

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 1995

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

For the transition period from _____ to _____

Commission file Number 0-16109

ADVANCED POLYMER SYSTEMS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

94-2875566

(IRS Employer
Identification No.)

3696 Haven Avenue, Redwood City, CA 94063

(Address of principal executive offices)

(415) 366-2626

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports
required to be filed by Section 13 or 15(d) of the Securities Exchange Act of
1934 during the preceding 12 months (or for such shorter period that the
registrant was required to file such reports), and (2) has been subject to such
filing requirements for the past 90 days.

Yes No

At October 31, 1995 the number of outstanding shares of the Company's
common stock, par value \$.01, was 16,580,391.

INDEX

PART I.	FINANCIAL INFORMATION	Page No. -----
ITEM 1.	Financial Statements (unaudited):	
	Condensed Consolidated Balance Sheets September 30, 1995 and December 31, 1994	3
	Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 1995 and 1994	4
	Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 1995 and 1994	5
	Notes to Condensed Consolidated Financial Statements	6
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	9
PART II.	OTHER INFORMATION	
ITEM 1.	Legal Proceedings	12
ITEM 6.	Exhibits and Reports on Form 8-K	12
	Signatures	13

ADVANCED POLYMER SYSTEMS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

	September 30, 1995	December 31, 1994
	-----	-----
ASSETS		

Current assets:		
Cash and cash equivalents	\$6,080,192	\$2,741,994
Marketable securities	488,102	1,775,502
Pledged marketable securities	--	1,945,620
Trade accounts receivable, net	3,483,400	1,887,388
Inventory	8,548,379	7,002,026
Prepaid expenses and other	1,150,484	1,032,173
	-----	-----
Total current assets	19,750,557	16,384,703
Property and equipment, net	4,656,954	5,106,525
Assets held for sale	923,436	923,436
Prepaid license fees	500,454	627,544
Goodwill, net	227,795	348,393
Other assets	747,722	117,561
	-----	-----
	\$26,806,918	\$23,508,162
	=====	=====
LIABILITIES & SHAREHOLDERS' EQUITY		

Current Liabilities:		
Accounts payable	\$4,121,455	\$2,584,161
Accrued expenses	1,632,866	2,388,793
Accounts payable, Johnson & Johnson	4,790,501	3,570,525
Deferred revenues	750,000	--
Current portion - long-term debt	702,359	2,200,000
	-----	-----
Total current liabilities	11,997,181	10,743,479
Long-term debt	5,444,875	978,935
	-----	-----
Total liabilities	17,442,056	11,722,414
Shareholders' equity:		
Common stock and common stock warrants	67,039,451	64,516,958
Unrealized gain on marketable securities	20,605	113,166
Accumulated deficit	(57,695,194)	(52,844,376)
	-----	-----
Total shareholders' equity	9,364,862	11,785,748
	-----	-----
	\$26,806,918	\$23,508,162
	=====	=====

See accompanying notes.

ADVANCED POLYMER SYSTEMS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	3 Months Ended September 30, 1995 -----	3 Months Ended September 30, 1994 -----	9 Months Ended September 30, 1995 -----	9 Months Ended September 30, 1994 -----
Product revenues	\$3,036,546	\$3,187,983	\$12,033,966	\$12,026,453
Licensing revenues	20,000	209,958	905,000	843,361
	-----	-----	-----	-----
Total revenues	3,056,546	3,397,941	12,938,966	12,869,814
Cost of sales	1,904,456	2,572,627	8,275,791	9,114,410
	-----	-----	-----	-----
Gross profit	1,152,090	825,314	4,663,175	3,755,404
Research & development	941,017	1,666,001	2,855,538	4,839,990
Selling & marketing	1,191,543	855,251	3,552,233	2,863,271
Advertising & promotion	499,137	366,035	1,098,361	1,281,766
General & administration	713,915	697,334	2,244,758	2,085,408
	-----	-----	-----	-----
Total expenses	3,345,612	3,584,621	9,750,890	11,070,435
	-----	-----	-----	-----
Operating loss	(2,193,522)	(2,759,307)	(5,087,715)	(7,315,031)
Interest income	51,579	114,712	237,976	262,747
Interest expense	(71,420)	(68,680)	(204,180)	(210,308)
Other income (expense)	225,268	392	224,521	(5,775)
	-----	-----	-----	-----
Loss before taxes	(1,988,095)	(2,712,883)	(4,829,398)	(7,268,367)
Income tax expense (benefit)	10,734	(2,999)	21,420	22,666
	-----	-----	-----	-----
Net loss	(\$1,998,829)	(\$2,709,884)	(\$4,850,818)	(\$7,291,033)
	=====	=====	=====	=====
Loss per common share	(\$0.12)	(\$0.17)	(\$0.30)	(\$0.49)
	=====	=====	=====	=====
Weighted average common shares outstanding	16,513,687	15,499,591	16,369,544	14,752,317
	=====	=====	=====	=====

See accompanying notes.

ADVANCED POLYMER SYSTEMS, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 FOR NINE MONTHS ENDED SEPTEMBER 30, 1995 AND 1994
 (UNAUDITED)

	September 30, 1995	September 30, 1994
Cash flows from operating activities:		
Net loss	(\$4,850,818)	(\$7,291,033)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	897,824	835,958
Change in allowance for doubtful accounts	(460)	(123,156)
Gain on sale of equipment	--	(848)
Gain on sale of long-term marketable securities	(234,323)	--
Accretion of marketable securities	(117,190)	(111,666)
Changes in operating assets and liabilities:		
Trade accounts receivable	(2,174,487)	751,205
Inventory	(1,546,353)	1,564,694
Prepaid license fees	127,090	82,683
Other assets	(694,378)	(596,118)
Current liabilities	2,651,343	(690,072)
	(5,941,752)	(5,578,353)
Net cash used in operating activities		
Cash flows from investing activities:		
Purchases of fixed assets	(274,970)	(515,215)
Change in marketable securities	1,289,258	1,022,239
Purchase of U.S. government securities	(2,500,000)	--
Proceeds from sale of long-term marketable securities	2,228,670	--
	742,958	507,024
Net cash provided from investing activities		
Cash flows from financing activities:		
Proceeds from the exercise of common stock options	1,005,731	1,837,035
Proceeds from long-term debt and warrants	6,147,234	--
Repayment of long-term debt	--	(288,595)
Proceeds from private placement, net of offering costs	1,384,027	7,821,139
Distributions	--	(73,000)
	8,536,992	9,296,579
Net cash provided from financing activities		
Net increase in cash and cash equivalents	3,338,198	4,225,250
Cash and cash equivalents, beginning of the period	2,741,994	1,792,637
	\$6,080,192	\$6,017,887
Cash and cash equivalents, end of the period	=====	=====

Supplemental disclosure of non-cash financing transactions:

In September, 1995, the Company offset its note payable to Dow Corning Corporation ("DCC") against its receivable from DCC. This resulted in a decrease in long-term debt, short-term debt and accounts receivable of \$478,935, \$100,000 and \$578,935, respectively.

During the third quarter, the Company extinguished a debt through an insubstance defeasance transaction by placing U.S. government securities in an irrevocable trust to fund all future scheduled payments on the debt (Note 4).

See accompanying notes.

ADVANCED POLYMER SYSTEMS, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1995 AND 1994
(UNAUDITED)

(1) BASIS OF PRESENTATION

In the opinion of management, the accompanying unaudited condensed consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) necessary to present fairly the financial position of Advanced Polymer Systems, Inc. and subsidiaries ("the Company") as of September 30, 1995 and the results of their operations for the three and nine months ended September 30, 1995 and 1994, and their cash flows for the nine months ended September 30, 1995 and 1994.

These condensed consolidated statements should be read in conjunction with the Company's audited consolidated financial statements for the years ended December 31, 1994, 1993 and 1992.

The condensed consolidated financial statements include the financial statements of the Company and its subsidiaries, Premier, Inc. ("Premier"), Advanced Consumer Products, Inc., APS Analytical Standards, Inc., and APS Joint Venture Corporation. All significant intercompany balances and transactions have been eliminated in consolidation.

The business of Premier, the Company's marketing and distribution subsidiary, is highly seasonal in that it markets and distributes sunscreen products under an exclusive distribution agreement with Johnson & Johnson. Sales of these products are heavily weighted to the first two quarters of the calendar year, so the results of operations for the interim periods are not necessarily indicative of the results for the full year.

The Company considers all short-term investments which have original maturities of less than three months to be cash equivalents. Investments which have original maturities longer than three months are classified as marketable securities in the accompanying balance sheets.

Certain reclassifications have been made to the prior year financial statements to conform with the presentation in 1995.

(2) COMMON SHARES OUTSTANDING AND PER SHARE INFORMATION

Common stock outstanding as of September 30, 1995 is as follows:

	Number of Shares

Common stock outstanding as of December 31, 1994	16,043,121
Options exercised after December 31, 1994	221,992
Shares issued in private placement after December 31, 1994	310,278

TOTAL SHARES	16,575,391
	=====

Per share information is based on the weighted average number of shares of common stock outstanding, as adjusted during each of the periods. Stock options and warrants (common stock equivalents) are not included in the calculations as their inclusion would be anti-dilutive.

(3) PRIVATE PLACEMENT

During the first quarter of 1995, the Company received \$1,384,027 net of offering costs through a previously announced private placement and sale of 310,278 shares of common stock and 310,278 warrants exercisable over a three-year period at an exercise price of \$5.32 per share. The private placement was pursuant to an agreement made in 1994 for the sale of up to \$8 million of common stock and warrants in six installments beginning June 1994 and ending September 29, 1995. In accordance with the private placement agreement, the Company sold \$6 million of common stock and warrants through March 30, 1995. The remaining two optional installments in June and September 1995 totalling \$2 million of Common Stock and warrants will not be sold by the Company.

(4) INSUBSTANCE DEFEASANCE OF DEBT

In September, 1995, the Company sold its pledged marketable security and used the proceeds to purchase approximately \$2.5 million of U.S. government securities. The Company deposited these securities into an irrevocable trust to complete an insubstance defeasance of the Company's Industrial Revenue Bonds. The funds will be used solely to satisfy future principal and interest payments on the \$2.5 million Industrial Revenue Bonds. Accordingly, the government securities and the Industrial Revenue Bonds have been excluded from the September 1995 balance sheet. The debt extinguishment did not have a material impact on the Company's earnings.

(5) LONG-TERM DEBT

During the third quarter of 1995, the Company received an aggregate amount of \$6.1 million from two financing agreements.

The first financing arrangement is a \$3 million bank loan with an interest rate equal to two percentage points above the Prime Rate. Interest is payable monthly and principal is due in non-equal installments commencing December 1, 1996 through March 1, 1999. The loan is secured by the assets and operating cash flows of a subsidiary of the Company, and guaranteed by the Company. A total of 32,500 warrants were issued in conjunction with this financing with an initial exercise price of \$7.00 per share of common stock. These warrants expire on March 27, 2000.

The second financing arrangement is a \$3.1 million loan secured by certain real and personal property. Principal and interest payments are due in equal monthly installments commencing October, 1995 through September 1999. The effective interest rate on the loan is approximately 11%.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS
(ALL DOLLAR AMOUNTS ROUNDED TO THE NEAREST THOUSAND)

RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED SEPTEMBER 30, 1995 AND 1994

Revenues for the three month period ended September 30, 1995 were \$3,057,000 compared to \$3,398,000 in the corresponding period of the prior year. Product revenues totalled \$3,037,000 compared to \$3,188,000 in the third quarter of the prior year, a decrease of \$151,000 or 5%. Licensing revenues amounted to \$20,000 compared to \$210,000 in the year-ago third quarter.

The slight decrease in product revenues arose principally because the prior year included large close-out sales of the old version of the Take-Off(R) make-up remover which was reintroduced later in 1994 incorporating a Microsponge(R) system. As anticipated, sales of Johnson & Johnson (J&J) suncare products were also smaller than the prior year's quarter. These decreases were partially offset by one month of sales of Neet(R) depilatories to which the Company acquired exclusive U.S. rights from Reckitt and Coleman on September 1, 1995. Sales of the Exact(R) product line also increased by 94% over the prior year's quarter due in part to the launch of four line extensions in the third quarter -- Exact Overnight Pore Treatment, Exact Face Wash, Exact Adult Acne Cream, and Exact Face Wipes.

Polymer supply sales were slightly down in the quarter due to a reduction in shipments to Scott Paper Company.

The decrease in licensing revenues were primarily due to variations in the timing of recognition of payments from J&J's Ortho subsidiary which were recognized in the prior year's third quarter under the percentage-of-completion method to offset the expense of clinical studies which have now been completed.

Gross profit increased by \$327,000 or 40% to \$1,152,000 for the three months ended September 30, 1995. As a percentage of product sales, gross profit increased from 26% to 38%. This was primarily due to sales mix, in that sales of higher margin consumer products, particularly Exact and Neet, represented a higher percentage of overall sales.

Operating expenses for the third quarter decreased by \$239,000 or 7% to \$3,346,000. Research and development expense decreased by \$725,000 or 44% to \$941,000 due to the reduced spending on now-completed clinical studies for the two New Drug Applications (NDA's) which the Company has filed. This was partially offset by an increase of \$336,000 or 39% in selling and marketing expense due to the establishment of the company's ethical pharmaceutical marketing effort and increased distribution and commission expense.

In addition, advertising and promotion expense increased due to test television advertising for the Exact product line. General and administrative expense was essentially flat.

The operating loss for the quarter amounted to \$2,194,000, an improvement of \$566,000 or 21% over the prior year's quarter.

Interest income decreased from \$115,000 to \$52,000 due to lower average cash balances for the quarter. Interest expense was essentially flat. Other income for the third quarter of \$225,000 represented a gain from the sale of marketable securities which had been held as security for debt.

The net loss for the quarter of \$1,999,000 represented a decrease of \$711,000 compared to the prior year's quarter.

RESULTS OF OPERATIONS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1995 AND 1994

Revenues for the nine months ended September 30, 1995 totalled \$12,939,000, representing an increase of \$69,000 or 0.5% over the corresponding period of the prior year. Product revenues were essentially flat whereas licensing revenues increased by 7% to \$905,000.

Polymer supply shipments increased in the nine month period by \$1,070,000 or 42% to \$3,628,000 due mainly to a 51% increase in revenues from the Dow Corning alliance on sales of entrapment systems to manufacturers of cosmetic and personal care products.

Sales of consumer products decreased by \$1,069,000 or 13%. This was principally due to a decrease in sales of Johnson & Johnson suncare products of \$2,032,000 or 39%, as a result of a planned strategy to better manage customer order levels and reduce post-season returns. This was partially offset by an increase of \$452,000 or 49% in sales of the Exact line of acne products due in part to the introduction of four line extensions in the third quarter. The first month's sales of the Neet line of depilatory products acquired from Reckitt and Coleman also helped to offset this decrease.

Licensing revenues increased by \$62,000, or 7%, to \$905,000 due mainly to variations in the timing of recognition of payments from Ortho Pharmaceutical related to the development of Microsponge-entrapped tretinoin acne treatment.

Gross margin for the nine month period ended September 30, 1995 was 36% compared to 29% in the prior year.

As a percentage of product revenues, the gross profit increased from 31% to 39% due mainly to increased volume of, and profits on, polymer supply shipments and improved sales mix in that sales of higher-margin consumer products represented an increased percentage of overall sales.

Operating expenses for the nine months decreased by \$1,320,000 or 12% due mainly to the anticipated savings in research and development. These amounted to \$1,984,000 or 41% for the period. These savings were offset by increased spending on selling and marketing in the ethical pharmaceutical and consumer products categories due to new and anticipated product launches.

The operating loss for the nine month period amounted to \$5,088,000, a decrease of \$2,227,000 or 30% from the prior year period.

Interest income and expense were essentially flat. Other income of \$226,000 represented a gain on a sale of marketable securities which had been held as security for debt.

The net loss for the nine month period of \$4,851,000 was lower than the prior year period by \$2,440,000 or 33%.

CAPITAL RESOURCES AND LIQUIDITY

During the third quarter of 1995, the Company raised an aggregate amount of \$6.1 million from two financing agreements. The first financing arrangement was a \$3,000,000 bank loan collateralized by the assets and operating cash flows of a subsidiary of the Company, and guaranteed by the Company. The second financing arrangement is a \$3.1 million loan secured by certain real and personal property.

Total assets as of September 30, 1995 were \$26,807,000 compared with \$23,508,000 at December 31, 1994. Working capital increased to \$7,753,000 from \$5,641,000 at December 31, 1994. During the first nine months of 1995, the Company's operations used \$5,372,000 in cash.

On September 30, 1995, the Company had \$6,568,000 in cash, cash equivalents and short-term marketable securities. The Company's primary investment objective for these assets are the preservation of capital and the maintenance of a high degree of liquidity.

Cash has been expended with regard to Phase III clinical tests of tretinoin entrapped in a Microsponge delivery system for the treatment of acne, and of ProZone, APS' Melanosponge product, together with related research and development costs, all of which have decreased substantially in 1995 as the respective NDAs have been filed.

Additionally, the Company is contractually obligated to purchase minimum annual quantities of melanin. Failure to purchase the minimum quantities in 1995 would result in a mandatory payment of \$600,000 to its melanin supplier under "take or pay" provisions.

The Company's existing cash, cash equivalents and short-term marketable securities, collections of trade accounts receivable, together with interest income and other revenue producing activities, are expected to be sufficient to meet the Company's near-term cash requirements assuming no changes to existing business plans.

PART II.

Item 1. Legal Proceedings

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits:

10-S -- Lease Agreement between Registrant and
Financing for Science International dated
September 1, 1995.

10-T -- Security and Loan Agreement between
Registrant and Venture Lending dated
September 27, 1995

27 -- Financial Data Schedules.

(b) Reports on Form 8-K: None

SIGNATURES

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

ADVANCED POLYMER SYSTEMS, INC.

Date: November 13, 1995

By: /s/ John J. Meakem, Jr.

John J. Meakem, Jr.
Chairman, President and
Chief Executive Officer

Date: November 13, 1995

By: /s/ Michael O'Connell

Michael O'Connell
Chief Financial Officer

EXHIBIT INDEX

- 10-S -- Lease Agreement between Registrant and Financing for Science International dated September 1, 1995.
- 10-T -- Security and Loan Agreement between Registrant and Venture Lending dated September 27, 1995.
- 27 -- Financial Data Schedules.

MASTER EQUIPMENT LEASE AGREEMENT

DATED AS OF

SEPTEMBER 1, 1995

BETWEEN

FINANCING FOR SCIENCE INTERNATIONAL, INC.
(LESSOR)

AND

ADVANCED POLYMER SYSTEMS, INC.
(LESSEE)

TABLE OF CONTENTS

SECTION -----	PAGE -----
1. Agreement for Lease of Equipment	1
2. Delivery and Acceptance of Equipment	1
3. Disclaimer of Warranties	2
4. Primary Term	2
5. Rent	2
6. Lessee's Representations and Warranties	3
7. Identification Marks	4
8. Fees and Taxes	5
9. General Indemnity	5
10. Use of Equipment; Location; Liens	6
11. Maintenance and Repairs; Additions to Equipment	6
12. Loss, Damage or Destruction of Equipment	7
13. Reports; Inspections	8
14. Insurance	8
15. Return of Equipment	9
16. Lessor's Ownership; Equipment To Be and Remain Personal Property	11
17. Other Covenants	11
18. Events of Default	12
19. Assignment and Transfer by Lessor	15
20. Recording and Filing; Expenses	16
21. Option to Renew	16
22. Quiet Enjoyment	16

23.	Failure or Indulgence Not Waiver; Additional Rights of Lessor	16
24.	Sublease	17
25.	Purchase Option	17
26.	Notices	18
27.	Entire Agreement; Severability; Amendment or Cancellation of Lease	18
28.	Waiver of Jury	18
29.	Restriction of Limitation Periods and Damages	18
30.	Governing Law; Consent to Jurisdiction and Service	18
31.	Lessor's Right to Perform for Lessee	19
32.	Agreement for Lease Only	19
33.	Binding Effect	19
34.	General	19
35.	Definitions	19

MASTER EQUIPMENT LEASE AGREEMENT

MASTER EQUIPMENT LEASE AGREEMENT dated as of September 1, 1995, between ADVANCED POLYMER SYSTEMS, INC. (hereinafter called "Lessee"), a Delaware corporation that has its executive office and principal place of business at 3696 Haven Avenue, Redwood City, California 94063 and FINANCING FOR SCIENCE INTERNATIONAL, INC. (hereinafter called "Lessor"), a Delaware corporation with its principal place of business at 10 Waterside Drive, Farmington, Connecticut 06032-3065.

In consideration of the mutual covenants hereinafter contained, Lessee and Lessor agree as follows:

1. Agreement for Lease of Equipment. Lessor shall lease to Lessee and Lessee shall lease from Lessor, upon the terms and conditions specified in this Master Lease and the applicable Rental Schedule, the Equipment as described in the applicable Rental Schedule including Schedule A of such Rental Schedule and this Master Lease. Each Rental Schedule shall incorporate the terms of this Master Lease and shall constitute a separate lease (the term "this Lease" shall refer collectively to the applicable Rental Schedule and this Master Lease). Only the signed copy of each Rental Schedule and not this Master Lease shall constitute chattel paper the possession of which can perfect a security interest. In the event of a conflict between the provisions of this Master Lease and the provisions of any Rental Schedule, the provisions of the Rental Schedule shall prevail.

2. Delivery and Acceptance of Equipment. (a) Lessor and Lessee agree that the vendor of the Equipment to Lessor or, as to any Equipment to be sold by Lessee to Lessor and leased back, the vendor of the Equipment to Lessee (in either case, the "Vendor") will be responsible to deliver the Equipment to Lessee at the location specified in the applicable Rental Schedule. Such delivery shall be delivery of the Equipment by Lessor to Lessee under this Lease unless such Equipment is to be sold by Lessee to Lessor and leased back. Provided that no Event of Default has occurred, no event which with the passage of time or giving of notice would be an Event of Default has occurred, and is continuing, and the conditions set forth in the next following paragraph have been met and the Equipment is not to be sold by Lessee to Lessor and leased back. Lessor hereby authorizes Lessee, acting as Lessor's agent, to accept for Lessor, and in Lessor's name, the Equipment from the Vendor upon delivery pursuant to the purchase contract for the Equipment. Such acceptance shall be acceptance of the Equipment by Lessee under this Lease. Nevertheless, if within five business days after Lessee has received delivery of an item of the Equipment, Lessee has not given Lessor written notice of a defect therein and Lessor has not notified Lessee not to accept the Equipment, Lessee shall be deemed to have (a) acknowledged receipt of such item of the Equipment in good condition and repair and (b) accepted such item of the Equipment under this Lease. Lessee agrees to confirm any acceptance of the Equipment by Lessee by executing a Certificate of Inspection and Acceptance and providing the same to Lessor in accordance with the notice provision hereof on or about the Lease Commencement Date, but no later than the date for payment to the Vendor.

(b) Conditions precedent to every progress payment and Lease Term Commencement shall include that (i) no payment shall be past due to Lessor or any assign of Lessor from Lessee or any Guarantor (as hereinafter defined), whether as a lessee, a guarantor or in some other capacity; (ii) Lessee shall be in compliance with the provisions of this Lease; (iii) all documentation then required by Lessor's counsel shall have been received by Lessor; (iv) Lessee shall not be in default under any material contract to which Lessee is a party or by which Lessee or the property of Lessee is bound; and (v) there shall not have been any material adverse change or threatened material adverse change in the financial or other condition, business, operations, properties, assets or prospects of Lessee, any Guarantor or any Manufacturer (as hereinafter defined) since May 31, 1995, or from the written information that has been supplied to Lessor prior to August 31, 1995 by Lessee, any Guarantor or any Manufacturer.

3. Disclaimer of Warranties. LESSEE ACKNOWLEDGES THAT IT HAS SELECTED BOTH THE EQUIPMENT AND EVERY MANUFACTURER AND OTHER VENDOR OF THE EQUIPMENT, THAT LESSEE HAS NOT RELIED UPON LESSOR FOR SUCH SELECTION AND THAT LESSEE HAS A COPY OF THE PURCHASE CONTRACT(S) FOR LESSOR'S PURCHASE OF THE EQUIPMENT. LESSOR HAS NOT MADE AND SHALL NOT BE DEEMED TO HAVE MADE ANY REPRESENTATION OR WARRANTY, EXPRESS OR IMPLIED, AS TO THE MERCHANTABILITY FITNESS FOR USE, FITNESS FOR A PARTICULAR PURPOSE OR TITLE OF THE EQUIPMENT (OR ANY PART THEREOF) OR AS TO COMPLIANCE WITH SPECIFICATIONS, COMPLIANCE WITH GOVERNMENTAL REGULATIONS, QUALITY, SELECTION, INSTALLATION, SUITABILITY, PERFORMANCE, CONDITION, DESIGN, ABSENCE OF DEFECTS, OPERATION, OR NON-INFRINGEMENT OF PATENT, COPYRIGHT, TRADEMARK OR OTHER INTELLECTUAL PROPERTY RIGHTS OF THE EQUIPMENT (OR ANY PART THEREOF). LESSEE SHALL LEASE THE EQUIPMENT "AS IS, WHERE IS". LESSOR HEREBY DISCLAIMS ANY AND ALL SUCH WARRANTIES OR REPRESENTATIONS, EXPRESS OR IMPLIED. LESSEE AND LESSOR AGREE THAT ALL RISKS INCIDENT TO THE MATTERS REFERRED TO IN THIS SECTION ARE TO BE BORNE BY LESSEE. Lessor has and shall have no responsibility for the installation, adjustment or servicing of the Equipment. The provisions of this Section have been negotiated and are intended to be a complete exclusion and negation of any representations or warranties by Lessor, express or implied, with respect to the Equipment that may arise pursuant to any law now or hereafter in effect, or otherwise. In no event shall defect in, or unfitness of, any or all of the Equipment, or any breach of warranty or representation by any or every Manufacturer or other Vendor relieve Lessee of the obligation to pay rent or to make any other payments required hereunder or to perform any other obligation hereunder. Without limiting the generality of the foregoing, Lessor shall not be responsible or liable for any (i) defect, either latent or patent, in any of the Equipment or for any direct or consequential damages therefrom, (ii) loss of use of any of the Equipment or for any loss of profits or any interruption in Lessee's business occasioned by Lessee's inability to use any or all of the Equipment for any reason whatsoever, or (iii) in the event that any Vendor delays or fails to make delivery of any or all of the Equipment or fails to fulfill or comply with any purchase contract or order. For as long as no Event of Default shall have occurred hereunder, Lessor hereby transfers and assigns to Lessee during the Lease Term (as hereinafter defined) all right and interest of Lessor in any Manufacturer's and other Vendor's warranties with respect to any and all of the Equipment, and agrees to execute all documents reasonably necessary to effect such transfer and assignment, except that to the extent any rights of Lessor with respect to the Equipment may not be assigned or otherwise be available to Lessee, Lessor shall instead use reasonable efforts to enforce such rights against such Manufacturers or other Vendors but only upon the request and at the expense of Lessee.

4. Primary Term. The Primary Term for each item of the Equipment shall commence on the Lease Commencement Date provided for by the Rental Schedule for such Equipment, and unless sooner terminated pursuant to the provisions of this Lease, shall be for the number of calendar months set forth in such Rental Schedule, plus the number of days remaining in any partial calendar month if the Lease Commencement Date occurs on other than the first day of a month. Notwithstanding the foregoing, the provisions of this Master Lease on indemnification of Lessor by Lessee shall apply between Lessor and Lessee with respect to any Equipment from the time that any order for the Equipment is placed by Lessor.

5. Rent. (a) Lessee shall pay to Lessor in cash or by check as rent for the Equipment during the Lease Term, the amounts provided for in the Rental Schedule ("Basic Rent") for such Equipment on the dates designated therein ("Payment Dates"), at the location of Lessor set forth therein, or at such other address or to such other person or entity as Lessor, from time to time, may designate.

(b) Lessee shall also pay to Lessor, upon notice by Lessor to Lessee that payment is due, any sums other than for Basic Rent that Lessee at any time shall be required to pay Lessor pursuant to the provisions of this Lease, including but not limited to sums payable by reason of payments by Lessor to any Vendors in advance of the delivery of such Equipment or the commencement of the Lease Term for such Equipment, together with every additional charge, interest and cost which may be added for non-payment or late payment of any such sums or of Basic Rent. All such sums shall be additional

rent ("Additional Rent") and Lessor shall provide Lessee with notification as to the amount of any Additional Rent. If Lessee shall fail to pay any Additional Rent, Lessor shall have all rights, powers and remedies with respect thereto as are provided herein or by law in the case of non-payment of Basic Rent.

(c) With respect to any amount of Basic Rent or Additional Rent not received by Lessor within three days from when due hereunder, Lessee shall pay to Lessor interest on such amount from the due date thereof until payment is received by Lessor at two percent per month or the highest rate of interest on amounts past due that is not unlawful, whichever is lower (the "Default Interest Rate"). Additionally, with respect to each such instance of late payment, Lessee shall pay to Lessor, within three days of notification that such payment is due, a collection fee of \$500, which fee approximates Lessor's administrative costs, at minimum, to collect such unpaid Basic Rent or Additional Rent.

(d) LESSEE AGREES THAT TIME IS OF THE ESSENCE TO LESSOR IN LESSEE'S MAKING PAYMENTS OF BASIC RENT AND ADDITIONAL RENT WHEN SUCH PAYMENTS BECOME DUE.

(e) This Lease is a net-net-net lease and, notwithstanding any other provisions of this Lease, it is intended that Basic Rent and Additional Rent shall be paid without notice, demand, counterclaim, setoff, deduction or defense and without abatement, suspension, deferment, diminution or reduction. Lessee shall perform all its obligations under this Lease at its sole cost and expense. Except to the extent otherwise expressly specified herein, the obligations and liabilities of Lessee hereunder shall in no way be released, discharged or otherwise affected for any reason, including, without limitation: (i) any defect in the condition, quality or fitness for use of the Equipment or any part thereof; (ii) any damage to, removal, abandonment, salvage, loss, scrapping or destruction of or any requisition or taking of the Equipment or any part thereof; (iii) any restriction, prevention or curtailment of or interference with any use of the Equipment or any part thereof; (iv) any defect in title or rights to the Equipment or any lien on such title or rights or on the Equipment; (v) any change, waiver, extension, indulgence or other action or omission in respect of any obligation or liability of Lessor; (vi) any bankruptcy, insolvency, reorganization, composition, adjustment, dissolution, liquidation or other like proceedings relating to Lessee or any action taken with respect to this Lease by any trustee or receiver of Lessee or by any court, in any such proceeding; (vii) any claim that Lessee has or might have against any Person (as hereinafter defined), including without limitation Lessor (viii) any failure on the part of Lessor to perform or comply with any of the terms hereof or of any other agreement; (ix) any invalidity, unenforceability or disaffirmance of this Lease or any provision hereof against or by Lessee; or (x) any other occurrence whatsoever, whether similar or dissimilar to the foregoing, whether or not Lessee or Lessor shall have notice or knowledge of any of the foregoing. To the extent permitted by law, Lessee waives all rights now or hereafter conferred by statute or otherwise to quit, terminate, cancel, rescind or surrender this Lease, or to any diminution or reduction of Basic Rent or Additional Rent payable by Lessee hereunder.

6. Lessee's Representations and Warranties. Lessee represents and warrants (and if requested by Lessor, promptly will provide supporting documents to the effect and an opinion of counsel substantially in the form requested by Lessor) that as of the date that Lessee signs this Master Lease, as of any date that Lessor makes a payment to a Vendor prior to the date all Equipment has been accepted for lease hereunder, as of each date that any Equipment is accepted for lease hereunder and as of each Lease Commencement Date pursuant to a Rental Schedule hereunder: (i) Lessee is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, and is qualified and in good standing to do business wherever necessary to carry on its present business and operations, including the jurisdictions where the Equipment is or will be located; (ii) Lessee has the power to enter into this Lease and the other instruments and documents executed by Lessee in connection herewith (together with this Lease, the "Transactional Documents") and to pay and perform its obligations under this Lease and the other Transactional Documents; (iii) this Lease and the other Transactional Documents have been duly authorized, executed and delivered by Lessee, and constitute the valid, legal and binding obligations of Lessee enforceable in accordance with their terms; (iv) no vote or consent of, or notice to, the holders of any class of stock of Lessee is required, or if required, such vote

or consent has been obtained or given, to authorize the execution, delivery and performance of this Lease and the other Transactional Documents by Lessee; (v) neither the execution and delivery by Lessee of this Lease or the other Transactional Documents, nor the consummation by Lessee of the transactions contemplated hereby or thereby, nor compliance by Lessee with the provisions hereof or thereof, conflicts with or results in a breach of any of the provisions of any Certificate of Incorporation or By-laws or partnership or trust agreement or certificate of Lessee, or of any applicable law, judgment, order, writ, injunction, decree, award, rule or regulation of any court, administrative agency or other governmental authority, or of any indenture, mortgage, deed of trust, other agreement or instrument of any nature to which Lessee is a party or by which it or its property is bound or affected or pursuant to which it is constituted, or constitutes a default under any thereof or will result in the creation of any lien, charge, security interest or other encumbrance upon any of the Equipment, other than the interests therein of Lessor or any Assignee (as hereinafter defined), or upon any other right or property of Lessee or will in any manner adversely affect Lessor's or any Assignee's right, title and interest in any of the Equipment; (vi) no consent, approval, withholding of objection or other authorization of or by any court, administrative agency, other governmental authority or any other Person is required, except such consents, approvals or other authorizations which have been duly obtained and are in full force and effect and copies of which have been furnished Lessor, in connection with the execution, delivery or performance by Lessee, or the consummation by Lessee, of the transactions contemplated by this Lease and the other Transactional Documents; (vii) there are no actions, suits or proceedings pending, or, to the knowledge of Lessee, threatened, in any court or before any administrative agency or other governmental authority against or affecting Lessee, which, if adversely decided would or could, individually or in the aggregate, materially and adversely affect the financial or other condition, business, operations, properties, assets or prospects of Lessee or the ability of Lessee to perform any of its obligations under this Lease or under the other Transactional Documents, except for any such actions, suits or proceedings that Lessee has described in writing to Lessor; (viii) no Event of Default or event or condition which upon the passage of time, the giving of notice, or both, would constitute an Event of Default, exists or is continuing; (ix) there has been no material adverse change or threatened change in Lessee's, any Guarantor's or any Manufacturer's financial or other condition, business, operations, properties, assets or prospects since the date of Lessee's, such Guarantor's or Manufacturer's most recent financial statements reported on by an independent public accounting firm prior to the date of this Master Lease, since the dates of each such Person's interim and annual financial statements, if any, subsequent to such prior statements, or from the written information that has been supplied to Lessor by Lessee, any Guarantor or such Manufacturer; (x) Lessee possesses any and all authorizations, certifications and licenses which are or may be required to use and operate the Equipment; (xi) the actual Acquisition Cost pursuant to the applicable Rental Schedule of each item of the Equipment does not exceed the fair and usual price for like quantity purchases of such item and reflects all discounts, rebates and allowances for the Equipment given to Lessee, any Guarantor or any affiliate of Lessee or any Guarantor by any Vendor or other Person including, without limitation, discounts for advertising, prompt payment, testing or other services; (xii) all information supplied to Lessor by Lessee or any Guarantor is correct and does not omit any statement necessary to make the information supplied not misleading; and (xiii) the financial statements of Lessee and any Guarantor have been prepared in accordance with generally accepted accounting principles consistently applied and accurately and completely present the financial condition and the results of operations of Lessee and such Guarantors at the dates of and for the periods covered by such statements.

7. Identification Marks. To the extent requested by Lessor or if required by applicable law, Lessee shall affix to the Equipment at Lessee's expense signs, labels, or other forms of notice to disclose Lessor's ownership of, and the interest of any Assignee in, the Equipment. Lessee shall keep and maintain such signs, labels or other forms of notice affixed to the Equipment throughout the Lease Term. Lessor may furnish such signs, labels or other forms of notice to Lessee. Except as otherwise directed by Lessor, Lessee shall not allow the name of any person other than Lessor to be placed on any part of the Equipment as a designation that might reasonably be interpreted as a claim of ownership.

8. Fees and Taxes. Lessee agrees to pay promptly when due, and to indemnify and hold Lessor harmless from, all license, title, registration and recording fees whatsoever, all taxes including, without limitation, sales, use, franchise, personal property, excise, import, export and stamp taxes and

customs duties, and all charges together with any penalties, fines or interest thereon which are assessed, levied or imposed by any governmental or taxing authority against Lessor with respect to any or all of the Equipment or the purchase, acquisition, ownership, construction, installation, shipment, delivery, lease, possession, use, maintenance, condition, operation, control, return or other disposition thereof or the rents, receipts or earnings arising therefrom which accrue or are payable with respect to the Equipment or this Lease or which are assessed, are based on a valuation date, or are due during or with respect to the Lease Term or any subsequent period until the Equipment has been returned to Lessor pursuant to the provisions of this Lease or until the Equipment has been purchased by Lessee pursuant to any purchase option provisions of this Lease, excluding, however, any taxes solely measured by Lessor's net income from the general operation of Lessor's business. In the event any fees, taxes or charges payable by Lessee pursuant to the next preceding sentence are paid by Lessor, or if Lessor is required to collect or pay any thereof, Lessee shall reimburse Lessor therefore (plus any penalties, fines or interest thereon) promptly upon demand. Unless and until Lessor notifies Lessee in writing to the contrary, Lessee shall file and pay any personal property taxes levied or assessed on the Equipment directly to the levying authority. Upon Lessor's written request, Lessee shall submit to Lessor satisfactory evidence of payment by Lessee of any or all amounts for which Lessee is required to make payment or to indemnify Lessor hereunder that are paid by Lessee, and of the filing of any and all reports, returns and other documentation required in connection with any such payment. In the event Lessor elects to pay the personal property taxes directly to a levying authority, Lessor shall submit to Lessee a copy of its personal property tax return and its receipt for the full amount of such personal property taxes so paid by Lessor. All of the obligations of Lessee under this Section shall continue in full force and effect notwithstanding any expiration, termination, rescission or cancellation of this Lease. Lessee acknowledges that Lessor may not be exempt from the payment of any of the amounts referred to herein, even though Lessee might have been exempt therefrom if it were the owner or purchaser of the Equipment, and Lessee agrees that this Section shall apply, and the amounts due from it hereunder shall be due, whether or not Lessee might itself have otherwise been exempt from any such payments. Subject to the foregoing, Lessee shall have the right to contest in good faith any such taxes levied or imposed by any governmental or taxing authority, provided that Lessee shall have given Lessor not less than ten days prior notice of its intention to contest and full particulars of the proposed contest, in the opinion of Lessor the proposed contest will not adversely effect the interests of Lessor or any Assignee, and Lessee either shall have paid the taxes or provided for a bond or other security so that none of the Equipment will be subject to seizure, confiscation or forfeiture. For purposes of this Section, the term "Lessor" shall include each member of Lessor's affiliated group, if any.

9. General Indemnity. (a) Lessee shall indemnify Lessor and any Assignee (as hereinafter defined), and their respective agents and servants, against, and agrees to defend, protect, save and keep them harmless from, any and all liabilities, obligations, losses, damages, penalties, claims, actions, suits, costs, expenses and disbursements, including attorneys' fees and expenses and costs for customs, completion, performance and appeal bonds, of whatsoever kind and nature (including, without limitation, for negligence, tort liability, damages by reason of strict or absolute liability, punitive damages, and indirect and consequential damages, but excluding any such amounts imposed or incurred as a result of Lessor's gross negligence or willful misconduct), imposed on or incurred by or assessed against Lessor and/or any Assignee, in any way relating to or arising out of (i) the failure of Lessee to provide or obtain any certificate, documents, consents, authorizations, clearances, licenses, permits or instruments required hereunder or under any of the other Transactional Documents, or (ii) the ordering, construction, installation, delivery, testing, ownership, lease, possession, use, maintenance, operation, control, movement, import, export, shipment, condition, or return of the Equipment (including but not limited to latent and other defects, whether or not discoverable by Lessor or Lessee, and any claim for patent, trademark, copyright, software or other intellectual property infringement) until such time as the Equipment shall have been returned to Lessor pursuant to the provisions of this Lease or until the Equipment shall have been purchased by Lessee pursuant to any purchase option provisions of this Lease.

(b) The obligations of Lessee under this Section shall survive the payment of all known obligations under and any expiration, termination, rescission or cancellation of this Lease, and are expressly made for the benefit of and shall be enforceable by Lessor, its successors and any Assignee.

10. Use of Equipment; Location Liens. (a) During the Lease Term, Lessee warrants and agrees that the Equipment shall be used and operated and otherwise be in compliance with any established operating procedures therefore of any Manufacturer and all statutes, regulations and orders of any governmental body having power to regulate the Equipment or its use. Lessee shall bear and pay all costs of such compliance. Lessee shall not permit the Equipment to be used or maintained in any manner or condition that would violate, or could result in the termination of, the insurance policies carried by Lessee pursuant to the provisions of this Lease on insurance, or in any manner or condition or for any purpose for which, in the opinion of any Manufacturer, the Equipment is not designed or suited.

(b) Lessee agrees that without Lessor's prior written consent, it will not remove any of the Equipment from the location specified in the Rental Schedule for such Equipment or permit any of the Equipment to be used by anyone other than Lessee, Lessee's employees or a responsible independent contractor engaged by Lessee.

(c) During the Lease Term and until the Equipment has been returned to Lessor pursuant to the provisions of this Lease or until the Equipment is purchased by Lessee pursuant to any purchase option provisions of this Lease, Lessee will not directly or indirectly create, incur, assume or suffer to exist any mortgage, security interest, lien or encumbrance on the Equipment or Lessor's or any Assignee's title thereto or interest therein, except in the name of Lessor and its successor(s) and any Assignee. Lessee, at its own expense, will promptly take such action as may be necessary to keep the Equipment free and clear of, and to duly discharge, any such mortgage, security interest, lien or encumbrance not excepted above.

(d) Lessee agrees to procure and maintain in effect all licenses, certificates, permits and other approvals and consents required by federal, state and local laws and regulations in connection with Lessee's possession, use, operation and maintenance of the Equipment. During the Lease Term, Lessee agrees that 100 percent of the use of the Equipment shall be "qualified business use" as that term is and shall be from time to time defined by the Internal Revenue Code of 1986, as amended.

(e) Lessee shall cooperate fully with Lessor or any Assignee to perfect and record their respective interests in connection with the Transactional Documents including, without limitation, the filing of financing statements and will pay such Persons their reasonable costs related thereto. Lessee authorizes Lessor to file financing statements that are signed only by Lessor or that are signed for Lessee by Lessor in any jurisdiction when permitted by law or local authority. Lessee hereby grants to Lessor power-of-attorney to act as Lessee's attorney-in-fact to sign Lessee's name on financing statements as "Debtor".

11. Maintenance and Repairs; Additions to Equipment. (a) Lessee shall, for the entire Lease Term, at its sole expense, maintain all of the Equipment in good, safe and efficient operating repair, appearance and condition, will keep all components of the Equipment properly calibrated and aligned, will make all required adjustments, replacements and repairs and will obtain and install any upgrades for the Equipment that are announced and available for sale by a Manufacturer (collectively, "maintenance and repairs"). Such maintenance and repairs shall include, but not be limited to, all recommended or advised by a Manufacturer, all required or advised by cognizant governmental agencies or regulatory bodies and all commonly performed by prudent business and/or professional practice. All maintenance and repairs to any item of the Equipment shall be made by the Manufacturer or, upon prior written approval by Lessor, those of substantially equal skill or knowledge in maintaining and repairing the Equipment.

(b) Lessee shall not modify the Equipment without the prior written consent of Lessor. Any replacements, substitutions, additions, attachments, accessions, parts, fittings, accessories, modifications, enhancements, maintenance and repairs and other upgrades to the Equipment whenever made shall be considered accessions to the Equipment and shall automatically become the property of Lessor.

(c) All instruction manuals, published statements of capabilities and technical specifications, service, maintenance and repair records, installation, qualification, certification and calibration reports, usage logs, and printed material relating to the Equipment shall be deemed part of the

Equipment. Computer programs, programming codes, operating systems, data processing instructions, series of instructions or statements which are machine readable, and any like symbols or signals usable by an electronic data processing system (collectively "Software") that has been or shall be installed or entered in the Equipment shall become a part of the Equipment except for any Software that is proprietary Software of Lessee and is not a modification, change, enhancement or improvement to any Software which is identified or listed in the description of specific items of the Equipment in or attached to a Rental Schedule. Whenever Lessee acquires Software licenses from other parties, with respect to the Software such licenses shall automatically and without further action by Lessee be assigned to Lessor and become through assignment a part of the Equipment transferable to any future user of the Equipment for use with the Equipment.

12. Loss, Damage or Destruction of Equipment. (a) Lessee shall bear all risks of damage to, taking of, or theft, loss or destruction of, any or all of the Equipment commencing as of the date of this Master Lease and continuing throughout the Lease Term and until such Equipment has been returned to Lessor or purchased by Lessee pursuant to any purchase option provisions of this Lease. Except as otherwise herein expressly provided, no damage to, taking of or theft, loss or destruction of any Equipment shall impair any obligation of Lessee to Lessor under this Lease, including, without limitation, the obligation to pay Basic Rent.

(b) In the event that any item of Equipment shall become damaged from any cause whatsoever, Lessee agrees to promptly notify Lessor in writing of such fact, fully informing Lessor of the details thereof. If any item of Equipment is damaged (unless the same, in the opinion of Lessor is irreparably damaged, in which case the provisions of this Lease with respect to a Casualty Occurrence shall apply), Lessee shall, at its sole cost and expense, place the same in good repair, condition and working order or replace the same with "like property" having the same value and operating capabilities and useful life at least equal to the damaged Equipment prior to the date of such damage, which property shall thereupon become subject to this Lease with title thereto in Lessor. In the event that an item of Equipment has been damaged, but not irreparably, if no Event of Default has occurred and is continuing hereunder, upon receipt by Lessor of evidence, satisfactory to Lessor, that such repair, restoration or replacement has been completed, and an invoice therefore. Lessor shall release to Lessee or its supplier the proceeds of any insurance received by Lessor as a result of such damage for the purpose of reimbursing Lessee for the costs of repairing, restoring or replacing such item.

(c) In the event that any item of Equipment shall become lost, stolen, destroyed or irreparably damaged from any cause whatsoever, or if any item of Equipment or Lessor's title thereto shall be requisitioned or seized by any governmental authority (each such occurrence being herein called a "Casualty Occurrence") during the Lease Term and until it has been returned to Lessor pursuant to the provisions of this Lease or until the Equipment is purchased by Lessee pursuant to any purchase option provisions of this Lease, Lessee shall promptly notify Lessor in writing of such fact, fully informing Lessor of all details of the Casualty Occurrence in question, and shall pay Lessor in cash the greater of (i) the "Stipulated Loss Value" as set forth in the Table of Stipulated Loss Values attached to the Rental Schedule pursuant to which such item of Equipment is leased hereunder, calculated as of the date of the Casualty Occurrence, or (ii) the Fair Market Value (as hereinafter defined) of the item of Equipment in question as of the date of the Casualty Occurrence. This payment shall be made within 30 days following the Casualty Occurrence, together with the Basic Rent accrued and unpaid with respect to such Equipment as of the date of the Casualty Occurrence, plus all Additional Rent or amounts owing with respect to such Equipment on such date of payment.

(d) Upon the payment of the greater of the Stipulated Loss Value or Fair Market Value of the Equipment in question in accordance with the terms of this Section, and the payment of all Basic Rent, Additional Rent and any other sums then due hereunder, this Lease shall terminate with respect to the Equipment or part thereof suffering the Casualty Occurrence and all Lessor's rights and title to such Equipment shall pass to Lessee, "as is" and "where is", without any representation or warranty by, or recourse to, Lessor, as provided by the provisions of this Master Lease on disclaimer of warranties and as evidenced by a duly executed bill of sale naming Lessor as the seller and Lessee as the buyer.

(e) Provided that no Event of Default has occurred and no event that with the passage of time or giving of notice, or both, would be an Event of Default has occurred and is continuing, any insurance proceeds received as the result of a Casualty Occurrence with respect to any or all items of the Equipment shall be applied first in reduction of any other then unpaid obligation of Lessee to Lessor hereunder and second in reduction of Lessee's obligation to pay the greater of the Fair Market Value or the Stipulated Loss Value for such item if not already paid by Lessee to Lessor, or, if already paid by Lessee, to the reimbursement of Lessee therefore, and the balance of the insurance proceeds, if any, shall be paid to Lessee.

13. Reports; Inspections. Lessee will cause to be furnished to Lessor, if requested, from time-to-time a statement showing the condition and such other information regarding the Equipment as Lessor may reasonably request. Lessor and any Assignee shall have the right, upon reasonable notice to Lessee, to inspect the Equipment including Lessee's records with respect to the Equipment, to copy such records, and to inspect and copy Lessee's records with respect to the financial statements Lessee is required to furnish Lessor or has warranted to Lessor pursuant to this Lease. Any inspection by Lessor or any Assignee shall not be deemed to be approval or acknowledgment by Lessor or such Assignee of the safety, freedom from defects, performance or compliance with specifications or governmental requirements of the Equipment or of the conformity of the Equipment or such financial statements to the requirements or warranties of this Lease, and the disclaimers set forth in the provisions of this Master Lease on disclaimer of warranties shall apply to any such inspection. Lessee shall pay or reimburse Lessor for Lessor's costs and travel expenses for one such inspection per year, and for Lessor's costs, travel expenses and salaries and the charges and such expenses of Lessor's advisers for the inspection following an inspection which encountered a breach of the requirements of this Lease or the warranties of Lessee pursuant to this Lease.

14. Insurance. During the Lease Term and until all Equipment has been returned to Lessor pursuant to the provisions of this Lease or until the Equipment is purchased by Lessee pursuant to any purchase option provisions of this Lease, Lessee shall procure and maintain at its expense with reputable insurers acceptable to Lessor (i) insurance on all of the Equipment in an amount not less than the greater of the Equipment's Stipulated Loss Value or Fair Market Value replacement cost insuring against all risks of loss or damage to the Equipment and against such other risks as Lessee would, in the prudent management of its properties, maintain with respect to similar equipment owned by it, and (ii) comprehensive public liability and property damage insurance, in such amounts as shall be satisfactory to Lessor but for not less than the greater of \$1,000,000 or the amounts customarily maintained by parties similar to Lessee for similar leased equipment with similar contemplated use, insuring Lessor and any Assignees, as their interests may appear, against liability for death, bodily injury, professional malpractice, and property damage arising out of or resulting from the design, construction, manufacture, ownership, use, operation, lease or maintenance of, or otherwise in connection with, the Equipment. On the policies referred to in clause (i), such insurance shall name Lessor (and any Assignees) as the sole loss payee so that (and Lessor and Lessee hereby agree that) the insurance proceeds payable under such policies will be payable and paid solely to Lessor (and to any Assignees). On the policies referred to in clause (ii), such insurance will name Lessor (and any Assignees) as an additional insured as its interests may appear. All such policies shall provide that they may not be invalidated against Lessor (or any Assignees) because of any violation of a condition or a breach of warranty of the policies or application therefore by Lessee, that they may not be altered or canceled except after 30 days' prior written notice to Lessor, and that Lessor and any Assignee have the right but not the obligation to pay the premiums with respect to coverage required by this Lease in order to continue such insurance in effect or to obtain like coverage. Under the policies of insurance required to be maintained by Lessee pursuant to this Master Lease, Lessee agrees to waive any right of subrogation and to cause the insurance carrier to waive any right of subrogation in each instance as such right may exist against Lessor or any Assignee and for any and all loss or damage to the Equipment. Lessor is hereby appointed Lessee's attorney-in-fact to endorse any check or draft which may be payable to Lessee in order to collect the proceeds of such insurance. Lessee shall deliver to Lessor, prior to the beginning of the Lease Term with respect to any of the Equipment and at such other time or times as Lessor may request, a certificate or other evidence satisfactory to Lessor of the maintenance of such insurance. Lessor shall be under no duty to examine such

policies, certificates or other evidence of insurance or to advise Lessee in the event that its insurance is not in compliance with this Lease. In the event of failure on the part of Lessee to provide such insurance, Lessor may, at its option, but without obligation, provide such insurance and add the amount of the premiums to the rents due hereunder, and Lessee shall, upon Lessor's demand, pay the same as Additional Rent.

15. Return of Equipment. (a) At the end of the Lease Term for any Equipment, Lessee at its sole expense shall forthwith return possession of such Equipment without omissions to Lessor by:

(i) properly preparing, crating and/or assembling such Equipment (in accordance with the Manufacturer's instructions if such instructions exist) for shipment by common carrier with all containers and pieces labeled with model, part and unit numbers and descriptions; and

(ii) shipping such Equipment by common carrier, with insurance and freight prepaid, to a place designated by Lessor within a 1,000 mile radius of the specified location under this Lease for such Equipment. Lessor shall pay additional shipping charges incurred because of distances in excess of such 1,000 miles.

The insurance required by clause (ii) above shall provide that in the event of loss such insurance shall pay Lessor by check directly the greater of (A) the full replacement value of such Equipment and (B) the "Stipulated Loss Value" as set forth in the Exhibit to the Rental Schedule calculated as of the Payment Date next preceding the date of loss. Lessee acknowledges that "full replacement value" may exceed Fair Market Value.

(b) When the Equipment is returned to Lessor it shall be complete. The condition of the Equipment including Software upon receipt by Lessor shall be not less than (i) meeting all specifications for such fully upgraded equipment as published most currently by the respective Equipment vendor(s), Manufacturer(s) or supplier(s) (collectively referred to, together with their successors and assigns, if any, as "Vendors"), (ii) in fully operational condition, (iii) capable of being installed and operated in the normal course by another user, (iv) for each item of the Equipment for which the Vendor has a program of maintenance and service including certification for reinstallation and for qualification under the maintenance and service program certified in writing by the Vendor that the items of the Equipment are in compliance with the conditions specified in this paragraph, are accepted by the Vendor for reinstallation and are qualified for the usual and customary service and maintenance program of the Vendor, (v) legally qualified for future use or operation of the Equipment by another lessee or purchaser of the Equipment, (vi) free of defects, visible or concealed, including, but not limited to, damage or malfunction of any kind, dents, fractures, chips, scratches, stains, defacements, discolorations, rust, corrosion, electrical shorts, fluid restrictions or blockages, disconnections, breakage or the like, (vii) safe for routine and usual operation, (viii) in compliance with any and all pertinent governmental or regulatory rules, laws or guidelines for its operation or use, (ix) free of Lessee's markings or labelings, and (x) free of any advertising or insignia not requested by Lessor that was placed on the Equipment by Lessee.

(c) Lessor reserves the right to inspect the Equipment within 30 days of its return to verify compliance with the provisions of this Master Lease on Equipment maintenance and repairs and additions and on return of Equipment. Should there be less than full compliance, Lessor at its option may (i) perform or cause to be performed through service organizations of its own choosing such maintenance and repairs, including upgrades, replacements, the obtaining of paid-up Software licenses and other services, as it deems necessary to effect such compliance, (ii) require Lessee to perform or cause to be performed such maintenance and repairs, including upgrades, replacements, the obtaining of paid-up Software licenses and other services, as Lessor deems necessary to effect such compliance and/or (iii) reasonably estimate the costs to effect such compliance. Lessee shall pay to Lessor the costs for performance of (i) or (ii) above, or the estimated costs under (iii) above, in any such case including the costs of the inspection(s). If maintenance and repairs, including upgrades, replacements, and the obtaining of paid-up Software licenses and other services, are necessary to place any of the Equipment under any Rental Schedule in the condition required by this Lease, Lessee shall continue to pay to Lessor monthly Additional Rent at the last

prevailing rate during the Lease Term for Basic Rent on the Equipment under such Rental Schedule for the period of delay until all such required maintenance and repairs can be performed, or for the period of time reasonably necessary to accomplish such maintenance and repairs. For any such period that applies, Lessee shall continue to provide the insurance required during the Lease Term. However, Lessor's acceptance of such rent and provision of insurance during such period shall not constitute a renewal of the Lease Term, a waiver of Lessor's right to prompt return of such Equipment in the condition required by this Section, or a waiver of Lessor's right to possession of such Equipment.

(d) Should the inspection reveal any item(s) of the Equipment to be missing, Lessee shall be responsible for paying to Lessor promptly the greater of the Stipulated Loss Value or the Fair Market Value of such item(s) of the Equipment computed as of the last Payment Date prior to the end of the Lease Term, plus the amount of any impairment of the Fair Market Value of the remaining item(s) of the Equipment due to the absence of such missing item(s) of the Equipment.

(e) In the event that Lessee fails to return any of the Equipment when required, at the election of Lessor effected by notice to Lessee, the Lease Term for such Equipment shall be extended on a month-to-month basis on the same terms as previously in effect, and Lessee shall pay to Lessor monthly in advance Basic Rent for such Equipment at the last prevailing rate during the unextended Lease Term, until such Equipment has been returned to Lessor pursuant to the provisions of this Lease. Notwithstanding any month-to-month continuance of this Lease, Lessor may resort to any remedies available to it under this Lease, at law or in equity, to recover such Equipment at any time following the end of such extended Lease Term.

(f) Lessor may give notice to Lessee not more than 120 days and not less than 30 days prior to the end of the Lease Term that Lessee shall delay returning the Equipment to Lessor and shall keep the Equipment on the premises of Lessee in working condition after the end of the Lease Term and until requested by Lessor to return the Equipment or until six months after the end of the Lease Term, whichever first occurs, at which time Lessee shall forthwith return possession of the Equipment without omissions to Lessor as provided by the provisions of this Section other than this paragraph. After the end of the Lease Term, Lessee shall not use the Equipment except in the performance of demonstrations requested by Lessor. During the period from notice to delay returning the Equipment until requested to return the Equipment or six months after the end of the Lease Term, Lessee shall maintain the Equipment in the same condition as required to be maintained during the Lease Term, shall cooperate with Lessor, shall grant access to Lessee's premises for inspection of the Equipment by potential purchasers and future lessees of the Equipment and representatives of Lessor, and shall facilitate demonstrations of the Equipment by Lessor. During such period and thereafter until the Equipment is delivered to a common carrier with the insurance upon such delivery required by this Section, Lessee shall continue to maintain the insurance required by this Lease during the Lease Term. Lessee shall continue to have the risk of loss of the Equipment and the obligation to indemnify Lessor as provided by this Lease until the return of the Equipment to Lessor following such period and delivery.

(g) Not less than 180 days prior to expiration of the Lease Term, if Lessee has not given notice of the exercise of any purchase option and Lessor has not given notice of the exercise of any option to require Lessee to purchase such Equipment, Lessee shall give Lessor notice that Lessee shall be returning the Equipment forthwith upon the expiration of the Lease Term unless otherwise notified by Lessor and either (i) that the Equipment is in the condition required by this Lease upon the return of the Equipment or (ii) specifying the respects in which the condition of the Equipment is not in compliance with such requirements and the measures that Lessee shall take to bring the Equipment into compliance.

16. Lessor's Ownership; Equipment To Be and Remain Personal Property. (a) Lessee acknowledges and agrees that it does not have, and by execution of this Lease and/or payments and performance hereunder it shall not have or obtain, any title to the Equipment, nor any property right or interest, legal or equitable, therein, except its rights as Lessee hereunder and subject to the terms hereof. Lessee shall not have or claim a security interest and shall not seek or obtain replevin, detinue, specific performance,

sequestration, claim and delivery, or like remedies in or for this Lease, any rents under this Lease, any or all of the Equipment, any items of personal property identified to become items of the Equipment, or any proceeds of any or all of the foregoing.

(b) All of the Equipment shall be and remain personal property notwithstanding the manner in which the Equipment may be attached or affixed to realty. Upon the expiration, cancellation or termination of the Lease Term of any or all of the Equipment, Lessee shall have the obligation, and Lessor shall have the right, to remove, or cause the removal of, such Equipment from the premises where the same is then located, for return to Lessor pursuant to the provisions of this Master Lease on return of Equipment and, if applicable, on Events of Default, whether or not any of the Equipment is affixed or attached to realty or to any building. In the exercise of its rights, Lessor shall not be liable for any damage to the realty or any such building or other real or personal property occasioned by any removal of the Equipment by Lessee or Lessor or the agents of Lessee or Lessor. Lessee further covenants and agrees that Lessee will, at the request of Lessor, obtain and deliver to Lessor concurrently with the execution and delivery of each Rental Schedule, a waiver, in recordable form, from the owner and any landlord, tenant or holder of any lien or encumbrance on the realty or building(s) on or in which any of the Equipment described in such Rental Schedule shall be located, under which such owner, landlord, tenant and holder (i) agree and consent that such Equipment is and shall be personal property, owned by and removable by Lessor upon the expiration, cancellation or termination of the Lease Term thereof, and (ii) waive any rights of distraint or similar rights with respect to such Equipment.

(c) If Lessee is unable to return, or is prevented from returning, any of the Equipment to Lessor upon the expiration, cancellation or termination of the Lease Term as required under the provisions of this Master Lease on return of Equipment, for any reason whatsoever, including, but not limited to, the assertion by any third party of any claim against such Equipment, or of any right with respect thereto, whether or not resulting from the manner in which such Equipment is affixed or attached to, or installed in, the realty or any building(s) thereon or any other personal or real property, or from the failure of any owner, landlord or tenant of said realty (or the building(s) thereon) or the holder of any lien or encumbrance to execute the waiver in writing of such fact, for all purposes of this Lease such Equipment shall be deemed to have been the subject of a Casualty Occurrence. Thereupon, Lessee shall pay to Lessor the amounts provided for by the provisions of this Master Lease on loss, damage or destruction of Equipment, with respect to such Equipment, at the time, in the manner, and with the consequences provided by such provisions.

(d) Notwithstanding the foregoing provisions of this Section, without Lessor's prior written consent, Lessee shall not permit any of the Equipment to be attached or affixed to, imbedded in or incorporated into any building, structure, real estate or other personal or real property.

17. Other Covenants. (a) Lessee agrees to furnish, upon Lessor's request, such financial, business and operational information concerning Lessee and any or all Guarantors, including copies of its and their tax returns, as Lessor or its assigns may reasonably request during the Lease Term, Additionally, Lessee shall furnish to Lessor and its assigns without notice or demand therefore two complete copies of its and of every Guarantor's (i) quarterly interim financial statements within 45 days of the close of each of the first three fiscal quarters of every year, certified by the chief financial officer of, respectively, Lessee or such Guarantor and (ii) annual financial statements within 90 days of the close of each fiscal year reported on by independent accountants without material adverse qualification or comment. All such financial statements shall be prepared in accordance with generally accepted accounting principles consistently applied, and shall accurately and completely present Lessee's and every Guarantor's financial condition and results of operations at the dates of and for the periods covered by such statements.

(b) Lessee shall promptly furnish to Lessor copies of (i) filings that Lessee or any Guarantor makes with the SEC or other government agencies under the securities laws including but not limited to definitive proxy statements, registration statements, prospectuses and tender offer filings, and reports on holdings or acquisitions of securities, relating to proxy

solicitations, and on Form 10-K, 10-Q, 8-K or similar forms, and any amendments to such filings, (ii) press releases of Lessee or any Guarantor, and (iii) new product (or service) announcements of Lessee or any Guarantor.

(c) If Lessee or any Guarantor or a general partner of Lessee or any Guarantor is a corporation, Lessee shall give Lessor notice of all meetings of the stockholders of such corporation and copies of all materials that are furnished to the stockholders for the meetings at the same time that the notice or materials are sent to the stockholders. If Lessee or any Guarantor or a general partner of Lessee or any Guarantor is a partnership, Lessee shall give Lessor notice of all meetings of such partnership and copies of all materials that are furnished to the partners for the meetings at the same time that the notice or materials are sent to the partners. Lessor shall have the right to have its representative attend any and all such meetings at the expense, including travel costs, of Lessee.

(d) There shall be no actual or threatened conflict with, or violation of any statute, regulation, standard or rule relating to Lessee, its present or future operations, or the Equipment.

(e) All information supplied to Lessor or its assigns by Lessee or any Guarantor shall be correct and shall not omit any statement necessary to make the information supplied not be misleading. There shall be no material breach of the representations and warranties made by Lessee in connection with this Lease or by any Guarantor in connection with a Guaranty (as hereinafter defined).

(f) Lessee shall give Lessor notice of any change in the address of the executive office or principal place of business of Lessee not less than 15 days prior to the change.

(g) No change shall occur in the control, and no material change shall occur in the ownership, of Lessee or any Guarantor, and no Guarantor shall assert in writing that the obligations of the Guarantor as a Guarantor or in its Guaranty are not in full force and effect.

(h) Lessee shall not make any payment or distribution of money, checks, securities or property to any Person in contravention of the provisions of any Guaranty or subordination that such Person has made in favor of Lessor or its assigns of which Lessee shall have notice or knowledge.

18. Events of Default. If one or more of the following events (hereinafter called "Events of Default" or an "Event of Default") shall occur:

(i) default shall be made in the payment of any Basic Rent or Additional Rent due under this Master Lease or under any Rental Schedule hereto, and any such default shall continue for more than 10 days after the due date thereof;

(ii) any representation or warranty by Lessee or any Guarantor made in this Master Lease or in any Guaranty or other Transactional Document or certificate furnished to Lessor in connection with this Lease or pursuant hereto shall at any time prove to be incorrect in any material respect;

(iii) Lessee shall make or permit any unauthorized assignment or transfer of this Master Lease or any Rental Schedule to this Master Lease or of any of Lessee's rights and obligations hereunder or thereunder, or Lessee shall make or permit any unauthorized sublease or transfer of any Equipment or the possession of any Equipment;

(iv) Lessee shall default in the observance and/or performance of any other covenant, condition or agreement on the part of Lessee to be observed and/or performed under this Master Lease, under any Rental Schedule hereto, or under any other Transactional Document, which default is not governed by paragraphs (i), (ii) or (iii) above, and such default shall continue for 30 days after written notice from Lessor to Lessee specifying the default and demanding the same to be remedied;

(v) Lessee or any Guarantor shall make an assignment for the benefit of creditors, or cease being in substantially the same line or lines of business in which it is presently engaged, or generally fail to pay its debts as they become due, or become insolvent or commence a voluntary case under the federal Bankruptcy Code as now or hereafter constituted or any other applicable federal or state bankruptcy, insolvency or similar law, or admit in writing its inability to pay its debts as they mature, or consent to the appointment of a trustee or receiver, or a trustee or a receiver shall be appointed for Lessee or any Guarantor or for a substantial part of Lessee's or any Guarantor's property without such party's consent and such appointment shall be not dismissed for a period of 60 days; there shall have been entered a decree or order for relief by a court having jurisdiction in respect of Lessee or any Guarantor, or approving as properly riled a petition seeking a reorganization, arrangement, adjustment or composition of or in respect of Lessee or any Guarantor in an involuntary proceeding or case under any applicable federal or state bankruptcy, insolvency or other similar law, or appointing a receiver, liquidator, assignee, custodian, trustee or similar official of Lessee or any Guarantor or of any substantial part of its property, or ordering the winding-up or liquidation of its affairs, and the continuance of any such decree or order unstayed and in effect for a period of 60 days, or there shall have been filed a petition by or against Lessee or any Guarantor under any bankruptcy law or other insolvency law and, if petition is filed against Lessee or such Guarantor, the petition is not withdrawn or dismissed within 60 days after the date of filing; or Lessee or any Guarantor shall cease doing business as a going concern or shall liquidate or be dissolved;

(vi) Lessee or any Guarantor shall, without the prior written consent of Lessor, enter into a merger, consolidation or division, effect a share exchange of its outstanding stock for the stock of another corporation, make a tender offer for equity securities of a publicly held entity, or sell or otherwise dispose of all or a major part of its assets or of assets that produce all or a major part of its revenues or profits; provided however, that Lessee or any Guarantor, without violating the provisions of this clause, may consolidate with or merge with a corporation or other entity organized under the laws of one of the states of the United States (the surviving entity, a "successor"), or sell (except by means of a sale and leaseback arrangement) all or substantially all of its business and assets to such a successor, on the condition that any successor expressly assume in writing all of the obligations of Lessee pursuant to this Lease or of such Guarantor pursuant to its Guaranty, and that the net tangible assets and the net worth (determined in accordance with generally accepted accounting principles) of the successor after the consolidation, merger or sale shall be at least equal to the net tangible assets and the net worth of Lessee or such Guarantor, as the case may be, immediately prior to the consolidation, merger or sale;

(vii) there shall occur under any other lease, contract or agreement between Lessee and Lessor, an Event of Default, as defined in such lease, contract or agreement;

(viii) any of the Equipment shall be attached, levied upon, encumbered, pledged, seized or taken under any judicial process (except for any attachment, levy, encumbrance or pledge caused to be placed on the Equipment by Lessor) and such proceedings shall not be vacated, or fully stayed, within 30 days thereof;

(ix) at any time there shall occur under (A) any lease between Lessee and a party other than Lessor as lessor or (B) under any lease wholly or partially guaranteed by the Lessee, the exercise by the lessor of its possessory remedies or commencement of legal proceedings by the lessor for default under the lease; provided that the aggregate future payments remaining to be made or guaranteed by Lessee exceed \$10,000, and that under a lease described in (B) above within ten days of notice to Lessee of such exercise of remedies and demand for payment by Lessee any such amount guaranteed by Lessee remains unpaid; or

(x) any obligation of Lessee or any Guarantor for the payment of borrowed money or the acquisition of assets by purchase, conditional sale or other arrangement is not paid or refinanced at maturity, whether by acceleration or otherwise, or is declared due and payable prior to the stated maturity thereof by reason of default or other violation of the terms of any promissory note or agreement evidencing or governing such obligation, and Lessor has given Lessee an opportunity to either cure the purported Event of Default or supply information satisfactory to Lessor that it does not, in fact, exist;

this Lease shall be declared in default immediately and without notice upon the occurrence of an Event of Default specified in clause (v) above, and in the case of any other Event of Default, upon Lessor at any time at its option subsequent to such Event of Default giving notice to Lessee that this Lease is declared in default. At any time after this Lease has been declared in default, Lessor may exercise one or more of the following remedies, to the extent not then prohibited by law, as Lessor in its sole discretion may elect:

(I) to proceed by appropriate court action or actions at law or in equity or in bankruptcy to enforce performance by Lessee of the covenants and terms of this Lease and/or to recover damages for the breach thereof;

(II) to terminate or cancel this Lease upon written notice to Lessee whereupon all rights of Lessee to use the Equipment shall immediately terminate, but Lessee shall not be relieved of any obligations under this Lease;

(III) whether or not this Lease be so terminated or canceled and without notice to Lessee, to repossess and/or to render inoperable the Equipment wherever found, with or without legal process, and for this purpose Lessor and/or its agents may enter upon any premises of or under the control or jurisdiction of Lessee or any agent of Lessee without liability for suit, action or other proceeding by Lessee and remove the Equipment therefrom; Lessee hereby expressly waives any claims for damages occasioned by such repossession; LESSEE HEREBY EXPRESSLY WAIVES ANY AND ALL RIGHTS, INCLUDING RIGHTS TO NOTICE OR A JUDICIAL HEARING WITH RESPECT TO REPOSSESSION OF THE EQUIPMENT AFTER AN EVENT OF DEFAULT;

(IV) to hold or to use any Equipment returned to Lessor or repossessed by Lessor for any purpose whatsoever, to sell any Equipment at a private or public, cash or credit sale, to re-lease any Equipment, in all the foregoing events free and clear of any rights of Lessee and without any duty to account to Lessee with respect to such action or inaction;

(V) whether or not Lessor shall have exercised, or shall hereafter at any time exercise, any of its other rights with respect to an item of the Equipment, upon written notice to Lessee, to demand that Lessee pay to Lessor, and Lessee shall pay to Lessor on the date specified in such notice, as liquidated damages for loss of a bargain and not as a penalty (in lieu of the Basic Rent for such Equipment that prior to the Event of Default was to have been paid on Payment Dates subsequent to the date specified in such notice), the sum equal to the excess, if any, of 125% of the Stipulated Loss Value for such item of Equipment computed as of the latest Payment Date when all Basic Rent and Additional Rent then due and payable has been fully paid over whichever of the following three amounts Lessor, in its sole discretion, shall designate in such notice:

(A) the present value of the fair market rental value (determined as hereafter provided in this Section) of such item of the Equipment for the remainder of the Lease Term as of the date specified in such notice, the present value to be computed on the basis of a seven percent per annum rate of discount from the respective dates upon which such rent would be paid,

(B) the fair market sales value (determined as hereafter provided in this Section) of such item of Equipment as of the date specified in such notice, or

(C) if Lessor shall have sold or re-leased any item of Equipment pursuant to clause (IV) above, the net proceeds of such sale or re-lease,

plus interest at the Default Interest Rate (a) on such sum from the date so specified by Lessor until paid and (b) on whichever of such three amounts is so designated by Lessor from such date until whichever one of the following shall be applicable to the designated amount: the time when the fair market rental or sales value shall have been so determined or the time when the Equipment shall have been sold or re-leased; and

(VI) to forthwith recover from Lessee, and Lessee shall be fully liable for, all Basic Rent that shall accrue until the date that the Equipment is returned to or repossessed by Lessor and any Additional Rent including collection fees, whenever accrued, and interest at the Default Interest Rate.

In addition to the foregoing, Lessor may also recover from Lessee all costs and expenses arising out of Lessee's default, including, without limitation, expenses of repossession of the Equipment and the storage, inspection, repair, reconditioning, sale and re-leasing thereof, and reasonable attorneys' fees incurred by Lessor in exercising any of its rights or remedies hereunder. For the purposes of this Section only, "fair market rental value" and "fair market sales value" shall be determined by an appraisal of an independent appraiser chosen by Lessor, and the cost of any such appraisal shall be borne by Lessee. No remedy referred to in this Section is intended to be exclusive, but each shall be cumulative and in addition to any other remedy referred to above or otherwise available to Lessor at law or in equity or in bankruptcy. Lessor shall have no duty to pay Lessee any surplus from sale or lease of the Equipment, or in the fair market rental or sales value of the Equipment, above all amounts payable by Lessee to Lessor. The exercise by Lessor of any one or more remedies shall not be deemed to preclude the simultaneous or later exercise by Lessor of any or all such previously exercised remedies and any and all other remedies.

19. Assignment and Transfer by Lessor. (a) Lessor may at any time and from time to time assign to one or more security assignees (all herein called the "Secured Party" and also called an "Assignee") for the purpose of securing a loan to Lessor or for any other purpose, and at its sole discretion, may also sell or transfer to one or more Persons (herein called the "Transferee" and also called an "Assignee"), in any case subject to the rights of Lessee under this Lease but without notice to or consent of Lessee, this Lease, any other Transactional Documents, any or all of the Equipment, and all sums at any time due and to become due or at any time owing or payable by Lessee to Lessor under this Lease or pursuant to any or all of the Transaction Documents. The Secured Party shall not be obligated to perform any duty, covenant or condition required to be performed by Lessor under this Lease or any other Transactional Documents.

(b) Lessee agrees that notwithstanding any assignment to a Secured Party, each and every covenant, agreement, representation and warranty of Lessor under this Lease shall be and remain the sole liability of Lessor and of every successor in interest of Lessor (excluding any Secured Party) or, in the case of assignment to a Transferee, shall become and remain the sole liability of the Transferee if so agreed to by the Transferee and if not so agreed to shall be and remain the sole liability of Lessor. Lessee further agrees and acknowledges that any assignment, sale or transfer by Lessor could not and shall not materially change any duty or obligation of Lessee or materially increase any burden or risk of Lessee.

(c) Lessee further acknowledges and agrees that from and after the receipt by Lessee of written notice of an assignment from Lessor, Lessee shall comply with the directions or demands given in writing by the Secured Party or (to the extent not inconsistent with the directions or demands of the Secured Party) by the Transferee, and the Secured Party or Transferee shall have the right to exercise (either in its own name or in the name of Lessor) all rights, privileges, and remedies of Lessor provided for herein. Lessee agrees that any obligation to a Secured Party as a result of the assignment of this Lease to a Secured Party as aforesaid shall not be reduced or minimized by reason of any claim, defense, counterclaim, set-off, abatement, reduction or recoupment or other right that Lessee might otherwise have been able to assert against Lessor, any prior Assignee or any Transferee. After any assignment to a Secured Party and unless and until Lessee is otherwise notified by the Secured Party, this Lease may not be amended or modified, and no consent or waiver hereunder shall be effective, without the prior written consent of the Secured Party. Lessee agrees to execute and Lessor or any Transferee or Secured Party may record any instruments and documents relating to such assignment, mortgage or security interest desired by Lessor or any Transferee or Secured Party. Lessee shall promptly provide any such instruments and documents that are requested by Lessor or any Assignee including certificates indicating any claim, defense, counterclaim, set-off, abatement, reduction, recoupment or other right that Lessee may have against Lessor or any Assignee, the date to which Basic Rent has been paid under each Rental Schedule hereunder and that this Lease is in effect without default or amendment, or the extent of such default or amendment, as the case may be.

20. Recording and Filing; Expenses. Lessee will, upon demand of Lessor, at Lessee's cost and expense, do and perform any other act and will execute, acknowledge, deliver, file, register, record and deposit (and will re-file, re-register, re-record or re-deposit whenever required) any and all instruments required by law or requested by Lessor (or any Assignee) including, without limitation, financing statements under the Uniform Commercial Code (which, notwithstanding the intent of Lessor and Lessee that this is a true lease, Lessor shall have the right to file wherever and whenever Lessor requires), for the purpose of providing proper protection to the satisfaction of Lessor (and/or any Assignee) of Lessor's title to any Equipment (and/or of any Assignee's security interest in the Equipment) or for the purpose of carrying out the intention of this Lease. Lessee will also pay, or will upon demand reimburse Lessor for, all reasonable costs and expenses incurred by Lessor in connection with this Lease, any other Transactional Documents, and any related transactions, closings, assignments, sales and transfers to any Secured Party or Transferee, enforcement of Lessor's rights under this Lease and the other Transactional Documents, filings, the documentation of this and any related transactions, and fees and costs of attorneys for Lessor in connection therewith. Such expenses shall not exceed one half (1/2) of 1% of Acquisition Cost nor will Lessor get Lessee's consent for any expenses that exceed the same amount.

21. Automatic Lease Term Renewal. In the event that at the expiration of the Primary Term Lessee does not exercise the purchase option set forth in this Master Lease with respect to the Equipment subject to a Rental Schedule, the Lease Term shall automatically be renewed for all of the Equipment subject to such Rental Schedule for an additional term of twelve (12) months (the "Renewal Term") at a monthly Basic Rent equal to one and eight/1000 percent (1.8%) of the Acquisition Cost of such Equipment, plus any applicable sales and other taxes, that shall be paid monthly in advance.

22. Quiet Enjoyment. So long as no Event of Default has occurred and is continuing hereunder, Lessee shall have peaceful and quiet use and enjoyment of the Equipment during the Lease Term as against acts of Lessor or anyone claiming solely by, through or under Lessor including any Secured Party or Transferee.

23. Failure or Indulgence not Waiver; Additional Rights of Lessor, (a) No failure to exercise, and no delay in exercising, any right, power or remedy hereunder on the part of Lessor shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy. Any waiver, to be effective, must be in writing. A waiver of any covenant, term or condition contained herein shall not be construed as a waiver of any subsequent breach of the same covenant, term or condition. Receipt by Lessor of any Basic Rent or Additional Rent with knowledge of the breach of any provision hereof shall not constitute a waiver of such breach.

(b) Lessor shall be entitled to injunctive relief in case of the violation or attempted or threatened violation of any of the provisions hereof, to a decree compelling performance of any of the provisions hereof, and to any other remedy allowed in law or in equity.

24. Sublease. Lessee shall not sublease the Equipment, relinquish possession of the Equipment, or assign, pledge or hypothecate this Lease or any of Lessee's rights or obligations hereunder, in whole or in part, without the prior written consent of Lessor. Nevertheless, any such sublease and the rents, profits and proceeds therefrom shall be the property of Lessor and, unless Lessor has consented to such sublease. Lessor within 30 days after receiving notice thereof in accordance with the provisions of this Master Lease on notices shall have the right to declare the sublease void from its purported commencement, to terminate the sublease or to accept the sublease. Any such attempted relinquishment of possession, assignment, pledge or hypothecation by Lessee without such consent shall be null and void.

25. Purchase Option. (a) If (i) no Event of Default, and no event which with the giving of notice or lapse of time, or both, would constitute an Event of Default, has occurred and then remains unremedied to Lessor's satisfaction, and (ii) this Lease shall not have been earlier terminated. Lessee shall be entitled, at its option, upon written notice to Lessor, as hereinafter provided, to purchase all, but not less than all, items

of the Equipment then subject to a Rental Schedule, at the expiration of the Primary Term for such items of the Equipment or, as the case may be, at the expiration of any Renewal Term for such items of the Equipment, for an amount, with respect to each such item of the Equipment, payable in immediately available funds, equal to the Fair Market Value thereof as determined by an Appraisal, plus any applicable sales, excise or other taxes imposed as a result of such sale (other than net income taxes attributable to such sale). Lessor's sale of any item of the Equipment shall be on an "as-is", "where-is" basis, without any representation or warranty by or recourse to Lessor, as provided by the provisions of this Master Lease on disclaimer of warranties, and shall be subject to such additional terms and conditions as may be specified in the Rental Schedule. If Lessee intends to exercise said purchase option, Lessee shall give written notice to Lessor to such effect at least 180 days prior to the earliest expiration of the Primary Term of the item(s) of the Equipment subject to the particular Rental Schedule with respect to which Lessee intends to exercise its purchase option, or, if a Renewal Term is then in effect, at least 180 days prior to the earliest expiration of the then current Renewal Term of the item(s) of the Equipment subject to the particular Rental Schedule with respect to which Lessee intends to exercise its purchase option. If Lessee fails to give such written notice to Lessor as aforesaid, it shall be conclusively presumed that Lessee has elected not to exercise such purchase option. If Lessee gives such written notice, Lessee shall be obligated to buy, and Lessor shall be obligated to sell, such Equipment on the terms herein provided.

(b) If Lessee has elected to exercise its purchase option, as provided in this Section, as soon as practicable following Lessor's receipt of the written notice from Lessee of Lessee's intent to exercise such option, Lessor and Lessee shall consult for the purpose of determining the Fair Market Value of each such item of the Equipment as of the end of the Primary Term thereof, or, if this Lease has been renewed pursuant to any provisions of this Lease on option to renew, as of the end of the then current Renewal Term thereof, and any values agreed upon in writing shall constitute the Fair Market Value of each such item of the Equipment for the purposes of this Section. In so consulting, Lessor and Lessee may refer to books containing indexes of standard values for used equipment of relevant type and age and to the records of Lessee and similar users which tabulate the history of revenues and various other economic benefits derived from the use of the Equipment. If Lessor and Lessee have failed to agree upon such value prior to the 150th day before the expiration of the Primary Term, or, if this Lease has been renewed, prior to the 150th day before the expiration of the then current Renewal Term, on and after such 150th day either party may request that such value be determined by Appraisal.

(c) Notwithstanding any election by Lessee to purchase, the provisions of this Lease shall continue in full force and effect until the transfer of ownership of such Equipment upon the date of purchase by the delivery of a Bill of Sale by Lessor.

26. Notices. Any notice or other communication required or permitted to be given by either party hereto to the other party shall be deemed to have been given upon its receipt, in writing, by the receiving party at its address set forth below, or at such other address as the receiving party shall have furnished to the other party by notice pursuant to this Section.

If to Lessee:	Advanced Polymer Systems, Inc. 3696 Haven Avenue Redwood City, CA 94063
If to Lessor	Financing for Science International, Inc. 10 Waterside Drive Farmington, CT 06032-3065

27. Entire Agreement; Severability; Amendment or Cancellation of Lease. This Lease constitutes the complete and exclusive statement of the terms of the agreement between the parties with respect to the leasing of the Equipment and any sale of the Equipment by Lessor to Lessee. Any provision of

this Lease which is prohibited or unenforceable in any jurisdiction shall be, as to such jurisdiction, ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction. LESSEE ACKNOWLEDGES RECEIPT OF A COPY OF THIS MASTER LEASE. Lessor and Lessee agree that neither this Lease nor Lessee's acceptance or deemed acceptance of any or all of the Equipment may be canceled, waived, altered, amended repudiated, terminated, rescinded, revoked or modified, except by a writing signed by Lessee and a duly authorized representative of Lessor.

Advanced Polymer Systems, Inc.

/s/ Michael P.J. O'Connell

Signature of Lessee

28. Waiver of Jury. Lessor and Lessee waive any right and all right to trial by jury in any action or proceeding relating in any way to this Lease.

29. Restriction of Limitation Periods and Damages. Any action for breach of warranty or in respect of or relating to the Equipment or this Lease that may be brought by Lessee against Lessor or any Assignee must be commenced within one year after the cause of action accrues. Lessee shall not make any claim in respect of or relating to the Equipment or this Lease against Lessor or any Assignee for special consequential or punitive damages.

30. Governing Law; Consent to Jurisdiction and Service. This Lease shall be governed by and construed in accordance with the laws of the State of Connecticut (other than the conflicts of laws provisions). Lessee agrees that any legal action or proceeding against Lessee in respect of or relating to this Lease or the Equipment may be brought in any state or federal court sitting in the city of Hartford in the State of Connecticut. Lessee hereby irrevocably consents and submits to the nonexclusive personal jurisdiction of said courts and irrevocably agrees that all claims in any such action or proceeding may be heard and determined in and enforced by any such court. Lessee irrevocably consents to the service of summons, notice, or other process relating to any such action or proceeding by delivery thereof to it by hand or by mail in the manner set forth in the provisions of this Master Lease on notices.

31. Lessor's Right to Perform for Lessee. If Lessee fails to duly and promptly perform any of its obligations under this Lease or fails to comply with any of the covenants or agreements contained herein, Lessor may itself perform such obligations or comply with such covenants or agreements, for the account of Lessee, without thereby waiving any default, and any amount paid or expense (including, without limitation, attorney's fees) reasonably incurred by Lessor in connection with such performance or compliance shall, together with interest thereon at the Default Interest Rate, be payable by Lessee to Lessor on demand.

32. Agreement for Lease Only. Lessor and Lessee agree that this Lease is and is intended to be a true lease (and not a lease in the nature of a security interest) and further agree to treat this Lease as a true lease for all purposes, including, without limitation, tax purposes.

33. Binding Effect. This Lease shall inure to the benefit of and be binding upon the parties hereto and their respective permitted successors and assigns.

34. General. The captions in this Master Lease and each Rental Schedule are for convenience of reference only. There shall be only one original executed copy of this Master Lease and of each Rental Schedule. This Master Lease is and each Rental Schedule shall be executed in the State of Connecticut by Lessor's having countersigned the same in the State of

Connecticut, and are to be and shall be performed in the State of Connecticut by reason of the requirements therein for payment by Lessee to Lessor to be made in the State of Connecticut.

35. Definitions. The following terms, not elsewhere defined, shall have the following meanings for all purposes hereof:

"Acquisition Cost" of any item of the Equipment shall mean an amount equal to the sum of (i) the purchase price of such item of the Equipment paid by Lessor pursuant to the purchase order for such item of the Equipment assigned to or given by Lessor, plus (ii) any excise, sales or use tax, freight, installation, set-up and other costs that are paid by Lessor on or with respect to such item of the Equipment on or about the time of Lessor's purchase of the Equipment or the Lease Commencement Date and that Lessor does not request Lessee to directly reimburse to Lessor.

"Appraisal" shall mean the following procedure whereby recognized independent qualified equipment appraisers shall mutually agree upon the amount in question. The party seeking Appraisal shall deliver a written notice to that effect to the other party appointing its appraiser, and within 15 days after receipt of such notice, the other party shall, by written notice, appoint its appraiser. If within 15 days after appointment of the two appraisers as described above, the two appraisers are unable to agree upon the amount in question, a third appraiser shall be chosen within five days thereafter by mutual agreement of the first two appraisers, or if the first two appraisers fail to agree upon the appointment of a third appraiser, such appointment shall be made by an authorized representative of the American Arbitration Association. The appraisal of the third appraiser shall be given within a period of ten days after the selection of the third appraiser. The average of the three appraisals arrived at by the three appraisers shall be binding and conclusive on Lessor and Lessee. Lessor and Lessee each shall pay the fees of the appraiser appointed by it and shall share equally the fees and expenses of the third appraiser, if any, and those of the American Arbitration Association, if applicable.

"Certificate of Inspection and Acceptance" shall mean a certificate in the form designated by Lessor whereby Lessee evidences its acceptance of one or more items of the Equipment for lease hereunder.

"Fair Market Value" shall mean, with respect to the Equipment in question, the amount which would be paid for that Equipment in an arm's-length sale transaction between an informed and willing buyer (not a used equipment or scrap dealer) who wants the Equipment to be as described in the next following sentence and is under no compulsion to buy, and an informed and willing seller under no compulsion to sell. In determining the Fair Market Value, it shall be assumed (whether or not the same be true) that the Equipment is fully operational, installed and in economically productive service and that all maintenance and repairs including upgrades, replacements and other services required by this Lease have been performed and that the Equipment is in such condition to comply fully with the requirements of this Lease, including provisions of this Master Lease governing the return of Equipment. The costs of removal from the location of current use and installation at another location for use shall not be a deduction in determining the Fair Market Value. Upon any exercise by Lessee of the purchase option provided for by this Master Lease for the Equipment subject to a Rental Schedule, Lessor and Lessee agree that the Fair Market Value at the expiration of the Primary Term shall not be less than eighteen percent (18%) nor more than twenty-two percent (22%) of the Acquisition Cost of such Equipment and at the expiration of any Renewal Term shall be One Dollar (\$1.00).

"Guarantor" shall mean a guarantor of any or all of the obligations of Lessee pursuant to this Lease.

"Guaranty" shall mean a writing containing a guaranty of any or all of the obligations of Lessee pursuant to this Lease.

"Lease Commencement Date" with respect to an item of Equipment shall mean the date of commencement of the Lease Term of the item as provided by the applicable Rental Schedule.

"Lease Term" with respect to an item of the Equipment shall mean the Primary Term plus any and all Renewal Terms plus any period during which Lessee retains the Equipment on a month-to-month basis pursuant to provisions of this Master Lease governing the return of the Equipment. The Lease Term shall include the Lease Commencement Date and the date on which the Lease Term ends.

"Manufacturer" shall mean the Person that manufactures the item of the Equipment in question.

"Master Lease" shall mean this Master Equipment Lease Agreement.

"Person" shall mean an individual, a corporation, a partnership, an association, a joint-stock company, a trust, an estate, any incorporated organization or similar association, a government or political subdivision, or any other entity.

"Rental Schedule" shall mean each schedule, executed by Lessor and Lessee pursuant to this Master Lease, providing for a description of some or all of the Equipment to be leased hereunder, the place or places where such Equipment shall be located, its Acquisition Cost, the Basic Rent payable by Lessee with respect thereto, the Primary Term thereof, the Lease Commencement Date with respect thereto, and such other matters as Lessor and Lessee may agree upon.

"Stipulated Loss Value" shall mean the amounts specified in the Table of Stipulated Loss Values applicable to the items of the Equipment subject to a Rental Schedule, as provided by the Schedule B attached to the Rental Schedule. Except as otherwise provided in a writing signed by Lessor and Lessee, the Stipulated Loss Value immediately prior to the end of the Primary Term for any items of the Equipment shall be the Stipulated Loss Value throughout any Renewal Term(s) for such items, and thereafter until such items are returned to Lessor pursuant to the provisions of this Lease or purchased by Lessee pursuant to any then applicable purchase option provisions of this Lease.

IN WITNESS WHEREOF, the duly authorized representatives of Lessor and Lessee have executed this Master Lease as of the date first above written.

LESSOR:
FINANCING FOR SCIENCE
INTERNATIONAL, INC.

LESSEE:
ADVANCED POLYMER SYSTEMS, INC.

By: Duane Starr

By: /s/ Michael P.J. O'Connell

Title: Vice President

Title: C.F.O.

ATTEST:
By: -----

ATTEST:
By: /s/ Gordon Sangster

Title: -----

Title: Controller

APS ANALYTICAL STANDARDS, INC.
LOAN AND SECURITY AGREEMENT

TABLE OF CONTENTS

	Page	

1.	DEFINITIONS AND CONSTRUCTION	1
1.1	Definitions	1
1.2	Accounting Terms	5
2.	LOAN AND TERMS OF PAYMENT	5
2.1	Loan Facility	5
2.2	Interest Rates, Payments, and Calculations	5
2.3	Crediting Payments	6
2.4	Fees	6
2.5	Additional Costs	7
2.6	Term	7
3.	CONDITIONS OF LOAN	7
3.1	Conditions Precedent to Loan	7
3.2	Conditions Subsequent	8
4.	CREATION OF SECURITY INTEREST	8
4.1	Grant of Security Interest	8
4.2	Delivery of Additional Documentation Required	9
4.3	Right to Inspect	9
5.	REPRESENTATIONS AND WARRANTIES	9
5.1	Due Organization and Qualification	9
5.2	Due Authorization; No Conflict	9
5.3	No Prior Encumbrances	9
5.4	Bona Fide Accounts	9
5.5	Merchantable Inventory	9
5.6	Name; Location of Chief Executive Office	9
5.7	Litigation	9
5.8	No Material Adverse Change in Financial Statements	9
5.9	Solvency	10
5.10	Regulatory Compliance	10
5.11	Environmental Condition	10
5.12	Taxes	10
5.13	Subsidiaries	10
5.14	Government Consents	10
5.15	Full Disclosure	10
6.	AFFIRMATIVE COVENANTS	10
6.1	Good Standing	10
6.2	Government Compliance	11
6.3	Financial Statements, Reports, Certificates	11
6.4	Inventory; Returns	11
6.5	Taxes	12
6.6	Insurance	12
6.7	Principal Depository	12
6.8	EBITDA/Bank Interest Payments	12
6.9	Debt-Net Worth Ratio	12
6.10	Net Worth	12
6.11	Profitability	12

6.12	Registration of Intellectual Property Rights	12
6.13	Further Assurances	13
7.	NEGATIVE COVENANTS	13
7.1	Dispositions	13
7.2	Change in Business	13
7.3	Mergers or Acquisitions	13
7.4	Indebtedness	13
7.5	Encumbrances	13
7.6	Distributions	13
7.7	Advances to Employees or Shareholders	13
7.8	Investments	14
7.9	Transactions with Affiliates	14
7.10	Subordinated Debt	14
7.11	Inventory	14
7.12	Compliance	14
7.13	Intercompany Receivable	14
8.	EVENTS OF DEFAULT	14
8.1	Payment Default	14
8.2	Covenant Default	14
8.3	Material Adverse Change	15
8.4	Attachment	15
8.5	Insolvency	15
8.6	Other Agreements	15
8.7	Subordinated Debt	15
8.8	Judgments	15
8.9	Misrepresentations	15
8.10	Guaranty	16
9.	BANK'S RIGHTS AND REMEDIES	16
9.1	Rights and Remedies	16
9.2	Power of Attorney	17
9.3	Accounts Collection	17
9.4	Bank Expenses	17
9.5	Bank's Liability for Collateral	17
9.6	Remedies Cumulative	17
9.7	Demand; Protest	18
10.	NOTICES	18
11.	CHOICE OF LAW AND VENUE; JURY TRIAL WAIVER	18
12.	GENERAL PROVISIONS	18
12.1	Successors and Assigns	18
12.2	Indemnification	19
12.3	Time of Essence	19
12.4	Severability of Provisions	19
12.5	Amendments in Writing, Integration	19
12.6	Counterparts	19
12.7	Survival	19

This LOAN AND SECURITY AGREEMENT is entered into as of September 27, 1995, by and between VENTURE LENDING ("Bank") and APS ANALYTICAL STANDARDS, INC. ("Borrower").

RECITALS

Borrower wishes to obtain credit from time to time from Bank, and Bank desires to extend credit to Borrower. This Agreement sets forth the terms on which Bank will advance credit to Borrower, and Borrower will repay the amounts owing to Bank.

AGREEMENT

The parties agree as follows:

1. DEFINITIONS AND CONSTRUCTION

1.1 Definitions. As used in this Agreement, the following terms shall have the following definitions:

"Accounts" means all presently existing and hereafter arising accounts, contract rights, and all other forms of obligations owing to Borrower arising out of the sale or lease of goods (including, without limitation, the licensing of software and other technology) or the rendering of services by Borrower, whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefore, as well as all merchandise returned to or reclaimed by Borrower and Borrower's Books relating to any of the foregoing.

"Advance" means an Advance under the Loan Facility.

"Affiliate" means, with respect to any Person, any Person that owns or controls directly or indirectly such Person, any Person that controls or is controlled by or is under common control with such Person, and each of such Person's senior executive officers, directors, and partners.

"Bank Expenses" means all: reasonable costs or expenses (including reasonable attorneys' fees and expenses) incurred in connection with the preparation, negotiation, administration, and enforcement of the Loan Documents; and Bank's reasonable attorneys' fees and expenses incurred in amending, enforcing or defending the Loan Documents, whether or not suit is brought.

"Borrower's Books" means all of Borrower's books and records including ledgers; records concerning Borrower's assets or liabilities, the Collateral, business operations or financial condition; and all computer programs, or tape files, and the equipment, containing such information.

"Business Day" means any day that is not a Saturday, Sunday, or other day on which banks in the State of California are authorized or required to close.

"Closing Date" means the date of this Agreement.

"Code" means the California Uniform Commercial Code.

"Collateral" means the property described on Exhibit A attached hereto.

"Committed Loan" means Three Million Dollars (\$3,000,000).

"Contingent Obligation" means, as applied to any Person, any direct or indirect liability, contingent or otherwise, of that Person with respect to (i) any indebtedness, lease, dividend, letter of credit or other obligation of another, including, without limitation, any such obligation directly or indirectly guaranteed, endorsed, co-made or discounted or sold with recourse by that Person, or in respect of which that Person is otherwise directly or indirectly liable; (ii) any obligations with respect to undrawn letters of credit issued for the account of that Person; and (iii) all obligations arising under any interest rate, currency or commodity swap agreement, interest rate cap agreement, interest rate collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; provided, however, that the term "Contingent Obligation" shall not include endorsements for collection or deposit in the ordinary course of business. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determined amount of the primary obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by such Person in good faith; provided, however, that such amount shall not in any event exceed the maximum amount of the obligations under the guarantee or other support arrangement.

"Current Assets" means, as of any applicable date, all amounts that should, in accordance with GAAP, be included as current assets on the consolidated balance sheet of Borrower and its Subsidiaries as at such date.

"Current Liabilities" means, as of any applicable date, all amounts that should, in accordance with GAAP, be included as current liabilities on the consolidated balance sheet of Borrower and its Subsidiaries, as at such date, plus, to the extent not already included therein, all outstanding Advances made under this Agreement, including all Indebtedness that is payable upon demand or within one year from the date of determination thereof unless such Indebtedness is renewable or extendable at the option of Borrower or any Subsidiary to a date more than one year from the date of determination, but excluding Subordinated Debt.

"Daily Balance" means the amount of the Obligations owed at the end of a given day.

"Equipment" means all present and future machinery, equipment, tenant improvements, furniture, fixtures, vehicles, tools, parts and attachments in which Borrower has any interest.

"EBITDA" means, for any period, income of Borrower before charges for interest, taxes, depreciation, and amortization determined in accordance with GAAP.

"ERISA" means the Employment Retirement Income Security Act of 1974, as amended, and the regulations thereunder.

"GAAP" means generally accepted accounting principles as in effect from time to time.

"Indebtedness" means (a) all indebtedness for borrowed money or the deferred purchase price of property or services, including without limitation reimbursement and other obligations with respect to surety bonds and letters of credit, (b) all obligations evidenced by notes, bonds, debentures or similar instruments, (c) all capital lease obligations and (d) all Contingent Obligations

"Insolvency Proceeding" means any proceeding commenced by or against any person or entity under any provision of the United States Bankruptcy Code, as amended, or under any other bankruptcy or insolvency law, including assignments for the benefit of creditors, formal or

informal moratoria, compositions, extension generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

"Inventory" means all present and future inventory in which Borrower has any interest, including merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products intended for sale or lease or to be furnished under a contract of service, of every kind and description now or at any time hereafter owned by or in the custody or possession, actual or constructive, of Borrower, including such inventory as is temporarily out of its custody or possession or in transit and including any returns upon any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above, and Borrower's Books relating to any of the foregoing.

"Investment" means any beneficial ownership of (including stock, partnership interest or other securities) any Person, or any loan, advance or capital contribution to any Person.

"IRC" means the Internal Revenue Code of 1986, as amended, and the regulations thereunder.

"Lien" means any mortgage, lien, deed of trust, charge, pledge, security interest or other encumbrance.

"Loan Documents" means, collectively, this Agreement, any note or notes executed by Borrower, and any other agreement entered into between Borrower and Bank in connection with this Agreement, all as amended or extended from time to time.

"Loan Facility" means the facility under which Borrower may request a loan from Bank, as specified in Section 2.1 hereof.

"Material Adverse Effect" means a material adverse effect on (i) the business operations or condition (financial or otherwise) of Borrower and its Subsidiaries taken as a whole or (ii) the ability of Borrower to repay the Obligations or otherwise perform its obligations under the Loan Documents.

"Maturity Date" means March 27, 1999.

"Negotiable Collateral" means all of Borrower's present and future letters of credit of which it is a beneficiary, notes, drafts, instruments, securities, documents of title, and chattel paper, and Borrower's Books relating to any of the foregoing.

"Net Worth" means at any date as of which the amount thereof shall be determined, the consolidated total assets of Borrower and its Subsidiaries minus Total Liabilities.

"Obligations" means all debt, principal, interest, Bank Expenses and other amounts owed to Bank by Borrower pursuant to this Agreement or any other agreement, whether absolute or contingent, due or to become due, now existing or hereafter arising, including any interest that accrues after the commencement of an Insolvency Proceeding and including any debt, liability, or obligation owing from Borrower to others that Bank may have obtained by assignment or otherwise.

"Periodic Payments" means all installments or similar recurring payments that Borrower may now or hereafter become obligated to pay to Bank pursuant to the terms and provisions of any instrument, or agreement now or hereafter in existence between Borrower and Bank.

"Permitted Indebtedness" means:

- (a) Indebtedness of Borrower in favor of Bank arising under this Agreement or any other Loan Document;
- (b) Indebtedness existing on the Closing Date and disclosed in the Schedule;
- (c) Subordinated Debt; and
- (d) Indebtedness to trade creditors incurred in the ordinary course of business.

"Permitted Investment" means:

- (a) Investments existing on the Closing Date disclosed in the Schedule; and
- (b) (i) marketable direct obligations issued or unconditionally guaranteed by the United States of America or any agency or any State thereof maturing within one (1) year from the date of acquisition thereof, (ii) commercial paper maturing no more than one (1) year from the date of creation thereof and currently having the highest rating obtainable from either Standard & Poor's Corporation or Moody's Investors Service, Inc., and (iii) certificates of deposit maturing no more than one (1) year from the date of investment therein issued by Bank.

"Permitted Liens" means the following:

- (a) Any Liens existing on the Closing Date and disclosed in the Schedule or arising under this Agreement or the other Loan Documents;
- (b) Liens for taxes, fees, assessments or other governmental charges or levies, either not delinquent or being contested in good faith by appropriate proceedings, provided the same have no priority over any of Bank's security interests;
- (c) Liens (i) upon or in any equipment acquired or held by Borrower or any of its Subsidiaries to secure the purchase price of such equipment or indebtedness incurred solely for the purpose of financing the acquisition of such equipment, or (ii) existing on such equipment at the time of its acquisition, provided that the Lien is confined solely to the property so acquired and improvements thereon, and the proceeds of such equipment;
- (d) Liens incurred in connection with the extension, renewal or refinancing of the indebtedness secured by Liens of the type described in clauses (a) through (c) above, provided that any extension, renewal or replacement Lien shall be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness being extended, renewed or refinanced does not increase.

"Person" means any individual, sole proprietorship, partnership, limited liability company, joint venture, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or governmental agency.

"Prime Rate" means the variable rate of interest, per annum, most recently published in The Wall Street Journal, as the "prime rate," whether or not such published rate is the lowest rate available from Bank.

"Responsible Officer" means each of the Chief Executive Officer, the Chief Financial Officer and the Controller of Borrower.

"Schedule" means the schedule of exceptions attached hereto.

"Subordinated Debt" means any debt incurred by Borrower that is subordinated to the debt owing by Borrower to Bank on terms acceptable to Bank (and identified as being such by Borrower and Bank).

"Subsidiary" means any corporation or partnership in which (i) any general partnership interest or (ii) more than 50% of the stock of which by the terms thereof ordinary voting power to elect the Board of Directors, managers or trustees of the entity shall, at the time as of which any determination is being made, be owned by Borrower, either directly or through an Affiliate.

"Total Liabilities" means at any date as of which the amount thereof shall be determined, all obligations that should, in accordance with GAAP be classified as liabilities on the consolidated balance sheet of Borrower, including in any event all Indebtedness, but specifically excluding Subordinated Debt.

1.2 Accounting Terms. All accounting terms not specifically defined herein shall be construed in accordance with GAAP and all calculations made hereunder shall be made in accordance with GAAP. When used herein, the terms "financial statements" shall include the notes and schedules thereto.

2. LOAN AND TERMS OF PAYMENT

2.1 Loan Facility.

(a) Subject to and upon the terms and conditions of this Agreement, Bank agrees to lend to Borrower the Committed Loan amount.

(b) Interest shall accrue from the Closing Date at the rate specified in Section 2.2(a), and shall be payable monthly for each month through the month in which the Loan Facility expires.

2.2 Interest Rates, Payments, and Calculations.

(a) Interest Rate. Except as set forth in Section 2.3(b), any Advances shall bear interest, on the average Daily Balance, at a rate equal to two (2) percentage points above the Prime Rate.

(b) Default Rate. All Obligations shall bear interest, from and after the occurrence of an Event of Default, at a rate equal to five (5) percentage points above the interest rate applicable immediately prior to the occurrence of the Event of Default.

(c) Payments.

(i) Interest hereunder shall be due and payable on the fifteenth calendar day of each month during the term hereof. Bank shall, at its option, charge such interest, all Bank Expenses, and all Periodic Payments against any of Borrower's deposit accounts. Any interest not paid when due shall be compounded by becoming a part of the Obligations, and such interest shall thereafter accrue interest at the rate then applicable hereunder.

(ii) Principal. Borrower shall make quarterly principal payments as follows:

Payment Date -----	Payment Amount -----
12/01/96	\$50,000
03/01/97	50,000
06/01/97	50,000
09/01/97	50,000
12/01/97	250,000
03/01/98	250,000
06/01/98	250,000
09/01/98	250,000
12/01/98	250,000
03/01/99	1,550,000

Borrower shall establish a separate demand deposit account with Bank. Borrower shall deposit monthly, and maintain thereafter, an amount of one-third (1/3) of the next scheduled principal payment then due in such account.

(d) Computation. In the event the Prime Rate is changed from time to time hereafter, the applicable rate of interest hereunder shall be increased or decreased effective as of 12:01 a.m. on the day the Prime Rate is changed, by an amount equal to such change in the Prime Rate. All interest chargeable under the Loan Documents shall be computed on the basis of a three hundred sixty (360) day year for the actual number of days elapsed.

2.3 Crediting Payments. Prior to the occurrence of an Event of Default, Bank shall credit a wire transfer of funds, check or other item of payment to such deposit account or Obligation as Borrower specifies. After the occurrence of an Event of Default, the receipt by Bank of any wire transfer of funds, check, or other item of payment shall be immediately applied to conditionally reduce Obligations, but shall not be considered a payment on account unless such payment is of immediately available federal funds or unless and until such check or other item of payment is honored when presented for payment. Notwithstanding anything to the contrary contained herein, any wire transfer or payment received by Bank after 3:00 p.m. California time shall be deemed to have been received by Bank as of the opening of business on the immediately following Business Day. Whenever any payment to Bank under the Loan Documents would otherwise be due (except by reason of acceleration) on a date that is not a Business Day, such payment shall instead be due on the next Business Day, and additional fees or interest, as the case may be, shall accrue and be payable for the period of such extension.

2.4 Fees. Borrower shall pay to Bank the following:

(a) Facility Fee. A Facility Fee equal to Thirty Thousand Dollars (\$30,000), which fee shall be payable (i) in cash or (ii) in common stock of Advanced Polymer Systems, Inc. provided that Borrower shall deliver to Bank Thirty Thousand Dollars (\$30,000) worth of such common stock based on the closing market price of such common stock on the date prior to the Closing Date which shares shall be unrestricted, duly authorized, fully tradeable and fully paid shares. The Facility Fee shall be due on the Closing Date and shall be fully earned and nonrefundable;

(b) Financial Examination and Appraisal Fees. Bank's customary fees and out-of-pocket expenses for Bank's audits of Borrower's Accounts, and for each appraisal of Collateral and financial analysis and examination of Borrower performed from time to time by Bank or its agents;

(c) Bank Expenses. Upon the date hereof, all Bank Expenses incurred through the Closing Date, including reasonable attorneys' fees and expenses, and, after the date hereof, all Bank Expenses, including reasonable attorneys' fees and expenses, as and when they become due.

2.5 Additional Costs. In case any change in any law, regulation, treaty or official directive or the interpretation or application thereof by any court or any governmental authority charged with the administration thereof or the compliance with any guideline or request of any central bank or other governmental authority (whether or not having the force of law), in each case after the date of this Agreement:

(a) subjects Bank to any tax with respect to payments of principal or interest or any other amounts payable hereunder by Borrower or otherwise with respect to the transactions contemplated hereby (except for taxes on the overall net income of Bank imposed by the United States of America or any political subdivision thereof);

(b) imposes, modifies or deems applicable any deposit insurance, reserve, special deposit or similar requirement against assets held by, or deposits in or for the account of, or loans by, Bank; or

(c) imposes upon Bank any other condition with respect to its performance under this Agreement,

and the result of any of the foregoing is to increase the cost to Bank, reduce the income receivable by Bank or impose any expense upon Bank with respect to any loans, Bank shall notify Borrower thereof. Borrower agrees to pay to Bank the amount of such increase in cost, reduction in income or additional expense as and when such cost, reduction or expense is incurred or determined, upon presentation by Bank of a statement of the amount and setting forth Bank's calculation thereof, all in reasonable detail, which statement shall be deemed true and correct absent manifest error.

2.6 Term. This Agreement shall become effective on the Closing Date and, subject to Section 12.7, shall continue in full force and effect for a term ending on the Maturity Date. Bank's Lien on the Collateral shall remain in effect for so long as any Obligations are outstanding.

3. CONDITIONS OF LOAN

3.1 Conditions Precedent to Loan. The obligation of Bank to make the Loan is subject to the condition precedent that Bank shall have received, in form and substance satisfactory to Bank, the following:

- (a) this Agreement;
- (b) a certificate of the Secretary of Borrower with respect to incumbency and resolutions authorizing the execution and delivery of this Agreement;
- (c) a collateral assignment and patent mortgage;
- (d) subordination agreements by certain Persons;
- (e) an opinion of Borrower's counsel;

- (f) guaranties by certain Persons;
- (g) warrant to purchase stock;
- (h) warrant to purchase additional stock;
- (i) anti-dilution agreement;
- (j) registration rights agreement;
- (k) financing statements (Forms UCC-1);
- (l) insurance certificate;
- (m) payment of the fees and Bank Expenses then due specified in Section 2.4 hereof; and
- (n) such other documents, and completion of such other matters, as Bank may reasonably deem necessary or appropriate;
- (o) timely receipt by Bank of the Payment/Advance Form in substantially the form of Exhibit B hereto; and
- (p) the representations and warranties contained in Section 5 shall be true and correct in all material respects on and as of the date of such Payment/Advance Form and no Event of Default shall have occurred and be continuing, or would result from the Loan.

3.2 Conditions Subsequent.

(a) Warrant to Grant Additional Stock. Borrower has granted to Bank a Warrant to Purchase Additional Stock of even date herewith, provided that if by November 27, 1995, (i) Borrower receives Subordinated Debt in an amount of One Million Five Hundred Thousand Dollars (\$1,500,000) or greater through William Blair & Company on terms acceptable to Bank, and (ii) such additional Subordinated Debt holders execute Subordination Agreements on terms acceptable to Bank, such Warrant to Purchase Additional Stock shall automatically cancel.

(b) Advanced Polymer Systems, Inc. Subordination Agreement. Advanced Polymer Systems, Inc. has entered into a Subordination Agreement with Bank, provided that if by November 27, 1995, (i) Borrower receives Subordinated Debt in an amount of One Million Five Hundred Thousand Dollars (\$1,500,000) or greater through William Blair & Company on terms acceptable to Bank, and (ii) such Subordinated Debt holders execute Subordination Agreements on terms acceptable to Bank, the Subordination Agreement entered into with Advanced Polymer Systems, Inc. shall automatically cancel.

4. CREATION OF SECURITY INTEREST

4.1 Grant of Security Interest. Borrower grants and pledges to Bank a continuing security interest in all presently existing and hereafter acquired or arising Collateral in order to secure prompt repayment of any and all Obligations and in order to secure prompt performance by Borrower of each of its covenants and duties under the Loan Documents. Except as set forth in the Schedule, such security interest constitutes a valid, first priority security interest in the presently existing Collateral, and will constitute a valid, first priority security interest in Collateral acquired after the date hereof.

4.2 Delivery of Additional Documentation Required.

Borrower shall from time to time execute and deliver to Bank, at the request of Bank, all Negotiable Collateral, all financing statements and other documents that Bank may reasonably request, in form satisfactory to Bank, to perfect and continue perfected Bank's security interests in the Collateral and in order to fully consummate all of the transactions contemplated under the Loan Documents.

4.3 Right to Inspect. Bank (through any of its officers,

employees, or agents) shall have the right, upon reasonable prior notice, from time to time during Borrower's usual business hours, to inspect Borrower's Books and to make copies thereof and to check, test, and appraise the Collateral in order to verify Borrower's financial condition or the amount, condition of, or any other matter relating to, the Collateral.

5. REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants as follows:

5.1 Due Organization and Qualification. Borrower and

each Subsidiary is a corporation duly existing and in good standing under the laws of its state of incorporation and qualified and licensed to do business in, and is in good standing in, any state in which the conduct of its business or its ownership of property requires that it be so qualified.

5.2 Due Authorization; No Conflict. The execution,

delivery, and performance of the Loan Documents are within Borrower's powers, have been duly authorized, and are not in conflict with nor constitute a breach of any provision contained in Borrower's Articles of Incorporation or Bylaws, nor will they constitute an event of default under any material agreement to which Borrower is a party or by which Borrower is bound. Borrower is not in default under any agreement to which it is a party or by which it is bound, which default could have a Material Adverse Effect.

5.3 No Prior Encumbrances. Borrower has good and

indefeasible title to the Collateral, free and clear of Liens, except for Permitted Liens.

5.4 Bona Fide Accounts. The Accounts are bona fide

existing obligations. The property giving rise to such Accounts has been delivered to the account debtor or to the account debtor's agent for immediate shipment to and unconditional acceptance by the account debtor.

5.5 Merchantable Inventory. All Inventory is in all

material respects of good and marketable quality, free from all material defects.

5.6 Name; Location of Chief Executive Office. Except as

disclosed in the Schedule, Borrower has not done business under any name other than that specified on the signature page hereof. The chief executive office of Borrower is located at the address indicated in Section 10 hereof.

5.7 Litigation. Except as set forth in the Schedule,

there are no actions or proceedings pending by or against Borrower or any Subsidiary before any court or administrative agency in which an adverse decision could have a Material Adverse Effect or a material adverse effect on Borrower's interest or Bank's security interest in the Collateral. Borrower does not have knowledge of any such pending or threatened actions or proceedings.

5.8 No Material Adverse Change in Financial Statements.

All consolidated financial statements related to Borrower and any Subsidiary that have been delivered by Borrower to Bank fairly present in all material respects Borrower's consolidated financial condition as of the date thereof and Borrower's consolidated results of operations for the period then ended. There has not been a material adverse change in the consolidated financial condition of Borrower since the date of the most recent of such financial statements submitted to Bank.

5.9 Solvency. Borrower is solvent and able to pay its debts (including trade debts) as they mature.

5.10 Regulatory Compliance. Borrower and each Subsidiary has met the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. No event has occurred resulting from Borrower's failure to comply with ERISA that is reasonably likely to result in Borrower's incurring any liability that could have a Material Adverse Effect. Borrower is not an "investment company" or a company "controlled" by an "investment company" within the meaning of the Investment Company Act of 1940. Borrower is not engaged principally, or as one of the important activities, in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulations G, T and U of the Board of Governors of the Federal Reserve System). Borrower has complied with all the provisions of the Federal Fair Labor Standards Act. Borrower has not violated any statutes, laws, ordinances or rules applicable to it, violation of which could have a Material Adverse Effect.

5.11 Environmental Condition. None of Borrower's or any Subsidiary's properties or assets has ever been used by Borrower or any Subsidiary or, to the best of Borrower's knowledge, by previous owners or operators, in the disposal of, or to produce, store, handle, treat, release, or transport, any hazardous waste or hazardous substance other than in accordance with applicable law; to the best of Borrower's knowledge, none of Borrower's properties or assets has ever been designated or identified in any manner pursuant to any environmental protection statute as a hazardous waste or hazardous substance disposal site, or a candidate for closure pursuant to any environmental protection statute; no lien arising under any environmental protection statute has attached to any revenues or to any real or personal property owned by Borrower or any Subsidiary; and neither Borrower nor any Subsidiary has received a summons, citation, notice, or directive from the Environmental Protection Agency or any other federal, state or other governmental agency concerning any action or omission by Borrower or any Subsidiary resulting in the releasing, or otherwise disposing of hazardous waste or hazardous substances into the environment.

5.12 Taxes. Borrower and each Subsidiary has filed or caused to be filed all tax returns required to be filed, and has paid, or has made adequate provision for the payment of, all taxes reflected therein.

5.13 Subsidiaries. Borrower does not own any stock, partnership interest or other equity securities of any Person, except for Permitted Investments.

5.14 Government Consents. Borrower and each Subsidiary has obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all governmental authorities that are necessary for the continued operation of Borrower's business as currently conducted.

5.15 Full Disclosure. No representation, warranty or other statement made by Borrower in any certificate or written statement furnished to Bank contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained in such certificates or statements not misleading.

6. AFFIRMATIVE COVENANTS

Borrower covenants and agrees that, until payment in full of all outstanding Obligations, and for so long as Bank may have any commitment to make an Advance hereunder, Borrower shall do all of the following:

6.1 Good Standing. Borrower shall maintain its and each of its Subsidiaries' corporate existence and good standing in its jurisdiction

of incorporation and maintain qualification in each jurisdiction in which the failure to so qualify could have a Material Adverse Effect. Borrower shall maintain, and shall cause each of its Subsidiaries to maintain, to the extent consistent with prudent management of Borrower's business, in force all licenses, approvals and agreements, the loss of which could have a Material Adverse Effect.

6.2 Government Compliance. Borrower shall meet, and shall cause each Subsidiary to meet, the minimum funding requirements of ERISA with respect to any employee benefit plans subject to ERISA. Borrower shall comply, and shall cause each Subsidiary to comply, with all statutes, laws, ordinances and government rules and regulations to which it is subject, noncompliance with which could have a Material Adverse Effect or a material adverse effect on the Collateral or the priority of Bank's Lien on the Collateral.

6.3 Financial Statements, Reports, Certificates. Borrower shall deliver to Bank: (a) as soon as available, but in any event within thirty (30) days after the end of each of Borrower's fiscal quarters, a company prepared consolidated balance sheet and income statement covering Borrower's consolidated operations during such period, certified by a Responsible Officer; (b) as soon as available, but in any event with thirty (30) days of the end of Borrower's fiscal quarter, a report, signed by a Responsible Officer, of aged listings of Borrower's accounts receivable and accounts payable; (c) as soon as available, but in any event within fifty (50) days after the end of each of Advanced Polymer Systems, Inc.'s fiscal quarters, all reports of Advanced Polymer Systems, Inc.'s Form 10-Q filed with the Securities and Exchange Commission; (d) as soon as available, but in any event within one hundred and twenty (120) days after the end of Borrower's fiscal year for the year ending December 31, 1995, consolidated financial statements of Borrower prepared in accordance with GAAP, consistently applied; (e) as soon as available, but in any event within one hundred and twenty (120) days after the end of Borrower's fiscal year for each fiscal year after the fiscal year ending December 31, 1995, audited consolidated financial statements of Borrower prepared in accordance with GAAP, consistently applied, together with an unqualified opinion on such financial statements of an independent certified public accounting firm reasonably acceptable to Bank; (f) as soon as available, but in any event within one hundred and twenty (120) days after the end of Advanced Polymer System's fiscal year, all reports of Advanced Polymer Systems, Inc.'s Form 10-K filed with the Securities and Exchange Commission; (g) within five (5) days upon becoming available, copies of all statements, reports and notices sent or made available generally by Borrower and Advanced Polymer Systems, Inc. to its security holders or to any holders of Subordinated Debt and all reports on Form 10-K and 10-Q filed with the Securities and Exchange Commission; (h) as soon as available, but in any event within thirty (30) days after the end of Borrower's and Advanced Polymer Systems, Inc.'s fiscal quarters, respectively, annual financial forecasts on the balance sheet, income statement, and cash flow statement for the upcoming four quarters for Borrower and Advanced Polymer Systems, Inc.; (i) promptly upon receipt of notice thereof, a report of any legal actions pending or threatened against Borrower or any Subsidiary that could result in damages or costs to Borrower or any Subsidiary of One Hundred Thousand Dollars (\$100,000) or more; and (j) such budgets, sales projections, operating plans or other financial information as Bank may reasonably request from time to time.

Borrower shall deliver to Bank with the quarterly financial statements a Compliance Certificate signed by a Responsible Officer in substantially the form of Exhibit C hereto.

Borrower shall have a right from time to time hereafter to audit Borrower's Accounts at Borrower's expense, provided that such audits will be conducted no more than every six (6) months unless an Event of Default has occurred and is continuing.

6.4 Inventory; Returns. Borrower shall keep all Inventory in good and marketable condition, free from all material defects. Returns and allowances, if any, as between Borrower and its account debtors shall be on the same basis and in accordance with the usual customary practices of Borrower, as they exist at the time of the execution and delivery of this

Agreement. Borrower shall promptly notify Bank of all returns and recoveries and of all disputes and claims, where the return, recovery, dispute or claim involves more than Fifty Thousand Dollars (\$50,000).

6.5 Taxes. Borrower shall make, and shall cause each Subsidiary to make, due and timely payment or deposit of all material federal, state, and local taxes, assessments, or contributions required of it by law, and will execute and deliver to Bank, on demand, appropriate certificates attesting to the payment or deposit thereof; and Borrower will make, and will cause each Subsidiary to make, timely payment or deposit of all material tax payments and withholding taxes required of it by applicable laws, including, but not limited to, those laws concerning F.I.C.A., F.U.T.A., state disability, and local, state, and federal income taxes, and will, upon request, furnish Bank with proof satisfactory to Bank indicating that Borrower or a Subsidiary has made such payments or deposits; provided that Borrower or a Subsidiary need not make any payment if the amount or validity of such payment is contested in good faith by appropriate proceedings and is reserved against (to the extent required by GAAP) by Borrower.

6.6 Insurance.

(a) Borrower, at its expense, shall keep the Collateral insured against loss or damage by fire, theft, explosion, sprinklers, and all other hazards and risks, and in such amounts, as ordinarily insured against by other owners in similar businesses conducted in the locations where Borrower's business is conducted on the date hereof. Borrower shall also maintain insurance relating to Borrower's ownership and use of the Collateral in amounts and of a type that are customary to businesses similar to Borrower's.

(b) All such policies of insurance shall be in such form, with such companies, and in such amounts as reasonably satisfactory to Bank. All such policies of property insurance shall contain a lender's loss payable endorsement, in a form satisfactory to Bank, showing Bank as an additional loss payee thereof and all liability insurance policies shall show the Bank as an additional insured, and shall specify that the insurer must give at least twenty (20) days notice to Bank before canceling its policy for any reason. Upon Bank's request, Borrower shall deliver to Bank certified copies of such policies of insurance and evidence of the payments of all premiums therefore. All proceeds payable under any such policy shall, at the option of Bank, be payable to Bank to be applied on account of the Obligations.

6.7 Principal Depository. Borrower shall maintain its principal depository and operating accounts with Bank.

6.8 EBITDA/Bank Interest Payments. Borrower shall maintain, as of the last day of each of Borrower's fiscal quarters, a ratio of quarterly EBITDA to quarterly Bank interest due on the Loan Facility of at least 2.0 to 1.0.

6.9 Debt-Net Worth Ratio. Borrower shall maintain, as of the last day of each fiscal quarter, a ratio of Total Liabilities less Subordinated Debt to Net Worth plus Subordinated Debt of not more than 2.25 to 1.0.

6.10 Net Worth. Borrower shall maintain, as of the last day of each of Borrower's fiscal quarters, a Net Worth of not less than One Million Four Hundred and Fifty Thousand Dollars (\$1,450,000), plus, cumulatively, fifty percent (50%) of net profit after taxes for the preceding quarter.

6.11 Profitability. EBITDA shall not be less than One Dollar (\$1.00) for each of Borrower's fiscal quarters.

6.12 Registration of Intellectual Property Rights. Borrower shall register or cause to be registered (to the extent not already registered) with the United States Patent and Trademark Office

or the United States Copyright Office, as applicable, those intellectual property rights listed on Exhibits A, B and C to the Collateral Assignment, Patent Mortgage and Security Agreement delivered to Bank by Borrower in connection with this Agreement within thirty (30) days of the date of this Agreement. Borrower shall register or cause to be registered with the United States Patent and Trademark Office or the United States Copyright Office, as applicable, those additional intellectual property rights developed or acquired by Borrower from time to time in connection with any product prior to the sale or licensing of such product to any third party, including without limitation revisions or additions to the intellectual property rights listed on such Exhibits A, B and C. Borrower shall provide evidence to Bank of the extension or enlargement of any rights to the intellectual property listed on such Exhibits A, B, and C or any such additional intellectual property rights developed or acquired by Borrower from time to time thirty (30) days prior to the expiration of such rights. Borrower shall execute and deliver such additional instruments and documents from time to time as Bank shall reasonably request to perfect Bank's security interest in such additional intellectual property rights.

6.13 Further Assurances. At any time and from time to time Borrower shall execute and deliver such further instruments and take such further action as may reasonably be requested by Bank to effect the purposes of this Agreement.

7. NEGATIVE COVENANTS

Borrower covenants and agrees that, so long as any credit hereunder shall be available and until payment in full of the outstanding Obligations or for so long as Bank may have any commitment to make any Advances, Borrower will not do any of the following:

7.1 Dispositions. Convey, sell, lease, transfer or otherwise dispose of (collectively, a "Transfer"), or permit any of its Subsidiaries to Transfer, all or any part of its business or property, other than: (i) Transfers of Inventory in the ordinary course of business; (ii) Transfers of non-exclusive licenses and similar arrangements for the use of the property of Borrower or its Subsidiaries; or (iii) Transfers of worn-out or obsolete Equipment.

7.2 Change in Business. Engage in any business, or permit any of its Subsidiaries to engage in any business, other than the businesses currently engaged in by Borrower and any business substantially similar or related thereto (or incidental thereto), or suffer a material change in Borrower's ownership. Borrower will not, without thirty (30) days prior written notification to Bank, relocate its chief executive office.

7.3 Mergers or Acquisitions. Merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with or into any other business organization, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the capital stock or property of another Person.

7.4 Indebtedness. Create, incur, assume or be or remain liable with respect to any Indebtedness, or permit any Subsidiary so to do, other than Permitted Indebtedness.

7.5 Encumbrances. Create, incur, assume or suffer to exist any Lien with respect to any of its property, or assign or otherwise convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries so to do, except for Permitted Liens.

7.6 Distributions. Pay any dividends or make any other distribution or payment on account of or in redemption, retirement or purchase of any capital stock.

7.7 Advances to Employees or Shareholders. Borrower shall not advance by way of payment, credit or other manner any unearned funds to employees or shareholders of the Borrower.

7.8 Investments. Directly or indirectly acquire or own, or make any Investment in or to any Person, or permit any of its Subsidiaries so to do, other than Permitted Investments.

7.9 Transactions with Affiliates. Directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower except for transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a nonaffiliated Person.

7.10 Subordinated Debt. Make any payment in respect of any Subordinated Debt, or permit any of its Subsidiaries to make any such payment, except in compliance with the terms of such Subordinated Debt, or amend any provision contained in any documentation relating to the Subordinated Debt without Bank's prior written consent.

7.11 Inventory. Store the Inventory with a bailee, warehouseman, or similar party unless Bank has received a pledge of the warehouse receipt covering such Inventory. Except for Inventory sold in the ordinary course of business and except for such other locations as Bank may approve in writing, Borrower shall keep the Inventory only at the location set forth in Section 10 hereof and such other locations of which Borrower gives Bank prior written notice and as to which Borrower signs and files a financing statement where needed to perfect Bank's security interest.

7.12 Compliance. Become an "investment company" controlled by an "investment company," within the meaning of the Investment Company Act of 1940, or become principally engaged in, or undertake as one of its important activities, the business of extending credit for the purpose of purchasing or carrying margin stock, or use the proceeds of any Advance for such purpose. Fail to meet the minimum funding requirements of ERISA, permit a Reportable Event or Prohibited Transaction, as defined in ERISA, to occur, fail to comply with the Federal Fair Labor Standards Act or violate any law or regulation, which violation could have a Material Adverse Effect or a material adverse effect on the Collateral or the priority of Bank's Lien on the Collateral, or permit any of its Subsidiaries to do any of the foregoing.

7.13 Intercompany Receivable. Borrower shall not incur aggregate accounts receivables due to Borrower from Advanced Polymer Systems, Inc. in excess of One Million Five Hundred Thousand Dollars (\$1,500,000) through and including December 31, 1996. Beginning and including January 1, 1997, Borrower shall not incur aggregate accounts receivables due to Borrower from Advanced Polymer Systems, Inc. for the first half and the second half of the Borrower's fiscal year in excess of the lesser of (i) One Million Five Hundred Thousand Dollars (\$1,500,000), plus seventy-five percent (75%) of the Borrower's EBITDA for the previous half of the Borrower's fiscal year, or (ii) One Million Seven Hundred and Fifty Thousand Dollars (\$1,750,000).

8. EVENTS OF DEFAULT

Any one or more of the following events shall constitute an Event of Default by Borrower under this Agreement:

8.1 Payment Default. If Borrower fails to pay the principal of, or any interest on, any Advances when due and payable; or fails to pay any portion of any other Obligations not constituting such principal or interest, including without limitation Bank Expenses, within thirty (30) days of receipt by Borrower of an invoice for such other Obligations;

8.2 Covenant Default. If Borrower fails to perform any obligation under Sections 6.7, 6.8, 6.9, 6.10, or 6.11 or violates any of the covenants contained in Article 7 of this Agreement, or fails or neglects to perform, keep, or observe any other material term, provision, condition, covenant, or agreement contained in this Agreement, in any of the Loan Documents, or in any other present or future agreement between Borrower and

Bank and as to any default under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure such default within ten (10) business days after Borrower receives notice thereof or any officer of Borrower becomes aware thereof; provided, however, that if the default cannot by its nature be cured within the ten (10) business day period or cannot after diligent attempts by Borrower be cured within such ten (10) business day period, and such default is likely to be cured within a reasonable time, then Borrower shall have an additional reasonable period (which shall not in any case exceed thirty (30) days) to attempt to cure such default, and within such reasonable time period the failure to have cured such default shall not be deemed an Event of Default (provided that no Advances will be required to be made during such cure period);

8.3 Material Adverse Change. If there occurs a material adverse change in Borrower's business or financial condition, or if there is a material impairment of the prospect of repayment of any portion of the Obligations or a material impairment of the value or priority of Bank's security interests in the Collateral;

8.4 Attachment. If any material portion of Borrower's assets is attached, seized, subjected to a writ or distress warrant, or is levied upon, or comes into the possession of any trustee, receiver or person acting in a similar capacity and such attachment, seizure, writ or distress warrant or levy has not been removed, discharged or rescinded within ten (10) days, or if Borrower is enjoined, restrained, or in any way prevented by court order from continuing to conduct all or any material part of its business affairs, or if a judgment or other claim becomes a lien or encumbrance upon any material portion of Borrower's assets, or if a notice of lien, levy, or assessment is filed of record with respect to any of Borrower's assets by the United States Government, or any department, agency, or instrumentality thereof, or by any state, county, municipal, or governmental agency, and the same is not paid within ten (10) days after Borrower receives notice thereof, provided that none of the foregoing shall constitute an Event of Default where such action or event is stayed or an adequate bond has been posted pending a good faith contest by Borrower (provided that no Advances will be required to be made during such cure period);

8.5 Insolvency. If Borrower becomes insolvent, or if an Insolvency Proceeding is commenced by Borrower, or if an Insolvency Proceeding is commenced against Borrower and is not dismissed or stayed within thirty (30) days (provided that no Advances will be made prior to the dismissal of such Insolvency Proceeding);

8.6 Other Agreements. If there is a default in any agreement to which Borrower is a party with a third party or parties resulting in a right by such third party or parties, whether or not exercised, to accelerate the maturity of any Indebtedness in an amount in excess of One Hundred Thousand Dollars (\$100,000) or that could have a Material Adverse Effect;

8.7 Subordinated Debt. If Borrower makes any payment on account of Subordinated Debt, except to the extent such payment is allowed under any subordination agreement entered into with Bank;

8.8 Judgments. If a judgment or judgments for the payment of money in an amount, individually or in the aggregate, of at least One Hundred Thousand Dollars (\$100,000) shall be rendered against Borrower and shall remain unsatisfied and unstayed for a period of ten (10) days (provided that no Advances will be made prior to the satisfaction or stay of such judgment); or

8.9 Misrepresentations. If any material misrepresentation or material misstatement exists now or hereafter in any warranty or representation set forth herein or in any certificate delivered to Bank by any Responsible Officer pursuant to this Agreement or to induce Bank to enter into this Agreement or any other Loan Document.

8.10 Guaranty. Any guaranty of all or a portion of the Obligations ceases for any reason to be in full force and effect, or any guarantor fails to perform any obligation under any guaranty of all or a portion of the Obligations, or any material misrepresentation or material misstatement exists now or hereafter in any warranty or representation set forth in any guaranty of all or a portion of the Obligations or in any certificate delivered to Bank in connection with such guaranty.

9. BANK'S RIGHTS AND REMEDIES

9.1 Rights and Remedies. Upon the occurrence and during the continuance of an Event of Default, Bank may, at its election, without notice of its election and without demand, do any one or more of the following, all of which are authorized by Borrower:

(a) Declare all Obligations, whether evidenced by this Agreement, by any of the other Loan Documents, or otherwise, immediately due and payable (provided that upon the occurrence of an Event of Default described in Section 8.5 all Obligations shall become immediately due and payable without any action by Bank);

(b) Cease advancing money or extending credit to or for the benefit of Borrower under this Agreement or under any other agreement between Borrower and Bank;

(c) Settle or adjust disputes and claims directly with account debtors for amounts, upon terms and in whatever order that Bank reasonably considers advisable;

(d) Without notice to or demand upon Borrower, make such payments and do such acts as Bank considers necessary or reasonable to protect its security interest in the Collateral. Borrower agrees to assemble the Collateral if Bank so requires, and to make the Collateral available to Bank as Bank may designate. Borrower authorizes Bank to enter the premises where the Collateral is located, to take and maintain possession of the Collateral, or any part of it, and to pay, purchase, contest, or compromise any encumbrance, charge, or lien which in Bank's determination appears to be prior or superior to its security interest and to pay all expenses incurred in connection therewith. With respect to any of Borrower's owned premises, Borrower hereby grants Bank a license to enter into possession of such premises and to occupy the same, without charge, for up to one hundred twenty (120) days in order to exercise any of Bank's rights or remedies provided herein, at law, in equity, or otherwise;

(e) Without notice to Borrower set off and apply to the Obligations any and all (i) balances and deposits of Borrower held by Bank, or (ii) indebtedness at any time owing to or for the credit or the account of Borrower held by Bank;

(f) Ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell (in the manner provided for herein) the Collateral. Bank is hereby granted a license or other right, solely pursuant to the provisions of this Section 9.1, to use, without charge, Borrower's labels, patents, copyrights, rights of use of any name, trade secrets, trade names, trademarks, service marks, and advertising matter, or any property of a similar nature, as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Bank's exercise of its rights under this Section 9.1, Borrower's rights under all licenses and all franchise agreements shall inure to Bank's benefit;

(g) Sell the Collateral at either a public or private sale, or both, by way of one or more contracts or transactions, for cash or on terms, in such manner and at such places (including Borrower's premises) as Bank determines is commercially reasonable, and apply any proceeds to the Obligations in whatever manner or order Bank deems appropriate;

(h) Bank may credit bid and purchase at any public sale; and

(i) Any deficiency that exists after disposition of the Collateral as provided above will be paid immediately by Borrower.

9.2 Power of Attorney. Effective only upon the occurrence and during the continuance of an Event of Default, Borrower hereby irrevocably appoints Bank (and any of Bank's designated officers, or employees) as Borrower's true and lawful attorney to: (a) send requests for verification of Accounts or notify account debtors of Bank's security interest in the Accounts; (b) endorse Borrower's name on any checks or other forms of payment or security that may come into Bank's possession; (c) sign Borrower's name on any invoice or bill of lading relating to any Account, drafts against account debtors, schedules and assignments of Accounts, verifications of Accounts, and notices to account debtors; (d) make, settle, and adjust all claims under and decisions with respect to Borrower's policies of insurance; and (e) settle and adjust disputes and claims respecting the accounts directly with account debtors, for amounts and upon terms which Bank determines to be reasonable; provided Bank may exercise such power of attorney to sign the name of Borrower on any of the documents described in Section 4.2 regardless of whether an Event of Default has occurred. The appointment of Bank as Borrower's attorney in fact, and each and every one of Bank's rights and powers, being coupled with an interest, is irrevocable until all of the Obligations have been fully repaid and performed and Bank's obligation to provide advances hereunder is terminated.

9.3 Accounts Collection. At any time from the date of this Agreement, Bank may notify any Person owing funds to Borrower of Bank's security interest in such funds and verify the amount of such Account. Borrower shall collect all amounts owing to Borrower for Bank, receive in trust all payments as Bank's trustee, and immediately deliver such payments to Bank in their original form as received from the account debtor, with proper endorsements for deposit.

9.4 Bank Expenses. If Borrower fails to pay any amounts or furnish any required proof of payment due to third persons or entities, as required under the terms of this Agreement, then Bank may do any or all of the following: (a) make payment of the same or any part thereof; (b) set up such reserves under the Revolving Facility as Bank deems necessary to protect Bank from the exposure created by such failure; or (c) obtain and maintain insurance policies of the type discussed in Section 6.6 of this Agreement, and take any action with respect to such policies as Bank deems prudent. Any amounts so paid or deposited by Bank shall constitute Bank Expenses, shall be immediately due and payable, and shall bear interest at the then applicable rate hereinabove provided, and shall be secured by the Collateral. Any payments made by Bank shall not constitute an agreement by Bank to make similar payments in the future or a waiver by Bank of any Event of Default under this Agreement.

9.5 Bank's Liability for Collateral. So long as Bank complies with reasonable banking practices, Bank shall not in any way or manner be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage thereto occurring or arising in any manner or fashion from any cause; (c) any diminution in the value thereof; or (d) any act or default of any carrier, warehouseman, bailee, forwarding agency, or other person whomsoever. All risk of loss, damage or destruction of the Collateral shall be borne by Borrower.

9.6 Remedies Cumulative. Bank's rights and remedies under this Agreement, the Loan Documents, and all other agreements shall be cumulative. Bank shall have all other rights and remedies not inconsistent herewith as provided under the Code, by law, or in equity. No exercise by Bank of one right or remedy shall be deemed an election, and no waiver by Bank of any Event of Default on Borrower's part shall be deemed a continuing waiver. No delay by Bank shall constitute a waiver, election, or acquiescence by it. No waiver by Bank shall be effective unless made in a written document signed on behalf of Bank and then shall be effective only in the specific instance and for the specific purpose for which it was given.

9.7 Demand; Protest. Borrower waives demand, protest, notice of protest, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees at any time held by Bank on which Borrower may in any way be liable.

10. NOTICES

Unless otherwise provided in this Agreement, all notices or demands by any party relating to this Agreement or any other agreement entered into in connection herewith shall be in writing and (except for financial statements and other informational documents which may be sent by first-class mail, postage prepaid) shall be personally delivered or sent by a recognized overnight delivery service, certified mail, postage prepaid, return receipt requested, or by telefacsimile to Borrower or to Bank, as the case may be, at its addresses set forth below:

If to Borrower: Advanced Polymer Systems, Inc.
3696 Haven Avenue
Redwood City, CA 94063
Attn: Michael P.J. O'Connell
Senior Vice President/CFO
FAX: (415) 365-6490

If to Bank: Venture Lending
Three Palo Alto Square, Suite 150
Palo Alto, CA 94306
Attn: Daniel Michener
FAX: (415) 843-6969

The parties hereto may change the address at which they are to receive notices hereunder, by notice in writing in the foregoing manner given to the other.

11. CHOICE OF LAW AND VENUE; JURY TRIAL WAIVER

This Agreement shall be governed by, and construed in accordance with, the internal laws of the State of California, without regard to principles of conflicts of law. Each of Borrower and Bank hereby submits to the exclusive jurisdiction of the state and Federal courts located in the County of Santa Clara, State of California. BORROWER AND BANK EACH HEREBY WAIVE THEIR RESPECTIVE RIGHTS TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF ANY OF THE LOAN DOCUMENTS OR ANY OF THE TRANSACTIONS CONTEMPLATED THEREIN, INCLUDING CONTRACT CLAIMS, TORT CLAIMS, BREACH OF DUTY CLAIMS, AND ALL OTHER COMMON LAW OR STATUTORY CLAIMS. EACH PARTY RECOGNIZES AND AGREES THAT THE FOREGOING WAIVER CONSTITUTES A MATERIAL INDUCEMENT FOR IT TO ENTER INTO THIS AGREEMENT. EACH PARTY REPRESENTS AND WARRANTS THAT IT HAS REVIEWED THIS WAIVER WITH ITS LEGAL COUNSEL AND THAT IT KNOWINGLY AND VOLUNTARILY WAIVES ITS JURY TRIAL RIGHTS FOLLOWING CONSULTATION WITH LEGAL COUNSEL.

12. GENERAL PROVISIONS

12.1 Successors and Assigns. This Agreement shall bind and inure to the benefit of the respective successors and permitted assigns of each of the parties; provided, however, that neither this Agreement nor any rights hereunder may be assigned by Borrower without Bank's prior written consent, which consent may be granted or withheld in Bank's sole discretion. Bank shall have the right without the consent of or notice to Borrower to sell, transfer, negotiate, or grant participation in all or any part of, or any interest in, Bank's obligations, rights and benefits hereunder.

12.2 Indemnification. Borrower shall defend, indemnify and hold harmless Bank and its officers, employees, and agents against: (a) all obligations, demands, claims, and liabilities claimed or asserted by any other party in connection with the transactions contemplated by this Agreement; and (b) all losses or Bank Expenses in any way suffered, incurred, or paid by Bank as a result of or in any way arising out of, following, or consequential to transactions between Bank and Borrower whether under this Agreement, or otherwise (including without limitation reasonable attorneys fees and expenses), except for losses caused by Bank's gross negligence or willful misconduct.

12.3 Time of Essence. Time is of the essence for the performance of all obligations set forth in this Agreement. Except as expressly set forth herein, all references to days shall mean calendar days.

12.4 Severability of Provisions. Each provision of this Agreement shall be severable from every other provision of this Agreement for the purpose of determining the legal enforceability of any specific provision.

12.5 Amendments in Writing, Integration. This Agreement cannot be amended or terminated orally. All prior agreements, understandings, representations, warranties, and negotiations between the parties hereto with respect to the subject matter of this Agreement, if any, are merged into this Agreement and the Loan Documents.

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

12.7 Survival. All covenants, representations and warranties made in this Agreement shall continue in full force and effect so long as any Obligations remain outstanding. The obligations of Borrower to indemnify Bank with respect to the expenses, damages, losses, costs and liabilities described in Section 12.2 shall survive until all applicable statute of limitations periods with respect to actions that may be brought against Bank have run.

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

APS ANALYTICAL STANDARDS, INC.

By: _____

Title: _____

By: /s/ Michael P.J. O'Connell

Title: CFO

VENTURE LENDING, a division of
CUPERTINO NATIONAL BANK & TRUST

By: /s/ Daniel Michener

Title: VP

EXHIBIT A

The Collateral shall consist of all right, title and interest of Borrower in and to the following:

(a) All goods and equipment now owned or hereafter acquired, including, without limitation, all machinery, fixtures, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing, and all attachments, accessories, accessions, replacements, substitutions, additions, and improvements to any of the foregoing, wherever located;

(b) All inventory, now owned or hereafter acquired, including, without limitation, all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products including such inventory as is temporarily out of Borrower's custody or possession or in transit and including any returns upon any accounts or other proceeds, including insurance proceeds, resulting from the sale or disposition of any of the foregoing and any documents of title representing any of the above, and Borrower's Books relating to any of the foregoing;

(c) All contract rights and general intangibles now owned or hereafter acquired, including, without limitation, goodwill, trademarks, servicemarks, trade styles, trade names, patents, patent applications, leases, license agreements, franchise agreements, blueprints, drawings, purchase orders, customer lists, route lists, infringements, claims, computer programs, computer discs, computer tapes, literature, reports, catalogs, design rights, income tax refunds, payments of insurance and rights to payment of any kind;

(d) All now existing and hereafter arising accounts, contract rights, royalties, license rights and all other forms of obligations owing to Borrower arising out of the sale or lease of goods, the licensing of technology or the rendering of services by Borrower, whether or not earned by performance, and any and all credit insurance, guaranties, and other security therefore, as well as all merchandise returned to or reclaimed by Borrower and Borrower's Books relating to any of the foregoing;

(e) All documents, cash, deposit accounts including, but not limited to, the deposit account established in Section 2.2 of that certain Loan and Security Agreement by and between Venture Lending and APS Analytical Standards, Inc. dated September 27, 1995, securities, letters of credit, certificates of deposit, instruments and chattel paper now owned or hereafter acquired and Borrower's Books relating to the foregoing;

(f) All copyright rights, copyright applications, copyright registrations and like protections in each work of authorship and derivative work thereof, whether published or unpublished, now owned or hereafter acquired; all trade secret rights, including all rights to unpatented inventions, know-how, operating manuals, license rights and agreements and confidential information, now owned or hereafter acquired; all mask work or similar rights available for the protection of semiconductor chips, now owned or hereafter acquired; all claims for damages by way of any past, present and future infringement of any of the foregoing; and

(g) Any and all claims, rights and interests in any of the above and all substitutions for, additions and accessions to and proceeds thereof.

EXHIBIT B

LOAN PAYMENT/ADVANCE TELEPHONE REQUEST FORM

DEADLINE FOR SAME DAY PROCESSING IS 3:00 P.M., P.S.T.

TO: VENTURE LENDING DATE: _____
FAX#: (415) 843-6969 TIME: _____

FROM: APS ANALYTICAL STANDARDS, INC.

CLIENT NAME (BORROWER)

REQUESTED BY: _____
AUTHORIZED SIGNER'S NAME

AUTHORIZED SIGNATURE: _____

PHONE NUMBER: _____

FROM ACCOUNT # _____ TO ACCOUNT # _____

REQUESTED TRANSACTION TYPE -----	REQUEST DOLLAR AMOUNT -----
PRINCIPAL PAYMENT (ONLY)	\$ _____
INTEREST PAYMENT (ONLY)	\$ _____
PRINCIPAL AND INTEREST (PAYMENT)	\$ _____

OTHER INSTRUCTIONS: _____

All representations and warranties of Borrower stated in the Loan Agreement are true, correct and complete in all material respects as of the date of the telephone request for and Advance confirmed by this Borrowing Certificate; provided, however, that those representations and warranties expressly referring to another date shall be true, correct and complete in all material respects as of such date.

BANK USE ONLY

TELEPHONE REQUEST:

The following person is authorized to request the loan payment transfer/loan advance on the advance designated account and is known to me.

Authorized Requester Phone #

Received By (Bank) Phone #

Authorized Signature (Bank)

DISBURSEMENT REQUEST AND AUTHORIZATION

Borrower APS ANALYTICAL STANDARDS, INC.

Bank: VENTURE LENDING

LOAN TYPE. This is a Variable Rate, Loan Facility of a principal amount up to \$3,000,000.

PRIMARY PURPOSE OF LOAN. The primary purpose of this loan is for business.

SPECIFIC PURPOSE. The specific purpose of this loan is:

DISBURSEMENT INSTRUCTIONS. Borrower understands that no loan proceeds will be disbursed until all of Bank's conditions for making the loan have been satisfied. Please disburse the loan proceeds as follows:

	Loan Facility

Amount paid to Borrower directly:	\$3,000,000
Undisbursed Funds	\$0
Principal	\$3,000,000

CHARGES PAID IN CASH. Borrower has paid or will pay in cash, unless otherwise agreed, the following charges:

Prepaid Finance Charges Paid in Stock:		
\$30,000	Loan Fee	
\$_____	Accounts Receivables Audit	\$9,775

Other Charges Paid in Cash:		
\$100	UCC Search Fees	
\$50	UCC Filing Fees	
\$150	Patent Filing Fees	
\$75	Trademark Filing Fees	
\$0	Copyright Filing Fees	
\$9,350	Outside Counsel Fees and Expenses (Estimate)	

Total Charges Paid in Cash \$9,775

AUTOMATIC PAYMENTS. Borrower hereby authorizes Bank automatically to deduct from Borrower's account numbered 3103498 the amount of any loan payment. If the funds in the account are insufficient to cover any payment, Bank shall not be obligated to advance funds to cover the payment. At any time and for any reason, Borrower or Bank may voluntarily terminate Automatic Payments.

FINANCIAL CONDITION. BY SIGNING THIS AUTHORIZATION, BORROWER REPRESENTS AND WARRANTS TO BANK THAT THE INFORMATION PROVIDED ABOVE IS TRUE AND CORRECT AND THAT THERE HAS BEEN NO ADVERSE CHANGE IN BORROWER'S FINANCIAL CONDITION AS DISCLOSED IN BORROWER'S MOST RECENT FINANCIAL STATEMENT TO BANK. THIS AUTHORIZATION IS DATED AS OF SEPTEMBER 27, 1995.

BORROWER:

/s/ Michael P.J. O'Connell

/s/ John J. Meakem, Jr.

Authorized Officer

=====

9-MOS
DEC-31-1995
JAN-01-1995
SEP-30-1995
6,080,192
488,102
3,559,766
76,366
8,548,379
19,750,557
13,265,401
7,685,011
26,806,918
11,997,181
0
165,754
0
0
9,199,108
26,806,918
11,114,259
12,938,966
7,953,597
8,275,791
9,750,890
18,976
204,180
(4,829,398)
21,420
(4,850,818)
0
0
0
(4,850,818)
(\$0.30)
(\$0.30)