vice President & Director of Taxes
Theodore Rupley 70 Pine Street New York, New York 10270	Vice President - Domestic General Insurance
Kathleen E. Shannon 70 Pine Street New York, New York 10270	Vice President, Secretary & Associate General Counsel
Joseph C. Smetana, Jr. 70 Pine Street New York, New York 10270	Vice President - Foreign General Insurance
Joseph Umansky 70 Pine Street New York, New York 10270	Vice President & Deputy Comptroller
William Vinck 70 Pine Street New York, New York 10270	Vice President & Chief Information Officer
Nicholas C. Walsh AIG Europe (U.K.) Limited 120 Fenchurch Street London, England EC3M 5BP	Vice President - Foreign General Insurance
John T. Wooster, Jr. 72 Wall Street New York, New York 10270	Vice President - Communications

## STARR INTERNATIONAL COMPANY, INC.

## OFFICERS &amp; DIRECTORS

Houghton Freeman Director	1880 Mountain Road, #14 Stowe, Vermont 05672
Evan G. Greenberg Director	70 Pine Street New York, New York 10270
Maurice R. Greenberg Director & Chairman of the Board	70 Pine Street New York, New York 10270
Joseph C.H. Johnson Executive Vice President & Treasurer	American International Building Richmond Road Pembroke 543 Bermuda
Edwin A.G. Manton Director	70 Pine Street New York, New York 10270
Edward E. Matthews Director	70 Pine Street New York, New York 10270
L. Michael Murphy Director & Secretary	American International Building Richmond Road Pembroke 543 Bermuda
John J. Roberts Director	70 Pine Street New York, New York 10270
Robert M. Sandler Director	70 Pine Street New York, New York 10270
Ernest E. Stempel Director & President	70 Pine Street New York, New York 10270
Thomas R. Tizzio Director	70 Pine Street New York, New York 10270
Edmund S.W. Tse Director	1 Stubbs Road Hong Kong

## THE STARR FOUNDATION

## OFFICERS &amp; DIRECTORS

M.R. Greenberg Director and Chairman	70 Pine Street New York, New York 10270
T.C. Hsu Director and President	70 Pine Street New York, New York 10270
Marion Breen Director and Vice President	70 Pine Street New York, New York 10270
John J. Roberts Director	70 Pine Street New York, New York 10270
Ernest E. Stempel Director	70 Pine Street New York, New York 10270
Houghton Freeman Director	1880 Mountain Road, #14 Stowe, Vermont 05672
Edwin A.G. Manton Director	70 Pine Street New York, New York 10270
Gladys Thomas Vice President	70 Pine Street New York, New York 10270
Frank Teng Treasurer	70 Pine Street New York, New York 10270
Ida Galler Secretary	70 Pine Street New York, New York 10270

## C.V. STARR &amp; CO., INC.

## OFFICERS &amp; DIRECTORS

Houghton Freeman Director & Senior Vice President	1880 Mountain Road, #14 Stowe, Vermont 05672
Maurice R. Greenberg Director, President & Chief Executive Officer	70 Pine Street New York, New York 10270
Edwin A.G. Manton Director	70 Pine Street New York, New York 10270
Edward E. Matthews Director, Senior Vice President & Secretary	70 Pine Street New York, New York 10270
John J. Roberts Director & Senior Vice President	70 Pine Street New York, New York 10270
Robert M. Sandler Director & Vice President	70 Pine Street New York, New York 10270
Howard I. Smith Director & Vice President	70 Pine Street New York, New York 10270
Ernest E. Stempel Director & Senior Vice President	70 Pine Street New York, New York 10270
Thomas R. Tizzio Director & Vice President	70 Pine Street New York, New York 10270
Edmund S.W. Tse Director and Vice President	1 Stubbs Road Hong Kong
Stephen Y.N. Tse Director & Vice President	70 Pine Street New York, New York 10270
Gary Nitzsche Treasurer	70 Pine Street New York, New York 10270

## AMERICAN INTERNATIONAL INSURANCE COMPANY

## DIRECTORS

Florence A. Davis	70 Pine Street New York, New York 10270
Maurice Raymond Greenberg	70 Pine Street New York, New York 10270
Jacob Ernest Hansen	505 Carr Road Wilmington, Delaware 19809
Edwin Alfred Greenville Manton	70 Pine Street New York, New York 10270
Edward Easton Matthews	70 Pine Street New York, New York 10270
Win Jay Neuger	70 Pine Street New York, New York 10270
Robert John O'Connell	80 Pine Street New York, New York 10005
Glenn A. Pfeil	505 Carr Road Wilmington, Delaware 19899
Robert Michael Sandler	70 Pine Street New York, New York 10270
Howard Ian Smith	70 Pine Street New York, New York 10270
Ernest Edward Stempel	70 Pine Street New York, New York 10270
Thomas Ralph Tizzio	70 Pine Street New York, New York 10270

David James Walsh

70 Pine Street  
New York, New York 10270

AMERICAN INTERNATIONAL INSURANCE COMPANY  
OFFICERS' NAME, TITLE AND BUSINESS ADDRESS

Jacob Ernest Hansen 505 Carr Road Wilmington, Delaware 19809	President
Edward Easton Matthews 70 Pine Street New York, New York 10270	Senior Vice President
David James Walsh 70 Pine Street New York, New York 10270	Director
Esta L. Cain 505 Carr Road Wilmington, Delaware 19809	Vice President & General Counsel
John Garniner Colona 505 Carr Road Wilmington, Delaware 19809	Vice President
Glenn A. Pfeil 505 Carr Road Wilmington, Delaware 19809	Vice President
Donald W. Procopio 505 Carr Road Wilmington, Delaware 19809	Vice President & Actuary
Gary L. Willoughby 505 Carr Road Wilmington, Delaware 19809	Vice President
Glen A. Pfeil 505 Carr Road Wilmington, Delaware	Treasurer & Comptroller
Elizabeth Margaret Tuck 70 Pine Street New York, New York 10270	Secretary

## AGREEMENT OF JOINT FILING

In accordance with Rule 13d-1(f), promulgated under the Securities Exchange Act of 1934, as amended, each of the undersigned hereby agrees to the joint filing on behalf of each of them of a Statement on Schedule 13D, and any amendments thereto, with respect to the Common Stock, \$.001 par value, of ALCOHOL SENSORS INTERNATIONAL, LTD. and that this Agreement may be included as an Exhibit to such filing.

Each of the undersigned parties represents and warrants to the other that the information contained in any amendment thereto about it will be, true, correct and complete in all material respects and in accordance with all applicable laws. Each of the undersigned parties agrees to inform the other of any changes in such information or of any additional information which would require any amendment to the Schedule 13D and to promptly file such amendment.

Each of the undersigned parties agrees to indemnify the other for any losses, claims, liabilities or expenses (including reasonable legal fees and expenses) resulting from, or arising in connection with, the breach by such party of any of representations, warranties or agreements in this Agreement.

This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to constitute one and the same Agreement.

IN WITNESS WHEREOF, each of the undersigned hereby executes this Agreement as of December 20, 1996.

AMERICAN INTERNATIONAL GROUP, INC.

By /s/ Kathleen E. Shannon

-----  
Name: Kathleen E. Shannon  
Title: Vice President and  
Secretary

AMERICAN INTERNATIONAL INSURANCE  
COMPANY

By /s/ Edward E. Matthews

-----  
Name: Edward E. Matthews

Title: Senior Vice President

CONVERTIBLE PREFERRED STOCK AND WARRANT PURCHASE AGREEMENT dated as of December 20, 1996 between Alcohol Sensors International, Ltd., a New York corporation (the "Company"), and American International Insurance Company, a New York corporation (the "Purchaser").

In consideration of the mutual covenants and agreements set forth herein and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

ARTICLE I  
DEFINITIONS

Section 1.1. Definitions. As used in this Agreement, and unless the context clearly requires a different meaning, the following terms have the meanings indicated:

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control," when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Agreement" means this Agreement, together with all Annexes and Schedules hereto, as the same may be amended, supplemented or modified in accordance with the terms hereof from time to time.

"Balance Sheet" means the consolidated balance sheet of the Company as of June 30, 1996, which is contained in the Quarterly Report.

"Business Day" means any day other than Saturday and Sunday and any other day on which banking institutions in the State of New York are required or authorized by law to close.

"Certificate of Amendment" means the Certificate of Amendment to the Certificate of Incorporation of the Company, which, among other things, sets forth the number, designation, relative rights, preferences and limitations of the Preferred Stock as fixed by the Board of Directors of the Company, and which is in the form set forth in Annex I hereto.

"Certificates" means, collectively, the certificates evidencing the Preferred Shares and the Warrant Certificate.

"Closing" has the meaning provided in Section 2.1(b).

"Closing Date" has the meaning provided in Section 2.1(c).

"Code" means the Internal Revenue Code of 1986, as amended.

"Commission" means the Securities and Exchange Commission or any similar agency then having jurisdiction to enforce the Securities Act or the Exchange Act.

"Common Shares" means the shares of Common Stock issuable upon conversion of the Preferred Shares or the exercise of the Warrants, as the case may be.

"Common Stock" means the common stock, par value \$0.001 per share, of the Company.

"Confidential Memorandum" means the Confidential Private Placement Memorandum dated October 22, 1996 relating to the proposed private placement of certain preferred stock of the Company provided by the Company to the Purchaser.

"Environmental Law" means any federal, state, local or foreign law (including common law), statute, code, ordinance, rule, regulation or other requirement relating to the environment, natural resources, or public or employee health and safety and includes, but is not limited to, the Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. Section 9601 et seq., the Hazardous Materials Transportation Act, 49 U.S.C. Section 1801 et seq., the Resource Conservation and Recovery Act, 42 U.S.C. Section 6901 et seq., the Clean Water Act, 33 U.S.C. Section 1251 et seq., the Clean Air Act, 33 U.S.C. Section 2601 et seq., the Toxic Substances Control Act, 15 U.S.C. Section 2601 et seq., the Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C. Section 136 et seq., the Oil Pollution Act of 1990, 33 U.S.C. Section 2701 et seq. and the Occupational Safety and Health Act, 29 U.S.C. Section 651 et seq., as such laws have been and may from time to time be further amended or supplemented, and the regulations promulgated pursuant thereto, and all analogous state or local statutes and any applicable transfer statutes.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"Exchange Act" means the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission thereunder.

"Indemnifiable Costs and Expenses", "Indemnifying Party" and "Indemnified Person" have the meanings provided in Section 7.1.

"Liens" means any and all security interests, liens, claims, encumbrances, pledges, options, Taxes and charges of any kind or nature.

"Material Adverse Effect" means, with respect to the Company, any action, event or occurrence which has or is reasonably likely to have a material adverse effect on the business, assets, condition (financial or otherwise), results of operations or prospects of the Company and its Subsidiaries, taken as a whole.

"Person" means any individual, company, corporation, partnership, limited liability company, trust, division, governmental, quasi-governmental or regulatory entity or authority or other entity.

"Preferred Shares" means the 833,333 shares of Preferred Stock to be sold and purchased pursuant to this Agreement.

"Preferred Stock" means the Company's Series A Cumulative Non-redeemable Convertible Preferred Stock, par value \$0.001 per share, with the terms set forth in the Certificate of Amendment.

"Quarterly Report" means the Company's Quarterly Report on Form 10-Q filed with the Commission for the quarterly period ended June 30, 1996.

"Registration Rights Agreement" means the Registration Rights Agreement between the Company and the Purchaser to be executed on the Closing Date in the form of Annex II hereto.

"SEC Documents" has the meaning provided in Section 3.8.

"Securities Act" means the Securities Act of 1933, as amended, and the rules and regulations of the Commission thereunder.

"Shareholders Agreement" means the Shareholders Agreement among the Purchaser, the Company, Robert B. Whitney, Steven A. Martello, John T. Ruocco, Michael A. Sylvester and Joseph Lively to be executed on the Closing Date in the form of Annex III hereto.

"Stock Option Plan" has the meaning provided in Section 3.2.

"Subsidiaries" means Alcohol Sensors Europe, plc, a British company.

"Tax Authority" and "Taxes" have the respective meanings provided in Section 3.12.

"Warrant Certificate" means the Warrant Certificate relating to the Warrants to be executed and delivered by the Company and accepted by the Purchaser on the Closing Date in the form of Annex IV hereto.

"Warrants" means the 833,333 warrants of the Company with the terms set forth in the Warrant Certificate to be sold and purchased pursuant to this Agreement.

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms. The use of the word "including" herein shall be interpreted to mean "including, without limitation," unless the context clearly requires another interpretation.

ARTICLE II  
PURCHASE OF PREFERRED SHARES AND WARRANTS

Section 2.1. Purchase of Preferred Shares and Warrants; the Closing.

(a) Subject to the terms and conditions herein set forth, the Company agrees that it will sell to the Purchaser, and the Purchaser agrees that it will purchase from the Company, on the Closing Date the Preferred Shares and the Warrants for an aggregate purchase price of \$2,500,000.

(b) The sale and purchase of the Preferred Shares and Warrants by the parties hereto will take place at a closing (the "Closing") at the offices of Kramer, Levin, Naftalis & Frankel, 919 Third Avenue, New York, New York or at such other location as shall be agreed to by the Company and the Purchaser not later than three Business Days after the date on which the conditions set forth in Article VI are satisfied or such other date as the Company and the Purchaser may mutually agree.

(c) The Company shall notify the Purchaser of the date and time of the Closing (the "Closing Date"), which notice shall be given no later than three Business Days prior to the Closing Date. Such notice shall specify the account of the Company to which the purchase price is to be wire transferred.

(d) Delivery of the Preferred Shares and Warrants to be purchased by the Purchaser pursuant to this Agreement shall be made at the Closing by the Company delivering to the Purchaser, against payment of the purchase price therefor, Certificates for the Preferred Shares and Warrants, in such amounts and registered in the names (which shall be the Purchaser or such other Person as shall be an Affiliate of the Purchaser or a nominee of the Purchaser or such

Affiliate holding for the benefit of the Purchaser or Affiliate) as the Purchaser shall have designated in writing to the Company at least two Business Days prior to the Closing Date. The Purchaser acknowledges and agrees that each Certificate shall bear a legend to reflect the applicability of Federal and state securities laws limitations on the transfer of the Preferred Shares and Warrants as follows (or a substantively equivalent legend):

"THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY STATE SECURITIES LAWS AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED UNLESS REGISTERED UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAW OR UNLESS AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE."

(e) Payment of the purchase price for the Preferred Shares and Warrants shall be made by the Purchaser at the Closing Date by wire transfer in immediately available funds to the designated account of the Company.

Section 2.2. Closing Covenant. The parties hereto agree to act in good faith in taking any and all actions as shall reasonably be necessary to facilitate the Closing of the purchase and sale of the Preferred Shares and the Warrants and the other transactions contemplated by this Agreement, including the satisfaction of the respective closing conditions of the parties set forth herein.

### ARTICLE III REPRESENTATIONS, WARRANTIES AND COVENANTS OF THE COMPANY

The Company represents and warrants to, and covenants with, the Purchaser as of the date of this Agreement and as of the Closing Date that:

Section 3.1. Corporate Organization, etc. Each of the Company and each Subsidiary is a corporation duly incorporated, validly existing and in good standing under the laws of the jurisdiction of its incorporation and has all necessary corporate power and authority to conduct its business as currently conducted and to own or lease the properties and assets it now owns or holds under lease. Each of the Company and each Subsidiary is duly qualified or licensed to do business and is in good standing as a foreign corporation in every jurisdiction in which the conduct of its business or the ownership or leasing of its properties requires it to be so qualified or licensed, except where the failure to be so qualified or licensed or in good standing would not individually, or in the aggregate, have a Material Adverse Effect on the Company. The Company has heretofore delivered to the Purchaser true, complete and correct copies of the Certificate of Incorporation and by-laws of the Company and each Subsidiary, each as currently in effect, and no action has been taken or authorized to amend or in contemplation of the amendment of such

documents (other than in connection with the Certificate of Amendment) or to liquidate or dissolve the Company or any Subsidiary.

Section 3.2. Capitalization. As of the date hereof and immediately prior to the Closing, (i) the authorized capital stock of the Company consists of 28,000,000 shares of preferred stock, which includes 3,000,000 shares of Preferred Stock, and 25,000,000 shares of Common Stock; (ii) no shares of preferred stock (including Preferred Stock) of the Company are outstanding; (iii) 600,000 shares of Common Stock are reserved for issuance upon the exercise of options issued pursuant to the Company's 1996 Stock Option Plan (the "Stock Option Plan") and 3,744,225 shares of Common Stock are reserved for issuance upon the exercise of warrants and options; (iv) 833,333 shares of Common Stock are reserved for issuance upon the conversion of the Preferred Stock and 833,333 shares of Common Stock are reserved for issuance upon the exercise of the Warrants; (v) 8,708,846 shares of Common Stock are outstanding; and (vi) 55,672 shares of Common Stock are held in treasury. All of the outstanding shares of Common Stock have been duly authorized and validly issued and are fully paid and non-assessable and were issued in compliance with all applicable Federal and state laws concerning the issuance of securities. The rights, preferences, privileges and restrictions of the Preferred Stock and the Warrants are as set forth in the Certificate of Amendment and Warrant Certificate, respectively. Except for the Stock Option Plan and the transactions contemplated hereby and except as set forth in Schedule 3.2 hereto, there are no outstanding options, warrants, rights (including registration, conversion or preemptive rights and rights of first refusal), proxy or shareholders agreements or other agreements or arrangements of the Company or any Subsidiary granted to or with any Person to purchase or acquire or otherwise relating to any securities of the Company or any Subsidiary or any securities convertible or exchangeable into such securities. Without limiting the generality of the foregoing and except as provided in the Registration Rights Agreement, neither the Company nor any Subsidiary has granted or agreed to grant any registration rights, including piggyback rights, to any Person.

Section 3.3 Subsidiaries. Except as set forth in Schedule 3.3 hereto, (i) the Company does not have, and is not committed to purchase or acquire, any equity interest or equivalent interest (direct or indirect) in any Person other than the Subsidiaries, (ii) all outstanding shares of capital stock of each such Subsidiary are held solely by the Company and have been duly authorized and validly issued and are fully paid and non-assessable and (iii) the Company owns all of the issued and outstanding capital stock of each of the Subsidiaries and has good and marketable title to all such shares of capital stock free and clear of any and all Liens.

Section 3.4. Execution and Delivery, etc. The Company has all necessary corporate power and authority to execute and deliver this Agreement, the Registration Rights Agreement, the Warrant Certificate and the Shareholders Agreement, to consummate the transactions contemplated hereby and thereby, including the issuance of the Preferred Shares, the Warrants and, upon conversion of the Preferred Shares or exercise of the Warrants, the Common Shares, and to perform its obligations hereunder, thereunder and under the Certificate of

Amendment. The execution and delivery by the Company of this Agreement, the Registration Rights Agreement, the Warrant Certificate and the Shareholders Agreement and the performance of its obligations hereunder, thereunder and under the Certificate of Amendment, including the issuance of the Preferred Shares, the Warrants and the Common Shares upon conversion of the Preferred Shares or exercise of the Warrants, have been duly authorized by all necessary corporate and other action, and no further authorization on the part of the Company is necessary to authorize such execution, delivery and performance. This Agreement has been, and the Registration Rights Agreement, the Warrant Certificate and the Shareholders Agreement when executed and delivered by the Company will be, duly executed and delivered by the Company. This Agreement constitutes, and the Registration Rights Agreement, the Warrant Certificate and the Shareholders Agreement, when so executed and delivered, will constitute, legal, valid and binding agreements of the Company, enforceable against the Company in accordance with their respective terms, except as enforceability may be subject to the application of general equitable principles and to bankruptcy, insolvency, moratorium or other similar laws affecting creditors' rights generally.

Section 3.5. Duly Authorized Shares, etc. The Preferred Shares and the Warrants have been duly authorized and, upon issuance at the Closing, will be validly issued, fully paid and non-assessable, and free and clear of any and all Liens, and the issuance of such Preferred Shares and Warrants are not and will not be subject to any preemptive or similar right of any other stockholder of the Company. The Common Shares have been duly authorized and reserved for issuance upon conversion of the Preferred Shares or exercise of the Warrants, as applicable, and, upon issuance in accordance with the terms of the Certificate of Amendment or the Warrant Certificate, as applicable, will be validly issued, fully paid and non-assessable, and free and clear of any and all Liens, and the issuance of such Common Shares is not and will not be subject to any preemptive or similar right of any other stockholder of the Company.

Section 3.6. Consents and Approvals of Governmental Authorities. Except for (i) the filing of the Certificate of Amendment with the Secretary of State of New York and (ii) certain required filings under New York State "blue sky" or securities laws, which filings shall be made on a timely basis by the Company, no consent, approval or authorization of, or declaration, filing or registration with, any governmental or regulatory authority is required in connection with the execution and delivery by the Company of this Agreement, the Registration Rights Agreement, the Warrant Certificate and the Shareholders Agreement, the consummation of the transactions contemplated hereby or thereby, including the issuance of the Preferred Shares, the Warrants or the Common Shares upon the conversion of the Preferred Shares or the exercise of the Warrants, and the performance by the Company of its obligations hereunder, thereunder or under the Certificate of Amendment.

Section 3.7. No Violation. The execution and delivery by the Company of this Agreement, the Registration Rights Agreement, the Warrant Certificate and the Shareholders Agreement, the consummation of the transactions contemplated hereby and thereby, including the

issuance of the Preferred Shares, the Warrants and the Common Shares upon the conversion of the Preferred Shares or the exercise of the Warrants, and the performance by the Company of its obligations hereunder, thereunder and under the Certificate of Amendment do not and will not (with the giving of notice or the passage of time or both) (a) conflict with or violate or result in a breach of or constitute a default under, or result in any right of termination by any other Person or the creation of any Lien upon any properties or assets of the Company or any Subsidiary pursuant to: (i) the Certificate of Incorporation or by-laws of the Company or any Subsidiary or (ii) any material note, bond, mortgage, indenture, deed of trust, license, franchise, permit, lease, contract, agreement or other instrument to which the Company or any Subsidiary is a party or by which any of their properties are bound; (b) violate any applicable law, rule, regulation, judgment, injunction, order or decree binding upon the Company or any of the Subsidiaries or to which any of their properties is subject; (c) result in the loss or impairment of any material approval, license, franchise, permit, legal privilege or legal right enjoyed or possessed by the Company or any of the Subsidiaries; or (d) otherwise result in the creation of any Lien.

Section 3.8. SEC Documents; Confidential Memorandum. From November 9, 1995 through the date of this Agreement, the Company filed all forms, reports and other documents required to be filed by it with the Commission pursuant to the Exchange Act and the Securities Act, true, correct and complete copies of which (other than preliminary materials and exhibits) have been provided to the Purchaser by the Company. The Company shall timely file with the Commission and promptly provide the Purchaser with a true, correct and complete copy of any such forms, reports and other documents required to be filed with the Commission on or prior to the Closing Date. All such forms, reports and documents filed from November 9, 1995 through the Closing Date are referred to herein as the "SEC Documents." Each of the SEC Documents (i) was or, as to documents not yet filed at the date of this Agreement, will be prepared in accordance with the requirements of the Securities Act or the Exchange Act, as the case may be, in all material respects and (ii) did not, or as to documents not yet filed at the date of this Agreement, will not, as of its date, contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made therein, in the light of the circumstances under which they were made, not misleading. The Confidential Memorandum did not, as of the date thereof, and, as of the Closing Date, will not contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements made therein, in light of the circumstances under which they were made, not misleading.

Section 3.9. Financial Statements, Projections, etc. The consolidated financial statements of the Company and the Subsidiaries (including any notes thereto) contained in the SEC Documents were prepared in accordance with generally accepted accounting principles applied on a consistent basis throughout the periods indicated (except as indicated in the notes thereto or as otherwise permitted by the Commission with respect to the omission of certain note and other disclosures in interim financial statements) and each fairly presents the consolidated financial position, results of operations and cash flows of the Company and the Subsidiaries as at the

respective dates indicated therein and for the respective periods indicated therein (subject, in the case of unaudited statements, to normal and recurring year-end adjustments which were not and are not expected, individually or in the aggregate, to be material in amount). Neither the Company nor any Subsidiary has any debts, obligations or liabilities of any nature, whether accrued, absolute, contingent or otherwise, and whether due or to become due, probable of assertion or not, that are required to be disclosed in accordance with generally accepted accounting principles other than those reflected or disclosed in the Balance Sheet and the notes thereto and those incurred after the date of the Balance Sheet in the ordinary course of business. The financial projections in relation to the Company provided to the Purchaser prior to the date hereof were prepared in good faith and on the basis of the assumptions set forth therein, which the Company believes are reasonable.

Section 3.10. Absence of Certain Changes. Since December 31, 1995, except, as otherwise set forth in (i) the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995 and the Company's Quarterly Reports on Form 10-Q for the respective quarterly periods ended March 31, 1996 and June 30, 1996 or (ii) Schedule 3.10 hereto, in each case as filed with the Commission, each of the Company and each Subsidiary has conducted its business in all material respects in the ordinary course consistent with past practices, and without limiting the generality of the foregoing, there has not been:

(a) Any change, occurrence or circumstance in or affecting the business, assets, liabilities, financial condition, operations or prospects of the Company or any Subsidiary that has had or may reasonably be expected to have a Material Adverse Effect on the Company;

(b) Any resignation or termination of any key officers, employees or consultants of the Company or any of the Subsidiaries; and the Company, to the best of its knowledge, does not know of the impending resignation or termination of employment of any such officer, employee or consultant;

(c) Any material change, except in the ordinary course of business, in the contingent obligations of the Company or any of the Subsidiaries by way of guaranty, endorsement, indemnity, warranty or otherwise;

(d) Any damage, destruction or loss, whether or not covered by insurance, that has had or may reasonably be expected to have a Material Adverse Effect on the Company;

(e) Any waiver by the Company or any of the Subsidiaries of a valuable right or of a material debt owed to any of them;

(f) Any direct or indirect loans or advances made by the Company or any of the Subsidiaries to any shareholder, employee, consultant, officer, director or Affiliate of the

Company or any of the Subsidiaries, other than loans or advances made in the ordinary course of business;

(g) Any material change in any compensation arrangement or agreement with any employee, consultant, officer, director or shareholder;

(h) Any declaration or payment of any dividend or other distribution of the assets of the Company or any of the Subsidiaries or any direct or indirect redemption, purchase, retirement or other acquisition of any shares of its capital stock;

(i) Any debt, obligation or liability incurred, assumed or guaranteed by the Company or any of the Subsidiaries, except those for immaterial amounts or for current liabilities incurred in the ordinary course of business;

(j) Any sale, assignment or transfer of any of the assets or rights of the Company or any Subsidiary (other than the sale of their respective inventory in the ordinary course of business), including patents, trademarks, copyrights, trade secrets or other intangible assets or intellectual property, or any mortgage or pledge of or Lien imposed upon any of the assets or properties of the Company or any Subsidiary, except in the ordinary course of business;

(k) Any change in or default under any material agreement to which the Company or any of the Subsidiaries is a party or by which any of them is bound that has had or may reasonably be expected to have a Material Adverse Effect on the Company;

(l) Any purchase or other acquisition of any operating business or a material amount of assets or the capital stock of any other Person;

(m) Any agreement or understanding to do or enter into any of the foregoing; or

(n) Any other event or condition of any character that, either individually or cumulatively, has had or may reasonably be expected to have a Material Adverse Effect on the Company.

Section 3.11. Compliance with Laws and Instruments. Each of the Company and each of the Subsidiaries is, and their business has been operated, in compliance with their respective organizational documents and all applicable laws, rules, regulations, decrees, injunctions, judgments, orders, rulings, awards, settlements and writs, except where the failure to comply therewith would not, individually or in the aggregate, have a Material Adverse Effect on the Company.

Section 3.12. Taxes. "Taxes" shall mean all taxes, charges, fees, Liens, duties or other assessments, however denominated, including any interest or penalties that may become payable in respect thereof, imposed by the United States government, any state, local or foreign government or any agency or political subdivision of any such government (a "Tax Authority"), which taxes shall include, without limiting the generality of the foregoing, all income taxes, payroll and employee withholding taxes, unemployment insurance, social security, sales and use taxes, excise taxes, capital taxes, franchise taxes, gross receipt taxes, occupation taxes, real and personal property taxes, value added taxes, stamp taxes, transfer taxes, workers' compensation taxes and other obligations of the same or of a similar nature. All tax returns or reports required to be filed by or on behalf of the Company or any Subsidiary have been timely filed or requests for extensions have been timely filed and, to the best knowledge of the Company, any such extension has been granted and has not expired, and all such filed returns are complete and accurate. All Taxes due from the Company or any Subsidiary for periods through the Closing Date have been paid in full or an adequate provision has been made for any such Taxes on the financial statements included in the Quarterly Report (in accordance with generally accepted accounting principles). There is no audit, examination, deficiency, or refund litigation pending or threatened, with respect to any Taxes of the Company or any Subsidiary that could result in a determination that would have a Material Adverse Effect on the Company. All Taxes, interest, additions and penalties due with respect to completed and settled examinations or concluded litigation relating to it have been paid in full or adequate provision has been made for any such Taxes on the financial statements included in the Quarterly Report (in accordance with generally accepted accounting principles). The Company has not executed an extension or waiver of any statute of limitations on the assessment or collection of any Tax that is currently in effect. No rulings have been issued by or agreements entered into with any Tax Authority with respect to the Company or any Subsidiary.

Section 3.13. ERISA and Employee Benefit Plans. Except as listed in Schedule 3.13, neither of the Company nor any Subsidiary maintains, sponsors, is required to make contributions to or otherwise has any liability, direct, indirect, contingent or otherwise, with respect to any pension, profit sharing, thrift or other retirement plan, employee stock ownership plan, deferred compensation, stock ownership, stock purchase, performance share, bonus or other incentive plan, severance plan, health or group insurance plan, welfare plan, or other similar plan, agreement, policy, arrangement or understanding, whether written or oral, whether or not such plan is intended to be qualified under Section 401(a) of the Code, including any employee benefit plan within the meaning of Section 3(3) of ERISA, which plan covers any employee or former employee of the Company or any Subsidiary (collectively, the "Plans"). The Company has delivered to the Purchaser true, correct and complete copies of (i) any employment agreements and any procedures and policies (including summaries of any procedures and policies that are unwritten) relating to the employment of employees of the Company and each Subsidiary and the use of temporary employees and independent contractors by the Company and each Subsidiary, (ii) each Plan and all related trust agreements, insurance and other material contracts, and summary plan descriptions and summaries of material modifications relating to each Plan and any

related material communications distributed to participants under the Plans and (iii) the latest reports which have been filed (or are in fully completed form for filing) with the Internal Revenue Service and the Department of Labor with respect to each Plan. No Plan is subject to Title IV of ERISA. With respect to each Plan, to the best knowledge of the Company, no party in interest or disqualified person (as defined in Section 3(14) of ERISA and Section 4975 of the Code, respectively) has at any time engaged in a transaction which could subject the Company or any of the Subsidiaries, directly or indirectly, to a Tax, penalty or liability for prohibited transactions imposed by ERISA or Section 4975 of the Code. To the best knowledge of the Company, no fiduciary (as defined in Section 3(21) of ERISA) with respect to any Plan has breached any of the responsibilities or obligations imposed upon fiduciaries under Title I of ERISA. Each Plan is and has been operated in compliance in all material respects with its terms and all applicable reporting, disclosure and other requirements of ERISA and the Code as they relate to such Plan, including where applicable the group health plan continuation coverage requirements set forth in Part 6 of Subtitle B of Title I of ERISA and Section 4980B of the Code, and by its terms can be terminated at any time. As of the Closing Date, the Company and each Subsidiary shall have made all required contributions under each Plan for all periods through and including the Closing Date or adequate accruals therefor will have been provided for by the Company or such Subsidiary. No Person will be entitled to any severance benefits under the terms of any Plan solely by reason of the transactions contemplated by this Agreement, the Registration Rights Agreement, the Warrant Certificate or the Shareholders Agreement. There are no actions, claims, lawsuits or arbitrations pending or, to the best knowledge of the Company, threatened with respect to any Plan. No Plan provides for the payment of retiree or post-termination medical, health, disability, life insurance or other welfare benefits. Neither the Company nor any of the Subsidiaries has or has ever had any ERISA Affiliate. For purposes of this Agreement, "ERISA Affiliate" means any Person which would be treated as a single employer with the Company or any Subsidiary under Section 414(b), (c), (m) or (o) of the Code and the regulations promulgated thereunder or Title IV of ERISA. Neither the Company nor any Subsidiary has incurred any liability to the Pension Benefit Guaranty Corporation. Each Plan which is intended to be "qualified" within the meaning of Section 401(a) of the Code (and the exempt trust thereunder), has been determined by the Internal Revenue Service to satisfy the qualification requirements of Sections 401(a) and 501(a) of the Code and every Plan (and related trust) which is intended to comply with the terms and requirements of applicable statutes does so comply in all material respects. Each of the Company and each Subsidiary has never contributed to, or withdrawn in a complete or partial withdrawal from, any multiemployer plan (within the meaning of Subtitle E of Title IV of ERISA) or incurred contingent liability under Section 4204 of ERISA. Neither the Company nor any Subsidiary has proposed or agreed to any increase in benefits under any Plan (or the creation of new benefits) or change in employee coverage which would increase the expense of maintaining any such Plan. The consummation of the transactions contemplated by this Agreement and the Registration Rights Agreement, the Warrant Certificate and the Shareholders Agreement will not result in an increase in the amount of compensation or benefits or accelerate the vesting or timing of payment of any benefits or compensation payable in respect of any employee.

Section 3.14. Contracts, etc. Neither the Company nor any of the Subsidiaries, nor to the best knowledge of the Company any other party thereto, is in default or breach (and there is no event which, with notice or lapse of time or both, would constitute such a default or breach) under any agreement, arrangement, bond, commitment, contract, franchise, indemnity, indenture, instrument, lease, license or understanding, whether or not in writing, to which it is a party or to which any of its assets are subject, in each case that has had or may reasonably be expected to have a Material Adverse Effect on the Company.

Section 3.15. Legal Proceedings, etc. (i) There is no legal, administrative, arbitral or other investigation, claim, action or proceeding pending or, to the best knowledge of the Company, threatened against the Company or any of the Subsidiaries or any of their respective directors, officers or employees or to which any of their properties are subject or against any Plan or the trustee of any Plan which challenges the validity of this Agreement, the Registration Rights Agreement, the Warrant Certificate, the Shareholders Agreement, the Certificate of Amendment, the Preferred Stock, the Warrants or any action taken or to be taken pursuant hereto or thereto, which seeks to impose or confirm any limitation on the ability of the Purchaser effectively to acquire, hold or exercise full rights of ownership of the Preferred Shares, the Warrants or the Common Shares, or, except as disclosed on Schedule 3.15 hereto, which in the aggregate with all other such investigations, claims, actions and proceedings would have a Material Adverse Effect on the Company; (ii) neither the Company nor any Subsidiary is a party or is subject to the provisions of any order, writ, injunction, award, settlement, judgment or decree of any court, board or other governmental agency or instrumentality or administrative agency or any arbiter, which would, individually or in the aggregate, have a Material Adverse Effect on the Company; and (iii) there is no action, suit, proceeding or investigation by the Company or any Subsidiary currently pending or which the Company or any Subsidiary intends to initiate.

Section 3.16. Brokerage. No placement agent, banker, broker or finder has acted directly or indirectly for the Company in connection with this Agreement or the transactions contemplated hereby, and no placement agent, banker, broker or finder is entitled to any commission, brokerage or finder's fee in respect thereof based in any way on agreements, arrangements or understandings made by or on behalf of the Company.

Section 3.17. Agreements; Action. (a) Except as otherwise disclosed in Schedule 3.17 hereto, there are no agreements, understandings, instruments, contracts, proposed transactions, judgments, orders, injunctions, awards, settlements, writs or decrees to which the Company or any Subsidiary is a party or by which it is bound which may involve or contain (i) obligations (contingent or otherwise) of, or payments to, the Company or any Subsidiary in excess of \$50,000 (other than obligations of, or payments to, the Company or any Subsidiary arising from purchase or sale agreements entered into in the ordinary course of business), (ii) the license of any patent, copyright, trade secret or other proprietary right to or from the Company (other than licenses arising from the purchase of "off the shelf" or other standard products), (iii) provisions restricting or affecting the development, manufacture or distribution of the Company's

or any Subsidiary's products or services or (iv) indemnification by the Company or any Subsidiary with respect to infringements of proprietary rights (other than indemnification obligations arising from purchase or sale agreements entered into in the ordinary course of business).

(b) Since December 31, 1995, neither the Company nor any Subsidiary has incurred any indebtedness for money borrowed or any other liabilities (other than with respect to obligations incurred in the ordinary course of business) individually in excess of \$50,000 or, in the case of indebtedness and/or liabilities individually less than \$50,000, in excess of \$250,000 in the aggregate.

(c) For the purposes of subsections (a) and (b) above, all indebtedness, liabilities, agreements, understandings, instruments, contracts and proposed transactions involving the same Person (including Persons the Company has reason to believe are affiliated therewith) shall be aggregated for the purpose of meeting the individual minimum dollar amounts of such subsections.

(d) Neither the Company nor any Subsidiary has engaged in the past three (3) months in any discussion (i) with any Person or any representative of such Person regarding the consolidation or merger of the Company or any Subsidiary with or into any such Person or another Person, (ii) with any Person regarding the sale, conveyance or disposition of all or substantially all of the assets of the Company or any Subsidiary, or a transaction or series of related transactions in which more than fifty percent (50%) of the voting power of the Company or any Subsidiary is disposed of or (iii) regarding any other form of acquisition, liquidation, dissolution or winding up of the Company or any Subsidiary.

Section 3.18. Transactions with Related Persons. (a) Except as otherwise disclosed in Schedule 3.18 hereto, there are no agreements, understandings or proposed transactions of the Company or any Subsidiary with, and no debts, obligations or liabilities of the Company or any Subsidiary owed to, any of their respective officers, directors, shareholders, employees, consultants or Affiliates or any Affiliate thereof other than (i) for payment of salary for services rendered, (ii) reimbursement for reasonable expenses incurred on behalf of the Company or any such Subsidiary and (iii) for other standard employee benefits made generally available to all employees (including stock option agreements outstanding under any stock option plan approved by the Board of Directors of the Company or any such Subsidiary). None of the officers, directors or shareholders of the Company or any Subsidiary, or any members of their immediate families or any of their Affiliates, is indebted to, or has any cause of action or legal claim against, the Company or any Subsidiary or, to the best knowledge of the Company, has any direct or indirect ownership interest in any Person with which the Company or any Subsidiary is affiliated or with which the Company or any Subsidiary has a business relationship, or any Person which competes with the Company or any Subsidiary, except that officers, directors and/or shareholders of the Company or any Subsidiary may own stock in publicly traded companies

which may compete with the Company or any Subsidiary. No officer, director or shareholder of the Company or any Subsidiary, or any member of their immediate families or any of their Affiliates, is, directly or indirectly, interested in any material contract with the Company or any Subsidiary. Except as otherwise disclosed in Schedule 3.18, neither the Company nor any Subsidiary is a guarantor, indemnitor or contributor of any indebtedness or liability of any other Person.

Section 3.19. Title to Properties and Assets; Liens, etc. Each of the Company and each Subsidiary has good and marketable title to its properties and assets, and good title to its leasehold estates, in each case subject to no Lien, other than (i) those identified on the Balance Sheet, (ii) those resulting from taxes which have not yet become delinquent, (iii) minor Liens which do not materially detract from the value of the property or materially impair the operations of the Company or such Subsidiary and (iv) those that have otherwise arisen in the ordinary course of business. All facilities, machinery, equipment, fixtures, vehicles and other properties owned, leased or used by the Company and each Subsidiary are in good operating condition and repair and are reasonably fit and usable for the purposes for which they are being used. Schedule 3.19 hereto sets forth a true, complete and correct list of all of the real property that is leased to the Company and each Subsidiary. The Company and each Subsidiary enjoys peaceful and undisturbed possession of all such real property leased to it. Neither the Company nor any Subsidiary has ever owned or presently owns any real property. The Company has never manufactured or produced, and does not presently manufacture or produce, any of its products or goods; except as set forth on Schedule 3.19, such products and goods have been and are presently manufactured and produced by independent third Persons.

Section 3.20. Patents and Trademarks. Each of the Company and each Subsidiary owns or possesses sufficient legal rights to all trademarks, service marks, trade names, copyrights, trade secrets, patents, information, other proprietary rights and processes necessary for its business as now conducted and as proposed to be conducted, without any known infringement of the rights of others. There are no outstanding options, licenses or agreements of any kind relating to the foregoing, nor is the Company or any Subsidiary bound by or a party to any options, licenses or agreements of any kind with respect to the trademarks, service marks, trade names, copyrights, trade secrets, patents, licenses, information and other proprietary rights and processes of any other Person other than such licenses or agreements arising from the purchase of "off the shelf" or standard products. Each of the Company and each Subsidiary has not received any communications alleging that the Company or any Subsidiary has violated or, by conducting its business as proposed, would violate any of the trademarks, service marks, trade names, copyrights, trade secrets, patents or other proprietary rights of any other Person. Each of the Company and each Subsidiary is not aware that any of its employees is obligated under any contract (including licenses, covenants or commitments of any nature) or other agreement, or subject to any judgment, decree, injunction, award, settlement or order of any court or administrative agency, that would interfere with his or her duties to the Company or any

Subsidiary or that would conflict with the Company's or any Subsidiary's business as presently conducted and as proposed to be conducted.

Section 3.21. Employees. Each of the Company and each Subsidiary has no collective bargaining agreements with any of its employees. There is no labor union organizing activity pending or, to the Company's best knowledge, threatened with respect to the Company or any Subsidiary. To the Company's best knowledge, no employee of the Company or any Subsidiary, nor any consultant with whom the Company or any Subsidiary has contracted, is in violation of any term of any employment contract, proprietary information agreement or any other agreement relating to the right of any such individual to be employed by, or to contract with, the Company or such Subsidiary because of the nature of the business to be conducted by the Company or such Subsidiary; and, to the Company's best knowledge, the continued employment by the Company and each Subsidiary of its present employees, and the performance of the Company's and each Subsidiary's contracts with its independent contractors, will not result in any such violation. The Company and the Subsidiaries have not received any notice alleging that any such violation has occurred. Except as set forth in Schedule 3.21 hereto, no employee or consultant of the Company or of any Subsidiary has been granted the right to continued employment by the Company or such Subsidiary or to any material compensation following termination of employment with or by the Company or such Subsidiary.

Section 3.22. Permits. Each of the Company and each Subsidiary has all franchises, permits, licenses, consents and approvals and any similar authority, all of which are in full force and effect, necessary for the conduct of its business as now being conducted by it, the lack of which would have a Material Adverse Effect on the Company.

Section 3.23. Environmental Matters. As used herein, "Subject Premises" means the real property now owned, operated, used or leased or previously owned, operated, used or leased (but only through the date of termination of such ownership, operation, use or lease) by, to or for the Company or the Subsidiaries or any of their Affiliates. (i) To the best knowledge of the Company, none of the Subject Premises has any condition or conditions which would require notification or remediation under any Environmental Law (collectively, "Environmental Defects"); (ii) except as set forth on Schedule 3.23 hereto, to the best knowledge of the Company, there are not now and never have been any underground tanks or above-ground tanks located on the Subject Premises; (iii) neither the Company nor any of the Subsidiaries, nor, to the Company's best knowledge, any other Person has at any time during its possession of the Subject Premises disposed of any wastes, Hazardous Waste (as defined below) or otherwise, other than in accordance with applicable Environmental Laws and Environmental Permits (as defined below); (iv) neither the Company nor any of the Subsidiaries has received any letter or other communication, written or oral, from the Federal Environmental Protection Agency or any other local, state or Federal regulatory agencies or any other Person relating to the existence of Environmental Defects at the Subject Premises; (v) to the best knowledge of the Company, there do not exist any judgments, orders, directives, decrees or awards of any court, arbitrator or

administrative or governmental agency or entity or any other Person concerning the Company or any of the Subsidiaries or any of their agents' or contractors' compliance with any Environmental Law or Environmental Permit (in the case of agents and contractors, relating to the Company, any of the Subsidiaries or the Subject Premises); (vi) no claims have been asserted or, to the best knowledge of the Company, are threatened against the Company or any of the Subsidiaries relating to any Environmental Defect or condition which with the passage of time could become an Environmental Defect; (vii) to the best knowledge of the Company, there do not exist any consent decrees, administrative orders, settlement agreements or other settlement documents entered into with any administrative or governmental agency or entity or any other Person concerning compliance with any Environmental Law or Environmental Permit applicable to the Company or any Subsidiary or any of the Subject Premises; (viii) the Subject Premises and all operations conducted thereon by the Company or any Subsidiary are and have at all times been conducted in compliance in all material respects with all Environmental Laws and Environmental Permits; (ix) the Company and each Subsidiary have obtained and currently maintain in full force and effect all environmental permits, approvals, authorizations, licenses, variances, registrations and permissions (collectively, "Environmental Permits") required for the conduct of their respective businesses and operations; and (x) to the best knowledge of the Company, there are no Hazardous Substances or Hazardous Waste on, under or about the Subject Premises other than those customarily used in or incident to the business of the Company or any Subsidiary, which in any event are used or maintained in all material respects in accordance with all applicable Environmental Laws and Environmental Permits. For purposes hereof, "Hazardous Substances" or "Hazardous Waste" are defined as any pollutant, contaminant, chemical or industrial or toxic substance or waste, petroleum products, asbestos, urea formaldehyde, radon, polychlorinated biphenyls, flammable explosives, nuclear radioactive fuel or waste or any other substance, waste, material, substance, pollutant or contaminant that is defined as a hazardous waste or substance under any applicable Environmental Law or that may cause damage to human health or the environment, safety or real property and/or any substance for which the generation, manufacture, storage, treatment or release is prohibited or regulated under any Environmental Law.

Section 3.24. Offering Valid. Assuming the accuracy of the representations and warranties of the Purchaser contained in Article IV hereof, the offer, sale and issuance of the Preferred Shares, the Warrants and the Common Shares upon conversion of the Preferred Shares or exercise of the Warrants, as applicable, will be exempt from the registration requirements of the Securities Act and will have been registered or qualified (or are exempt from registration and qualification) under the registration, permit or qualification requirements of all applicable state securities laws. Neither the Company nor any agent on its behalf has solicited or will solicit any offers to sell or has offered to sell or will offer to sell all or any part of the Preferred Shares or Warrants to any Person or Persons or has taken or will take any other action so as to bring the sale of such Preferred Shares, Warrants or the Common Shares by the Company within the registration provisions of the Securities Act.

## Section 3.25. Full Disclosure. This Agreement, the

Registration Rights Agreement, the Warrant Certificate and the Shareholders Agreement and all other documents delivered by the Company to the Purchaser or its attorneys or agents in connection herewith or therewith or with the transactions contemplated hereby or thereby, do not contain any untrue statement of a material fact nor, to the Company's best knowledge, omit to state a material fact necessary in order to make the statements contained herein or therein in light of the circumstances under which they were made not misleading. To the Company's best knowledge, there are no facts which (individually or in the aggregate) materially adversely affect the business, assets, liabilities, financial condition, operations or prospects of the Company that have not been set forth in this Agreement, the Registration Rights Agreement, the Warrant Certificate or the Shareholders Agreement or in other documents delivered to the Purchaser or its attorneys or agents in connection herewith.

ARTICLE IV  
REPRESENTATIONS AND WARRANTIES OF PURCHASER

The Purchaser represents and warrants to the Company as of the date of this Agreement and as of the Closing Date that:

Section 4.1. Organization, Existence and Authority of Purchaser; Enforceability. The Purchaser is a corporation duly incorporated, validly existing and in good standing under the laws of the jurisdiction of its incorporation. The Purchaser has all necessary corporate power and authority to execute and deliver this Agreement, the Registration Rights Agreement and the Shareholders Agreement, to consummate the transactions contemplated hereby and thereby and to perform its obligations hereunder and thereunder. The execution and delivery by the Purchaser of this Agreement, the Registration Rights Agreement and the Shareholders Agreement, and the performance of its obligations hereunder and thereunder, have been duly authorized by all necessary corporate and other action, and no further authorization on the part of the Purchaser is necessary to authorize such execution, delivery and performance. This Agreement has been, and the Registration Rights Agreement and the Shareholders Agreement when executed and delivered by the Purchaser will be, duly executed and delivered by the Purchaser. This Agreement constitutes, and the Registration Rights Agreement, the Warrant Certificate and the Shareholders Agreement, when so executed and delivered, will constitute, legal, valid and binding agreements of the Purchaser, enforceable against the Purchaser in accordance with their respective terms, except as enforceability may be subject to the application of general equitable principles and to bankruptcy, insolvency, moratorium or other similar laws affecting creditors' rights generally.

Section 4.2. No Consent or Violation. No consent, approval or authorization of, or declaration, filing or registration with, any governmental or regulatory authority is required in connection with the execution and delivery by the Purchaser of this Agreement, the Registration

Rights Agreement, the Warrant Certificate and the Shareholders Agreement, the consummation of the transactions contemplated hereby and thereby and the performance by the Purchaser of its obligations hereunder and thereunder. The execution and delivery by the Purchaser of this Agreement, the Registration Rights Agreement, the Warrant Certificate and the Shareholders Agreement, the consummation of the transactions contemplated hereby and thereby and the performance by the Purchaser of its obligations hereunder and thereunder do not and will not (with the giving of notice or the passage of time or both) (a) conflict with or violate or result in a breach of or constitute a default under, or result in any right of termination by any other Person or the creation of any Lien upon any properties or assets of the Purchaser pursuant to: (i) the organizational documents of the Purchaser or (ii) any material note, bond, mortgage, indenture, deed of trust, license, franchise, permit, lease, contract, agreement or other instrument to which the Purchaser is a party or by which any of its properties are bound or (b) violate any applicable law, rule, regulation, judgment, injunction, order or decree binding upon the Purchaser or to which any of its properties is subject.

Section 4.3. Purchase for Own Account. The Preferred Shares and the Warrants to be acquired by the Purchaser pursuant to this Agreement will be acquired for its own account for investment purposes and not with a view to the resale or distribution of any part thereof.

Section 4.4 Restricted Securities. The Purchaser understands that the Preferred Shares and the Warrants being acquired pursuant hereto are characterized as "restricted securities" under the Federal and state securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Securities Act and applicable state securities laws only in certain limited circumstances. The Purchaser is familiar with Rule 144 ("Rule 144") of the Commission, as presently in effect, and understands the resale limitations imposed thereby and by the Securities Act and applicable state securities laws, pursuant to which the Preferred Shares and the Warrants (and the Common Shares issuable upon conversion of the Preferred Shares or exercise of the Warrants) must be held indefinitely unless a subsequent disposition thereof is registered under the Securities Act and applicable state securities laws or is exempt from such registration.

Section 4.5. Accredited Investor. The Purchaser is an "accredited investor" within the meaning of Rule 501(a) of Regulation D, promulgated under the Securities Act, and was not organized for the specific purpose of acquiring the Preferred Shares and the Warrants.

Section 4.6. Investor Sophistication. The Purchaser, by reason of its business and financial experience, has such knowledge, sophistication and experience in business and financial matters as to be capable of evaluating the merits and risks of the prospective investment and is able to bear the economic risk of such investment.

Section 4.7. Brokerage. No placement agent, banker, broker or finder has acted directly or indirectly for the Purchaser in connection with this Agreement or the transactions contemplated hereby, and no placement agent, banker, broker or finder is entitled to any commission, brokerage or finder's fee in respect thereof based in any way on agreements, arrangements or understandings made by or on behalf of the Purchaser.

ARTICLE V  
CERTAIN COVENANTS

Section 5.1. Use of Proceeds. The proceeds from the sale of the Preferred Shares and Warrants will be used by the Company for its working capital needs.

Section 5.2. Certain Actions. From the date hereof through the Closing Date, the Company (i) shall not, and shall cause each Subsidiary not to, take any action that would cause any of the representations or warranties of the Company set forth herein to become untrue or misleading and (ii) shall not take any action which if taken after the Closing Date would require adjustment of the conversion price of the Preferred Shares, adjustment of the exercise price of the Warrants or adjustment of the number of Common Shares issuable upon conversion of the Preferred Shares pursuant to the Certificate of Amendment or upon exercise of the Warrants pursuant to the Warrant Certificate.

ARTICLE VI  
CLOSING CONDITIONS

CONDITIONS PRECEDENT TO CLOSING

Section 6.1. Conditions Precedent to Obligations of the Purchaser. The obligation of the Purchaser to purchase the Preferred Shares and Warrants hereunder is subject to the satisfaction of the following conditions on or before the Closing Date:

(a) The representations and warranties made by the Company herein and in the Registration Rights Agreement, the Warrant Certificate and the Shareholders Agreement shall be true and correct on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of such date.

(b) The Company shall have performed and complied in all material respects with all covenants, agreements and conditions set forth or contemplated herein and in the Registration Rights Agreement, the Warrant Certificate and the Shareholders Agreement required to be performed or complied with by it on or prior to the Closing Date.

(c) The Company shall have filed the Certificate of Amendment with the Secretary of State of New York and the Certificate of Amendment shall be in full force and effect.

(d) The Company shall have executed and delivered the Registration Rights Agreement, the Warrant Certificate and the Shareholders Agreement.

(e) The purchase of and payment for the Preferred Shares and Warrants hereunder shall not (i) be prohibited by any applicable law, rule or regulation, (ii) subject the Purchaser to any penalty or other onerous condition pursuant to any applicable law, rule or regulation or (iii) be prevented, prohibited or materially restricted by any judgment, injunction (whether temporary or permanent), order or decree at the Closing Date.

(f) All authorizations, consents, approvals, permits and licenses and filings with, by or in respect of any federal, state, local or foreign governmental authority, agency, court or other body required to be taken, given or obtained that are necessary in connection with the transactions contemplated herein and in the other documents related hereto, shall have been taken, given or obtained, be in full force and effect and not be subject to any waiting periods or any pending proceedings or appeals, administrative, judicial or otherwise.

(g) Since the date of this Agreement, there shall not have occurred any change, occurrence or circumstance in or affecting the business, assets, liabilities, financial condition, operations or prospects of the Company or any Subsidiary that has had or may reasonably be expected to have a Material Adverse Effect on the Company.

(h) At least one vacancy shall exist on the Board of Directors of the Company to be filled on the Closing Date by the Purchaser pursuant to the Shareholders Agreement.

(i) The Closing Date shall not be later than 5:00 p.m., New York time, on December 20, 1996, or such later time as the Purchaser may agree to.

(j) On or before the Closing Date, the Purchaser shall have received all of the following from the Company in form and substance reasonably satisfactory to the Purchaser:

(i) Certificates representing the Preferred Shares and the Warrant Certificate issued to the Purchaser in accordance with Section 2.1;

(ii) Certificate of the Secretary of the Company dated as of the Closing Date certifying as to (A) the Certificate of Incorporation of the Company, recently certified by the Secretary of State of New York, as duly filed and currently in full force and effect without further amendment, other than as amended by the Certificate of Amendment; (B) the by-laws of the Company as currently in full force and effect; (C) the resolutions, in form and substance reasonably satisfactory to the Purchaser, of the shareholders and the

Board of Directors of the Company duly authorizing the execution, delivery and performance of this Agreement, the Registration Rights Agreement, the Warrant Certificate, the Shareholders Agreement and any other documents, instruments or agreements executed in connection herewith or therewith to which it is a party and the absence of other resolutions relating thereto; (D) the absence of proceedings for the merger, consolidation, sale of assets, dissolution, liquidation or similar proceedings with respect to the Company; and (E) the incumbency and signature of the individuals authorized to execute and deliver documents on the Company's behalf;

(iii) Certificate of the Secretary of each of the Subsidiaries dated as of the Closing Date certifying as to (A) the Certificate of Incorporation of such Person, recently certified by the appropriate governmental authority of the jurisdiction in which such Person is organized, as duly filed and currently in full force and effect without further amendment; (B) the by-laws of such Person as currently in full force and effect; (C) the absence of proceedings for the merger, consolidation, sale of assets, dissolution, liquidation or similar proceedings with respect to such Person; and (D) the incumbency and signature of the individuals authorized to execute and deliver documents on such Person's behalf;

(iv) Certificate executed by an officer of the Company dated as of the Closing Date, certifying that the representations and warranties of the Company contained in this Agreement, the Registration Rights Agreement, the Warrant Certificate and the Shareholders Agreement are true and correct as of the Closing Date with the same effect as though such representations and warranties had been made on and as of such date;

(v) An opinion addressed to the Purchaser and dated as of the Closing Date of Berger & Paul, special counsel to the Company, substantially in the form of Annex V hereto; and

(vi) Such additional documentation as the Purchaser may reasonably request.

Section 6.2. Conditions Precedent to Obligations of the Company. The obligations of the Company to issue and sell the Preferred Shares and Warrants pursuant to this Agreement are subject to the satisfaction of the following conditions on or before the Closing Date:

(a) The representations and warranties made by the Purchaser herein and in the Registration Rights Agreement and the Shareholders Agreement shall be true and correct on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of such date.

(b) The Purchaser shall have performed and complied in all material respects with all covenants, agreements and conditions set forth or contemplated herein and in the Registration

Rights Agreement and the Shareholders Agreement required to be performed or complied with by it on or prior to the Closing Date.

(c) The sale of the Preferred Shares and Warrants by the Company hereunder shall not (i) be prohibited by any applicable law, rule or regulation or (ii) be prevented, prohibited or materially restricted by any judgment, injunction (whether temporary or permanent), order or decree at the Closing Date.

(d) The Purchaser shall have delivered to the Company the funds in connection with the sale of the Preferred Shares and the Warrants in accordance with Section 2.1.

(e) The Purchaser shall have executed and delivered the Registration Rights Agreement, the Warrant Certificate and the Shareholders Agreement.

(f) All authorizations, consents, approvals, permits and licenses and filings with, by or in respect of any federal, state, local or foreign governmental authority, agency, court or other body required to be taken, given or obtained that are necessary in connection with the transactions contemplated herein and in the other documents related hereto, shall have been taken, given or obtained, be in full force and effect and not be subject to any waiting periods or any pending proceedings or appeals, administrative, judicial or otherwise.

(g) The Closing Date shall not be later than 5:00 p.m., New York time, on December 20, 1996 or such later time as the Company may agree to.

#### ARTICLE VII INDEMNIFICATION

Section 7.1. General. (a) The Company (the "Indemnifying Party") agrees and covenants to hold harmless and indemnify the Purchaser and each of its Affiliates, and their respective managed accounts, shareholders, employees, directors, officers, principals, equity holders, controlling Persons, advisors and agents (each of the foregoing Persons being an "Indemnified Person"), from and against any losses, claims, damages, liabilities and expenses (including reasonable attorneys' fees and expenses of investigation) incurred by such Indemnified Person (collectively, "Indemnifiable Costs and Expenses") in connection with (i) any actual or threatened third-party action, suit, proceeding or investigation arising out of or based in any manner upon the Purchaser's negotiation, execution or performance of its obligations hereunder or under the Registration Rights Agreement, the Warrant Certificate or the Shareholders Agreement or its ownership of the Preferred Shares, the Warrants or Common Shares, (ii) arising out of or based upon any breach by the Indemnifying Party of any its representations, warranties or covenants contained herein, in the Registration Rights Agreement, the Warrant Certificate or the Shareholders Agreement or in any agreement, instrument or document delivered by the

Company hereunder or thereunder or (iii) enforcing the rights of an Indemnified Person under this Agreement or under the Registration Rights Agreement, the Warrant Certificate or the Shareholders Agreement.

(b) The Indemnifying Party further agrees promptly upon demand by each Indemnified Person to reimburse each Indemnified Person for any Indemnifiable Costs and Expenses as they are incurred by it; provided that if the Indemnifying Party reimburses an Indemnified Person hereunder for any expenses incurred in connection with a lawsuit, claim, inquiry or other proceeding or investigation for which indemnification is sought, such Indemnified Person agrees to refund such reimbursement of expenses to the extent it is finally judicially determined that the indemnity provided for in this Article VII is not applicable to such Indemnified Person in accordance with the terms hereof or otherwise. The Indemnifying Party further agrees that the indemnification, contribution and reimbursement commitments set forth in this Article VII shall apply whether or not an Indemnified Person is a formal party to any such lawsuits, claims or other proceedings. The indemnity, contribution and expense reimbursement obligation of the Indemnifying Party under this Article VII shall be in addition to any liability it may otherwise have.

(c) The obligations of the Indemnifying Party hereunder shall survive the Closing and any repurchase, conversion, exchange or transfer of the Preferred Shares or Warrants and the termination of this Agreement and shall not be extinguished with respect to any Person because any other Person is not entitled to indemnity or contribution hereunder.

Section 7.2 Procedure. Promptly after receipt by an Indemnified Person of notice from any third party of the commencement of any lawsuit, inquiry or other proceeding or investigation thereof, such Indemnified Person will, if a claim in respect thereof is to be made against the Indemnifying Party hereunder, notify the Indemnifying Party in writing of the commencement thereof; but the omission so to notify the Indemnifying Party will not relieve the Indemnifying Party (x) from any liability which it may have to any Indemnified Person hereunder unless the Indemnifying Party is actually prejudiced thereby or (y) from any liability which it may have to any Indemnified Person otherwise than pursuant to this Article VII. Each Indemnified Person shall permit the Indemnifying Party to assume the defense of such claim with counsel reasonably satisfactory to such Indemnified Person; provided, however, that any Indemnified Person shall have the right to employ separate counsel and to participate in the defense of such claim, but the fees and expenses of such counsel shall be at the expense of such Indemnified Person unless (A) the Indemnifying Party has agreed to pay such fees or expenses, (B) the Indemnifying Party shall have failed to assume the defense of such claim and employ counsel reasonably satisfactory to such Indemnified Person in a timely manner or (C) in the reasonable judgment of such Indemnified Person, based upon advice of its counsel, a conflict of interest may exist between such Indemnified Person and the Indemnifying Party with respect to such claims (in which case, if such Indemnified Person notifies the Indemnifying Party in writing that such Indemnified Person elects to employ separate counsel at the expense of the Indemnifying Party,

the Indemnifying Party shall not have the right to assume the defense of such claim on behalf of such Indemnified Person). The Indemnifying Party will not be subject to any liability for any settlement made without its consent (but such consent will not be unreasonably withheld or delayed). No Indemnified Person will be required to consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Person of a release from all liability in respect of such claim or litigation. An Indemnifying Party who is not entitled to, or elects not to, assume the defense of a claim will not be obligated to pay the fees and expenses of more than one counsel for all Indemnified Persons with respect to such claim, as well as one local counsel in each relevant jurisdiction.

Section 7.3. Contribution. (a) In order to provide for just and equitable contribution in circumstances under which the indemnity provided for in this Article VII is for any reason held to be unenforceable by the Indemnified Person, the Indemnifying Party, in lieu of indemnifying such Indemnified Person, shall have an obligation to contribute, and shall contribute to the amount paid or payable by such Indemnified Person as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect not only the relative benefits received by the Indemnifying Party and the Indemnified Persons, but also to reflect the relative fault of the Indemnifying Party and the Indemnified Persons in connection with the statement or omissions which result in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations; provided, however, that no Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation. The relative fault of the Indemnifying Party and the Indemnified Persons shall be determined, if applicable, by reference to, among other things, whether the untrue statement of a material fact or the omission to state a material fact has been made by, or relates to information supplied by, the Indemnifying Party or Indemnified Persons and the Persons' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The amount paid or payable by a Person as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include any reasonable legal or other fees or expenses reasonably incurred by such Person in connection with investigation or defending any such claim.

(b) The Company and the Purchaser agree that it would not be just and equitable if contribution pursuant to the immediately preceding paragraph were determined by any method of allocation which does not take into account the equitable considerations referred to in such paragraph.

Section 7.4. Notification. Each party agrees to notify in writing promptly the other party of the commencement of any litigation or proceeding against it or any of its shareholders, officers, directors or agents in connection with the issue of any the Preferred Shares, Warrants or Common Shares.

ARTICLE VIII  
MISCELLANEOUS

Section 8.1. Entire Agreement; Survival of Provisions. This Agreement, together with the other agreements, instruments and documents expressly referred to herein, constitute the entire agreement of the parties with respect to the transactions contemplated hereby and supersede all prior agreements and understandings with respect thereto, whether written or oral. All of the covenants of the parties made herein shall remain operative and in full force and effect regardless of acceptance of any of the Preferred Shares or Warrants and payment therefor. The representations and warranties set forth herein shall survive the execution and delivery of this Agreement, the issuance of the Preferred Shares and the Warrants, the Closing and the issuance of the Common Shares upon conversion of the Preferred Shares or exercise of the Warrants, as applicable, and shall in no way be affected by any investigation of the subject matter thereof made by or on behalf of the Purchaser or the Company. The representations, warranties, agreements and covenants made herein and in the Registration Rights Agreement, the Warrant Certificate and the Shareholders Agreement shall be deemed to have been relied upon by the parties hereto.

Section 8.2. No Waiver; Modifications in Writing. No failure or delay by a party in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies provided for herein are cumulative and are not exclusive of any remedies that may be available to any party at law or in equity or otherwise. No waiver of or consent to any departure by a party from any provision of this Agreement shall be effective unless signed in writing by the parties entitled to the benefit thereof. No amendment, modification or termination of any provision of this Agreement shall be effective unless signed in writing by all parties. Any amendment, supplement or modification of or to any provision of this Agreement, any waiver of any provision of this Agreement, and any consent to any departure from the terms of any provision of this Agreement, shall be effective only in the specific instance and for the specific purpose for which made or given.

Section 8.3. Notices. All notices, demands and other communications provided for hereunder shall be in writing, shall be given by registered or certified mail, return receipt requested, telegram, telecopy, courier service or personal delivery, addressed to the Company as follows:

Alcohol Sensors International, Ltd.  
11 Oval Drive  
Islandia, New York 11722  
Attention: Robert B. Whitney, President  
Telecopy: (516) 342-1550

with a copy to:

Berger & Paul  
630 Third Avenue  
New York, New York 10017  
Attention: Harold W. Paul  
Telecopy: (212) 661-7060

and to the Purchaser as follows:

American International Insurance Company  
505 Carr Road  
Wilmington, Delaware 19809  
Attention: Ernest Hanson  
Telecopy: (302) 762-7451

with copies to:

American International Group, Inc.  
70 Pine Street  
New York, New York 10270  
Attention: Florence A. Davis  
Telecopy: (212) 785-1584

Kramer, Levin, Naftalis & Frankel  
919 Third Avenue  
New York, New York 10022  
Attention: Paul S. Pearlman  
Telecopy: (212) 715-8000

or to such other address as any party shall designate in writing, and shall be deemed given when received.

Section 8.4. Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same Agreement.

Section 8.5. Binding Effect; Assignment. The rights and obligations of the parties under this Agreement may not be assigned or otherwise transferred to any other Person, except with the prior written consent of the other party hereto, provided that the Purchaser may assign or otherwise transfer any or all of such rights and/or obligations to any of its Affiliates without

obtaining any such consent. Except as expressly provided in this Agreement, this Agreement shall not be construed so as to confer any right or benefit upon any Person other than the parties to this Agreement and their respective successors and permitted assigns. This Agreement shall be binding upon and shall inure to the benefit of the Company, the Purchaser and their respective successors and permitted assigns.

Section 8.6. Governing Law. This Agreement shall be deemed to be a contract made under and shall be governed by and construed in accordance with the internal laws of the State of New York without reference to the principles of conflict of laws.

Section 8.7. Consent to Jurisdiction and Service of Process. Any suit, action or proceeding arising out of or relating to this Agreement or the Registration Rights Agreement, the Warrant Certificate or the Shareholders Agreement or the transactions contemplated hereby or thereby may be instituted in any Federal court situated in the State of New York or any state court of the State of New York in each case, in the Borough of Manhattan, City of New York, and each party agrees not to assert, by way of motion, as a defense or otherwise, in any such suit, action or proceeding, any claim that it is not subject personally to the jurisdiction of such court, that the suit, action or proceeding is brought in an inconvenient forum, that the venue of the suit, action or proceeding is improper or that this Agreement, the Registration Rights Agreement, the Warrant Certificate or the Shareholders Agreement or the subject matter hereof or thereof may not be enforced in or by such court. Each party further irrevocably submits to the jurisdiction of such court in any such suit, action or proceeding. Any and all service of process and any other notice in any such suit, action or proceeding shall be effective against any party if given personally or by registered or certified mail, return receipt requested, or by any other means of mail that requires a signed receipt, postage fully prepaid, mailed to such party as herein provided. Nothing herein contained shall be deemed to affect the right of any party to serve process in any manner permitted by law or to commence legal proceedings or otherwise proceed against any other party in any other jurisdiction.

Section 8.8. Further Assurances. Each of the parties hereto shall execute and deliver such documents, instruments and agreements and take such further actions as may be reasonably required or desirable to carry out the provisions of this Agreement and the Registration Rights Agreements, the Warrant Certificate and the Shareholders Agreement and the transactions contemplated hereby and thereby, and each of the parties hereto shall cooperate with each other in connection with the foregoing.

Section 8.9. Specific Performance. The Company acknowledges that irreparable damage would occur to the Purchaser in the event that any of the provisions of this Agreement, the Registration Rights Agreement, the Warrant Certificate or the Shareholders Agreement were not performed by the Company in accordance with their specific terms or were otherwise breached by the Company and that money damages would not provide an adequate remedy to the Purchaser. It is accordingly agreed that the Purchaser shall be entitled to an injunction and other equitable

remedies to prevent breaches by the Company of this Agreement, the Registration Rights Agreement, the Warrant Certificate and the Shareholders Agreement and to enforce specifically the terms and provisions hereof or thereof in any court of the United States or any state thereof having jurisdiction, this being in addition to any other remedy to which the Purchaser may be entitled at law or in equity.

Section 8.10. Severability of Provisions. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction.

Section 8.11. Headings. The Article and Section headings used or contained in this Agreement are for convenience of reference only and shall not affect the construction of this Agreement.

Section 8.12. Costs, Expenses and Taxes. The Company shall pay any and all stamp, transfer and other similar Taxes payable or determined to be payable in connection with the execution and delivery at the Closing Date of this Agreement or the original issuance of the Preferred Shares or Warrants, and shall save and hold Purchaser harmless from and against any and all liabilities with respect to or resulting from any delay in paying, or omission to pay, such Taxes. The Company and the Purchaser shall pay all costs and expenses that each respectively incurs with respect to the negotiation, execution and delivery of this Agreement, the Registration Rights Agreement, the Warrant Certificate and the Shareholders Agreement.

Section 8.13. Waiver of Jury Trial. The parties hereto hereby irrevocably waive all right to a trial by jury in any action, proceeding or counterclaim arising out of or relating to this Agreement, the Registration Rights Agreement, the Warrant Certificate or the Shareholders Agreement or the transactions contemplated hereby or thereby.

Section 8.14. Publicity. The parties agree that no public release or announcement concerning this Agreement, the Registration Rights Agreements, the Warrant Certificate or the Shareholders Agreement or the transactions contemplated hereby or thereby shall be made without advance review and approval by each party hereto, except as otherwise required by applicable law.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers hereunto duly authorized, as of the date first above written.

ALCOHOL SENSORS INTERNATIONAL, LTD.

By: /s/ Robert B. Whitney

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Name: Robert B. Whitney  
Title: President & CEO

AMERICAN INTERNATIONAL INSURANCE COMPANY

By: /s/ Edward E. Matthews  
Name: Edward E. Matthews  
Title: Senior Vice President and  
Director

Annex I:	Certificate of Amendment
Annex II:	Registration Rights Agreement
Annex III:	Shareholders Agreement
Annex IV:	Warrant Certificate
Annex V:	Opinion of Berger & Paul

Schedule 3.2:	Rights and Agreements Relating to Securities of the Company and the Subsidiaries
Schedule 3.3:	Certain Disclosure Relating to Subsidiaries and Other Matters
Schedule 3.10:	Disclosure Relating to Certain Changes
Schedule 3.13:	ERISA Plans
Schedule 3.15:	Legal Proceedings
Schedule 3.17:	Certain Agreements
Schedule 3.18:	Transactions with Related Persons and Guarantees
Schedule 3.19:	Real Property and Certain Disclosure Relating to Manufacturing
Schedule 3.21:	Certain Agreements with Employees and Consultants
Schedule 3.23:	Environmental Matters

## SHAREHOLDERS AGREEMENT

SHAREHOLDERS AGREEMENT dated as of December 20, 1996 among:

- A. ROBERT B. WHITNEY, STEVEN A. MARTELLO, JOHN T. RUOCCO, MICHAEL A. SYLVESTER and JOSEPH M. LIVELY (each, an "Existing Shareholder" and, collectively, the "Existing Shareholders");
- B. AMERICAN INTERNATIONAL INSURANCE COMPANY, a New York corporation (the "Investor"); and
- C. ALCOHOL SENSORS INTERNATIONAL, LTD., a New York corporation (the "Company").

## RECITALS:

1. Pursuant to the Purchase Agreement (as defined below), the Investor has agreed to purchase from the Company, and the Company has agreed to issue and sell to the Investor, shares of the Company's Series A Cumulative Non-redeemable Convertible Preferred Stock, par value \$0.001 per share (the "Series A Preferred Stock"), and certain warrants of the Company (the "Warrants") exercisable into shares of the Company's Common Stock, par value \$0.001 per share (the "Common Stock"), all in accordance with the terms and conditions of the Purchase Agreement.

2. As of the Effective Date (as defined below), each of the Existing Shareholders owns the number of shares of Common Stock and the number of options exercisable for Common Stock, respectively, specified with respect to such individual on Schedule I attached hereto, and such shares, as of the Effective Date, represent the percentage ownership of all of the Capital Stock of the Company on a fully diluted basis (assuming, for this purpose only, that all Capital Stock of the Company that is convertible or exercisable into or exchangeable for Common Stock has been so converted, exercised or exchanged in full) as specified with respect to such individual on Schedule I.

3. It is a condition precedent to the consummation of the transactions under the Purchase Agreement that the parties hereto enter into this Agreement.

4. The parties hereto desire to set forth their mutual agreements and understandings with respect to, among other things, certain of their respective rights, duties and obligations and certain transactions and arrangements in respect of the Company, the Capital Stock of the Company and related matters.

NOW, THEREFORE, the parties hereto, intending legally to be bound, hereby agree as follows:

ARTICLE I

DEFINITIONS

1.1 DEFINED TERMS AND INTERPRETATION. (a) As used in this Agreement, the following terms shall have the following meanings:

"Affiliate": of any specified Person means any other Person directly or indirectly Controlling or Controlled by or under direct or indirect common Control with such specified Person.

"Agreement": this Shareholders Agreement, together with all Schedules and Exhibits hereto, as the same may be amended, supplemented or modified in accordance with the terms hereof from time to time.

"Capital Stock": any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all rights, warrants or options to purchase any of the foregoing.

"Confidential Material": confidential records and information, including, but not limited to, development, marketing, purchasing, organizational, strategic, financial, managerial, administrative, manufacturing, production, distribution and sales information, data, specifications and processes presently owned or at any time hereafter developed by the Company, any of its Subsidiaries or their respective officers, employees, agents, consultants or Affiliates or used presently or at any time hereafter in the course of the business of the Company or any of its Subsidiaries, that are not otherwise part of the public domain.

"Control": (including, with correlative meanings, the terms "controlling," "controlled by," and "under common control with"), as used with respect to any Person, the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

"Effective Date": the date of this Agreement.

"Exempt Transfer": with respect to each Existing Shareholder, a direct or indirect Transfer of Common Stock to another Existing Shareholder, provided that prior to each such Transfer the Company and each Shareholder not a party to such proposed Transfer shall have

received in writing the information required in a Transfer Notice with respect to such Transfer from the proposed transferor.

"GAAP": generally accepted accounting principles in the United States of America in effect from time to time.

"Governmental Authority": any nation or government, any state or other political subdivision thereof or any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government or any other regulatory authority.

"Investor Holder": the Investor and each Person that has purchased or otherwise acquired shares of Series A Preferred Stock from the Investor or another Investor Holder.

"Involuntary Transfer": a Transfer or proposed Transfer by an Existing Shareholder by reason of (i) death, (ii) long-term disability or (iii) termination of employment with the Company by the Company.

"Person": any individual, company, corporation, partnership, limited liability company, trust, division, Governmental Authority or other entity.

"Public Transfer": a public Transfer by an Existing Shareholder of Capital Stock of the Company pursuant to Rule 144, as amended, under the Securities Act or an effective registration statement relating to such Capital Stock.

"Purchase Agreement": the Convertible Preferred Stock and Warrant Purchase Agreement dated as of December 20, 1996 between the Investor and the Company.

"Registration Rights Agreement": the Registration Rights Agreement dated as of the date hereof between the Investor and the Company.

"Related Documents": the Purchase Agreement and any and all instruments, documents or agreements referred to therein or related thereto, including, without limitation, the Warrant Certificate (as such term is defined in the Purchase Agreement) and the Registration Rights Agreement.

"Related Transferee": as to any Existing Shareholder, a Transferee that (i) has purchased or otherwise acquired shares of Capital Stock of the Company from such Existing Shareholder and (ii) is a spouse, parent, sibling, child, stepchild or grandchild of such Existing Shareholder or a trust which is for the benefit of such a Person or Persons, or is an Affiliate of such Existing Shareholder.

"Requirement of Law": as to any Person, the articles or certificate of incorporation and by-laws or other organizational or governing documents of such Person, and

any law, statute, treaty, rule or regulation, order or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property, or to which such Person or any of its property is subject.

"Securities Act": the Securities Act of 1933, as amended.

"Shareholder": each of the following Persons: each of the Existing Shareholders, the Investor and each other Person that becomes a party to this Agreement from time to time pursuant to Section 3.1(b) hereof.

"Stock Option Issuance": the issuance by the Company to employees, directors or consultants pursuant to the Company's 1996 Stock Option Plan or another similar plan hereafter approved by the Board of Directors of the Company, of (A) options to acquire Common Stock not to exceed (x) 300,000 shares of Common Stock in the aggregate in any fiscal year of the Company and (y) 600,000 shares of Common Stock in the aggregate and (B) Common Stock upon the exercise of such options. The number of shares of Common Stock specified in this definition shall be adjusted for stock splits, stock dividends, stock combinations, recapitalizations and like occurrences.

"Subsidiary": as to any Person, any entity (whether now existing or hereafter formed or acquired) of which shares of each class of Capital Stock having ordinary voting power (other than Capital Stock having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such entity are at the time owned by such Person or by one or more Subsidiaries of such Person or by such Person and one or more Subsidiaries of such Person. The Company's Subsidiaries shall include, without limitation, Alcohol Sensors Europe, plc, a British Company.

"Transfer": with respect to any Capital Stock, (a) any sale, assignment or transfer of such Capital Stock or any right or interest therein; (b) any pledge or hypothecation of such Capital Stock or any interest therein; (c) any grant, sale or other transfer of securities convertible or exchangeable into or exercisable for or other options, warrants or rights to acquire such Capital Stock or any interest therein; and (d) any other direct or indirect transfer of such Capital Stock or any interest therein.

"Transfer Notice": as defined in Section 3.2(a).

"Transferee": as defined in Section 3.1(b) hereof.

(b) The words "hereof", "herein" and "hereunder" and words of similar import when used in this Agreement shall refer to this Agreement as a whole and not to any particular provision of this Agreement, and section, Section, schedule and exhibit references are to this Agreement unless otherwise specified.

(c) The meanings given to terms defined herein shall be equally applicable to the singular and plural forms of such terms.

## ARTICLE II

### VOTING AGREEMENT AND RELATED MATTERS

1 DESIGNEE TO THE BOARD OF DIRECTORS. (a) As specified in the Company's Certificate of Incorporation, as amended from time to time (the "Certificate of Incorporation"), a copy of which is attached hereto as Exhibit A, so long as at least 250,000 shares of Series A Preferred Stock are outstanding (as adjusted for stock splits, stock dividends, stock combinations, recapitalizations and like occurrences), the holders of the Series A Preferred Stock, voting separately as a class, shall have the special and exclusive right to elect one director to the Board of Directors of the Company in accordance with the terms and conditions set forth in the Certificate of Incorporation. The Company agrees that it shall take all actions reasonably requested from time to time by the holders of record of shares representing at least 51% of the voting power of the Series A Preferred Stock then outstanding (the "Majority Holders") in order to give full force and effect to and to carry out the full intent of this paragraph (a) and Article Fourth, Section 7 of the Certificate of Incorporation. The Shareholders agree to vote their shares of Capital Stock of the Company in order to give full force and effect to and to carry out the full intent of this paragraph (a) and Article Fourth, Section 7 of the Certificate of Incorporation.

(b) If, at any time, less than 250,000 shares of Series A Preferred Stock are outstanding (as adjusted for stock splits, stock dividends, stock combinations, recapitalizations and like occurrences), but the Investor then holds in excess of 166,666 shares of Common Stock (as adjusted for stock splits, stock dividends, stock combinations, recapitalizations and like occurrences), then the Investor shall have the special and exclusive right to designate one director to the Board of Directors of the Company. The director to be designated pursuant to this paragraph (b) may be removed with or without cause by the Investor at any time. If the director designated by the Investor pursuant to this paragraph (b) ceases to or is unable to continue in that capacity, the Investor shall nominate a replacement director for election to the Board of Directors of the Company. The Company agrees, for the purposes of this paragraph (b), that it shall (w) nominate the Investor's designee to the Board of Directors of the Company at each applicable meeting held to elect members to the Board of Directors of the Company from time to time, (x) take all actions to remove such director if requested by the Investor, (y) take all actions to cause the Investor's nominee as a replacement director, if any, to be elected from time to time and (z) take all other actions reasonably requested from time to time by the Investor in order to give full

force and effect to and to carry out the full intent of this paragraph (b). The Shareholders agree, for the purposes of this paragraph (b), to vote their shares of Capital Stock of the Company in order to (i) elect the Investor's designee to the Board of Directors of the Company from time to time, (ii) oppose any and all attempts to remove such director without the consent of the Investor, (iii) remove such director if requested by the Investor and (iv) otherwise give full force and effect to and to carry out the full intent of this paragraph (b).

2 REIMBURSEMENT OF EXPENSES. The Company shall promptly reimburse the reasonable expenses (including, without limitation, reasonable travel expenses) of any director elected to the Board of Directors of the Company pursuant to Section 2.1 hereof related to (x) attending meetings of (i) the Board of Directors of the Company or any of its Subsidiaries of which such director is also a director and (ii) any committee of the Board of Directors of the Company or any such Subsidiary of which such director is a member and (y) the performance of his or her duties as a director of the Company or any such Subsidiary or as a committee member of the Board of Directors of the Company or any such Subsidiary, to the extent not accounted for in clause (x) above.

3 NUMBER OF DIRECTORS. Each of the parties hereto agrees that it shall not permit any increase in the number of directors on the Board of Directors of the Company beyond such number of directors at the Effective Date (after accounting for the director to be designated by the holders of Series A Preferred Stock on the Effective Date pursuant to Section 2.1 hereof and the Certificate of Incorporation), unless the prior written consent of the Investor is obtained prior thereto, which consent shall not be unreasonably withheld or delayed.

### ARTICLE III

#### AGREEMENTS RELATING TO THE CAPITAL STOCK OF THE COMPANY AND OTHER MATTERS

1 TRANSFER OF CAPITAL STOCK. (a) For the period beginning on the Effective Date and ending on the date that is two years thereafter (the "Restricted Period"), the Existing Shareholders severally agree with the Company, the Investor and with each other Shareholder that they will not, directly or indirectly, Transfer any Capital Stock of the Company (or any interest therein), now or hereafter at any time owned by them, except that each Existing Shareholder may Transfer, upon written notice to the Company, the Investor and each other Shareholder, in accordance with applicable law: (i) any Common Stock of the Company pursuant to an Involuntary Transfer; (ii) any Common Stock of the Company for estate planning purposes to such Existing Shareholder's spouse, parents, siblings, children, stepchildren or grandchildren or to a trust which is for the benefit of such Existing Shareholder or such Existing Shareholder's spouse, parents, siblings, children, stepchildren or grandchildren; (iii) during the period from (and including) the Effective Date through (but excluding) the date that is one year thereafter (the "Initial Period"), any Common Stock which does not exceed five percent (5%) of all of the Common Stock held by such Existing Shareholder on the Effective Date; and (iv) during the

period from (and including) the last day of the Initial Period through (and including) the last day of the Restricted Period, any Common Stock which does not exceed fifteen percent (15%) of all of the Common Stock held by such Existing Shareholder on the Effective Date; provided, however, that, in connection with any Transfer permitted under this Section 3.1(a), prior to such Transfer, such Existing Shareholder shall comply with Section 3.1(b) hereof.

(b) Any Transfer of Capital Stock of the Company by any Existing Shareholder during the Restricted Period or at any time thereafter to a Related Transferee shall not relieve the transferor of its obligations hereunder and shall only be valid if the Person to whom such Capital Stock is Transferred (a "Transferee"), prior to the Transfer, agrees in writing to be bound by the terms of this Agreement as and to the same extent that the transferor was bound by this Agreement immediately prior to such Transfer. Any such Transferee that agrees to be bound by the terms of this Agreement as provided in this paragraph (b) shall be deemed, upon execution and delivery of such agreement, to be a Shareholder hereunder. Each such Transferee shall be entitled to all of the rights under this Agreement to which the transferor was entitled immediately prior to such Transfer. Any purported Transfer without obtaining this agreement by the Transferee shall be deemed void and of no further effect and shall be governed by the provisions of paragraph (c) below. The provisions of this paragraph (b) shall not apply in connection with a Public Transfer by an Existing Shareholder.

(c) In the event a Transfer of any Capital Stock of the Company has taken place or remains in place in violation of the provisions of this Article III, such Transfer shall be void and of no effect, and no dividend of any kind whatsoever nor any distribution pursuant to liquidation or otherwise shall be paid by the Company or the related Shareholder to the Transferee in respect of such Capital Stock (all such dividends and distributions being deemed waived), and any voting rights of such Capital Stock on any matter whatsoever shall remain vested in the transferor.

(d) The provisions of this Section 3.1 shall be in addition to, and shall not in any way limit the application of, any other provision of this Agreement.

2 TAG-ALONG RIGHTS. (a) If, at any time, any Existing Shareholder and/or a Related Transferee or Related Transferees of such Existing Shareholder (a "Section 3.2 Transferor") desires to Transfer any of its Common Stock in an amount in excess of fifteen percent (15%) of all of the Common Stock held by such Existing Shareholder on the Effective Date in one transaction or a series of transactions to any Person or Persons (a "Section 3.2 Transferee"), except pursuant to an Exempt Transfer or a Public Transfer, prior to any such Transfer, such Section 3.2 Transferor shall promptly (and in any event at least 20 business days prior to the closing date thereof), provide each Investor Holder (each, a "Prospective Participating Shareholder") with written notice of the proposed Transfer (the "Transfer Notice") containing the following:

(i) the name and address of the proposed Section 3.2 Transferee;

(ii) the number of shares of Common Stock to be Transferred by such Section 3.2 Transferor; and

(iii) the purchase price and other terms and conditions of payment and the closing date for the proposed Transfer (including, when available, a copy of any purchase agreement related thereto).

(b) If any of such Prospective Participating Shareholders (each, a "Participating Shareholder") wishes to participate in such Transfer, each such Participating Shareholder may notify the Section 3.2 Transferor by written notice (the "Tag-Along Notice") on or before the expiration of 15 business days following receipt of the Transfer Notice that such Participating Shareholder desires to Transfer to the proposed Section 3.2 Transferee a part of its shares of Capital Stock of the Company (as determined pursuant to the following sentence) on the same terms and conditions set forth in the Transfer Notice. The Tag-Along Notice shall specify the number of shares of such Capital Stock such Participating Shareholder desires to Transfer (the "Tag-Along Amount"); for purposes of making any determination or calculation pursuant to this Section 3.2, but for such purposes only, as of any date of determination or calculation, all of the Capital Stock of the Company held by an Investor Holder shall be deemed to have been fully converted, exercised or exchanged, to the extent applicable, as of such date of determination or calculation. The maximum number of shares of such Capital Stock that each such Participating Shareholder separately shall be entitled to Transfer hereunder shall be determined by multiplying the number of shares of such Capital Stock held by such Participating Shareholder at the time of the Transfer Notice by a fraction, the numerator of which is the number of shares of Common Stock proposed to be Transferred to the Section 3.2 Transferee by the Section 3.2 Transferor and the denominator of which is the number of shares of Common Stock then owned by the Section 3.2 Transferor. If no Prospective Participating Shareholder provides the Section 3.2 Transferor with a Tag-Along Notice within the period specified above, the Section 3.2 Transferor shall be free to sell all or a portion of such Common Stock to the Section 3.2 Transferee in the amount and on the same terms and conditions set forth in the Transfer Notice, subject to paragraph (h) below. If there is any Participating Shareholder(s), the Section 3.2 Transferor may not effect such Transfer unless the Section 3.2 Transferee shall have purchased the Tag-Along Amount or the Reduced Tag-Along Amount (as defined below) from each such Participating Shareholder on the same terms and conditions set forth in the Transfer Notice.

(c) If the sum (the "Aggregate Shares Offered") of (i) the number of shares of Common Stock proposed to be Transferred to the Section 3.2 Transferee by the Section 3.2 Transferor and (ii) the aggregate Tag-Along Amounts for all Participating Shareholders exceeds the number of shares of Common Stock that such Section 3.2 Transferee is willing to purchase, then each such Participating Shareholder shall be obligated to Transfer a number of shares of Common Stock or its equivalent (the "Reduced Tag-Along Amount") equal to the product of the number of shares of Common Stock which the Section 3.2 Transferee is willing to purchase and a fraction, the numerator of which is the Tag-Along Amount with respect to such Person and the denominator of which is the Aggregate Shares Offered, and the Section 3.2 Transferor shall be obligated to Transfer a number of shares of Common Stock equal to the number of shares of

Common Stock which the Section 3.2 Transferee is willing to purchase minus the Reduced Tag-Along Amount or Reduced Tag-Along Amounts for all Participating Shareholders.

(d) Any indemnity provided by a Participating Shareholder to the Section 3.2 Transferee in a purchase agreement relating to such Transfer will only relate to the shares of Capital Stock Transferred by it. Any indemnity provided to the Section 3.2 Transferee by the Section 3.2 Transferor will only relate to the shares of Common Stock Transferred by it.

(e) The Section 3.2 Transferor and the Participating Shareholders whose shares of Capital Stock are Transferred pursuant to this Section 3.2 shall be required to bear their pro rata share, based on the number of shares of Capital Stock included in such Transfer, of the expenses of the transaction including, without limitation, legal, accounting and investment banking fees and expenses.

(f) The Company shall, upon request by any Participating Shareholder, issue to such Participating Shareholder one or more stock certificates registered in the names and in the denominations (aggregating in a number equal to the original denomination) requested by such Participating Shareholder, to facilitate any partial sale of shares of any Capital Stock pursuant to this Section 3.2.

(g) To the extent that any prospective Section 3.2 Transferee is unwilling or otherwise refuses to purchase Capital Stock from any Participating Shareholder, the Section 3.2 Transferor shall not Transfer to such prospective Section 3.2 Transferee any Common Stock, unless and until, simultaneously with such Transfer, the Section 3.2 Transferor shall purchase such Capital Stock from such Participating Shareholder on the same terms and conditions specified in the Transfer Notice.

(h) Subject to the rights of each Prospective Participating Shareholder, if it has so elected, to participate in the Transfer of Common Stock as provided in this Section 3.2, the Section 3.2 Transferor may, not later than sixty (60) days following delivery to the Prospective Participating Shareholders of the Transfer Notice, conclude a Transfer of Common Stock covered by the Transfer Notice on the terms and conditions described in the Transfer Notice. Any proposed Transfer on terms and conditions more favorable to the Section 3.2 Transferee than those described in the Transfer Notice, as well as any proposed Transfer of any Common Stock by the Section 3.2 Transferor more than sixty (60) days following delivery to the Prospective Participating Shareholders of the Transfer Notice, shall again be subject to the tag-along rights of the Prospective Participating Shareholders and shall require compliance by the prospective Section 3.2 Transferor with the procedures described in this Section 3.2.

(i) The exercise or non-exercise of the rights of any Prospective Participating Shareholder under this Section 3.2 to participate in one or more Transfers of Common Stock shall not adversely affect its right to participate in subsequent Transfers of Common Stock pursuant to this Section 3.2.

(j) The provisions of this Section 3.2 shall be subject in all respects to the provisions of Section 3.1 hereof (except as otherwise set forth herein).

(k) This Section 3.2 shall remain in effect only so long as at least 250,000 shares of Series A Preferred Stock are outstanding (as adjusted for stock splits, stock dividends, stock combinations, recapitalizations and like occurrences).

3 NO ISSUANCE OF CAPITAL STOCK. For the period beginning on the Effective Date and ending nine (9) months thereafter, the Company shall not issue or Transfer any of its Capital Stock without the Investor's prior written consent, except for the issuance by the Company of shares of Common Stock (or, in the case of clause (i) below, options to purchase Common Stock) in connection with (i) the Stock Option Issuance (provided that during such nine (9)-month period, such issuances shall not exceed options to purchase up to 225,000 shares of Common Stock and the issuance of Common Stock upon the exercise of such options and provided, further, that no such options or shares of Common Stock may be issued by the Company prior to January 1, 1997), (ii) the conversion of the Series A Preferred Stock or the exercise of the Warrants or (iii) the exercise of warrants or options that are outstanding as of the Effective Date and which are specified in Section 3.2 of the Purchase Agreement.

4 PARTICIPATION RIGHT ON NEW SECURITIES. During the Restricted Period, the Company hereby grants to each of the Investor Holders (collectively, the "Eligible Holders") the right of first refusal to purchase a pro rata share of New Securities (as defined below) that the Company may, from time to time, propose to sell and issue (the "Participation Right"). Each Eligible Holder's pro rata share, for purposes of this Participation Right, is the ratio of (X) the number of shares of Common Stock then owned by such Eligible Holder to (Y) the total number of shares of Common Stock of the Company outstanding immediately prior to the issuance of the New Securities, assuming, in each case but for purposes of this Section 3.4 only, full conversion of all shares of then outstanding Series A Preferred Stock and full exercise of all then outstanding Warrants and other rights, options and warrants to purchase or acquire Common Stock. This Participation Right shall be subject to the following provisions:

(a) "New Securities" shall mean any offering by the Company of any Capital Stock of the Company, whether now authorized or not; provided, however, that "New Securities" does not include (i) Common Stock issued pursuant to the Stock Option Issuance; (ii) Common Stock issuable upon conversion of the Series A Preferred Stock or upon exercise of the Warrants; (iii) Capital Stock issued pursuant to the acquisition of another corporation by the Company by merger, purchase of substantially all of the assets or other reorganization, whereby the Company owns more than 50% of the voting power of such corporation; and (iv) Common Stock issuable upon the exercise of warrants or options that are outstanding as of the Effective Date and which are specified in Section 3.2 of the Purchase Agreement.

(b) In the event that the Company proposes to undertake an issuance of New Securities, it shall give each Eligible Holder written notice of its intention, describing the type of New Securities, the price and the general terms and conditions upon which the Company

proposes to issue the same. Each Eligible Holder shall have twenty (20) business days from the date of receipt of any such notice to agree to purchase its pro rata share of such New Securities for the price and upon the general terms and conditions specified in the notice by giving written notice to the Company and stating therein the quantity of New Securities to be purchased.

(c) In the event that the Eligible Holders fail to exercise in full the Participation Right within said twenty (20) business day period, the Company shall have sixty (60) days thereafter to sell the New Securities respecting which the Eligible Holders' Participation Rights were not exercised at a price and upon terms and conditions no more favorable to the purchasers thereof than specified in the Company's notice. In the event the Company has not sold the New Securities within said sixty (60) day period, the Company shall not thereafter issue or sell any New Securities without first offering such securities to the Eligible Holders in the manner provided above.

(d) This Section 3.4 shall not limit in any respect the obligations of the Company under Section 3.3.

(e) This Section 3.4 shall remain in effect only so long as at least 250,000 shares of Series A Preferred Stock are outstanding (as adjusted for stock splits, stock dividends, stock combinations, recapitalizations and like occurrences).

5 LEGENDS ON STOCK. Each Capital Stock certificate of the Company held by an Existing Shareholder or any Transferee of an Existing Shareholder shall bear the following legend on the face thereof:

"THIS CERTIFICATE IS ISSUED SUBJECT TO THE PROVISIONS OF A SHAREHOLDERS AGREEMENT DATED AS OF DECEMBER 20, 1996, AND NEITHER THIS CERTIFICATE NOR THE SHARES REPRESENTED BY IT ARE ASSIGNABLE OR OTHERWISE TRANSFERABLE, EXCEPT IN ACCORDANCE WITH THE PROVISIONS OF SAID AGREEMENT, A COPY OF WHICH IS ON FILE WITH THE SECRETARY OF THE COMPANY."

"THE SECURITIES EVIDENCED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR ANY STATE SECURITIES LAWS AND MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED UNLESS REGISTERED UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAW OR UNLESS AN EXEMPTION FROM SUCH REGISTRATION IS AVAILABLE."

Any certificate issued at any time in exchange or substitution for any certificate bearing such legend (except a new certificate issued upon completion of a public distribution under a registration statement of the Capital Stock represented thereby) shall also bear such legend unless, in the opinion of counsel for the holder of such Capital Stock (which counsel shall be reasonably

satisfactory to the Company), the Capital Stock represented thereby is not, at such time, required by law to bear such legend. The Company agrees that it will not Transfer on its books any certificate for its Capital Stock in violation of the provisions of this Agreement.

#### ARTICLE IV

##### REPRESENTATIONS AND WARRANTIES

1 REPRESENTATIONS AND WARRANTIES OF THE EXISTING SHAREHOLDERS. Each of the Existing Shareholders severally represents and warrants to the Investor, the other Shareholders and the Company that:

(a) Authority. Each Existing Shareholder has all requisite power to enter into this Agreement and to consummate the transactions contemplated hereby. This Agreement and each of the Related Documents to which it is a party have been duly executed and delivered by each Existing Shareholder, have been effectively authorized by all necessary action and constitute the legal, valid and binding obligation of each such Person, enforceable against each such Person in accordance with its terms, except as enforceability may be subject to the application of general equitable principles and to bankruptcy, insolvency, moratorium or other similar laws affecting creditors' rights generally.

(b) Agreements Not in Breach of Other Instruments. The execution and delivery of this Agreement and the Related Documents to which it is a party, the consummation of the transactions contemplated hereby and thereby and the fulfillment of the terms hereof and thereof will not result in a breach of any of the terms or provisions of, or constitute a default under, or conflict with (x) any agreement, indenture or other instrument to which any Existing Shareholder is a party or by which it is bound, (y) any judgment, decree, order or award of any court, governmental body, Governmental Authority or arbitrator by which any Existing Shareholder is bound or (z) any Requirement of Law applicable to any Existing Shareholder.

(c) Regulatory Approvals. There are no consents, approvals, authorizations or other requirements prescribed by any applicable Requirement of Law that must be obtained or satisfied in connection with the Existing Shareholder's execution, delivery and performance of this Agreement or any of the Related Documents to which it is a party.

(d) No Legal Bar. Except as set forth on Schedule 4.1(d) hereto, there is no suit, action or proceeding pending or, to each Existing Shareholder's knowledge, threatened against any Existing Shareholder that questions the validity of this Agreement or any of the Related Documents, any of the transactions contemplated hereby or thereby or any action which has been taken by any of the parties in connection herewith or therewith or in connection with any of the transactions contemplated hereby or thereby or that seeks to enjoin the consummation thereof.

(e) No Brokerage Fees. No broker or finder has acted for any Existing Shareholder in connection with this Agreement or any of the Related Documents or the transactions contemplated hereby or thereby, and no broker or finder is entitled to any brokerage or finder's fees or other commission in respect of such transactions based in any way on agreements, arrangements or understandings made by or on behalf of any Existing Shareholder.

(f) Capitalization of the Company. As of the Effective Date, each of the Existing Shareholders owns all right, title and interest in and to the number of shares of Common Stock and the number of options exercisable for Common Stock, respectively, specified with respect to such individual on Schedule I attached hereto, free and clear of all liens, claims, charges, security interests and other encumbrances, and such shares, as of the Effective Date, represent the percentage ownership of all of the Capital Stock of the Company on a fully diluted basis (assuming, for this purpose only, that all Capital Stock of the Company that is convertible or exercisable into or exchangeable for Common Stock has been so converted, exercised or exchanged in full) as specified with respect to such individual on Schedule I. As of the Effective Date, no shares of Capital Stock of the Company are owned by any Existing Shareholder other than as specified on Schedule I with respect to such Existing Shareholder.

## 2 REPRESENTATIONS AND WARRANTIES OF OTHER SHAREHOLDERS.

Each Shareholder (other than an Existing Shareholder and the Investor) hereby makes the representations and warranties of the Existing Shareholders set forth in Section 4.1(b), (c), (d) and (e) and the representation and warranty set forth below, in each case with respect to itself only, to the Company and each other Shareholder.

(a) Organization and Authority. To the extent the Shareholder is a Person other than an individual, it is a company duly organized, validly existing and in good standing under the laws of its jurisdiction of organization, has all requisite power and authority to enter into this Agreement and to consummate the transactions contemplated hereby, and is duly qualified as a foreign company under the laws of each jurisdiction where its conduct of business or the ownership of its assets requires such qualification. To the extent the Shareholder is an individual, it has all requisite power to enter into this Agreement and to consummate the transactions contemplated hereby. This Agreement has been duly executed and delivered by such Person, has been effectively authorized by all necessary action, and constitutes the legal, valid and binding obligation of such Person, enforceable against such Person in accordance with its terms, except as enforceability may be subject to the application of general equitable principles and to bankruptcy, insolvency, moratorium or other similar laws affecting creditors' rights generally.

## 3 CERTAIN ADDITIONAL REPRESENTATIONS OF THE SHAREHOLDERS.

Each Shareholder represents and warrants to the Company and to each other Shareholder that (i) all Capital Stock of the Company purchased or otherwise acquired by such Shareholder has been or is being acquired by it for its own account for investment, without any intention of Transferring or further distributing the same in violation of the securities laws and (ii) it is fully aware that in agreeing to Transfer or issue such Capital Stock to it the Company or a Shareholder, as applicable, is relying upon the truth and accuracy of this representation and warranty.

## ARTICLE V

## COVENANTS AND AGREEMENTS

## 1 COVENANTS AND AGREEMENTS OF THE COMPANY.

1 BOOKS AND ACCOUNTS. The Company shall, and shall cause each of its Subsidiaries to: (a) make and keep books, records and accounts, which, in reasonable detail, accurately and fairly reflect its transactions and dispositions of its assets; and (b) devise (if not existing on the Effective Date) and maintain a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization, (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with GAAP and in accordance with the Company's past practices or any other criteria applicable to such statements, and to maintain accountability for assets, (iii) access to assets is permitted only in accordance with management's general or specific authorization and (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

## 2 REPORTS; BUDGETS.

(a) The Company shall furnish to each Shareholder, as soon as practicable and in any event within ninety (90) days after the end of each fiscal year of the Company, a consolidated annual report of the Company and its Subsidiaries, including a consolidated balance sheet as at the end of such fiscal year and consolidated statements of income and retained earnings and changes of cash flows for such fiscal year, together with the related notes thereto, setting forth in each case in comparative form corresponding figures for the preceding fiscal year, all of which shall be correct and complete and shall present fairly the consolidated financial position of the Company and its Subsidiaries and the consolidated results of their operations and changes in their consolidated financial position as of the time and for the period then ended. The consolidated portions of such financial statements shall be accompanied by an unqualified report, in form and substance reasonably satisfactory to the Investor, of independent public accountants of recognized national standing reasonably satisfactory to the Investor, to the effect that such financial statements have been prepared in accordance with GAAP applied on a basis consistent with prior years (except as otherwise permitted under GAAP), and present fairly the consolidated financial position of the Company and its Subsidiaries and the consolidated results of their operations and changes in their consolidated financial position as of the time and for the period then ended. The Company shall, and shall cause each of its Subsidiaries to, conduct its business so that such report of the independent public accountants shall not contain any qualifications as to the scope of the audit or with respect to the Company's or any of its Subsidiaries' compliance with GAAP consistently applied, except for changes in methods of accounting in which such accountants concur.

(b) The Company shall furnish to each Shareholder, as soon as practicable and in any event within forty-five (45) days after the end of each of the first three fiscal quarters of each fiscal year of the Company, a quarterly report of the Company and its Subsidiaries consisting of an unaudited consolidated balance sheet as at the end of such quarter and an unaudited consolidated statement of income and retained earnings for such quarter and the portion of the fiscal year then ended, setting forth in each case in comparative form corresponding figures for the same period in the prior fiscal year and for the budget for the current fiscal year. All such reports shall be certified by the chief financial officer of the Company to be correct and complete, to present fairly the consolidated financial position of the Company and its Subsidiaries and the consolidated results of their operations and changes in their consolidated financial position as of the time and for the period then ended and to have been prepared in accordance with GAAP consistently applied.

(c) The Company shall furnish to each Shareholder, as soon as practicable and in any event within thirty (30) days after the end of each calendar month, commencing with the month of December 1996, a monthly report of the Company and its Subsidiaries in such form and containing such information as the Company and the Investor shall mutually agree promptly following the Effective Date.

(d) The Company shall furnish to each Shareholder, as soon as practicable and in any event within fifteen (15) days after delivery of such Shareholder's request, such additional reports as such Shareholder may reasonably request with respect to such matters and in such form and detail as is reasonably satisfactory to such Shareholder. All such reports shall be certified by the chief financial officer of the Company, which certification shall be in form and substance satisfactory to such Shareholder.

(e) The Company shall furnish to each Shareholder, as soon as practicable and in any event within ninety (90) days after the end of each fiscal year of the Company, an annual operating budget for the Company and each of its Subsidiaries for the succeeding fiscal year, containing, among other things, budgeted statements of profit and loss for each month of such fiscal year. Promptly upon preparation thereof, the Company shall furnish to each Shareholder any other budgets that the Company may prepare and any revisions of such previously furnished budgets. Each budget or material revision thereof furnished to the Shareholders pursuant to this Section 5.1.2(e) shall have been previously submitted to and approved by the Board of Directors of the Company.

3 OTHER REPORTS AND INSPECTION. The Company shall furnish to each Shareholder (a) as soon as practicable after issuance, copies of any financial statements or reports prepared by the Company or its Subsidiaries for, or otherwise furnished to, its shareholders or the Securities and Exchange Commission and (b) promptly such other documents, reports and financial data as such Shareholder may reasonably request. In addition, the Company shall, upon reasonable prior notice, make available during regular business hours to each Shareholder or its representatives or designees (x) all assets, properties and business records of the Company and its Subsidiaries for inspection and/or copying and (y) the directors, officers and employees of the

Company and its Subsidiaries for interviews concerning the business, affairs and finances of the Company and its Subsidiaries.

4 MATERIAL CHANGES. The Company shall promptly notify each Shareholder of any material adverse change in the business, properties, assets, prospects or condition, financial or otherwise, of the Company or any of its Subsidiaries, or any other material adverse event or circumstance affecting the Company or any of its Subsidiaries, and of any material litigation or material governmental proceeding pending or, to the knowledge of the Company or any of its Subsidiaries, threatened against the Company or any of its Subsidiaries or against any director, officer, employee, consultant or Affiliate of the Company or any of its Subsidiaries.

5 CORPORATE EXISTENCE, LICENSES AND PERMITS; MAINTENANCE OF PROPERTIES. The Company shall, and shall cause each of its Subsidiaries to, at all times conduct its business in the ordinary course and cause to be done all things necessary to maintain, preserve and renew its existence and shall preserve and keep in full force and effect, and shall cause each of its Subsidiaries to preserve and keep in full force and effect, all licenses, permits and authorizations necessary or advisable to the conduct of its and their respective businesses. The Company shall maintain and keep, and shall cause each of its Subsidiaries to maintain and keep, its and their respective properties in good repair, working order and condition, and from time to time, to make all needful and proper repairs, renewals and replacements, so that the business carried on in connection therewith may be properly conducted at all times.

6 COMPLIANCE WITH OBLIGATIONS AND LAWS. The Company shall, and shall cause each of its Subsidiaries to, comply with (a) all material obligations which it or its Subsidiaries are subject to, or become subject to, pursuant to any contract or agreement, whether oral or written, as such obligations are required to be observed or performed, unless and to the extent that the same are being contested in good faith and by appropriate proceedings diligently prosecuted and the Company and its Subsidiaries have set aside on their books adequate reserves with respect thereto and (b) all applicable laws, statutes, rules, regulations, orders, demands and requests of all Governmental Authorities, including, without limitation, all Environmental Laws (as defined in the Purchase Agreement).

7 AMENDMENTS TO ORGANIZATIONAL DOCUMENTS. None of the Company and its Subsidiaries will amend its certificate of incorporation or by-laws so as to adversely affect the rights of the Investor under this Agreement, the Certificate of Incorporation, the by-laws of the Company or the Related Documents.

8 TAXES AND LIENS. The Company shall, and shall cause each of its Subsidiaries to, file all applicable tax returns in a timely manner. The Company shall duly pay and discharge, and shall cause each of its Subsidiaries to duly pay and discharge, when payable, all taxes, assessments and governmental charges imposed upon or against the Company or its Subsidiaries or their respective properties, or any part thereof or upon the income or profits therefrom, in each case before the same become delinquent and before penalties accrue thereon,

as well as all claims for labor, materials or supplies which if unpaid might by law or statute become a lien, claim, charge or encumbrance upon any of its property or any property of any of its Subsidiaries, unless and to the extent that the same are being contested in good faith and by appropriate proceedings diligently prosecuted and the Company and its Subsidiaries have set aside on their books adequate reserves with respect thereto.

9 RESTRICTIVE AGREEMENT. From and after the Effective Date, neither the Company nor any of its Subsidiaries will be a party to any agreement, instrument or understanding which by its terms would restrict the Company's performance of its obligations pursuant to this Agreement, the Certificate of Incorporation or any of the Related Documents.

10 SERIES A PREFERRED STOCK AND WARRANTS AND RELATED MATTERS.

(a) The Company agrees that all shares of Common Stock that may be issued upon conversion of the Series A Preferred Stock or upon exercise of the Warrants will, upon issuance, be duly and validly authorized and issued, fully paid and nonassessable, and free and clear from all rights, taxes, liens, claims, charges and encumbrances.

(b) The Company shall pay when due and payable any and all federal, state, local, transfer, documentary, stamp and other taxes or charges, if any, attributable to the initial issuance or delivery of any shares of Common Stock or certificates therefor issuable upon conversion of the Series A Preferred Stock or upon exercise of the Warrants, other than any taxes measured or based upon the net income of any Person other than the Company.

(c) The Company shall at all times have authorized and reserved, free from preemptive or other rights or claims, a sufficient number of shares of Common Stock to provide for the conversion of the Series A Preferred Stock and the exercise of the Warrants. The Company further agrees that if any shares of its Capital Stock to be reserved for the purpose of the issuance of shares upon the conversion of the Series A Preferred Stock or upon exercise of the Warrants require registration with or approval of any Governmental Authority under any applicable law before such shares may be validly issued or delivered upon conversion or exercise, then the Company shall in good faith and as expeditiously as possible endeavor to secure such registration or approval, as the case may be.

(d) The Company shall comply in all respects with its Certificate of Incorporation and by-laws, including, without limitation, Article Fourth, Section 7(e) of the Certificate of Incorporation.

(e) So long as the Common Stock issuable upon the conversion of the Series A Preferred Stock may be listed on any national securities exchange or eligible for trading on NASDAQ (or any other quotation system operated by a national securities association), the Company covenants and agrees that it shall take all such action as may be necessary to cause all shares reserved for such issuance to be listed as expeditiously as reasonably possible on such exchange or to be made so eligible as expeditiously as possible upon official notice of issuance upon such exercise.

SHAREHOLDERS.

(a) For the period beginning on the Effective Date and ending five (5) years thereafter (the "Term"), the Existing Shareholders and their respective Affiliates shall not, directly or indirectly, own, manage, operate, join or Control or participate (or serve as a consultant or in a similar position) in the ownership, management, operation or Control of, any business, entity, firm, partnership, corporation or other Person, whether private, governmental or quasi-governmental, other than the Company or any of its Subsidiaries, which is engaged, directly or indirectly, anywhere in North America and/or Europe, in the business of developing, manufacturing, marketing, selling and/or distributing breath alcohol ignition interlock devices and related products.

(b) During the Term, the Existing Shareholders and their respective Affiliates shall refrain from, directly, indirectly or as an agent on behalf of or in conjunction with any Person, soliciting (i) or encouraging any employee of the Company or any of its Subsidiaries who is employed in an executive, managerial, administrative, technical or professional capacity or who possesses Confidential Material to leave the employment of the Company or such Subsidiary or (ii) any customer of the Company or any of its Subsidiaries on behalf of any Person other than the Company or any such Subsidiary.

(c) Each of the Existing Shareholders has had, and may be expected in the future to have, access to Confidential Material. All such Confidential Material is considered secret and has been and/or will be disclosed to each such Existing Shareholder in confidence, and each Existing Shareholder acknowledges that, as a consequence of his employment and position with the Company, he has had access to and became acquainted with Confidential Material. Except in the performance of his duties as a director, officer or consultant of the Company, each Existing Shareholder shall not, during the Term and at all times thereafter, directly or indirectly for any reason whatsoever, disclose or use any such Confidential Material. All records, files, drawings, documents, equipment and other tangible items, wherever located, relating in any way to or containing Confidential Material, which any such Existing Shareholder has prepared, used or encountered or shall in the future prepare, use or encounter, shall be and remain the Company's sole and exclusive property and shall be included in the Confidential Material. Whenever requested by the Company, each Existing Shareholder shall promptly deliver to the Company any and all of the Confidential Material and copies thereof, not previously delivered to the Company, that may be in the possession or under the control of such Existing Shareholder. The foregoing restrictions shall not apply to the use, divulgence, disclosure or grant of access to Confidential Material to the extent, but only to the extent, (i) such Confidential Material has been publicly disclosed (not due to a breach by such Existing Shareholder of his obligations hereunder or by breach of any other Person of a fiduciary or confidential obligation to the Company) or (ii) such Existing Shareholder is required to disclose Confidential Material by or to any court of competent jurisdiction or any governmental or quasi-governmental agency, authority or instrumentality of competent jurisdiction, provided that such Existing Shareholder shall, prior to any such disclosure, immediately notify the Company of such requirement and provided, further, that the Company shall have the right, at its expense, to object to such disclosures and to seek

confidential treatment of any Confidential Material to be so disclosed on such terms as it shall determine.

(d) In the case of each registration of any underwritten primary offering initiated by the Company (other than any registration by the Company on Form S-4 or Form S-8 (or any successor or substantially similar form), or the registration of (A) an employee stock option, stock purchase or compensation plan or of securities issued or issuable pursuant to any such plan or (B) a dividend reinvestment plan) or any underwritten secondary offering initiated at the request of any other Person (including, without limitation, any demand registration initiated by the Investor or an Other Approved Holder (as defined in the Registration Rights Agreement) under the Registration Rights Agreement or otherwise, whether or not shares of Capital Stock of the Company will be included by the Company in any such offering), each Existing Shareholder severally agrees, if and to the extent requested in writing by the managing underwriter or underwriters administering such offering as promptly as reasonably practicable prior to the commencement of the ten (10)-day period referred to below, not to effect any public Transfer of any Capital Stock of the Company except as part of such underwritten registration, during the period beginning ten (10) days prior to the effective date of the applicable registration statement relating to such underwritten offering and ending on the earlier of (i) ninety (90) days after such effective date and (ii) the date such Transfer is permitted by such managing underwriter or underwriters. The provisions of this paragraph (b) shall (x) be in addition to, and shall not in any way limit the application of, any other provision of this Agreement and (y) remain in full force and effect for so long as the Registration Rights Agreement is in effect, notwithstanding the earlier termination or expiration of this Agreement.

3 TERMINATION OF CURRENT SHAREHOLDERS' AGREEMENTS.

Each of the Existing Shareholders and the Company agree that all existing shareholders' agreements among or between such parties or any of them in relation to the Company and/or its Capital Stock are hereby terminated and superseded and replaced by this Agreement.

4 WAIVERS BY THE INVESTOR. The parties hereto agree

that the Investor may from time to time in its sole discretion waive any or all of its rights, privileges or remedies hereunder with respect to any Person or Persons, subject to Section 7.2 hereof.

ARTICLE VI

EFFECTIVE DATE; TERM; TERMINATION

1 EFFECTIVE DATE. This Agreement shall become

effective on the Effective Date.

2 TERM. The obligations of each party hereunder shall

remain binding upon such party until such time as:

(a) this Agreement has terminated pursuant to Section 6.3 hereof; or

(b) such party has Transferred all of its Capital Stock in the Company in accordance with the terms of this Agreement and the by-laws of the Company and is in compliance with its obligations under this Agreement.

3 TERMINATION. Except as otherwise expressly provided herein, this Agreement shall terminate and all rights and obligations hereunder shall cease, upon the first to occur of any of the following events:

(i) the date that is ten (10) years after the Effective Date; or

(ii) the voluntary dissolution of the Company; or

(iii) the written agreement of each of the parties hereto to such termination; or

(iv) (x) there ceases to be at least 250,000 shares of Series A Preferred Stock outstanding (as adjusted for stock splits, stock dividends, stock combinations, recapitalizations and like occurrences) and (y) the Investor ceases to own at least 166,666 shares of Common Stock (assuming, for this purpose only, that all Capital Stock of the Company owned by the Investor that is convertible or exercisable into or exchangeable for Common Stock has been so converted, exercised or exchanged by the Investor in full and as adjusted for stock splits, stock dividends, stock combinations, recapitalizations and like occurrences).

## ARTICLE VII

### MISCELLANEOUS

1 ENTIRE AGREEMENT. This Agreement, together with the other agreements, instruments and documents expressly referred to herein, constitute the entire agreement of the parties with respect to the transactions contemplated hereby and supersede all prior agreements and understandings with respect thereto, whether written or oral.

2 NO WAIVER; MODIFICATIONS IN WRITING. No failure or delay by a party in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. The remedies provided for herein are cumulative and are not exclusive of any remedies that may be available to any party at law or in equity or otherwise. No waiver of or consent to any departure by a party from any provision of this

Agreement shall be effective unless signed in writing by the parties entitled to the benefit thereof. No amendment, modification or termination of any provision of this Agreement shall be effective unless signed in writing by all parties. Any amendment, supplement or modification of or to any provision of this Agreement, any waiver of any provision of this Agreement, and any consent to any departure from the terms of any provision of this Agreement, shall be effective only in the specific instance and for the specific purpose for which made or given.

3 NOTICES. All notices, demands and other communications provided for hereunder shall be in writing, shall be given by registered or certified mail, return receipt requested, telegram, telecopy, courier service or personal delivery, addressed

- (i) to the Company or any Existing Shareholder as follows:

Alcohol Sensors International, Ltd.  
11 Oval Drive  
Islandia, New York 11772  
Attention: Robert B. Whitney, President  
Telecopy: (516) 342-1550

with a copy to:

Berger & Paul  
630 Third Avenue  
New York, New York 10017  
Attention: Harold W. Paul  
Telecopy: (212) 661-7060

- (ii) to the Investor as follows:

American International Insurance Company  
505 Carr Road  
Wilmington, Delaware 19809  
Attention: Ernest Hanson  
Telecopy: (302) 762-7451

with copies to:

American International Group, Inc.  
70 Pine Street  
New York, New York 10270  
Attention: Florence A. Davis  
Telecopy: (212) 785-1584

Kramer, Levin, Naftalis & Frankel  
919 Third Avenue  
New York, New York 10022  
Attention: Paul S. Pearlman  
Telecopy: (212) 715-8000

- (iii) to any other Shareholder as specified by such Person in writing to each party hereto,

or to such other address as any party shall designate in writing, and shall be deemed given when received.

4 EXECUTION IN COUNTERPARTS. This Agreement may be executed in any number of counterparts and by different parties hereto on separate counterparts, each of which counterparts, when so executed and delivered, shall be deemed to be an original and all of which counterparts, taken together, shall constitute but one and the same Agreement.

5 BINDING EFFECT; ASSIGNMENT. The rights and obligations of the parties under this Agreement may not be assigned or otherwise transferred to any other Person, except (i) with the prior written consent of the other parties hereto and (ii) in connection with a Transfer of Capital Stock of the Company by a Shareholder made in compliance with all of the provisions of this Agreement. Except as expressly provided in this Agreement, this Agreement shall not be construed so as to confer any right or benefit upon any Person other than the parties to this Agreement and their respective successors, permitted assigns, heirs and personal representatives. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their respective successors, permitted assigns, heirs and personal representatives.

6 GOVERNING LAW. This Agreement shall be deemed to be a contract made under and shall be governed by and construed in accordance with the internal laws of the State of New York without reference to the principles of conflict of laws.

7 CONSENT TO JURISDICTION AND SERVICE OF PROCESS. Any suit, action or proceeding arising out of or relating to this Agreement, the Related Documents or the transactions contemplated hereby or thereby may be instituted in any Federal court situated in the State of New York or any state court of the State of New York in each case, in the Borough of Manhattan, City of New York, and each party agrees not to assert, by way of motion, as a defense or otherwise, in any such suit, action or proceeding, any claim that it is not subject personally to the jurisdiction of such court, that the suit, action or proceeding is brought in an inconvenient forum, that the venue of the suit, action or proceeding is improper or that this Agreement, the Related Documents or the subject matter hereof or thereof may not be enforced in or by such court. Each party further irrevocably submits to the jurisdiction of such court in any such suit, action or proceeding. Any and all service of process and any other notice in any such suit, action or proceeding shall be effective against any party if given personally or by registered or certified mail, return receipt requested, or by any other means of mail that requires a signed receipt, postage fully prepaid,

mailed to such party as herein provided. Nothing herein contained shall be deemed to affect the right of any party to serve process in any manner permitted by law or to commence legal proceedings or otherwise proceed against any other party in any other jurisdiction.

8 FURTHER ASSURANCES. Each of the parties hereto shall execute and deliver such documents, instruments and agreements and take such further actions as may be reasonably required or desirable to carry out the provisions of this Agreement, the Related Documents and the transactions contemplated hereby and thereby, and each of the parties hereto shall cooperate with each other in connection with the foregoing.

9 SPECIFIC PERFORMANCE. The parties acknowledge that irreparable damage would occur to the Investor in the event that any of the provisions of this Agreement or any of the Related Documents were not performed by the other parties hereto in accordance with their specific terms or were otherwise breached by such other parties and that money damages would not provide an adequate remedy to the Investor. It is accordingly agreed that the Investor shall be entitled to an injunction and other equitable remedies to prevent breaches by the other parties hereto of this Agreement and the Related Documents, and to enforce specifically the terms and provisions hereof or thereof in any court of the United States or any state thereof having jurisdiction, this being in addition to any other remedy to which the Investor may be entitled at law or in equity.

10 SEVERABILITY OF PROVISIONS. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof or affecting the validity or enforceability of such provision in any other jurisdiction. If any provision in Section 5.2 hereof is held to be invalid or unenforceable because of the scope or duration of or the area covered by such provision, the parties hereto agree that the court making such determination shall reduce the scope, duration and/or area of such provision (and shall substitute appropriate provisions for any such invalid or unenforceable provisions) in order to make such provision enforceable to the fullest extent permitted by law and/or shall delete specific words and phrases, and such modified provision shall then be enforceable and shall be enforced. The parties hereto recognize that if, in any judicial proceeding, a court shall refuse to enforce any of the separate covenants contained in Section 5.2 hereof, then that invalid or unenforceable covenant contained in Section 5.2 hereof shall be deemed eliminated from this Agreement to the extent necessary to permit the remaining separate covenants hereof to be enforced. In the event that any court determines that the time period or the area, or both, are unreasonable and that any of the covenants in Section 5.2 hereof is to that extent invalid or unenforceable, the parties hereto agree that such covenants will remain in full force and effect, first, for the greatest time period, and second, in the greatest geographical area that would not render them enforceable.

11 HEADINGS. The Article and Section headings used or contained in this Agreement are for convenience of reference only and shall not affect the construction of this Agreement.

12 COSTS AND EXPENSES. The respective parties hereto shall pay all costs and expenses that each respectively incurs with respect to the negotiation, execution and delivery of this Agreement and the Related Documents.

13 WAIVER OF JURY TRIAL. The parties hereto hereby irrevocably waive all right to a trial by jury in any action, proceeding or counterclaim arising out of or relating to this Agreement, the Related Documents or the transactions contemplated hereby or thereby.

14 PUBLICITY. The parties agree that no public release or announcement concerning this Agreement or any of the Related Documents or the transactions contemplated hereby or thereby shall be made without advance review and approval by the Company and the Investor, except as otherwise required by applicable law.

15 NATURE OF AGREEMENTS. The covenants and agreements of the parties in this Agreement are several and not joint covenants and agreements, unless otherwise expressly specified herein.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement or caused this Agreement to be duly executed by their respective officers or representatives thereunto duly authorized as of the day and year first written above.

/s/ Robert B. Whitney  
-----  
ROBERT B. WHITNEY

/s/ Steven A. Martello  
-----  
STEVEN A. MARTELLO

/s/ John T. Ruocco  
-----  
JOHN T. RUOCCO

/s/ Michael A. Sylvester  
-----  
MICHAEL A. SYLVESTER

/s/ Joseph M. Lively  
-----  
JOSEPH M. LIVELY

AMERICAN INTERNATIONAL INSURANCE  
COMPANY

By: /s/ Edward E. Matthews  
-----  
Name: Edward E. Matthews  
Title: Senior Vice President & Director

ALCOHOL SENSORS INTERNATIONAL, LTD.

By: /s/ Robert B. Whitney  
-----  
Name: Robert B. Whitney  
Title: President & CEO

## SCHEDULE I

SHAREHOLDERS' OWNERSHIP  
OF CAPITAL STOCK

Name of Shareholder -----	No. of Shares of Common Stock Owned -----	No. of Shares of Options Exercisable for Common Stock Owned -----	Percentage Ownership of All of the Company's Capital Stock (on a Fully Diluted Basis) -----
Robert B. Whitney	646,082		5.31%
Steven A. Martello	150,000		1.23%
John T. Ruocco	646,082		5.31%
Michael A. Sylvester	646,082		5.31%
Joseph M. Lively	0	140,000	1.15%
Ariel Enterprises	180,000	100,000	2.30%

Exhibit A: Certificate of Incorporation of the Company

Schedule 4.1(d): Certain Legal Matters

This REGISTRATION RIGHTS AGREEMENT (this "Agreement") is made and entered into as of December 20, 1996 between ALCOHOL SENSORS INTERNATIONAL, LTD., a New York corporation (the "Company"), and AMERICAN INTERNATIONAL INSURANCE COMPANY, a New York corporation (the "Securityholder").

The Securityholder is the beneficial owner of certain Registrable Securities (as defined below) issued by the Company pursuant to the Purchase Agreement (as defined below). The Company and the Securityholder deem it to be in their respective best interests to set forth, among other things, the rights of the Securityholder in connection with public offerings and sales of the Registrable Securities.

NOW, THEREFORE, in consideration of the premises and mutual covenants and obligations hereinafter set forth, the Company and the Securityholder, intending legally to be bound, hereby agree as follows:

SECTION 1. DEFINITIONS. As used in this Agreement, the following terms shall have the following meanings:

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control," when used with respect to any Person, means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Business Day" shall mean any day other than Saturday and Sunday and any other day on which banking institutions in the State of New York are required or authorized by law to close.

"Capital Stock" shall mean all shares, interests, participations, rights or other equivalents (however designated) of corporate stock.

"Common Stock" shall mean the common stock, par value \$0.001 per share, of the Company.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended (or any similar successor federal statute), and the rules and regulations thereunder, as the same are in effect from time to time.

"Hold-Back Election" shall have the meaning set forth in Section 6(a) hereof.

"Holder" shall mean any Person that owns Registrable Securities, including such successors and assigns as acquire Registrable Securities, directly or indirectly, from such Person. For purposes of this Agreement, the Company may deem the registered holder of a Registrable Security as the Holder thereof.

"Material Development Election" shall have the meaning set forth in Section 6(b) hereof.

"Other Approved Holders" shall mean holders of Common Stock having registration rights with respect to the Common Stock, other than under this Agreement, which registration rights have been consented to in writing by the Securityholder.

"Person" shall mean an individual, partnership, corporation, limited liability company, joint venture, trust or unincorporated organization, a government or agency or political subdivision thereof or any other entity.

"Preferred Stock" shall mean the Company's Series A Cumulative Non- redeemable Convertible Preferred Stock, par value \$0.001 per share.

"Prospectus" shall mean the prospectus (including a preliminary prospectus) included in any Registration Statement, as amended or supplemented by a prospectus supplement with respect to the terms of the offering of any portion of the Registrable Securities covered by such Registration Statement and by all other amendments and supplements to the prospectus, including post-effective amendments and all material incorporated by reference in such prospectus.

"Purchase Agreement" shall mean the Convertible Preferred Stock and Warrant Purchase Agreement dated as of the date hereof between the Company and the Securityholder.

"Registrable Securities" shall mean (i) the Common Stock issued or issuable upon conversion of the Preferred Stock or the exercise of the Warrants; and (ii) any other Capital Stock or other securities issued or issuable as a result of or in connection with any stock dividend, stock split or reverse stock split, combination, recapitalization, reclassification, merger or consolidation, exchange, distribution or similar transaction in respect of the Common Stock.

"Registration Expenses" shall have the definition set forth in Section 7 hereof.

"Registration Statement" shall mean any registration statement which covers any of the Registrable Securities pursuant to the provisions of this Agreement, including the Prospectus included therein, all amendments and supplements to such Registration Statement, including post-effective amendments, all exhibits and all material incorporated by reference in such Registration Statement.

"Restricted Security" shall have the meaning set forth in Section 2 hereof.

"Rule 144" shall mean Rule 144 promulgated under the Securities Act, as amended from time to time, or any similar successor rule thereto that may be promulgated by the SEC.

"Rule 144A" shall mean Rule 144A promulgated under the Securities Act, as amended from time to time, or any similar successor rule thereto that may be promulgated by the SEC.

"Rule 415" shall mean Rule 415 promulgated under the Securities Act, as amended from time to time, or any similar successor rule thereto that may be promulgated by the SEC.

"Rule 424" shall mean Rule 424 promulgated under the Securities Act, as amended from time to time, or any similar successor rule thereto that may be promulgated by the SEC.

"SEC" shall mean the Securities and Exchange Commission, or any other federal agency at the time administering the Securities Act.

"Securities Act" shall mean the Securities Act of 1933, as amended (or any similar successor federal statute), and the rules and regulations thereunder, as the same are in effect from time to time.

"Shelf Registration" shall mean the registration of Registrable Securities for sale on a continuous or delayed basis pursuant to Rule 415.

"Shelf Registration Statement" shall mean a Registration Statement filed in connection with a Shelf Registration.

"Underwritten Offering" shall mean a registered offering in which securities of the Company are sold to an underwriter for reoffering to the public.

"Warrants" shall mean the Warrants of the Company exercisable for shares of Common Stock purchased by the Securityholder from the Company pursuant to the Purchase Agreement.

SECTION 2. SECURITIES SUBJECT TO THIS AGREEMENT. The securities entitled to the benefits of this Agreement are the Registrable Securities but, with respect to any particular Registrable Security, only so long as such security continues to be a Restricted Security. A Registrable Security that has ceased to be a Registrable Security cannot thereafter become a Registrable Security. As used herein, a "Restricted Security" is a Registrable Security which has not been effectively registered under the Securities Act and distributed to any Person in accordance with an effective Registration Statement and which has not been distributed by a Holder to any Person pursuant to Rule 144.

## SECTION 3. DEMAND REGISTRATION.

(a) Demand. Upon the written request of the Securityholder or a Holder or Holders of a majority of the then outstanding Registrable Securities (on a Common Stock equivalent basis) requesting that the Company effect the registration under the Securities Act of Registrable Securities and specifying the intended method or methods of disposition thereof (which may include a continuous or delayed offering), the Company will use its best efforts to effect, as expeditiously as possible, the registration under the Securities Act of the Registrable Securities which the Company has been so requested to register by the Securityholder or such Holder or Holders of Registrable Securities; provided, however, that, except as provided below, the Company shall not be obligated to (1) effect more than an aggregate of two (2) demand registrations pursuant to this Section 3; or (2) effect a demand registration unless either (I) the Registrable Securities for which the demand is made constitute at least one-half of the then outstanding Registrable Securities (on a Common Stock equivalent basis) or (II) the demand is made with respect to all of the Registrable Securities then beneficially owned by the Securityholder or the demanding Holder or Holders, provided such Registrable Securities constitute at least 10% of the Registrable Securities initially issued by the Company (on a Common Stock equivalent basis); and provided further that no Holder (including the Securityholder) shall deliver a request for a demand registration for a period of four (4) months following the last date on which a Registration Statement filed in respect of the previous demand registration, if any, was declared by the SEC to be effective. The number, percentage or kind of shares in clause (2) above shall be appropriately adjusted for any stock dividend, stock split, reverse stock split, combination, recapitalization, reclassification, merger, consolidation, exchange, distribution or similar transaction with respect to the shares of Common Stock. Notwithstanding the foregoing, the Securityholder or a Holder or Holders of a majority of the then outstanding Registrable Securities (on a Common Stock equivalent basis) shall be entitled to unlimited additional demand registrations if such additional demand registrations would be eligible for registration on Form S-3 (after the Company qualifies for Form S-3, provided that in the case of any individual such demand registration the aggregate gross proceeds from such S-3 demand registration would exceed \$500,000, if all registered shares thereunder were sold); provided, however, that there shall be no more than two (2) such registrations in any twelve (12) month period.

Upon receipt of any request for registration pursuant to this Section 3 from the Securityholder or any Holder or Holders of Registrable Securities, the Company shall promptly (but in any event within 20 days) give written notice of such request to all other Holders. The Company shall include in the requested registration all Registrable Securities requested to be included by such of the other Holders who shall make such request by written notice to the Company delivered within 30 days of their receipt of the Company's notice. If the Company shall receive a request for inclusion in the registration of the Registrable Securities of additional Holders, it shall promptly so inform in writing the Person or Persons who made the initial request for registration. Notwithstanding the foregoing, if the managing underwriter or underwriters of the proposed public offering advises the Holder or Holders intending to participate in such proposed public offering in writing that the total amount or kind of securities which such Holder

or Holders intends to include in such proposed public offering is sufficiently large to materially adversely affect the success of the proposed public offering, then the amount or kind of securities to be offered for the accounts of all Holders whose securities are included in such Registration Statement shall be reduced (on a pro rata basis in the case of more than one such Holder) to the extent necessary to reduce the total amount or kind of securities to be included in such proposed public offering to the amount or kind recommended by such managing underwriter or underwriters. The Company shall not register any securities other than Registrable Securities in any demand registration effected pursuant to this Section 3(a), except pursuant to Section 3(c) or with the prior written consent of the Securityholder (if it is participating in such offering) or, if the Securityholder is not participating in such offering, the Holders of a majority of the Registrable Securities (on a Common Stock equivalent basis) being sold pursuant to such offering.

A Holder (including the Securityholder) or Holders requesting a registration pursuant to this Section 3 may, at any time prior to the effective date of the Registration Statement relating to such registration, revoke such request by providing a written notice to the Company revoking such request. The Company shall be required to pay all Registration Expenses with respect to the first demand for registration to be revoked. If a Holder (including the Securityholder) or Holders thereafter shall revoke any demand for registration, such Holder (including the Securityholder) or Holders, at their option, shall either pay all out-of-pocket Registration Expenses with respect to such revoked demand or count such revoked demand as one of the demands for registration to which Holders are entitled pursuant to this Section 3.

(b) Effectiveness of Registration Statement. The Company agrees to use its best efforts to (i) cause the Registration Statement relating to any demand registration pursuant to this Section 3 to become effective as expeditiously as possible; (ii) thereafter keep such Registration Statement effective continuously for the period specified in the next succeeding paragraph and to permit the sale of such Registrable Securities in accordance with the intended method or methods of distribution thereof; and (iii) prevent the happening of any event of the kinds described in clauses (4), (5) and (6) of Section 5(a)(ii).

A demand registration requested pursuant to this Section 3 will not be deemed to have been effected unless the Registration Statement relating thereto has become effective under the Securities Act and remained continuously effective (except as otherwise permitted under this Agreement) for a period ending on the earlier of (i) the date that is nine (9) months after the effective date of such Registration Statement (subject to extension as provided in the final paragraph of Section 5(a), Section 6(a) and Section 6(b)) and (ii) the date on which all Registrable Securities covered by such Registration Statement have been sold and the distribution contemplated thereby has been completed; provided, however, that if, after such Registration Statement has become effective, the offering of the Registrable Securities pursuant to such registration is interfered with by any stop order, injunction or similar order of the SEC or other governmental agency or court (other than by reason of any untrue statement of a material fact or any omission of a material fact required to be stated in the Registration Statement or necessary to make the statements therein not misleading, to the extent, but only to the extent, that such untrue statement or omission is contained in any information or affidavit furnished in writing by

a Holder to the Company specifically for inclusion therein), such registration will be deemed not to have been effected.

(c) Inclusion of Securities of Other Approved Holders. The Company and any Other Approved Holder may include its securities in any demand registration effected pursuant to this Section 3 that is not a Shelf Registration; provided, however, that if the managing underwriter or underwriters of the proposed public offering advises the Holder or Holders intending to participate in such proposed public offering in writing that the total amount or kind of securities which such Holders, the Company and such Other Approved Holders intend to include in such proposed public offering is sufficiently large to materially adversely affect the success of the proposed public offering requested by such Holder or Holders, then the amount or kind of securities to be offered for the accounts of the Other Approved Holders shall be reduced pro rata among such Other Approved Holders to the extent necessary to reduce the total amount or kind of securities to be included in such proposed public offering to the amount or kind recommended by such managing underwriter or underwriters and, if such reduction results in no securities being offered for the accounts of the Other Approved Holders in such proposed public offering, then the amount or kind of securities to be offered for the account of the Company shall be reduced to the extent necessary to reduce the total amount or kind of securities to be included in such proposed public offering to the amount or kind recommended by such managing underwriter or underwriters.

SECTION 4. PIGGYBACK REGISTRATION. If the Company at any time proposes to file a registration statement with respect to any class of equity securities, whether for its own account (other than in connection with the Registration Statement contemplated by Section 3 or a registration statement on Form S-4 or S-8 (or any successor or substantially similar form), or the registration of (A) an employee stock option, stock purchase or compensation plan or of securities issued or issuable pursuant to any such plan or (B) a dividend reinvestment plan) or for the account of an Other Approved Holder (a "Requesting Securityholder"), then the Company shall in each case give written notice of such proposed filing to all Holders of Registrable Securities at least 20 days before the anticipated filing date of any such registration statement by the Company, and such notice shall offer to all Holders the opportunity to have any or all of the Registrable Securities held by such Holders included in such registration statement. Each Holder of Registrable Securities desiring to have its Registrable Securities registered under this Section 4 shall so advise the Company in writing within 15 days after the date of receipt of such notice (which request shall set forth the amount of Registrable Securities for which registration is requested), and the Company shall include in such Registration Statement all such Registrable Securities so requested to be included therein on the same terms and conditions as the securities being registered by the Company. Any Holder's request for such inclusion may be withdrawn, in whole or in part, at any time prior to the effective date of such Registration Statement. Notwithstanding the foregoing, if the managing underwriter or underwriters of any such proposed public offering advises the Company in writing that the total amount or kind of securities which the Holders of Registrable Securities, the Company and the Other Approved Holders intend to be included in such proposed public offering is sufficiently large to materially adversely affect the success of such proposed public offering, then the amount or kind of securities to be offered for

the accounts of Holders of Registrable Securities and the Other Approved Holders shall be reduced pro rata to the extent necessary to reduce the total amount or kind of securities to be included in such proposed public offering to the amount or kind recommended by such managing underwriter or underwriters before the securities offered by the Company or any Requesting Securityholder are so reduced.

#### SECTION 5. REGISTRATION PROCEDURES.

(a) General. In connection with the Company's registration obligations pursuant to Sections 3 and 4 hereof, the Company will, as expeditiously as practicable:

(i) prepare and file with the SEC a new Registration Statement or such amendments and post-effective amendments to an existing Registration Statement as may be necessary to keep such Registration Statement effective for the time periods set forth in Section 3(b), provided that no Registration Statement shall be required to remain in effect after all Registrable Securities covered by such Registration Statement have been sold and distributed as contemplated by such Registration Statement, and provided, further, that as soon as practicable, but in no event later than three (3) Business Days before filing such Registration Statement, any related Prospectus or any amendment or supplement thereto, other than any amendment or supplement made solely as a result of incorporation by reference of documents filed with the SEC subsequent to the filing of such Registration Statement, the Company shall furnish to the Holders of the Registrable Securities covered by such Registration Statement and the underwriters, if any, copies of all such documents proposed to be filed, which documents shall be subject to the review of such Holders and underwriters; the Company shall not file any Registration Statement or amendment thereto or any Prospectus or any supplement thereto (other than any amendment or supplement made solely as a result of incorporation by reference of documents filed with the SEC subsequent to the filing of such Registration Statement) to which the managing underwriters of the applicable offering, if any, or the Securityholder (if it is participating in such offering) or the Holders of a majority of the Registrable Securities (on a Common Stock equivalent basis) covered by such Registration Statement shall have reasonably objected in writing within three (3) Business Days after receipt of such documents to the effect that such Registration Statement or amendment thereto or Prospectus or supplement thereto does not comply in all material respects with the requirements of the Securities Act (provided that the foregoing shall not limit the right of any Holder whose Registrable Securities are covered by a Registration Statement to reasonably object, within two (2) Business Days after receipt of such documents, to any particular information that is to be contained in such Registration Statement, amendment, Prospectus or supplement that relates specifically to such Holder, including any information describing the manner in which such Holder acquired such Registrable Securities and the intended method or methods of distribution of such Registrable Securities), and if the Company is unable to file any such document due to the objections of such underwriters, the Securityholder or such Holders, the Company shall use its best efforts to cooperate with such underwriters, the Securityholder and Holders to prepare, as soon as practicable, a document that is responsive in all material respects to the

reasonable objections of such underwriters, the Securityholder and Holders; cause the Prospectus to be supplemented by any required Prospectus supplement, and as so supplemented to be filed pursuant to Rule 424; and comply with the provisions of the Securities Act applicable to the Company with respect to the disposition of all securities covered by such Registration Statement during the applicable period in accordance with the intended method or methods of distribution by the sellers thereof set forth in such Registration Statement, Prospectus or supplement to the Prospectus (it being understood that the Company shall not be deemed to have used its best efforts to keep a Registration Statement effective during the applicable period if any action is taken by the Company that would result in Holders of the Registrable Securities covered thereby not being able to sell such Registrable Securities during that period unless such action is required under applicable law or is contemplated under the last paragraph of Section 5(a), Section 6(a) or Section 6(b));

(ii) notify the selling Holders of Registrable Securities and the managing underwriters, if any, promptly (providing confirmation in writing) (1) when a new Registration Statement, Prospectus or any Prospectus supplement or post-effective amendment has been filed, and, with respect to any new Registration Statement or post-effective amendment, when it has become effective, (2) of any request by the SEC for amendments or supplements to any Registration Statement or Prospectus or for additional information, (3) of the issuance by the SEC of any comments with respect to any filing, (4) of any stop order suspending the effectiveness of any Registration Statement or the initiation of any proceedings for that purpose, (5) in the case of an Underwritten Offering, if at any time the representations and warranties of the Company contemplated by paragraph (xi) below cease to be true and correct as of any time they are required to be true and correct, (6) of any suspension of the qualification or registration (or exemption therefrom) of the Registrable Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose and (7) of the happening of any event which makes any statement of a material fact made in any Registration Statement, Prospectus or any document incorporated therein by reference untrue or which requires the making of any changes in any Registration Statement, Prospectus or any document incorporated therein by reference so that it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or supplement, in the light of the circumstances under which they were made) not misleading; and make every reasonable effort to obtain as soon as possible the withdrawal of any order or other action suspending the effectiveness of any Registration Statement or suspending the qualification or registration (or exemption therefrom) of the Registrable Securities for sale in any jurisdiction;

(iii) if reasonably requested by the managing underwriter or underwriters or a Holder of Registrable Securities being sold in connection with an Underwritten Offering, promptly incorporate in a Prospectus supplement or post-effective amendment such information as the managing underwriters, the Securityholder (if it is participating

in such offering) and the Holders of a majority of the Registrable Securities (on a Common Stock equivalent basis) being sold in such Underwritten Offering reasonably agree should be included therein relating to the sale of the Registrable Securities, including information with respect to the aggregate number of shares of Registrable Securities being sold to such underwriters, the purchase price being paid therefor by such underwriters and with respect to any other terms of the Underwritten Offering of the Registrable Securities to be sold in such offering; and promptly make all required filings of such Prospectus supplement or post-effective amendment;

(iv) promptly after the filing of any document which is to be incorporated by reference into a Registration Statement or Prospectus, provide copies of such document to the selling Holders of the Registrable Securities covered thereby and the underwriters, if any;

(v) promptly after the filing of such documents with the SEC, furnish to each selling Holder of Registrable Securities and each managing underwriter, if any, without charge, at least one manually signed or "edgarized" copy (but not to exceed five manually signed copies of any document to all selling Holders and underwriters in the aggregate), and as many conformed copies as may reasonably be requested, of the then effective Registration Statement and any post-effective amendments thereto, including financial statements and schedules, all documents incorporated therein by reference and all exhibits (including those previously furnished or incorporated by reference);

(vi) deliver to each selling Holder of Registrable Securities and the underwriters, if any, without charge, as many copies of the then effective Prospectus (including each prospectus subject to completion) and any amendments or supplements thereto as such Persons may reasonably request; subject to the last paragraph of this Section 5(a), the Company consents to the use of any such Prospectus or any amendment or supplement thereto by the Holders and the underwriters, if any, in connection with the offering and sale of the Registrable Securities covered by any such Prospectus or any amendment or supplement thereto;

(vii) register or qualify (or obtain exemption therefrom) or cooperate with the selling Holders of Registrable Securities, the underwriters, if any, and their respective counsel in connection with the registration or qualification (or exemption therefrom) of such Registrable Securities for the offer and sale under the securities or blue sky laws of such jurisdictions as any selling Holder of Registrable Securities or underwriter, if any, reasonably requests in writing; use its best efforts to keep each such registration or qualification (or exemption therefrom) effective during the period during which such registration statement is required to be kept effective pursuant to this Agreement; and do any and all other acts or things reasonably necessary or advisable to enable the disposition in such jurisdictions of the Registrable Securities covered by the then effective Registration Statement; provided, however, that the Company will not be required to qualify to do

business in any jurisdiction where it would not otherwise be required to qualify, but for this paragraph (vii);

(viii) cooperate with the selling Holders of Registrable Securities and the managing underwriters, if any, to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be sold and not bearing any restrictive legends; and enable such Registrable Securities to be in such denominations and registered in such names as the managing underwriters may request at least two (2) Business Days prior to any sale of Registrable Securities to the underwriters;

(ix) upon the occurrence of any event contemplated by clause (7) of paragraph (ii) above, promptly prepare a supplement or post-effective amendment to the Registration Statement or the related Prospectus or any document incorporated therein by reference or file any other required document so that, as thereafter delivered to the purchasers of the Registrable Securities being sold thereunder, the Prospectus will not contain an untrue statement of a material fact or omit to state any material fact necessary to make the statements therein, in the light of the circumstances in which they were made, not misleading; if any event described in clause (2) of paragraph (ii) above occurs, use its best efforts to cooperate with the SEC to prepare, as soon as practicable, any amendment or supplement to such Registration Statement or such related Prospectus and any other additional information, or to take other action that may have been requested by the SEC;

(x) cause all Registrable Securities covered by the Registration Statement to be listed on each securities exchange (or quotation system operated by a national securities association) on which identical securities issued by the Company are then listed (or included) if requested by the Securityholder (if it is participating in such offering) or the Holders of a majority of the Registrable Securities (on a Common Stock equivalent basis) covered by such Registration Statement or the managing underwriters, if any, and enter into customary agreements including, if necessary, a listing application and indemnification agreement in customary form, and provide a transfer agent for such Registrable Securities no later than the effective date of such Registration Statement;

(xi) enter into customary agreements (including in the case of an Underwritten Offering, an underwriting agreement in customary form for the managing underwriters with respect to issuers of similar market capitalization and reporting and financial histories) and take all such other actions in connection therewith in order to expedite or facilitate the disposition of such Registrable Securities included in such Registration Statement, in each case, in connection with an Underwritten Offering, as the underwriters determine is reasonable and customary, and in connection therewith, (1) make such representations and warranties to the Holders of such Registrable Securities and each of the underwriters in such form, substance and scope as are customarily made by issuers to underwriters in secondary underwritten offerings; (2) obtain opinions of counsel to the Company addressed to each selling Holder of such Registrable Securities and to each of the underwriters and updates thereof (which counsel and opinions (in form, scope and

substance) shall be reasonably satisfactory to the underwriters and the selling Holders of such Registrable Securities and shall cover the matters customarily covered in opinions requested in secondary underwritten offerings and such other matters as may be reasonably requested by such Holders and underwriters); (3) obtain "cold comfort" letters and updates thereof from the independent certified public accountants of the Company addressed to each selling Holder of such Registrable Securities and each of the underwriters, such letters to be in customary form and covering matters of the type customarily covered in "cold comfort" letters in connection with secondary underwritten offerings; (4) the underwriting agreement shall contain indemnification and contribution provisions and procedures no less favorable than those set forth in Section 8 hereof with respect to all parties to be indemnified pursuant to Section 8; and (5) the Company shall deliver such documents and certificates as may be reasonably requested by the selling Holders of such Registrable Securities and the managing underwriters to evidence compliance with clause (1) above and with any customary conditions contained in the underwriting agreement or other agreement entered into by the Company in respect of the relevant offering;

(xii) provide a CUSIP number for the Registrable Securities no later than the effective date of such registration statement;

(xiii) in the case of any nonunderwritten offering: (1) obtain opinions of counsel to the Company at the time of effectiveness of such Registration Statement covering such offering and updates thereof of customary frequency, addressed to each Holder of any Registrable Securities participating in such offering and covering matters that are no more extensive in scope than would be customarily covered in opinions obtained in secondary underwritten offerings by issuers with similar market capitalization and reporting and financial histories; (2) obtain "cold comfort" letters from the independent certified public accountants of the Company at the time of effectiveness of such Registration Statement and, upon the request of the Securityholder (if it is participating in such offering) or the Holders of a majority of the Registrable Securities (on a Common Stock equivalent basis) covered by such Registration Statement, updates thereof of customary frequency, in each case addressed to each Holder of Registrable Securities participating in such offering and covering matters that are no more extensive in scope than would be customarily covered in "cold comfort" letters and updates obtained in secondary underwritten offerings by issuers with similar market capitalization and reporting and financial histories; and (3) deliver a certificate of a senior executive officer of the Company at the time of effectiveness of such Registration Statement and, upon the request of the Securityholder (if it is participating in such offering) or the Holders of a majority of the Registrable Securities (on a Common Stock equivalent basis) covered by such Registration Statement, updates thereof of customary frequency, such certificates to cover matters no more extensive in scope than those matters customarily covered in officer's certificates delivered in connection with underwritten offerings by issuers with similar market capitalization and reporting and financial histories;

(xiv) otherwise use its best efforts to comply with all applicable rules and regulations of the SEC relating to such registration and the distribution of the securities being offered and make generally available to its securities holders earnings statements satisfying the provisions of Section 11(a) of the Securities Act, no later than 60 days after the end of any 12-month period (or 120 days, if such period is a fiscal year) commencing at the end of any fiscal quarter in which the Registrable Securities are sold to underwriters in a firm commitment or best efforts underwritten offering, or, if not sold to underwriters in such an offering, beginning with the first month of the Company's first fiscal quarter commencing after the effective date of such Registration Statement, which earnings statements shall cover such 12-month periods;

(xv) cooperate and assist in any filings required to be made with the National Association of Securities Dealers, Inc. and in the performance of any customary or required due diligence investigation;

(xvi) make available for inspection by the Holders of the Registrable Securities covered by such Registration Statement, any underwriter participating in any disposition pursuant to such registration, and any attorney, accountant or other representative retained by such sellers or underwriter, all financial and other records, pertinent corporate documents and properties of the Company and cause the Company's officers, directors and employees to supply all information reasonably requested by, and to cooperate fully with, any such representative, underwriter, attorney or accountant in connection with such registration;

(xvii) subject to the proviso in paragraph (vii) above, cause the Registrable Securities covered by the Registration Statement to be registered with or approved by such other governmental agencies or authorities as may be reasonably necessary to enable the seller or sellers thereof or the underwriters, if any, to consummate the disposition of such Registrable Securities; and

(xviii) use its best efforts to take all action necessary or advisable to effect such registration in the manner contemplated by this Agreement.

The Company may require each seller of Registrable Securities as to which any registration is being effected to furnish to the Company such information regarding such seller and the distribution of such securities as the Company may from time to time reasonably request in writing.

Each Holder of Registrable Securities agrees by acquisition of such Registrable Securities that, upon receipt of any notice from the Company of the happening of any event of the kind described in Section 5(a)(ii) hereof, such Holder will forthwith discontinue disposition of Registrable Securities (but, in the case of an event described in Section 5(a)(ii)(6), in the affected jurisdiction or jurisdictions only) pursuant to the then current Prospectus until (1) such Holder is advised in writing by the Company that a new Registration Statement covering the offer of

Registrable Securities has become effective under the Securities Act or (2) such Holder receives copies of a supplemented or amended Prospectus contemplated by this Section 5(a), or until such Holder is advised in writing by the Company that the use of the Prospectus may be resumed. If the Company shall have given any such notice during a period when a demand registration is in effect, the Company shall extend the period during which such registration statement shall be maintained effective pursuant to this Agreement by the number of days during which any such disposition of Registrable Securities is discontinued pursuant to this paragraph. The Company shall use its best efforts to limit the duration of any discontinuance with respect to the disposition of Registrable Securities pursuant to this paragraph.

(b) Additional Procedures for Shelf Registration. If the Holders become entitled, pursuant to an event described in clause (ii) of the definition of Registrable Securities, to receive any securities in respect of Registrable Securities that were already included in a Shelf Registration Statement, subsequent to the date such Shelf Registration Statement is declared effective, and the Company is unable under the securities laws to add such securities to the then-effective Shelf Registration Statement, the Company, as promptly as practicable, shall file, in accordance with the procedures more particularly set forth in Section 5(a), an additional Shelf Registration Statement with respect to any such new Registrable Securities. The Company shall use its best efforts to have any such additional Registration Statement declared effective as promptly as practicable after such filing and to keep such additional Shelf Registration Statement continuously effective during the period specified in Section 3(b). A request to file an additional Shelf Registration Statement pursuant to this paragraph shall not constitute a demand under Section 3(a).

#### SECTION 6. HOLDBACK AGREEMENTS.

(a) Hold-Back Election. Subject to Section 6(c), in the case of the registration of any underwritten primary offering initiated by the Company (other than any registration by the Company on Form S-4 or Form S-8 (or any successor or substantially similar form), or the registration of (A) an employee stock option, stock purchase or compensation plan or of securities issued or issuable pursuant to any such plan or (B) a dividend reinvestment plan) or any underwritten secondary offering initiated at the request of an Other Approved Holder, each Holder agrees, if and to the extent requested in writing by the managing underwriter or underwriters administering such offering as promptly as reasonably practicable prior to the commencement of the 10-day period referred to below (a "Hold-Back Election"), not to effect any public sale or distribution of securities of the Company except as part of such underwritten registration, during the period beginning 10 days prior to the effective date of the applicable registration statement relating to such underwritten offering and ending on the earlier of (i) 90 days after such effective date and (ii) the date such sale or distribution is permitted by such managing underwriter or underwriters. In the event such managing underwriter or underwriters shall exercise a Hold-Back Election during a period when a Registration Statement filed pursuant to Section 3 is in effect, the time period specified in Section 3(b) during which such Registration Statement is required to be kept effective shall be extended by the number of days during which the Holders are prohibited by such underwriter or underwriters from publicly selling or distributing their securities.

Notwithstanding the foregoing provisions of this Section 6(a), no Holder shall be obligated to refrain from making any public sale or distribution of securities of the Company in the case of any underwritten secondary offering initiated at the request of any Person who has not agreed in writing to expressly recognize and give effect to the Holders' rights under this Section 6(a), and to be subject to provisions that are at least as favorable to the Holders as the provisions contained in this Section 6(a) are to such holder.

(b) Material Development Election. Subject to Section 6(c), the Company shall be entitled, for a period of time not to exceed 90 consecutive days, to postpone the filing of any Registration Statement otherwise required to be prepared and filed by it pursuant to Section 3 and/or to request that the Holders refrain from effecting any public sales or distributions of their Registrable Securities if the board of directors of the Company in good faith determines in its reasonable business judgment that such registration and/or such public sales or distributions would interfere in any material respect with any financing (other than an underwritten secondary offering of any securities of the Company), acquisition, corporate reorganization or other transaction or development involving the Company or any subsidiary of the Company that in the reasonable good faith business judgment of such board is a transaction or development that is or would be material to the Company (a "Material Development Election"). The board of directors of the Company shall, as promptly as practicable, give the Holders written notice of any such Material Development Election. In the event of a determination by the board of directors to postpone the filing of a Registration Statement required to be filed under Section 3 hereof, the Company shall be required to file such Registration Statement as soon as practicable after the board of directors of the Company shall determine, in its reasonable business judgment, that the filing of such Registration Statement and the offering thereunder shall not interfere with the aforesaid material transaction or development, but in any event no later than the end of such 90-day period. In addition, if the board of directors of the Company has requested that the Holders refrain from making public sales or distributions of their Registrable Securities, such board shall, as promptly as practicable following its determination that the Holders may recommence such public sales and distributions, notify such Holders in writing of such determination (but in any event no later than the end of such 90-day period). In the event the Company shall exercise a Material Development Election during a period when a Registration Statement filed pursuant to Section 3 is in effect, the time period specified in Section 3(b) during which such Registration Statement is required to be kept effective shall be extended by the number of days during which the Holders are prohibited by the Company from publicly selling or distributing their securities.

(c) Hold-Back Limitation. In no event shall the restrictions under Section 6(a) or Section 6(b), pursuant to one or more Hold-Back Elections or Material Development Elections, remain in effect for more than 90 days in the aggregate in any calendar year.

(d) Company Hold-Back. In the case of each underwritten offering of Registrable Securities pursuant to Section 3, including under any Shelf Registration Statement, the Company agrees, if and to the extent requested in writing by the managing underwriter or underwriters administering such offering as promptly as reasonably practicable prior to the commencement of the 10-day period referred to below, not to effect any public sale or distribution

(other than sales pursuant to the same Registration Statement, as permitted under this Agreement, or any registration by the Company on Form S-4 or S-8 (or any successor or substantially similar form) or the registration of (A) an employee stock option, stock purchase or compensation plan or of securities issued or issuable pursuant to any such plan or (B) a dividend reinvestment plan) of any securities of the Company during the period beginning 10 days prior to the effective date of the applicable registration statement relating to such underwritten offering of Registrable Securities and ending on the earlier of (i) 90 days after such effective date and (ii) the date such sale or distribution is permitted by such managing underwriter or underwriters. Any agreement entered into after the date of this Agreement pursuant to which the Company issues or agrees to issue any privately placed securities similar to any issue of the Registrable Securities shall contain a provision under which holders of such securities agree not to effect any public sale or distribution of any such securities during the period described in the next preceding sentence.

SECTION 7. REGISTRATION EXPENSES. All expenses incident to the Company's performance of or compliance with this Agreement, including all registration and filing fees, fees and expenses of compliance with securities or blue sky laws (including reasonable fees and disbursements of counsel in connection with blue sky qualifications or registrations (or the obtaining of exemptions therefrom) of the Registrable Securities), printing expenses (including expenses of printing Prospectuses), messenger and delivery expenses, internal expenses (including all salaries and expenses of its officers and employees performing legal or accounting duties), fees and disbursements of its counsel and its independent certified public accountants (including the expenses of any special audit or "comfort" letters required by or incident to such performance or compliance), securities acts liability insurance (if the Company elects to obtain such insurance), fees and expenses of any special experts retained by the Company in connection with any registration hereunder, fees and expenses of other Persons retained by the Company, fees and expenses of one counsel for the Holders, selected by the Securityholder (if it is participating in such offering) or, if the Securityholder is not participating in such offering, by the Holders of a majority of the Registrable Securities (on a Common Stock equivalent basis) being sold pursuant to such registration, incurred in connection with each registration hereunder, and reasonable out-of-pocket expenses incurred by the Holders (except as set forth in the proviso hereafter) (all such expenses being referred to as "Registration Expenses"), shall be borne by the Company, whether or not any registration statement becomes effective (subject, however, to the provisions of Section 3(a)); provided that Registration Expenses shall not include any underwriting discounts, commissions or fees attributable to the sale of the Registrable Securities.

SECTION 8. INDEMNIFICATION; CONTRIBUTION.

(a) Indemnification by the Company. The Company shall indemnify and hold harmless, to the full extent permitted by law, but without duplication, each Holder of Registrable Securities, its officers, directors, employees, partners, principals, equity holders, managed or advised accounts, advisors, representatives and agents, and each Person who controls such Holder or such other Persons (within the meaning of the Securities Act) and any investment advisor thereof or agent therefor, against all losses, claims, damages, liabilities and expenses (including reasonable costs of investigation and reasonable legal fees and expenses) arising out of or based

upon any untrue or alleged untrue statement of a material fact in, or any omission or alleged omission of a material fact required to be stated in, any Registration Statement or any Prospectus, or necessary to make the statements therein (in the case of a Prospectus, in light of the circumstances under which they were made) not misleading, except in each case insofar, but only insofar, as the same arises out of or is based upon an untrue statement or alleged untrue statement of a material fact or an omission or alleged omission to state a material fact in such Registration Statement or Prospectus, as the case may be, made or omitted, as the case may be, in reliance upon and in conformity with written information furnished to the Company by such Holder expressly for use therein. The Company shall also indemnify underwriters of the Registrable Securities, selling brokers, dealer managers and similar securities industries professionals participating in the distribution, and their officers, directors, employees, partners, principals, equity holders, advisors, representatives and agents, and each Person who controls such underwriters or other Persons (within the meaning of the Securities Act), to the same extent as provided above with respect to the indemnification of the Holders of Registrable Securities and other specified Persons. This indemnity is in addition to any liability that the Company may otherwise have.

(b) Indemnification by Holders of Registrable Securities. In connection with any Registration Statement in which a Holder of Registrable Securities is participating, each such Holder shall furnish to the Company in writing such information and affidavits with respect to such Holder as the Company reasonably requests for use in connection with such Registration Statement or any Prospectus, and shall indemnify and hold harmless, to the full extent permitted by law, but without duplication, the Company, its officers, directors, shareholders, employees, advisors, representatives and agents, and each Person who controls the Company or such other Persons (within the meaning of the Securities Act) and any investment advisor thereof or agent therefor, against any losses, claims, damages, liabilities and expenses (including reasonable costs of investigation and reasonable legal fees and expenses) arising out of or based upon any untrue or alleged untrue statement of a material fact in, or any omission or alleged omission of a material fact required to be stated in, the Registration Statement or any Prospectus, or necessary to make the statements therein (in the case of a Prospectus, in light of the circumstances under which they were made) not misleading, in each case to the extent, but only to the extent, that the same arises out of or is based upon an untrue statement or alleged untrue statement of a material fact or an omission or alleged omission to state a material fact in such Registration Statement or Prospectus, as the case may be, made or omitted, as the case may be, in reliance upon and in conformity with written information furnished to the Company by such Holder expressly for use therein. The Company shall be entitled to receive indemnities from underwriters, selling brokers, dealer managers and similar securities industries professionals participating in the distribution, to the same extent as provided above with respect to information so furnished in writing by such Persons specifically for inclusion in any Prospectus or Registration Statement. Notwithstanding any other provision hereof to the contrary, in no event shall the liability of any selling Holder of Registrable Securities hereunder be greater in amount than the dollar amount of the net proceeds actually received by such Holder upon the sale of the Registrable Securities giving rise to such indemnification obligation.

(c) Conduct of Indemnification Proceedings. Any Person entitled to indemnification under this Section 8 will (i) give prompt written notice to the indemnifying party of any claim with respect to which it seeks indemnification and (ii) permit such indemnifying party to assume the defense of such claim with counsel reasonably satisfactory to the indemnified party; provided, however, that any Person entitled to indemnification hereunder shall have the right to employ separate counsel and to participate in the defense of such claim, but the fees and expenses of such counsel shall be at the expense of such indemnified Person unless (A) the indemnifying party has agreed to pay such fees or expenses, (B) the indemnifying party shall have failed to assume the defense of such claim and employ counsel reasonably satisfactory to the indemnified party in a timely manner or (C) in the reasonable judgment of any such Person, based upon advice of its counsel, a conflict of interest may exist between such Person and the indemnifying party with respect to such claims (in which case, if the Person notifies the indemnifying party in writing that such Person elects to employ separate counsel at the expense of the indemnifying party, the indemnifying party shall not have the right to assume the defense of such claim on behalf of such Person). The indemnifying party will not be subject to any liability for any settlement made without its consent (but such consent will not be unreasonably withheld or delayed). No indemnified party will be required to consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of a release from all liability in respect of such claim or litigation. An indemnifying party who is not entitled to, or elects not to, assume the defense of a claim will not be obligated to pay the fees and expenses of more than one counsel for all parties indemnified by such indemnifying party with respect to such claim, as well as one local counsel in each relevant jurisdiction.

(d) Contribution. If for any reason the indemnification provided for in Section 8(a) or Section 8(b) is unavailable to an indemnified party, then the indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by the indemnified party as a result of such loss, claim, damage, liability or expense in such proportion as is appropriate to reflect not only the relative benefits received by the indemnifying party and the indemnified party, but also the relative fault of the indemnifying party and the indemnified party in connection with the actions that resulted in such loss, claim, damage, liability or expense, as well as any other relevant equitable considerations, provided that no indemnifying Holder shall be required to contribute an amount greater than the dollar amount of the net proceeds actually received by such indemnifying Holder with respect to the sale of the Registrable Securities giving rise to such contribution obligation. The relative fault of such indemnifying party and indemnified party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact, has been made by, or relates to information supplied by, such indemnifying party or indemnified party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include, subject to the limitations set forth herein, any legal or other fees or expenses reasonably incurred by such party in connection with any investigation or proceeding. The parties hereto agree that it would not be just and equitable if contribution pursuant to this

Section 8(d) were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to in this paragraph. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentations.

SECTION 9. RULES 144 AND 144A. The Company shall use its best efforts to make publicly available and available to the Holders, pursuant to Rule 144, such information as is necessary to enable the Holders to make sales of Registrable Securities pursuant to that Rule. The Company shall use its best efforts to file timely with the SEC all documents and reports required of the Company under the Exchange Act. The Company shall furnish to any Holder, upon request, a written statement executed on behalf of the Company as to compliance with the current public information requirements of Rule 144. In addition, the Company will provide to any Holder of a Registrable Security, or any potential purchaser of a Registrable Security, upon any such Person's reasonable request, the information required by paragraph (d)(4) of Rule 144A.

SECTION 10. PARTICIPATION IN UNDERWRITTEN REGISTRATIONS.

(a) If any of the Registrable Securities covered by a demand registration hereunder are to be sold in an Underwritten Offering, the investment banker or investment bankers and manager or managers that will administer the offering will be selected by the Securityholder (if it is participating in such offering) or, if such Securityholder is not so participating in such offering, the Holders of a majority of the Registrable Securities (on a Common Stock equivalent basis) included in such offering; provided that such investment bankers and managers must be reasonably satisfactory to the Company, acting in good faith.

(b) No Person may participate in any Underwritten Offering hereunder unless such Person (i) agrees to sell such Person's Registrable Securities on the basis provided in any underwriting arrangements approved by the Persons entitled hereunder to approve such arrangements and (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the terms of such underwriting arrangements. Nothing in this Section 10 shall be construed to create any additional rights regarding the registration of Registrable Securities in any Person otherwise than as set forth herein.

SECTION 11. NO INCONSISTENT AGREEMENTS. The Company (i) except as set forth on Schedule 11 attached hereto, has not previously entered into any agreement or understanding that is still in effect on the date hereof pursuant to which it has granted registration or similar rights to any Person who holds any of its securities and (ii) shall not enter into any agreement or understanding (x) with respect to registration or similar rights on any of its securities with any Person other than an Other Approved Holder or (y) which is inconsistent with the rights granted to the Holders in this Agreement or otherwise conflicts with the provisions hereof.

SECTION 12. AMENDMENTS AND WAIVERS. The provisions of this Agreement, including the provisions of this Section 12, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given unless the Company has obtained the written consent of the Securityholder (if the Securityholder then holds any Registrable Securities) and the Holders of a majority of the Registrable Securities (on a Common Stock equivalent basis) then outstanding. Whenever the consent or approval of Holders of a specified number of Registrable Securities is required hereunder, Registrable Securities held by the Company or any of its Affiliates (other than Holders of Registrable Securities if such subsequent Holders are deemed to be Affiliates solely by reason of their holdings of such Registrable Securities) shall not be counted in determining whether such consent or approval was given by the Holders of such required number.

SECTION 13. REMEDIES. Each Holder having rights under any provision of this Agreement shall be entitled to enforce such rights specifically or to recover damages or to exercise any other remedy available to it at law or in equity. The foregoing rights and remedies shall be cumulative and the exercise of any right or remedy provided herein shall not preclude any Person from exercising any other right or remedy provided herein. The Company agrees that monetary damages would not be adequate compensation for any loss incurred by reason of a breach by it of any of the provisions of this Agreement and hereby agrees to waive the defense in any action for specific performance that a remedy at law would be adequate.

SECTION 14. NOTICES. All notices and other communications provided for or permitted hereunder shall be made in writing by hand delivery, registered first-class mail, telecopier or air-courier guaranteeing overnight delivery:

(a) If to a Holder of Registrable Securities, at the most current address given by such Holder to the Company, in accordance with the provisions of this Section 14, which address initially is, with respect to each Holder, c/o American International Insurance Company, attention: Ernest Hanson, telecopier no. (302) 762-7451; confirm no. (302) 761-3499, with a copy to American International Group, Inc., 70 Pine Street, New York, New York 10270, attention: Florence A. Davis; telecopier no. (212) 785-1584; confirm no. (212) 770-5457, and thereafter at such other address as may be designated from time to time by notice given in accordance with the provisions of this Section 14.

(b) If to the Company, initially at 11 Oval Drive, Islandia, New York 11722, attention: Joseph M. Lively; telecopier no. (516) 342-1550; confirm no. (516) 342-1515, and thereafter at such other address as may be designated from time to time by notice given in accordance with the provisions of this Section 14.

(c) All such notices and other communications shall be deemed to have been delivered and received (i) in the case of personal delivery, telecopier or telegram, on the date of such delivery, (ii) in the case of air courier, on the Business Day after the date

when sent and (iii) in the case of mailing, on the third Business Day following such mailing.

SECTION 15. SUCCESSORS AND ASSIGNS. This Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties hereto, including and without the need for an express assignment to subsequent Holders of the Registrable Securities who cannot freely transfer their shares in the absence of registration under the Securities Act.

SECTION 16. COUNTERPARTS. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

SECTION 17. HEADINGS. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof. The use of the word "including" herein shall be interpreted to mean "including, without limitation," unless the context clearly requires another interpretation.

SECTION 18. GOVERNING LAW. This Agreement shall be deemed to be a contract made under and shall be governed by and construed in accordance with the internal laws of the State of New York without reference to the principles of conflict of laws.

SECTION 19. JURISDICTION; FORUM. Each party hereto consents and submits to the jurisdiction of any state court sitting in the County of New York or federal court sitting in the Southern District of the State of New York in connection with any dispute arising out of or relating to this Agreement. Each party hereto waives any objection to the laying of venue in such courts and any claim that any such action has been brought in an inconvenient forum. To the extent permitted by law, any judgment in respect of a dispute arising out of or relating to this Agreement may be enforced in any other jurisdiction within or outside the United States by suit on the judgment, a certified copy of such judgment being conclusive evidence of the fact and amount of such judgment. Each party hereto agrees that personal service of process may be effected by any of the means specified in Section 14, addressed to such party. The foregoing shall not limit the rights of any party to serve process in any other manner permitted by law.

SECTION 20. SEVERABILITY. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstance, is held invalid, illegal or unenforceable, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be affected or impaired thereby.

SECTION 21. ENTIRE AGREEMENT. This Agreement is intended by the parties as a final expression of their agreement and is intended to be a complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein. This Agreement supersedes all prior agreements and understandings between the parties with respect to such subject matter, whether written or oral.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

ALCOHOL SENSORS  
INTERNATIONAL, LTD.

By: /s/ Robert B. Whitney

-----  
Name: Robert B. Whitney  
Title: President & CEO

AMERICAN INTERNATIONAL  
INSURANCE COMPANY

By: /s/ Edward E. Matthews

-----  
Name: Edward E. Matthews  
Title: Senior Vice President &  
Director

Schedule 11: Other Registration Rights Agreements

None