

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

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FILER

**RECOTON CORP**

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# SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

## FORM 8-K

### CURRENT REPORT

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

*Date of Report (Date of earliest event reported):* **August 28, 2002**

#### RECOTON CORPORATION

*(Exact name of registrant as specified in charter)*

**Delaware**

*(State or Other Jurisdiction  
of Incorporation)*

**0-5860**

*(Commission  
File Number)*

**11-1771737**

*(IRS Employer  
ID Number)*

**2950 Lake Emma Road, Lake Mary, Florida 32746**

*(Address of principal executive offices, including Zip Code)*

*Registrant's telephone number, including area code:* **407-333-8900**

**N.A.**

*(Former name or former address, if changed since last report)*

#### Item 5. Other Events

On August 28, 2002, we entered into certain amendments and waiver agreements with our existing senior lenders, subordinated lenders and subordinated noteholders. Such agreements were effective as of August 19, 2002. The details of such amendments and waivers are as follows:

The following transactions occurred regarding our October 31, 2000 \$235 million senior loan agreement with lenders led by Heller Financial, Inc. as Administrative Agent and General Electric Capital Corporation:

The following defaults were waived:

Covenant defaults arising with respect to our financial results for the quarter arising June 30, 2002;

Certain financial covenant defaults anticipated to arise with respect to our financial results for the quarter ended September 30, 2002; and

Cross default arising from our failure to pay the interest installment due to the holders of our subordinated notes on August 4, 2002.

The senior loan agreement was amended to:

Allow us to borrow up to \$13,500,000 in excess of amounts otherwise available under the borrowing limits under the agreement, subject to a reduction in such amounts on a scheduled basis so that such overadvance is fully repaid by January 31, 2003;

Change the definition of Borrowing Base which will effectively reduce the borrowing base in increments;

Reduce the aggregate commitment under the revolving loan facility in steps from \$185,000,000 to \$150,000,000 by September 16, 2002;

Increase interest due under the revolving credit facility from 1% to 3.25% over base rate since June 30, 2002, under Term Loan A from 1.25% to 3.5% over base rate and under Term Loan B from 3.25% to 5.5% over base rate (interest under Term Loan C remains at 3% over base rate) and increase the letter of credit fees from 2% to 4% per annum;

Convert all LIBOR loans to Base Rate Loans at the end of the current interest periods;

Require us to undertake certain asset sales (and steps preliminary to such asset sales) by scheduled dates and to apply specified portions of the sales proceeds to loan repayments and accordingly reduce loan availability to the extent of any corresponding reduction in the borrowing base resulting from such sale;

Amend the consolidated tangible net worth, minimum EBITDA, fixed charge coverage and minimum InterAct EBITDA covenants to facilitate our future compliance;

Require us to pledge all of the assets of our first-tier foreign subsidiaries if so requested by the Administrative Agent;

Require us to establish a committee of the Board composed of independent directors with exclusive authority to oversee our financial affairs, which we have already done;

Increase the percentage of lenders required to consent to most amendments of the loan agreement from the holders of 51% to the holders of 66.66% of the outstanding loans (the remaining amendments require 100% approval);

Require us to provide certain budgets, financial reports and business plans at stated times; and

Require us to engage the services of an independent financial advisor, which we had already done.

The senior lenders required us to obtain agreements from the holders of the subordinated notes and the lenders under the subordinated credit agreement to agree to not require any financial payments under such agreements, including the interest installments due under the subordinated notes on August 4, 2002 and November 4, 2003 and the interest installments due under the subordinated loan agreement on the first of September, October, November and December 2002 and January and February 2003, and to not otherwise assert any rights until February 4, 2003.

We paid the senior lenders a fee of 1% of the outstanding term loans A and B and the revolving loan commitments.

The blocking notice sent by the senior lenders to the holders of our subordinated notes on August 19, 2003 was revoked (such holders agreeing that such notice shall be deemed as if not given for purposes of the existing subordination provisions of the securities purchase agreement). No blocking notice had been sent to the subordinated lenders, although the senior lenders were in a position to do so if desired.

The following transactions occurred regarding our October 31, 2000 \$15 million subordinated loan agreement with lenders led by JPMorgan Chase:

Cross defaults were waived.

The subordinated loan agreement was amended to defer interest installments due on the first of the month for the period from September 2002 through February 2003 until February 4, 2003 and such lenders agreed to the senior lenders' s standstill requirements.

The interest rate due on the notes was increased from prime plus 5.75% and prime plus 7.75% to 14% and 16%.

A fee of \$500,000 was agreed to be paid on February 4, 2003 (which amount would be reduced to \$300,000 if there was no default on February 4, 2003 and we paid interest at 14% on the deferred interest payments).

The covenants under the subordinated loan agreement were amended to conform to the covenants under the senior loan agreement.

We agreed to provide the subordinated lenders with certain financial information.

We repriced the existing warrants issued to the subordinated lenders to purchase an aggregate of 254,406 shares to \$0.01 per share (such shares to be issued from our treasury)[, *modified the antidilution provisions of such warrants to issue additional stock rather than to reprice warrants under certain circumstances*] and extended the term of such warrants by two years.

The following transactions occurred regarding our February 4, 1999 securities purchase agreement with The Prudential Insurance Company of America and ING Capital LLC (formerly known as ING (U.S.) Capital LLC):

Prudential and ING agreed to waive the default arising out of the nonpayment of the interest installment due on August 4, 2002 and to amend the securities purchase Agreement to defer such interest installment and the interest installment otherwise due on November 4, 2002 to February 4, 2002 and they agreed to the senior lenders' standstill requirements.

The interest rate due on the notes was increased from 16.5% to 18.5%, which amount shall increase on the first business day of each fiscal quarter by an additional 0.5% per annum, with the deferred interest payments bearing interest at an additional 2.0% per annum (with the additional interest being payable by issuing additional notes).

A cash fee of 1% of the unpaid principal balance of the notes was agreed to be paid on February 4, 2003.

The covenants under the securities purchase agreement were amended to conform to the covenants under the senior loan agreement.

We issued to Pru and ING from our treasury an aggregate of 265,000 shares of our common stock and we agreed to amend the existing registration rights agreement to give the purchasers an additional limited demand registration for the purpose of registering these newly-issued shares for resale.

We repriced existing warrants issued to Prudential and ING to purchase an aggregate of 430,000 shares to \$2.04 per share and extended the term of such warrants by two years.

We issued new warrants to Prudential and ING to purchase an aggregate of 1,085,883 shares at \$2.04 per share for five years, which warrants are cancelable if we repay the full amount of the notes due to Prudential and ING by September 30, 2003.

We have retained the services of Jefferies & Company, Inc., an investment-banking firm, to assist in the sale of certain assets. These asset sales would allow us to reduce debt and improve liquidity. Given this initiative, as well as certain recent restructurings, management expects to be in compliance with the covenants of the loan agreements and securities purchase agreements as amended through June of 2003. There can be no assurance, however, that we will be in compliance with the modified covenants in the future or that the lenders will waive or amend any of the covenants should it be in violation of any such covenants in the future. Because compliance is based on management estimates, compliance through June 2003 cannot be assured. We believe the assumptions used are appropriate.

Based on such beliefs, if such agreements had been executed at June 30, 2002, the date of our Form 10-Q (which was filed on August 19, 2002), the loans and notes would have been classified as long-term (rather than short term as indicated on the financial statements filed with such Form 10-Q), the valuation allowance established at that time for all of the deferred tax assets (which was based upon uncertainties at that time with respect to our ability to generate further taxable income would not have been established) and the financial statements included in the June 30, 2002 Form 10-Q not have questioned our ability to continue as a "going concern."

We are, accordingly, attaching as an exhibit to this Form 8-K pro forma financial statements and notes to unaudited pro forma financial statements showing what management believes would be the financial results as of and for the period ended June 30, 2002 as if such amendments and waivers had been in place. Note that such pro forma financial statements have not been reviewed by our accountants and they do not constitute an amendment of the financial statements included in our previously-filed Form 10-Q for the period ended June 30, 2002, which previously-filed financial statements reflected the situation as it existed at the time that such Form 10-Q was filed.

## **Item 7. Financial Statements, Pro Forma Financial Information and Exhibits**

- a. *Financial Statements of Business Acquired:* not applicable
- b. *Pro Forma Financial Information:* not applicable
- c. *Exhibits:*

Waiver and Amendment No. 6, dated August 28, 2003, to the Loan Agreement dated as of October 31, 2000 between Recoton Corporation, and other Recoton subsidiaries, Heller Financial, Inc. as Administrative Agent, Senior Agent and a Lender, General Electric Capital Corporation as Collateral Agent, Syndication Agent and a Lender and other lenders party thereto for a \$235 million loan and letter of credit facility.

10.2 Second Amendment and Waiver, dated as of August 28, 2002, to the Credit Agreement dated as of October 31, 2000 among the Loan Parties, the several lenders from time to time parties thereto, and The Chase Manhattan Bank, as Agent for a \$15 million term loan for a \$15 million term loan.

10.3 Second Amendment, dated as of August 28, 2002, to the Securities Purchase Agreement and Registration Rights Agreement dated as of February 4, 1999 between Recoton Corporation, The Prudential Insurance Company of America and ING Capital LLC (f/k/a ING (U.S.) Capital LLC).

10.5 Securities Issuance Agreement, dated August 28, 2002, with the holders of Recoton Corporation's subordinated notes issued February 4, 1999 regarding the purchase of an aggregate of 265,000 shares of common stock and warrants to purchase an aggregate of 1,085,883 shares of common stock, with form of Common Stock Purchase Warrants, dated August 28, 2002 issued, to the holders of Recoton Corporation's subordinated notes issued February 4, 1999 to purchase an aggregate of 1,085,883 shares of common stock.

10.6 Letter, dated August 28, 2002, to the holders of Recoton Corporation's subordinated notes issued February 4, 1999 repricing existing warrants

10.7 Letter, dated August 28, 2002, to lenders under the October 31, 2000 subordinated credit agreement repricing existing warrants

#### 99.1 Pro Forma Financial Information

- i. Pro Forma Balance Sheet as at June 30, 2002
- ii. Pro Forma Statement of Operations for the three months ended June 30, 2002
- iii. Pro Forma Statement of Operations for the six months ended June 30, 2002
- iv. Notes to unaudited Pro Forma Financial Statements

### 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 hereunto duly authorized.

#### RECOTON COMPANY

By: /s/ Arnold Kezsbom  
Name: Arnold Kezsbom  
Title: Executive Vice President-Finance

Dated: August 30, 2002

### EXHIBIT INDEX

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99.1 Pro Forma Financial Information

## WAIVER AND AMENDMENT NO. 6 TO THE LOAN AGREEMENT

THIS WAIVER AND AMENDMENT NO. 6 TO THE LOAN AGREEMENT is made as of August 28, 2002 (this "Agreement") by and among RECOTON CORPORATION, a New York corporation ("Recoton"), INTERACT ACCESSORIES, INC., a Delaware corporation ("InterAct"), RECOTON AUDIO CORPORATION, a Delaware corporation ("Audio"), AAMP OF FLORIDA, INC., a Florida corporation ("AAMP"), RECOTON HOME AUDIO, INC., a California corporation ("RHAI"), RECOTON ACCESSORIES, INC., a Delaware corporation ("Recoton Accessories") and RECOTON MOBILE ELECTRONICS, INC., a Delaware corporation ("Mobile Electronics") and together with Recoton, InterAct, Audio, AAMP, RHAI and Recoton Accessories collectively, the "Borrowers", the Guarantors (the Borrowers and the Guarantors are sometimes collectively referred to herein as the "Loan Parties"), the Lenders, HELLER FINANCIAL, INC., a Delaware corporation, for itself as a Lender and as Administrative Agent and Senior Agent and GENERAL ELECTRIC CAPITAL CORPORATION, a New York corporation for itself as a Lender and as Collateral Agent and Syndication Agent (the Administrative Agent, Senior Agent, Collateral Agent and Syndication Agent are sometimes referred to herein as the "Agents") and is made with reference to the Loan Agreement dated as of October 31, 2000 (as amended by the (i) Consent and Amendment No. 1 to the Credit Agreement and Amendment No. 1 to the Security Agreement, dated as of February 7, 2001, (ii) Amendment No. 2 to the Credit Agreement, dated as of May 10, 2001, (iii) Consent and Amendment No. 3 to the Loan Agreement, Amendment No. 2 to the Security Agreement and Amendment No. 1 to the Pledge Agreement, dated as of July 3, 2001, (iv) Fourth Amendment to Loan Agreement, dated as of February 26, 2002, and (v) Waiver, Consent and Amendment No. 5 to the Loan Agreement, dated as of March 29, 2002, as the same may be further amended, supplemented, restated or otherwise modified from time to time, the "Loan Agreement"), among the Borrowers, the Guarantors, the Lenders and the Agents. Capitalized terms used herein and not otherwise defined herein shall have the meanings ascribed to such terms in the Loan Agreement.

### R E C I T A L S:

WHEREAS, the Borrowers, the Guarantors, the Lenders and the Agents have entered into the Loan Agreement;

WHEREAS, the Lenders have made Loans to the Borrowers pursuant to the terms of the Loan Agreement;

WHEREAS, the Borrowers expressly reaffirm all of the Loan Documents and the debt and other obligations thereunder, the Borrowers agree that nothing contained herein shall operate to release the Borrowers or any other person or persons from their liability to keep and perform the provisions, conditions, obligations, and agreements contained in the Loan Documents, except as may be herein modified, and the Borrowers hereby reaffirm that each and every provision, condition, obligation and agreement in such documents shall continue in full force and effect, except as may be herein modified;

WHEREAS, the validity, priority and perfection of all mortgages, security interests and other liens granted or created by the Loan Documents is hereby acknowledged and confirmed by the Borrowers, and the Borrowers agree that such documents shall continue to secure the Loans and the other Obligations, as may be amended by this Agreement, without any change, loss or impairment of the priority of such mortgages, security interests or other liens;

WHEREAS, the Borrowers have requested that the Lenders agree to amend and waive certain provisions of the Loan Agreement; and

WHEREAS, the Lenders have agreed to amend and waive certain provisions of the Loan Agreement as specifically set forth herein;



NOW, THEREFORE, in consideration of the premises and the mutual agreements contained herein and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

Section 1. Limited Waivers. (a) The Borrowers acknowledge and agree that (i) certain Events of Default have occurred under the Loan Agreement as a result of the Borrowers' failure, (A) as of June 30, 2002, to comply with the covenants set forth in Section 6 (Financial Covenants) of the Loan Agreement and in the Financial Covenants Rider to the Loan Agreement; and (B) as of the date of this Agreement, (x) to make the payments required under Section 2.4(B)(1) of the Loan Agreement, (y) to pay interest due on the Subordinated Debt, and (z) to provide in a timely manner certain information required under Section (B) and Section (E), respectively, of the Reporting Rider to the Loan Agreement, (each an "Existing Default" and collectively, the "Existing Defaults") and (ii) certain Events of Default will probably occur under the Loan Agreement as a result of the anticipated failure of the Borrowers to comply with the covenants set forth in Section 5.11 (Required Minimum Excess Availability) of the Loan Agreement, Section 6 (Financial Covenants) of the Loan Agreement and in Section A (Consolidated Tangible Net Worth), Section B (Minimum EBITDA), Section D (Fixed Charges Coverage) and Section E (Minimum InterAct EBITDA) of the Financial Covenants Rider to the Loan Agreement, as of September 30, 2002 (the "Expected Defaults").

(b) Subject to the terms of this Agreement, effective as of the Effective Date (as defined herein), the Administrative Agent and the Lenders hereby waive the Existing Defaults and the Expected Defaults, as in effect prior to giving effect to this Agreement.

The foregoing limited waivers shall not apply to any other provisions of the Loan Agreement or any other periods.

Section 2. Certain Amendments to the Loan Agreement. Except as otherwise provided for herein, effective as of the Effective Date (as defined herein), the Loan Agreement is hereby amended as follows:

(a) Section 2.1((B) of the Loan Agreement is hereby amended and restated in its entirety as follows:

"Revolving Loan. Each Revolving Loan Lender, severally, agrees to lend to Borrowers from time to time its Pro Rata Share of each Revolving Advance. The aggregate amount of all Revolving Loan Commitments shall not exceed (i) \$170,000,000 for the period beginning on August 19, 2002 and ending on August 30, 2002, (ii) \$165,000,000 for the period beginning on August 31, 2002 and ending on September 15, 2002 and (iii) \$150,000,000 for the period beginning on September 16, 2002 and at all times thereafter as reduced by subsections 2.4(B)(5), 2.4(B)(6) and 2.4(C). Subject to the provisions of the immediately preceding sentence, amounts borrowed under this subsection 2.1(B) may be repaid and reborrowed at any time prior to the earlier of (i) the termination of the Revolving Loan Commitment pursuant to subsection 8.3 or (ii) the Termination Date. Except as provided in subsections 2.4(A) and 9.9, no Revolving Loan Lender shall have any obligation to make a Revolving Advance to the extent such Revolving Advance would cause the Revolving Loan (after giving effect to any immediate application of the proceeds thereof) to exceed the Maximum Revolving Loan Amount.";

(b) The definition of "Borrowing Base" in Section 2.1(B)(2) of the Loan Agreement is hereby amended and restated in its entirety as follows:

""Borrowing Base" means, as of any date of determination, an amount equal to the sum of, in each case, less reserves, such reserves including, but not limited to, the Dilution Reserve and those reserves set forth in Exhibit B-2, as Administrative Agent, in its reasonable credit judgment elects to establish unless otherwise directed by the Requisite Lenders: (a) up to 80%

of Eligible Accounts, (b) up to, the lesser of, 65% of Eligible Inventory or (i) 100% of the Appraised Value of Eligible Inventory for the period between August 19, 2002 through September 29, 2002; (ii) 95% of the Appraised Value of Eligible Inventory for the period between September 30, 2002 through October 30, 2002; (iii) 90% of the Appraised Value of Eligible Inventory for the period between October 31, 2002 through November 29, 2002; and (iv) 85% of the Appraised Value of Eligible Inventory for the period between November 30, 2002 and at all times thereafter; (c) up to 65% of Letter of Credit Inventory (as defined below), (d) up to an additional 5% of each of Eligible Inventory and Letter of Credit Inventory during the "In-Season Period" (as defined below) and (e) 100% of the letter of credit, if any, provided by Recoton Germany as set forth in subsection 5.12, less the Required Minimum Excess Availability amount of \$6,000,000, plus the Permitted Overadvance; provided that Administrative Agent, in its reasonable credit judgment, can decrease the advance rates from time to time, and provided further that notwithstanding the foregoing, in no event shall, at any time (i) the aggregate borrowing availability against (b), (c) and (d) in this subsection 2.1B(2) exceed (x) \$100,000,000 for the period beginning on the Effective Date and ending on September 29, 2002, (y) \$90,000,000 for the period beginning on September 30, 2002 and ending on October 30, 2002 and (z) \$80,000,000 for the period beginning on October 31, 2002 and at all times thereafter and (ii) the borrowing availability against (d) in this subsection 2.1B(2), exceed \$10,000,000.";

(c) The chart included in Section 2.2(A) of the Loan Agreement is hereby amended and restated in its entirety as follows:

Loan Type	Base Rate Plus	LIBOR Plus
Revolver	3.25%	2.75%
Term Loan A	3.50%	3.00%
Term Loan B	5.50%	5.00%
Term Loan C	3.00%	N/A

(d) Section 2.3(B) of the Loan Agreement is hereby amended and restated in its entirety as follows:

"Letter of Credit Fees. Borrowers shall pay to Administrative Agent a fee with respect to the Lender Letters of Credit for the benefit of Revolving Loan Lenders in the amount of the average daily amount of Letter of Credit Liability outstanding during such month multiplied by 4.0% per annum. Such fee will be calculated on the basis of a 360 day year for the actual number of days elapsed and will be payable monthly in arrears on the first day of each month. Borrowers shall also reimburse Administrative Agent for any and all fees and expenses, if any, paid by Administrative Agent or any Revolving Loan Lender to the issuer of any Bank Letter of Credit."

(e) Section 2.3(C) of the Loan Agreement is hereby amended by (i) deleting the comma at the end of the *proviso* in subsection (a) thereof and inserting the word "or" immediately after the word "borrowing" and (ii) deleting the phrase "or (c) the proceeds of the InterAct International IPO" in its entirety;

(f) Section 2.4(B)(6) of the Loan Agreement is hereby deleted in its entirety and substituted with the following:

"Prepayments from Proceeds of the sale of InterAct International and any other Non-Strategic Asset. Immediately upon receipt by Borrowers of the Net Proceeds of the sale of each of, the stock or assets of InterAct International (and any Subsidiary thereof) and any other Non-Strategic Asset, such Net Proceeds shall be applied (i) to prepay the outstanding Revolving Loan to the extent of the amount of Borrowing Base availability generated from the sale of such assets (with a corresponding permanent reduction in the Revolving Loan Commitment by an equal amount), (ii) to prepay the outstanding Revolving Loan and to permanently reduce the Permitted Overadvance (with a corresponding permanent reduction in the Revolving Loan Commitment by an equal amount), and (iii) in the order set forth under subsection 2.4(B)(2). To the extent there is any additional amount (the "Surplus"), following application by the Borrowers of the proceeds from the sale of each of, the stock or assets of InterAct International (and any Subsidiary thereof) and any other Non-Strategic Asset in the order set forth under items (i) and (ii) in the immediately preceding sentence and so long as there is no Default or Event of Default, an amount equal to 85% of the Surplus shall be applied in the order set forth under subsection 2.4(B)(2) and an amount equal to 15% of the Surplus shall be applied in payment of the Revolving Loan without permanently reducing the Revolving Loan Commitment. After the consummation of each asset sale contemplated in this subsection 2.4(B)(6) and after giving effect to the mandatory prepayments hereunder, the Borrowers shall deliver a certificate to the Administrative Agent showing in reasonable detail the Borrowers' compliance with the provisions of this subsection 2.4(B)(6).";

(g) Each of Section A (Consolidated Tangible Net Worth), Section B (Minimum EBITDA), Section D (Fixed Charges Coverage) and Section E (Minimum InterAct EBITDA) of the Financial Covenants Rider to the Loan Agreement is hereby amended and restated in its entirety as follows:

"A. Consolidated Tangible Net Worth. Recoton and its Subsidiaries shall attain a Consolidated Tangible Net Worth in the amounts set forth below at the end of each quarter of a Fiscal Year set forth below:

Fiscal Quarter Ending -----	Amount -----
December 31, 2000	\$76,500,000
March 31, 2001	\$74,900,000
June 30, 2001	\$73,800,000
September 30, 2001	\$76,100,000
December 31, 2001	\$76,300,000
March 31, 2002	\$71,100,000
June 30, 2002	\$72,100,000
September 30, 2002	\$73,100,000
December 31, 2002	\$52,000,000
March 31, 2003	\$49,000,000
June 30, 2003	\$45,000,000

B. Minimum EBITDA. Recoton and its Subsidiaries, on a consolidated basis, shall attain a minimum EBITDA in the amounts set forth below for each quarter of a Fiscal Year and for any trailing four quarters period ending on the last day of each quarter during the periods set forth below:

Fiscal Quarter Ending -----	Amount for Fiscal Quarter -----	Amount for Trailing Four Quarters -----
--------------------------------	---------------------------------------	---

December 31, 2000	\$21,000,000	\$45,000,000
March 31, 2001	\$ 3,500,000	\$41,500,000
June 30, 2001	\$ 6,000,000	\$40,500,000
September 30, 2001	\$12,250,000	\$43,500,000
December 31, 2001	\$10,400,000	\$33,800,000
March 31, 2002	\$ 2,750,000	\$30,050,000
June 30, 2002	\$10,100,000	\$33,875,000
September 30, 2002	\$11,325,000	\$34,600,000
December 31, 2002	\$15,600,000	\$26,400,000
March 31, 2003	\$ 4,500,000	\$28,000,000
June 30, 2003	\$ 2,000,000	\$28,000,000

Notwithstanding anything to the contrary contained herein, if the actual result for an individual Fiscal Quarter ending March 31, June 30, or September 30 does not meet the required minimum for such Fiscal Quarter but the Fiscal Year-To-Date EBITDA results as of the Fiscal Quarter then ended meets or exceeds the required minimum EBITDA for the Fiscal Year-To-Date including that same period, as outlined above, the Borrowers will remain in compliance with respect to the column headed "Amount For Fiscal Quarter". Under no circumstance, however, shall Recoton and its Subsidiaries, on a consolidated basis, fail to attain a minimum EBITDA of \$21,000,000 for Fiscal Quarter ending December 31, 2000, \$10,400,000 for Fiscal Quarter ending December 31, 2001 and \$15,600,000 for Fiscal Quarter ending December 31, 2002.

D. Fixed Charges Coverage. Recoton and its Subsidiaries, on a consolidated basis, shall not permit the Fixed Charges Coverage for any period ending on the last day of each quarter during the periods set forth below to be less than the amount set forth below for such periods:

Fiscal Quarter Ending -----	Ratio for Trailing Four Quarter Period -----
December 31, 2000	1.0 to 1.0
March 31, 2001	1.0 to 1.0
June 30, 2001	1.0 to 1.0
September 30, 2001	1.0 to 1.0
December 31, 2001	0.71 to 1.0
March 31, 2002	0.65 to 1.0
June 30, 2002	0.77 to 1.0
September 30, 2002	0.8 to 1.0
December 31, 2002	0.56 to 1.0
March 31, 2003	0.60 to 1.0
June 30, 2003	0.74 to 1.0

E. Minimum InterAct EBITDA. InterAct International and its Subsidiaries on a consolidated basis, shall attain at all times a minimum InterAct EBITDA in the amounts set forth below for each period ending on the date set forth below:

Period -----	Amount for Period -----
January 1, 2002 - March 31, 2002	\$ (4,750,000)
January 1, 2002 - June 30, 2002	\$ (2,600,000)
January 1, 2002 - September 30, 2002	\$ (100,000)";

(h) Section 7.3(A) of the Loan Agreement is hereby amended and restated in its entirety as follows:

"Transfers. Sell, assign (by operation of law or otherwise) or otherwise dispose of, or grant any option with respect to, any of the Collateral or the assets of such Person, except that Borrowers and their Subsidiaries may (i) sell or otherwise dispose of Inventory in the ordinary course of business; (ii) sell, transfer or discount without recourse, in the ordinary course of business, accounts receivables arising in the ordinary course of business in connection with the compromise or collection thereof or in connection with the receipt of proceeds under credit insurance; provided, that such proceeds are applied to prepay the Revolving Loans; (iii) sell or otherwise dispose of worn out, obsolete or surplus equipment and fixtures so long as the Net Proceeds are applied to the prepayment of the Obligations as provided in subsection 2.4(B); (iv) subject to the provisions of the Collateral Documents, transfer, sell or assign Collateral or other assets to another Loan Party (including in connection with the dissolution, liquidation or winding up of any Subsidiary set forth on Schedule 7.6); (v) make other Asset Dispositions if all of the following conditions are met: (1) the market value of assets sold or otherwise disposed of in one or a series of related transactions does not exceed \$250,000 and the aggregate market value of assets sold or otherwise disposed of in any Fiscal Year does not exceed \$1,000,000; (2) the consideration received is at least equal to the fair market value of such assets; (3) the sole consideration received is cash; provided, that trade-ins for which the cash value of such trade-in is applied against the purchase price of new equipment so purchased shall be deemed to be cash; (4) the Net Proceeds of such Asset Disposition are applied as required by subsection 2.4(B); (5) after giving effect to the sale or other disposition of the assets included within the Asset Disposition and the repayment of the Obligations with the proceeds thereof, each Borrower is in compliance on a pro forma basis with the covenants set forth in the Financial Covenant Rider recomputed for the most recently ended month for which information is available and showing it will be in compliance as of the date thereof and in the future, and is in compliance with all other terms and conditions contained in this Agreement; and (6) no Default or Event of Default shall then exist or result from such sale or other disposition; and (vi) subject to the provisions of subsection 7.6, consummate the sale of each of, the stock or assets of InterAct International (and any Subsidiary thereof) and any other Non-Strategic Asset, provided that (i) the sale price for each such sale is acceptable to the Requisite Lenders, and (ii) the Net Proceeds of each such sale shall be applied in accordance with subsection 2.4(B)(6). Notwithstanding anything to the contrary contained herein (x) Recoton shall be permitted to sell its stock (provided that the proceeds thereof shall be applied to the Revolving Loan without reducing the Revolving Loan Commitment) and grant options in accordance with its existing stock option plans and warrants in its reasonable business judgment, (y) InterAct International stock may be issued upon exercise of options previously issued to employees and directors of InterAct International as described in Schedule 11.1(C), and (z) subject to the provisions of the Security Documents any Subsidiary can sell stock to its parent to the extent permitted by 7.4(c), (g), (h) and (i).";

(i) Section 7.6 of the Loan Agreement is hereby amended and restated in its entirety as follows:

"Restriction on Fundamental Changes. (a) Enter into any transaction of merger, amalgamation or consolidation (other than a merger, amalgamation or consolidation among Loan Parties); (b) other than the Subsidiaries set forth in Schedule 7.6, liquidate, wind-up or dissolve itself (or suffer any liquidation or dissolution); (c) convey, sell, lease, sublease, transfer or otherwise dispose of, in one transaction or a series of transactions, all or any substantial part of its business or assets (other than the sale of each of, the assets of InterAct International and any of its Subsidiaries and any other Non-Strategic Asset), or the capital stock or other equity interest of any of its Subsidiaries (other than the capital stock of InterAct International and any of its

Subsidiaries and the capital stock of any entity constituting a Non-Strategic Asset, if any), whether now owned or hereafter acquired other than pursuant to the establishment of Subsidiaries as described in Schedule 7.11 or the liquidation, winding up or dissolution of the Subsidiaries set forth on Schedule 7.6 (provided that, in connection with the transfer of assets or creation of Subsidiaries in connection with the transactions described on Schedule 7.11, Agents shall have received (a) such amendments and counterparts to the Security Documents, Guaranties and the other Loan Documents as may be requested by Agents to bind newly created Subsidiaries or existing Subsidiaries to the terms of this Agreement and the Related Agreements and the other applicable Loan Documents, (b) copies of organizational documents, resolutions and incumbency certificates of any Persons executing any of the foregoing amendments or counterparts, and such other documents and instruments in connection therewith as may be reasonably requested by Senior Agent, and (c) a favorable opinion of counsel to Loan Parties as to due authorization, execution, and delivery of such amendments or counterparts, the enforceability thereof and such other matters as may be reasonably requested by Agents (including as to the creation and perfection of Liens pursuant to the Security Documents), all of the foregoing in form and substance reasonably satisfactory to Agents); or (d) acquire by purchase or otherwise all or any substantial part of the business or assets of, or stock or other beneficial ownership of, any Person; provided, however, that any Subsidiary may be merged, amalgamated or consolidated with or into a Borrower (provided that such Borrower shall be the continuing or surviving corporation) or with or into any one or more wholly owned Subsidiaries of the Borrowers that are Guarantors (provided that the wholly owned Subsidiary or Subsidiaries that are Guarantors shall be the continuing or surviving corporations). It is understood and agreed that the sale of each of, the stock or assets of InterAct International (and any Subsidiary thereof) and any other Non-Strategic Asset shall be permitted if the following conditions are met:

(i) the Net Proceeds of the sale of each of, the stock or assets of InterAct International (and any of its Subsidiaries) and any other Non-Strategic Asset shall be applied in payment of the Loans pursuant to and, to the extent required by and in accordance with subsection 2.4(B)(6);

(ii) Borrowers shall deliver to the Administrative Agent a certificate showing in reasonable detail compliance with the provisions of subsection 2.4(B)(6) after the sale of each of, the stock or assets of InterAct International (and any of its Subsidiaries) and any other Non-Strategic Asset and immediately after giving effect to the mandatory prepayments under subsection 2.4(B)(6) with respect to each such asset sale; and

(iii) upon the indefeasible payment in full in cash of the Obligations in accordance with subsection 2.4(B)(6), each of InterAct International (and any of its Subsidiaries, as applicable) and the entity or entities constituting a Non-Strategic Asset, if any, will no longer be a Loan Party and the Collateral with respect to each of InterAct International (and any if its Subsidiaries, as applicable) and any such entity or entities shall be released.";

(j) Section 8.1(F)(iii) of the Loan Agreement is hereby amended and restated in its entirety as

follows:

"(iii) Recoton ceases to own, directly or indirectly, 100% of the other Borrowers (other than a Borrower being an entity constituting a Non-Strategic Asset, if any), Recone or the Canadian Subsidiaries other than with respect to options to acquire InterAct International stock";

(k) Section 8.1 of the Loan Agreement is hereby amended by (i) deleting the period at the end of paragraph (Z) thereof and substituting therefor a semi-colon and (ii) inserting the following at the end of such section:

"(AA) Financial Committee. Effective as of August 19, 2002, there occurs, for any reason, any alteration of the composition, or reduction of the responsibilities, of the Financial Committee of Recoton's Board by action of the Board, undertaken without the prior written approval of the Administrative Agent.";

(l) The last sentence of Section 9.1(H)(1) of the Loan Agreement is hereby amended and restated in its entirety as follows:

"The Lenders hereby authorize Senior Agent to release any Collateral owned by each of InterAct International (and any of its Subsidiaries) and any other entity or entities or asset constituting a Non-Strategic Asset, if any, for purposes of the consummation of the sale of each of, the stock or assets of InterAct International (and any Subsidiary thereof) and any such asset or entity or entities, respectively, in accordance with the terms and conditions under this Agreement.";

(m) The following definitions are hereby inserted in Section 11.1 of the Loan Agreement in their appropriate alphabetical order:

""Dilution Percentage" means with respect to any period, the percentage resulting from dividing such period's credits against Eligible Accounts by the sum of such period's cash collections and credits of Eligible Accounts."

""Dilution Reserve" means the Dilution Percentage in excess of 10% multiplied by Eligible Accounts."

""Financial Committee" means, effective as of August 19, 2002, that certain financial committee of Recoton's Board of Directors (the "Board"), consisting of no less than three (3) of the directors of Recoton's Board and comprised only of the then Independent Directors of Recoton's Board and/or of Independent Directors subsequently elected by Recoton's shareholders, which Financial Committee shall be established for the purpose of making all decisions of the Board (to the extent allowed by applicable law) in respect of Recoton's activities (including, without limitation, the independent financial advisor to the Borrowers) with regard to financial matters generally, including, without limitation, activities in relation to (i) any asset sale outside the ordinary course of business, (ii) revisions of cash management procedures and reporting; (iii) the 2002-2003 business plan, (iv) evaluation of appropriate corporate overhead levels, (v) the communication process with the Lenders and the Subordinated Creditors, (vi) refinancing efforts and (vii) the Inventory reduction program, but excluding matters traditionally within the purview of a public company's audit committee and compensation and stock option committees."

""Independent Director" means any individual serving as a member in Recoton's Board of Directors who is not otherwise an employee or an officer of Recoton. As of August 19, 2002 the Independent Directors are: Jerry Kalov, Ann R. Levin, Paul Feffer, Irwin Friedman and Joseph Idy."

""Non-Strategic Asset" means any business of Recoton other than Audio, or any of its Subsidiaries, and Recoton Accessories."

""Permitted Overadvance" means an overadvance of an amount equal to \$13,500,000 which shall be permanently reduced, on a weekly basis, by an amount equal to (i) \$250,000 beginning on August 26, 2002 and on each Monday thereafter up to and including September 30, 2002, and (ii) \$500,000 beginning on October 1, 2002 and on each Monday thereafter until such date when such overadvance is permanently reduced to \$0 which shall be no later than January 31, 2003.";

(n) Each of the definitions of "InterAct International IPO" and "Interim Inventory Reserves" included in Section 11.1 of the Loan Agreement is hereby deleted in its entirety;

(o) Each of the following definitions included in Section 11.1 of the Loan Agreement is hereby amended and restated in its entirety as follows:

""Consolidated Tangible Net Worth" means as of any date of determination, the excess, if any, of Consolidated Net Worth less Consolidated Intangibles as at such date subtracting the net write-up or adding back the net write-down since June 30, 2000 in the book value of assets resulting from the revaluations arising out of foreign currency valuations in accordance with GAAP, but excluding from the above calculation any capital gains or capital losses resulting from the sale of any Non-Strategic Assets for the period beginning on August 19, 2002 and ending on June 30, 2003."

""EBITDA" means, for any period, without duplication, the total of the following for Borrowers and their Subsidiaries on a consolidated basis, each calculated for such period: (1) net income determined in accordance with GAAP; plus, to the extent included in the calculation of net income, (2) the sum of (a) income and franchise taxes paid or accrued; (b) interest expenses, net of interest income, paid or accrued; (c) amortization and depreciation; (d) other non-cash charges (excluding accruals for cash expenses made in the ordinary course of business) and (e) the yield maintenance fee resulting from the repayment of indebtedness on the Closing Date; less, to the extent included in the calculation of net income, (3) the sum of (a) the income of any Person (other than majority-owned Subsidiaries of Borrowers) in which Borrowers or a majority-owned Subsidiary of Borrowers has an ownership interest except to the extent such income is received by Borrowers or such majority-owned Subsidiary in a cash distribution during such period; (b) gains or losses from sales or other dispositions of assets (other than Inventory in the normal course of business and other than any Non-Strategic Assets for the period beginning on August 19, 2002 and ending on June 30, 2003); and (c) extraordinary or non-recurring gains, but not net of extraordinary or non-recurring "cash" losses."

""Required Minimum Excess Availability" means, for any period after July 31, 2002, an amount equal to \$6,000,000."

""Requisite Lenders" means Lenders (other than a Defaulting Lender) holding or being responsible for 66.66% or more of the sum of (a) outstanding Loans, (b) outstanding Letter of Credit Liability and (c) unutilized Commitments of all Lenders which are not Defaulting Lenders. It is understood that for purposes of this definition the Term Loan C Lenders shall not be deemed to be "Lenders" except solely with respect to matters set forth in subsection 9.4(A).";

(p) Schedule 4.1(A) of the Loan Agreement is hereby revised to read as set forth in Schedule I attached hereto;



(q) Schedule 4.5 of the Loan Agreement is hereby revised to read as set forth in Schedule II attached hereto; and

(r) Schedule 7.4(e) of the Loan Agreement is hereby revised to read as set forth in Schedule III attached hereto.

Section 3. Budget and Other Reports. (a) By September 9, 2002, the Administrative Borrower shall have delivered to the Administrative Agent a cash flow budget through November 30, 2002, detailing projected sales, collections and disbursements, itemized by categories mutually agreed upon by the Borrowers and the Administrative Agent, in a form acceptable to the Administrative Agent (the "Rolling Cash Flow Budget"). No later than the first Business Day of each succeeding calendar month, the Rolling Cash Flow Budget shall be rolled forward for one additional month. Notwithstanding any provision of the Loan Agreement or any other Loan Document otherwise, the Borrowers shall not make any disbursements or payments during any week except pursuant to such week's portion of the Rolling Cash Flow Budget, as approved by the Administrative Agent (the "Approved Cash Flow Budget"), provided that: (i) each week's portion of the Rolling Cash Flow Budget shall be deemed an Approved Cash Flow Budget for such week, unless and until such time as the Administrative Agent gives the Borrowers written or electronic notice that such budget is not approved; and (ii) disbursements shall be deemed to be made pursuant to the Approved Cash Flow Budget to the extent that the aggregate disbursements for all line items do not exceed the amounts budgeted by more than 10% on a weekly basis; provided, however, that to the extent aggregate disbursements in the weeks prior to any week have been less than 110% of the amount budgeted in any week, such undisbursed amounts shall be carried over and may be disbursed in weeks subsequent to such week, in addition to amounts disburseable pursuant to any Approved Cash Flow Budget for such subsequent week. On a cumulative basis, during any period from the week ending on September 16, 2002, the Borrowers' cash collections shall not be less than 95% of the cash collections projected on the consolidated cash flow projection in the Rolling Cash Flow Budget.

(b) Notwithstanding any provision of the Loan Agreement or any other Loan Document otherwise, effective as of September 9, 2002, the Borrowers shall provide the following reports to the Administrative Agent:

(i) a daily report with respect to the Borrowing Base in form reasonably acceptable to the Administrative Agent;

(ii) no later than 8:00 a.m. (central standard time) each Wednesday, the Borrowers shall provide to the Administrative Agent a comparison of the immediately preceding week's Rolling Cash Flow Budget to actual performance, together with a narrative summary explaining any material variances therefrom (both positive and negative);

(iii) no later than 8:00 a.m. (central standard time) every second Wednesday, beginning on September 11, 2002, the Borrowers shall provide to the Administrative Agent: (A) accounts payable aging or other available reports in a form reasonably acceptable to the Administrative Agent; (B) accounts receivable aging or other available reports in a form reasonably acceptable to the Administrative Agent; and (C) a list of any vendors which have placed the Borrowers on cash-in-advance ("CIA") or cash-on-delivery ("COD") terms and a list of any collection actions or other litigation commenced against any of the Borrowers;

(iv) no later than 3:00 p.m. (central standard time) each Monday, the Borrowers shall provide the Administrative Agent with a certification by both the Borrowers' chief financial officer and the Financial Advisor (as defined herein) that total disbursements and total receipts in the prior week were in compliance with the budgeting procedures described in Section 3(a) herein.

#### Section 4. Certain Covenants and Agreements of the Borrowers.

(a) The Borrowers shall at all times have engaged an independent financial advisor, reasonably satisfactory to the Lenders (the "Financial Advisor").

(b) The Financial Committee shall have been established by August 19, 2002 and shall be maintained at all times thereafter. Moreover, at all times each of Recoton's audit committee and compensation and stock option committee shall consist only of directors who are either Independent Directors of Recoton's Board as of the date hereof or Independent Directors subsequently elected by Recoton's shareholders.

(c) At the Administrative Agent's request, the Borrowers shall pay the reasonable fees and expenses in connection with the engagement of Richter Consulting, Inc. (the "Consultant") as financial advisor to, and selected by, the Lenders with respect to ongoing monitoring of the Borrowers and their operations; and, in connection therewith, the Consultant shall be provided promptly (i) access to the books and records of the Borrowers and management of the Borrowers and (ii) such other information as the Consultant may request.

(d) The Borrowers shall cooperate with the Administrative Agent, the Collateral Agent and their agents and the Consultant, in connection with the financing arrangement extended pursuant to the Loan Agreement. In connection with their obligation to cooperate, the Borrowers shall use their best efforts to furnish the parties described in the previous sentence with such relevant information as they may reasonably request.

(e) No later than September 9, 2002, the Borrowers shall deliver to the Administrative Agent a copy of the business plan, in form, detail and substance acceptable to the Administrative Agent (the "Business Plan"), for the Borrowers and their Subsidiaries for the calendar years 2002 and 2003 which Business Plan contemplates in reasonable detail, among other things, the prompt sale of the stock or assets of InterAct International and certain other Non-Strategic Assets.

(f) In furtherance of the Business Plan, the Administrative Borrower shall deliver to the Administrative Agent with a copy to each Lender (i) an offering memorandum marketing the sale of InterAct International on or before August 30, 2002, (ii) an executed letter of intent with respect to the sale of InterAct International, in form and substance reasonably acceptable to the Requisite Lenders, on or before September 30, 2002, and (iii) an executed definitive agreement with respect to the sale of InterAct International, in form and substance reasonably acceptable to the Requisite Lenders, on or before October 30, 2002. The Borrowers shall consummate the sale of InterAct International on or before November 30, 2002, or shall otherwise effectuate a reduction of the Commitments by an amount equal to \$40,000,000.

(g) Recoton in cooperation with the Financial Advisor shall deliver to the Administrative Agent and the Consultant, with a copy to each Lender, a monthly report reflecting in reasonable detail, satisfactory to the Administrative Agent, Recoton's efforts to effectuate the sale of certain Non-Strategic Assets. Immediately upon the consummation of each such sale Recoton shall apply all the Net Proceeds of each such sale in accordance with the provisions of, and in the order set forth in, Section 2.4(B)(6) of the Loan Agreement; provided, however, that by no later than December 31, 2002, Recoton shall effectuate a reduction of the Commitments by an amount not less than \$70,000,000 inclusive of all the Net Proceeds of the sales of Non-Strategic Assets applied pursuant to the provisions of Section 2.4(B)(6) of the Loan Agreement and resulting in a permanent reduction of the Commitments and also inclusive of any reduction of the Commitments actually effectuated pursuant to the provisions of Section 4(f) hereof, but exclusive of, and in addition to, any other reductions of the Commitments required by the terms of the Loan Agreement as amended hereby.

(h) Notwithstanding any provision of the Loan Agreement otherwise, effective as of the Effective Date (as defined herein), the Borrowers agree that (i) each LIBOR Loan shall automatically convert to a Base Rate Loan at the end of any applicable Interest Period and (ii) no Loans may be converted to LIBOR Loans.

(i) Notwithstanding any provision included in Section B of the Reporting Rider to the Loan Agreement to the contrary, the Administrative Borrower shall deliver to the Administrative Agent, not later than January 31, 2003, preliminary financial statements for purposes of enabling the Administrative Agent to determine

compliance by the Borrowers and their Subsidiaries with the financial covenants included in the Financial Covenants Rider to the Loan Agreement for the fourth calendar quarter of Fiscal Year 2002.

(j) If the Administrative Agent, within a 30-day period following the Effective Date, so requires (such 30-day period can be extended by the Administrative Agent in its sole discretion), the Loan Parties shall pledge 100% of the capital stock or equity interests of any or all of their direct Foreign Subsidiaries and shall deliver to the Administrative Agent, no later than 35 days following receipt by the Loan Parties of the relevant request by the Administrative Agent, definitive documentation evidencing such pledges in form and substance satisfactory to the Administrative Agent.

The provisions of this section are in addition to and shall not operate to modify or waive any right or obligation under the Loan Agreement or the other Loan Documents.

Section 5. Representations and Warranties. The Loan Parties hereby represent and warrant to each Agent and each Lender that after giving effect to this Agreement:

(a) no Default or Event of Default (other than the Existing Defaults and the Expected Defaults that are the subject of this Agreement) has occurred and is continuing on and as of the date hereof;

(b) the representations and warranties of the Loan Parties and the other Loan Parties contained in the Loan Agreement and the other Loan Documents (other than to the extent of the Existing Defaults and the Expected Defaults only, any representation and warranty that no Default or Event of Default exists or shall exist as of September 30, 2002, respectively) are true and correct on and as of the date hereof as if made on and as of the date hereof, except to the extent such representations and warranties expressly relate to a different date; and

(c) the execution and delivery by the Loan Parties of this Agreement and the performance by the Loan Parties of all of their respective agreements and obligations under this Agreement and the Loan Agreement as amended hereby, respectively, are within the power and authority of the Loan Parties and have been duly authorized by all necessary action on the part of the Loan Parties, and that the execution and delivery by the Loan Parties, of this Agreement and the performance by each of the transactions contemplated hereby will not contravene any term or condition set forth in any material agreement or instrument to which each is a party or by which each is bound.

Section 6. Effectiveness and Conditions Precedent. This Agreement shall become effective as of August 19, 2002 (the "Effective Date"), upon the satisfaction of all of the following conditions precedent:

(a) (i) the Lenders shall have executed and delivered a counterpart of this Agreement and received duly executed counterparts of this Agreement from the Borrowers and Guarantors (which aforesaid executions and deliveries may be effected by delivery and receipt by facsimile transmission) and (ii) the Borrowers shall have performed all covenants and agreements required to have been performed as of the Effective Date;

(b) the Administrative Borrower shall have paid (and the Administrative Borrower hereby covenants and agrees to pay, subject to and simultaneously with the effectiveness of the applicable provisions of this Agreement) to the Senior Agent and Administrative Agent, for the respective accounts of the Lenders, on a pro rata basis, a non-refundable waiver fee (the "Waiver Fee") in immediately available funds, which shall be equal to 1% (one percent) of the sum of the outstanding Term Loans (other than the Term Loan C) and the Revolving Loan Commitment, or \$1,933,750. The Waiver Fee shall have been earned in full as of the Effective Date and shall be paid as follows: (i) 25% (twenty-five percent) of the aggregate amount of the Waiver Fee shall be paid upon the execution of this Agreement; (ii) 25% (twenty-five percent) of the aggregate amount of the Waiver Fee shall be paid on September 30, 2002; (iii) 25% (twenty-five percent) of the aggregate amount of the Waiver Fee shall be paid on October 31, 2002 and (iv) 25% (twenty-five percent) of the aggregate amount of the Waiver Fee shall be paid on November 30, 2002. In addition, the Borrowers shall have paid any and all fees that may have been incurred and

deferred under the Waiver, Consent and Amendment No. 5 to the Loan Agreement, dated as of March 29, 2002, among the Borrowers, the Guarantors, certain Lenders and the Administrative Agent;

(c) receipt by the Agents of (i) copies of resolutions of any Person executing this Agreement and (ii) signature and incumbency certificates of the officers of the Loan Parties;

(d) receipt by the Agents of a favorable opinion of counsel to Loan Parties as to due authorization, execution, and delivery of this Agreement, the enforceability thereof and such other matters as may be reasonably requested by Agents;

(e) the Borrowers and/or Recoton, as applicable, and all the holders of the Subordinated Debt shall have entered into agreements reasonably satisfactory to the Administrative Agent providing for the deferral of any and all cash payments with respect to the Subordinated Debt until after January 31, 2003;

(f) the Administrative Agent shall have received payment in full of all accrued and unpaid interest due under the Loan Agreement and all fees and expenses due to the Administrative Agent and the Lenders (including the reasonable fees and expenses of its legal counsel) under the Loan Agreement and in connection with this Agreement; and

(g) all proceedings in connection with the transactions contemplated by this Agreement and all other documents incident thereto shall be reasonably satisfactory in substance and in form to the Agents, and the Agents shall have received all such material information and all such counterpart originals or certified or other copies of such documents as the Agents may reasonably request.

#### Section 7. Status of Loan Documents; Additional Representations and Warranties.

(a) This Agreement is limited solely for the purposes and to the extent expressly set forth herein, and, except as expressly provided hereby, (i) the terms, provisions and conditions of the Loan Documents and (ii) the Liens granted under the Loan Documents shall continue in full force and effect and are hereby ratified and confirmed in all respects.

(b) No waiver or amendment of any terms or provisions of the Loan Agreement made hereunder shall relieve the Loan Parties from complying with any other term or provision of the Loan Agreement or any other Loan Document.

(c) No action taken by any Lender, the Administrative Agent or the Collateral Agent prior to, on or after the date hereof shall constitute a waiver of or modification of any term or condition of any of the Loan Documents, except as specifically set forth herein, or prejudice any rights which the Administrative Agent, the Collateral Agent or any of the Lenders may now have as of the date hereof or may have in the future under or in connection with the Loan Documents, including without limitation all rights and remedies in connection with Defaults, Events of Default and failures of conditions precedent to the making of Loans and the issuance of Lender Letters of Credit that have occurred and are continuing, all of which rights and remedies each Lender, the Administrative Agent and the Collateral Agent hereby expressly reserve.

(d) The Loan Parties represent and warrant to each of the other parties hereto that except as heretofore disclosed in writing by the Loan Parties to the Lenders, as of the date hereof, there is no pending or, to the knowledge of the Loan Parties, threatened action, suit, proceeding, governmental investigation or arbitration against or affecting any of the Loan Parties or any property of any of the Loan Parties that is likely to have a Material Adverse Effect.

#### Section 8. Miscellaneous.

(a) No Waiver, Cumulative Remedies. No failure or delay or course of dealing on the part of any Agent or any Lender in exercising any right, power or privilege hereunder shall operate as an express or implied waiver thereof, nor shall any single or partial exercise of any such right, power or privilege preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder. The rights, powers and remedies herein expressly provided are cumulative and not exclusive of any rights, powers or remedies which the Lenders would otherwise have. No notice to or demand on the Borrowers or Guarantors in any case shall entitle the Borrowers or Guarantors to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of the Lenders to any other or further action in any circumstances without notice or demand.

(b) Ratification, Etc. Except as expressly provided for herein, the Loan Agreement and all documents, instruments and agreements related thereto, including but not limited to, the Security Documents, are hereby ratified and confirmed in all respects and shall continue in full force and effect. The Loan Agreement and this Agreement shall be read and construed as a single agreement. This Agreement shall constitute one of the Loan Documents and the obligations of the Borrowers and Guarantors under this Agreement shall constitute Obligations for all purposes of the Loan Documents. All references in the Loan Agreement, the Loan Documents or any related agreement or instrument to the Loan Agreement shall hereafter refer to the Loan Agreement as amended hereby.

(c) Expenses. The Borrowers agree to pay and reimburse the Administrative Agent and Lenders for all of their costs and expenses (including, without limitation, costs and expenses of legal counsel) in connection with this Agreement.

(d) Bankruptcy; Insolvency. The Borrowers represent and warrant that, on and as of the date hereof, no proceeding has been filed or commenced by or against the Borrowers for dissolution or liquidation, or by or against the Borrowers voluntarily or involuntarily terminating or dissolving or being terminated or dissolved; nor does there exist insolvency of the Borrowers, nor do the Borrowers fail to pay their debts as they become due in the ordinary course of business (other than in relation to this Agreement or any other Loan Document or with respect to the interest due on the Subordinated Debt); nor has a creditor's committee been appointed for the business of the Borrowers; nor have the Borrowers made an assignment for the benefit of creditors, or filed a petition in bankruptcy or for reorganization or to effect a plan of arrangement with creditors; nor have the Borrowers applied for or permitted the appointment of a receiver or trustee for any or all of their property, assets or rights; nor are the Borrowers aware of any such receiver or trustee being appointed for any or all of their property, assets or rights; nor has any of the above actions or proceedings whatsoever been commenced by or against any other party liable for the Obligations.

(e) Releases. As of the Effective Date, the Borrowers shall be deemed to have released each of the Agents and the Lenders party hereto and their respective officers, directors, employees, agents, attorneys and advisors, from any and all claims, debts, obligations, rights, suits, damages, actions, causes of action, remedies, and liabilities of every kind and nature arising from or in any way related to the negotiation, execution, delivery and performance of this Agreement or the transactions contemplated hereby.

(f) Headings Descriptive. The headings of the several Sections and subsections of this Agreement are inserted for convenience only and shall not in any way affect the meaning or construction of any provision.

(g) Severability. In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

(h) Counterparts. This Agreement may be executed and delivered in any number of counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. A complete set of counterparts shall be lodged with each of Recoton and the Administrative Agent.

Section 9. Governing Law. THIS AGREEMENT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

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

RECOTON CORPORATION

By: /s/ Arnold Kezsbom  
Name: Arnold Kezsbom  
Title: Executive Vice President - Finance

BORROWERS:

INTERACT ACCESSORIES, INC.  
RECOTON AUDIO CORPORATION  
AAMP OF FLORIDA, INC.  
RECOTON HOME AUDIO, INC.  
RECOTON ACCESSORIES, INC.  
RECOTON MOBILE ELECTRONICS, INC.

By: /s/ Arnold Kezsbom  
Name: Arnold Kezsbom  
Title: Vice President

GUARANTORS:

CHRISTIE DESIGN CORPORATION  
RECOTON INTERNATIONAL HOLDINGS, INC.  
RECOTON JAPAN, INC.  
RECON, INC.  
RECOTON CANADA LTD.  
INTERACT CANADA, LTD.  
INTERACT INTERNATIONAL, INC.  
INTERACT HOLDINGS, INC.  
INTERACT TECHNOLOGIES, INC.

By: /s/ Arnold Kezsbom  
Name: Arnold Kezsbom  
Title: Vice President

LENDERS:

HELLER FINANCIAL, INC.,  
individually and as Senior Agent and  
Administrative Agent

By: \_\_\_\_\_

Name: Hugh E. Wilder  
Title: Senior Vice President

GENERAL ELECTRIC CAPITAL  
CORPORATION, individually and as Collateral  
Agent and Syndication Agent

By: /s/ Hugh E. Wilder  
Name: Hugh E. Wilder  
Title: Authorized Signatory

BANK OF AMERICA

By: /s/ John P. Holloway  
Name: John P. Holloway  
Title: Senior Vice President

THE CIT GROUP / BUSINESS CREDIT, INC.

By: /s/ Vincent Belcastro  
Name: Vincent Belcastro  
Title: Vice President

GUARANTY BUSINESS CREDIT  
CORPORATION

By: /s/ Michael Haddad  
Name: Michael Haddad  
Title: President and CEO

FOOTHILL CAPITAL

By: /s/ Robert J. Cambora  
Name: Robert J. Cambora  
Title: Senior Vice President

CITIZENS BUSINESS CREDIT

By: /s/ Cyril A. Prince  
Name: Cyril A. Prince  
Title: Vice President

FIRSTAR BANK

By: /s/ Tom Fischer  
Name: Tom Fischer  
Title: Vice President

WASHINGTON MUTUAL BANK

By: /s/ Terri K. Lins  
Name: Terri K. Lins  
Title: Vice President

SIEMENS FINANCIAL SERVICES, INC.

By: /s/ Frank Amodio  
Name: Frank Amodio  
Title: Vice President - Credit

GMAC BUSINESS CREDIT LLC

By: /s/ Ken Horwath  
Name: Ken Horwath  
Title: Assistant Vice President

U.S. BANK BUSINESS CREDIT

By: /s/ Suzanne Geiger  
Name: Suzanne Geiger  
Title: Senior Vice President

**Schedule I**

## **Schedule 4.1(A)**

### **Capitalization**

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#### **1. Recoton Corporation**

- a) Authorized Shares: 40,000,000 Common Stock at \$0.20 par value; 10,000,000 Preferred Stock
- b) Issued Shares: 13,568,296 (as of 8/6/02)
- c) Treasury Shares: 1,272,532 (as of 8/6/02)



d) Jurisdiction of Incorporation: New York

**2. Recoton Accessories, Inc.**

a) Authorized Shares: 3,000 at \$0.01 par value

b) Issued Shares (Shareholder): 10 (Recoton Corporation)

c) Treasury Shares: None

d) Jurisdiction of Incorporation: Delaware

**3. Christie Design Corporation**

a) Authorized Shares: 3,000 at \$0.01 par value

b) Issued Shares (Shareholder): 10 (Recoton Corporation)

c) Treasury Shares: None

d) Jurisdiction of Incorporation: Delaware

**4. AAMP of Florida Inc., d/b/a AAMP of America, Inc.**

a) Authorized Shares: 200 at \$1.00 par value

b) Issued Shares (Shareholder): 10 (Recoton Corporation)

c) Treasury Shares: None

d) Jurisdiction of Incorporation: Florida

**5. Recoton Audio Corporation**

a) Authorized Shares: 3,000 at \$0.01 par value

b) Issued Shares (Shareholder): 10 (Recoton Corporation)

c) Treasury Shares: None

d) Jurisdiction of Incorporation: Delaware

e) Subsidiaries:

**i) Recoton Mobile Electronics, Inc.**

a) Authorized Shares: 3,000 n.p.v.

b) Issued Shares (Shareholder): 10 (Recoton Audio Corporation)

c) Treasury Shares: None

d) Jurisdiction of Incorporation: Delaware

**ii) Recoton Home Audio, Inc.**

a) Authorized Shares: 1,000 at no par value

b) Issued Shares (Shareholder): 100 (Recoton Audio Corporation)

c) Treasury Shares: None

d) Jurisdiction of Incorporation: California

**iii) ReCone, Inc.**

a) Authorized Shares: 40,000 at \$1.00 par value

b) Issued Shares (Shareholder): 20,000 Series A (Recoton Audio Corporation)

c) Treasury Shares: None

d) Jurisdiction of Incorporation: Delaware

**6. Recoton International Holdings, Inc.**

a) Authorized Shares: 3,000

b) Issued Shares (Shareholder): 1,000 (Recoton Corporation)

c) Treasury Shares: None

d) Jurisdiction of Incorporation: Delaware

e) Subsidiaries:

**i) Recoton Japan, Inc.**

a) Authorized Shares: 1,000

b) Issued Shares (Shareholder): 100 (Recoton International Holdings, Inc.)

c) Treasury Shares: None

d) Jurisdiction of Incorporation: Illinois

**ii) Recoton German Holdings GmbH**

a) Authorized Shares:

b) Issued Shares (Shareholder): 200,000 DM divided into two share interests of 50,000 DM and 150,000 DM (Recoton International Holdings, Inc.)

- c) Treasury Shares: NA
- d) Jurisdiction of Incorporation: Germany
- e) Subsidiaries:

**(1) Magnat Audio-Produkte GmbH**

- a) Authorized Shares:
- b) Issued Shares (Shareholder): 50,000 DM (Recoton German Holdings GmbH)
- c) Treasury Shares: NA
- d) Jurisdiction of Incorporation: Germany

**(2) Mac Audio Electronic GmbH**

- a) Partners (Percentage Interest): Magnat Audio-Produkte GmbH (99.569%) and HECO Audio Produkte GmbH (0.431%)
- b) Jurisdiction of Formation: Germany

**(3) HECO Audio-Produkte GmbH**

- a) Authorized Shares:
- b) Issued Shares (Shareholder): 50,000 DM (Recoton German Holdings GmbH)
- c) Treasury Shares: NA
- d) Jurisdiction of Incorporation: Germany

**(4) Recoton Audio Produkte GmbH**

- a) Authorized Shares:
- b) Issued Shares (Shareholder): 25,000? (Recoton German Holdings, GmbH)
- c) Treasury Shares: NA
- d) Jurisdiction of Incorporation: Germany

**(iii) Recoton Italia s.r.l.**

- a) Authorized Shares:
- b) Issued Shares (Shareholder): Lt 3,934,813,000 (Recoton International Holdings, Inc.)
- c) Treasury Shares: None

d) Jurisdiction of Incorporation: Italy

## 7. **Recoton (UK) Limited**

a) Authorized shares: 35,570,714 ordinary shares at(pound)0.10 each

b) Issued Shares (Shareholder): 35,569,914 (Recoton Corporation)

c) Treasury Shares: None

d) Jurisdiction of Incorporation: United Kingdom

e) Subsidiaries:

### i) **Ross Consumer Products (H.K.)**

a) Authorized shares:

b) Issued Shares (Shareholder): 1000 (998 in name of Recoton (UK) Limited; 2 in name of nominee)

c) Treasury Shares: None

d) Jurisdiction of Incorporation: Hong Kong

## 8. **Tambalan Limited**

a) Authorized shares: 1,000 ordinary shares at(pound)1.00 each

b) Issued Shares (Shareholder): 2 (Recoton Corporation)

c) Treasury Shares: None

d) Jurisdiction of Incorporation: United Kingdom

## 9. **InterAct International, Inc. ("III"):**

a) Authorized Shares: 51,000,000 at \$0.001 par value

Issued Shares (Stockholder): 45,000,000 (Recoton Corporation) with options to three employees to acquire 4,500,000 shares, exercisable at \$1 per share (subject to standard adjustments), and vesting 40% at grant and 20% in each of 2002, 2003 and 2004, with options on an additional 1,125,000 shares vesting in 2009 with such vesting accelerating to 2005 if certain criteria are met. The optionees would have under certain circumstances the right to put shares acquired upon exercise of such options to Recoton Corporation six months after exercise if III has not consummated a public offering of its stock by December 31, 2003. Such option would expire on the earlier of six months and one day after exercising the options or June 30, 2004. The price which Recoton would pay upon exercise of such put would be the lesser of the fair market value of such shares based on book value at the time of the put or 15% of the cumulative net after-tax profits of the STD/InterAct companies (as defined) for 2001, 2002 and 2003. Recoton has the right to pay

for such shares by issuing Recoton stock. Recoton/III may lend money to the optionees to exercise the options in a cashless transaction.

c) Subsidiaries:

i) **InterAct Holdings, Inc. ("IHI")**

- a) Authorized shares: 3,000 at \$0.01 par value
- b) Issued Shares (Stockholder): 10 (III)
- c) Jurisdiction of Incorporation: Delaware

ii) **InterAct Technologies, Inc. ("ITI")**

- a) Authorized shares: 3,000 at \$0.01 par value
- b) Issued Shares (Stockholder): 10 (III)
- c) Jurisdiction of Incorporation: Delaware

iii) **InterAct Accessories, Inc.,**

- a) Authorized shares: 3,000 at \$0.01 par value
- b) Issued Shares (Stockholder): 10 (IHI)
- c) Jurisdiction of Incorporation: Delaware

iv) **STD Technology Holding, Ltd.**

- a) Authorized capital: 10,000 shares at HK\$1.00 each
- b) Issued Shares (Stockholder): ITI (999 shares) and Stephen Chu (being changed to Recoton (Far East) Ltd.) as nominee for ITI (1 share)
- c) Jurisdiction of Incorporation: Hong Kong

v) **STD Technology (Shenzhen) Limited**

- a) Authorized capital:
- b) Issued Shares (Stockholder): STD Technology Holding, Ltd.
- c) Jurisdiction of Incorporation: People's Republic of China

vi) **InterAct Canada, Inc.**

- a) Authorized capital: unlimited

- b) Issued Shares (Stockholder): 1 (AFLE & Co, as record nominee for Heller Financial, Inc. holding pursuant to pledge by IHI)
- c) Jurisdiction of Incorporation: Ontario

vii) **Recoton (Far East) Limited**

- a) Authorized shares: 1,000 at HK\$10 per share
- b) Issued Shares (Stockholder): IHI (999 shares) and Robert Borchardt as nominee for IHI (1 share) (as of July 2, 2001; previously shares owned by or for the benefit of Recoton Corporation)
- c) Jurisdiction of Incorporation: Hong Kong

viii) **STD Holding Limited**

- a) Authorized capital: HK\$27,733,340 (divided into 7 ordinary shares and 27,733,333 non-voting deferred shares at HK\$1.00 per share)
- b) Issued Shares (Stockholder): RFE and a beneficial holder holding for RFE
- c) Jurisdiction of Incorporation: Hong Kong
- d) Subsidiaries:

**(1) STD Electronic International Limited**

- a) Authorized Shares: 1,750,000 at HK\$1.00 per share
- b) Issued Shares (Shareholder): 1,750,000 (STD Holding Limited owns of record 1,749,999 shares and 1 share is owned by Recoton (Far East) Limited, as nominee for STD Holding Limited)
- c) Treasury Shares: None
- d) Jurisdiction of Incorporation: Hong Kong

**(2) STD Manufacturing Limited**

- a) Authorized Shares: 40,000 at HK\$100.00 per share
- b) Issued Shares (Shareholder): 40,000 (STD Holding Limited owns 39,999 shares and 1 share is owned by Recoton (Far East) Limited, as nominee for STD Holding Limited)
- c) Treasury Shares: None
- d) Jurisdiction of Incorporation: Hong Kong

**(3) Eversmart Management Limited**

- a) Authorized Shares: 10,000 at HK\$1.00 per share
- b) Issued Shares (Shareholder): 2 (STD Holding Limited owns 1 share and 1 share is owned by Recoton (Far East) Limited, as nominee for STD Holding Limited)
- c) Treasury Shares: None
- d) Jurisdiction of Incorporation: Hong Kong

**(4) STD Industrial (Shenzhen) Limited**

- a) Total Investment Amount: US\$7,000,000
- b) Registered Capital: US\$5,000,000
- c) Treasury Shares: NA
- d) Jurisdiction of Incorporation: People's Republic of China

**10. Recoton Canada Ltd.**

- a) Authorized Shares: unrestricted
- b) Issued Shares: 400,440 (AFLE & Co, as record nominee for Heller Financial, Inc. holding pursuant to pledge by Recoton)
- c) Treasury Shares: None
- d) Jurisdiction of Incorporation: Ontario

**11. Recoton (Hong Kong) Limited**

- a) Authorized Shares: 1,000
- b) Issued Shares: 1,000 (999 shares have been issued to Recoton Corporation and one share has been issued to Robert L. Borchardt to hold for the benefit of Recoton Corporation)
- c) Treasury Shares: None
- d) Jurisdiction of Incorporation: Hong Kong

**Schedule II**

**Schedule 4.5**

**Real Estate**

*(after completion of the InterAct Restructuring  
and the Non-InterAct Restructuring)*

Entity -----	Address/City/State/Zip -----	County -----
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Unless otherwise noted, all locations are leased. If an asterisk appears after an address, that indicates that the company is not an official lessee of such space but merely uses space owned by another Recoton company (which allocates a portion of its rental or other costs to the indicated company)

Recoton Corporation	2950 Lake Emma Road Lake Mary, FL 32746 (owned)	Seminole
	1090 Emma Oaks Trail Lake Mary, FL 32746 (owned)	Seminole
	451 Hampton Crest #303B Heathrow, FL 32746 (condo - owned)	Seminole
	451 Hampton Crest #305B Heathrow, FL 32746 (condo - owned)	Seminole
	451 Hampton Crest, # 307B Heathrow, FL 32746 (condo - rented)	Seminole
	459 Hampton Crest #305C Heathrow, FL 32746 (condo - owned)	Seminole
	145 E. 57th Street, 10th Floor New York, New York 10022	New York
	c/o Unlimited Supplies 61 Tec Street Hicksville, NY 11801	Nassau
	Recoton Electronics Outlet Arizona Mills 5000 Arizona Mills Circle Tempe, AZ 85203	Maricopa
Recoton Accessories, Inc.	2950 Lake Emma Road Lake Mary, FL 32746 *	Seminole
	1090 Emma Oaks Trail Lake Mary, FL 32746 *	Seminole
	840 Hinckley, Suite 111 Burlingame, CA 94010*	San Mateo



	c/o Unlimited Supplies 61 Tec Street Hicksville, NY 11801*	Nassau
	Recoton Electronics Outlet Arizona Mills 5000 Arizona Mills Circle Tempe, AZ 85203*	Maricopa
	531 Stone Road Benecia, CA 94510*	Solano
	145 E. 57th Street, 10th Floor New York, New York 10022*	New York
Christie Design Corporation	2950 Lake Emma Road Lake Mary, FL 32746*	Seminole
InterAct Accessories, Inc.	335 Clubhouse Lane Baltimore, MD 21031	Baltimore
	2950 Lake Emma Road Lake Mary, FL 32746*	Seminole
	1090 Emma Oaks Trail Lake Mary, FL 32746*	Seminole
	Lakefront III 156 Lakefront Drive Hunt Valley, MD 21030	Baltimore
	Bank of North Texas Building 8701 Bedford Eules Road Hurst, TX	Tarrant
	2000-2002 E. Lake Mary Blvd. Sanford, FL 32773 (Warehouse)	Seminole
	1510 140th Avenue, NE, Suite 202 Bellevue, WA 98005	King
AAMP of Florida, Inc.	13160 56th Court, Suite 508 Clearwater, FL 33760	Pinellas
	3041 E. Cherry Street Springfield, MO 65802	Greene
	542 South Cavalier Springfield, MO 65802	Greene

	605 Glendale Avenue, Suite 103A Sparks, NV 89421	Washoe
	750 Freeport Blvd., Units 105 & 106 Sparks, NV 89431	Washoe
	7616 Miramar Road San Diego, CA 92121	San Diego
Recoton Audio Corporation	2950 Lake Emma Road Lake Mary, FL 32746*	Seminole
	1090 Emma Oaks Trail Lake Mary, FL 32746*	Seminole
	43000 West Nine Mile Road Suite 212 Novi, MI 48375	Oakland
Recoton Mobile Electronics, Inc.	2950 Lake Emma Road Lake Mary, FL 32746*	Seminole
	1090 Emma Oaks Trail Lake Mary, FL 32746*	Seminole
	43000 West Nine Mile Road Suite 212 Novi, MI 48375*	Oakland
ReCone, Inc.	2950 Lake Emma Road Lake Mary, FL 32746*	Seminole
Recoton Home Audio, Inc.	527 Stone Road Benicia, CA 94510	Solano
	Rain Tree Business Center 902A South Walton Blvd. Suite 8 Bentonville, Arkansas 72712	Benton
	2950 Lake Emma Road Lake Mary, FL 32746*	Seminole
	1090 Emma Oaks Trail Lake Mary, FL 32746*	Seminole
Recoton International Holdings, Inc.	2950 Lake Emma Road Lake Mary, FL 32746*	Seminole
Recoton Japan, Inc.	Sunahara Bldg, 5th Floor No. 1-21-13 Takadanobaba	NA

Shinjuku-ku, Tokyo 169 JAPAN

Dairoku Yamichi Bldg. - 1F  
2-5-2 Hibarigoaka-Kita Hoya  
Shi Tokyo, 2020 Japan NA

Recoton Canada Ltd. 680 Granite Court  
Pickering, Ontario L1W 3J5  
Canada NA

1800 Ironstone Manor  
Pickering, Ontario LIW3J9  
Canada NA

InterAct Canada, Ltd. 680 Granite Court\*  
Pickering, Ontario L1W 3J5  
Canada NA

### Schedule III

#### Schedule 7.4(e)

#### Investment

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1. With respect to AAMP of Florida, Inc., Recoton Canada Ltd., Christie Design Corporation, Recoton European Holdings, Inc. (renamed Recoton International Holdings, Inc.), Recoton German Holdings GmbH, InterAct International, Inc., Recoton Italia, s.r.l., Recoton Japan Inc., Recoton (Far East), Ltd., Recoton Corporation (d/b/a Recoton Mobile Electronics), STD Holding Ltd., and Recoton (UK) Limited, see attached.
2. With respect to InterAct Canada, Ltd., InterAct Holdings, Inc., InterAct Technologies, Inc., Recoton (Hong Kong) Limited, Recoton Accessories, Inc. and Recoton Mobile Electronics, Inc., see attachment hereto.
3. Investments in other subsidiaries as they exist as of the date hereof cannot be separately determined at this time.

## SECOND AMENDMENT AND WAIVER

SECOND AMENDMENT AND WAIVER dated as of August 28, 2002 but effective as of August 19, 2002 (this "Agreement") to the Credit Agreement, dated of October 31, 2000 (as amended, supplemented or otherwise modified from time to time, the "Credit Agreement") among RECOTON CORPORATION, a New York corporation ("Recoton"), INTERACT ACCESSORIES, INC., a Delaware corporation, RECOTON AUDIO CORPORATION, a Delaware corporation, AAMP OF FLORIDA, INC., a Florida corporation, RECOTON HOME AUDIO, INC., a California corporation, RECOTON ACCESSORIES, INC., a Delaware corporation, and RECOTON MOBILE ELECTRONICS, INC., a Delaware corporation (collectively with Recoton, the "Borrowers"), the Guarantors identified therein, and the lenders from time to time a party thereto (the "Lenders"), and JPMORGAN CHASE BANK (formerly The Chase Manhattan Bank), a New York banking corporation, as Administrative Agent to the Lenders (in such capacity, the "Administrative Agent"). Capitalized terms used herein and not otherwise defined herein shall have the meaning set forth in the Credit Agreement.

### R E C I T A L S:

WHEREAS, the Borrowers, the Guarantors, the Lenders and the Administrative Agent are parties to the Credit Agreement pursuant to which the Lenders have made loans and other financial accommodations for the benefit of the Borrowers and Guarantors;

WHEREAS, the Borrowers have requested that the Lenders agree to amend and waive certain provisions of the Credit Agreement; and

WHEREAS, the Lenders have agreed to amend and waive certain provisions of the Credit Agreement as specifically set forth herein;

NOW, THEREFORE, it is agreed as follows:

#### SECTION 1. LIMITED WAIVERS

1.1 Existing Defaults. The Borrowers acknowledge and agree that an Event of Default under the Credit Agreement has occurred as a result of the occurrence and continuance of "Events of Default" under the terms of the Senior Loan Agreement as specified in Waiver and Amendment No. 6 dated as of August 28, 2002 to the Senior Loan Agreement (the "Senior Waiver and Amendment No. 6").

1.2 Limited Waiver and Standstill. Effective as of the Effective Date (as defined herein), the Lenders hereby (i) waive any Event of Default arising as a result of the occurrence of the "Existing Defaults" or "Expected Defaults" specified in the Senior Waiver and Amendment No. 6, (ii) agree that until the Deferred Interest Payment Date, none of them shall exercise any rights or remedies they may have under the Credit Agreement, applicable law or otherwise against any of the Borrowers or Guarantors or their respective assets on account of any Event of Default currently existing under the Credit Agreement and on account of any Event of Default under the Credit Agreement that may occur at any time hereafter (the "Deferred Interest Standstill") and (iii) agree that until the Deferred Interest Payment Date, none of them shall be entitled to give any Subordinated Debt Default Notice (as such term is defined in the Subordination Agreement) under the Subordination Agreement; provided, that this Deferred Interest Standstill shall cease to be of any force or effect as provided in Section 6 below.

1.3 Applicability. The foregoing limited waivers shall not apply to any other provisions of the Credit Agreement or any other periods.

#### SECTION 2. AMENDMENTS TO THE CREDIT AGREEMENT

2.1 Amendment to Section 1.1 of the Credit Agreement. Section 1.1 of the Credit Agreement is hereby amended by inserting the following definitions into such Section in their proper alphabetical order:

"Deferred Interest Payments": as defined in Section 2.6(c).

"Deferred Interest Payment Date": February 4, 2003.

"Financial Advisor": Zolfo Cooper, LLC, or another nationally recognized firm specializing in the provision of financial advisory services, reasonably satisfactory to the Lenders.

"Second Amendment and Waiver": the Second Amendment and Waiver, dated as of August 28, 2002, among Recoton Corporation, InterAct Accessories, Inc., Recoton Audio Corporation, AAMP of Florida, Inc., Recoton Home Audio, Inc., Recoton Accessories, Inc., Recoton Mobile Electronics, Inc., the Guarantors identified herein, the lenders from time to time a party hereto and JPMorgan Chase Bank, as administrative agent.

## 2.2 Amendment to Section 2.6 of the Credit Agreement.

(a) Section 2.6(a) of the Credit Agreement is hereby amended by deleting the phrase "the ABR plus 5.75%" and substituting therefor "14%".

(b) Section 2.6(b) of the Credit Agreement is hereby amended by deleting the phrase "ABR plus 7.75%" and substituting therefor "16%".

(c) Section 2.6(c) of the Credit Agreement is hereby amended by adding the following proviso the end of such section: "; provided that, subject to the terms of the Second Amendment and Waiver, interest on the Loans that would otherwise be due and payable on any Interest Payment Date after July 31, 2002, through and including January 31, 2003 (collectively, the "Deferred Interest Payments") shall instead be due and payable in full on the Deferred Interest Payment Date.

## 2.3 Amendments of Schedules to the Credit Agreement.

(a) Schedule 3.1(A) of the Credit Agreement is hereby amended in its entirety to read as set forth on Schedule I attached to the Senior Waiver and Amendment No. 6.

(b) Schedule 3.5 to the Credit Agreement is hereby amended in its entirety to read as set forth on Schedule II attached to the Senior Waiver and Amendment No. 6.

(c) Schedule 6.4(e) to the Credit Agreement is hereby amended in its entirety to read as set forth on Schedule III attached to the Senior Waiver and Amendment No. 6.

## SECTION 3. CERTAIN COVENANTS AND AGREEMENTS

3.1 Amendment Fee. Upon the Effective Date, the Lenders shall have earned a fee payable by Recoton in the amount of \$500,000 (the "Amendment Fee"), which Amendment Fee shall be due and payable on the Deferred Interest Payment Date; provided, that such Amendment Fee will be deemed paid and satisfied in full if (x) on such date, no Default or Event of Default shall have occurred and be continuing, and (y) the Borrowers shall have paid the Lenders (or the Administrative Agent on behalf of the Lenders) (i) an amount equal to \$300,000 on account of the Amendment Fee and (ii) the Deferred Interest Payments, plus interest at 14% per annum on such Deferred Interest Payments from the date each such Deferred Interest Payment would have otherwise been due but for the provisions of this Agreement to the Deferred Interest Payment Date.

### 3.2 Amendment to Warrant Agreements.

(a) The exercise price of all the warrants issued to the Lenders under or in connection with the Credit Agreement or prior credit agreements to which a Lender and Recoton were party (the "Lender Warrants") will be adjusted to \$0.01 per share of fully-paid, non-assessable common stock of Recoton (the "Common Stock"), and the expiration date for the Lender Warrants will be extended for two years beyond their expiration dates as in effect on the Effective Date, all pursuant to documentation in form and substance satisfactory to the Lenders, it being understood that any shares issuable upon the exercise of the Lender Warrants shall be issued from the treasury of Recoton and Recoton agrees to maintain an adequate number of treasury shares to effect such issuance.

(b) The Lenders hereby waive any entitlement that they may have to any adjustment in the number of shares issuable and/or the purchase price to be paid under any existing warrants issued to them which may otherwise arise based on the repricings as of the date of this Agreement of warrants previously issued to (i) the holders of the securities issued under the Securities Purchase Agreement dated as of February 4, 1999 between Recoton Corporation and the purchasers thereof and (ii) the Lenders under the Credit Agreement and prior credit agreements between Recoton and the Lenders thereunder.

3.3 Financial Advisor. Recoton shall have retained as of the Effective Date, and shall at all times thereafter, maintain the employment of a Financial Advisor (x) whose duties will include, among other matters, oversight responsibility for the disposition of assets outside the ordinary course of business, communication with the Lenders on no less than a bi-weekly basis (or such less frequent basis as the Required Lenders otherwise agree) on all matters concerning Recoton's business, operations and financial performance as may be requested by the Lenders and the preparation of a Business Plan (as defined below), and (y) who shall report directly to Recoton's board of directors or any committee comprised primarily of independent directors designated by the board of directors for such purpose.

3.4 Reporting; Business Plan. Recoton, in cooperation with the Financial Advisor, shall deliver to the Lenders all reports, business plans and other similar documents delivered to the Senior Lenders, including any Rolling Cash Flow Budgets or other reports delivered pursuant to Section 3 of the Senior Waiver and Amendment No. 6, provided that notwithstanding the terms of the Senior Loan Documents, the Borrowers shall deliver no later than September 9, 2002 to the Administrative Agent, a copy of a business plan, in form, detail and substance acceptable to the Administrative Agent (the "Business Plan"), for the Borrowers and their Subsidiaries for the calendar years 2002 and 2003, which Business Plan shall, among other things, set forth a strategy for the repayment of the Obligations.

## SECTION 4. REPRESENTATIONS AND WARRANTIES

Each Loan Party hereby represents and warrants to the Administrative Agent and each Lender that after giving effect to this Agreement:

(a) No Default or Event of Default has occurred and is continuing on and as of the date hereof;

(b) The representations and warranties of the Borrowers and the other Loan Parties contained in the Credit Agreement and the other Loan Documents are true and correct on and as of the date hereof as if made on and as of the date hereof, except to the extent such representations and warranties expressly relate to a different date; and

(c) The execution and delivery by the Loan Parties of this Agreement and the performance by the Loan Parties of all of their respective agreements and obligations under this Agreement and the Credit Agreement as waived and amended hereby, respectively, are within the power and authority of the Loan Parties and have been duly authorized by all necessary action on the part of the Loan Parties, and that the execution and delivery by the Loan Parties, of this Agreement and the performance by each of the transactions contemplated hereby will not contravene any term or condition set forth in any material agreement or instrument to which each is a party or by which each is bound.

## SECTION 5. EFFECTIVENESS AND CONDITIONS PRECEDENT

This Agreement shall become effective as of August 19, 2002 (the “Effective Date”), upon the satisfaction of all of the following conditions precedent:

(a) Receipt by the Administrative Agent of counterparts of this Agreement, duly executed by the Loan Parties, the Administrative Agent and the Lenders;

(b) The Borrowers shall have paid all of the Lenders' out-of-pocket expenses (including, without limitation, the reasonable fees and disbursements of legal counsel) in connection with this Amendment for which invoices have been presented;

(c) Receipt by the Administrative Agent of a favorable opinion of counsel to the Borrowers, in form and substance satisfactory to the Administrative Agent, as to due authorization, execution, and delivery of this Agreement, the enforceability thereof and such other matters as may be reasonably requested by the Administrative Agent; and

(d) The Borrowers and/or Recoton, as applicable, and all the holders of the Subordinated Debt shall have entered into agreements reasonably satisfactory to the Administrative Agent providing for the deferral of any and all cash payments with respect to the Subordinated Debt until after January 31, 2003.

## SECTION 6. DEFAULT, RIGHTS AND REMEDIES

The waivers and amendments and standstill agreement contained in Sections 1 and 2 above shall immediately expire and be of no further force or effect if at any time prior to the Deferred Interest Payment Date the Obligations (as such term is defined in the Senior Loan Agreement) under the Senior Loan Agreement become due and payable as a result of the acceleration thereof or the Senior Agent or any Senior Lender initiates the exercise of remedies under any Senior Loan Document on account of the occurrence of a default or event of default thereunder. (For purposes of the provision contained in the immediately preceding sentence, all Obligations under the Senior Loan Agreement as amended by the Senior Waiver and Amendment No. 6, shall constitute Senior Debt as such term is defined in the Credit Agreement.) The default in the performance or compliance by any Loan Party with any term contained in this Agreement shall constitute an immediate Event of Default pursuant to Section 7.1(c) of the Credit Agreement.

## SECTION 7. RELEASE

As of the Effective Date, Recoton shall be deemed to have released each of the Lenders and their respective officers, directors, employees, agents, attorneys and advisors, from any and all claims, debts, obligations, rights, suits, damages, actions, causes of action, remedies and liabilities of every kind and nature arising from or in any way related to the negotiation, execution, delivery and performance of this Agreement or the transactions contemplated hereby.

## SECTION 8. STATUS OF LOAN DOCUMENTS

(a) This Agreement is limited solely for the purposes and to the extent expressly set forth herein, and, except as expressly provided hereby, (i) the terms, provisions and conditions of the Loan Documents and (ii) the Liens granted under the Loan Documents shall continue in full force and effect and are hereby ratified and confirmed in all respects.

(b) No consent or amendment of any terms or provisions of the Credit Agreement made hereunder shall relieve the Loan Parties from complying with any other term or provision of the Credit Agreement or any other Loan Document.

## SECTION 9. MISCELLANEOUS

9.1 No Waiver, Cumulative Remedies. No failure or delay or course of dealing on the part of the Administrative Agent or any Lender in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or privilege preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder. The rights, powers and remedies herein expressly provided are cumulative and not exclusive of any rights, powers or remedies which the Lenders would otherwise have. No notice to or demand on the Loan Parties in any case shall entitle the Loan Parties to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of the Lenders to any other or further action in any circumstances without notice or demand.

9.2 Headings Descriptive. The headings of the several Sections of this Agreement are inserted for convenience only and shall not in any way affect the meaning or construction of any provision.

9.3 Severability. In case any provision in or obligation under this Agreement shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

9.4 Counterparts. This Agreement may be executed and delivered in any number of counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. A complete set of counterparts shall be lodged with each of Recoton and the Administrative Agent.

## SECTION 10. GOVERNING LAW

THIS AGREEMENT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.

*[Remainder of page intentionally left blank]*

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

RECOTON CORPORATION

By: /s/ Arnold Kezsbom

Name: Arnold Kezsbom

Title: Senior Vice President - Finance

BORROWERS:

INTERACT ACCESSORIES, INC.

RECOTON AUDIO CORPORATION

AAMP OF FLORIDA, INC.

RECOTON HOME AUDIO, INC.

RECOTON ACCESSORIES, INC.

RECOTON MOBILE ELECTRONICS, INC.

By: /s/ Arnold Kezsbom

Name: Arnold Kezsbom

Title: Vice President



GUARANTORS:

CHRISTIE DESIGN CORPORATION  
RECOTON INTERNATIONAL HOLDINGS, INC.  
RECOTON JAPAN, INC.  
RECON, INC.  
RECOTON CANADA LTD.  
INTERACT CANADA, LTD.  
INTERACT INTERNATIONAL, INC.  
INTERACT HOLDINGS, INC.  
INTERACT TECHNOLOGIES, INC.

By: /s/ Arnold Kezsbom  
Name: Arnold Kezsbom  
Title: Vice President

JPMORGAN CHASE BANK,  
as Administrative Agent and a Lender

By: Roger Odell  
Name: Roger Odell  
Title: Managing Director

HARRIS TRUST AND SAVINGS BANK,  
as a Lender

By: /s/ Betzaida Erdelyi  
Name: Betzaida Erdelyi  
Title: Vice President

LENDERS:

HSBC BANK U.S.A. (formerly known as  
MARINE MIDLAND BANK), as a Lender

By: /s/ Fernando A. Torres  
Name: Fernando A. Torres  
Title: Vice President

HARWOOD STREET PARTNERS I, L.P.,  
as a Lender

By: /s/ Gary F. Thomason  
Name: Gary F. Thomason  
Title: Authorized Signatory

THE PRUDENTIAL INSURANCE COMPANY  
OF AMERICA, as a Lender

By: /s/ Michael E. Fitzgerald  
Name: Michael E. Fitzgerald  
Title: Vice President

JOHN HANCOCK LIFE INSURANCE  
COMPANY, as a Lender

By: /s/ Marlene J. DeLeon  
Name: Marlene J. DeLeon  
Title: Managing Director

JOHN HANCOCK VARIABLE LIFE  
INSURANCE COMPANY, as a Lender

By: /s/ Marlene J. DeLeon  
Name: Marlene J. DeLeon  
Title: Authorized Signatory

MELLON BANK, N.A., AS TRUSTEE FOR THE  
LONG-TERM INVESTMENT TRUST, solely in  
its capacity as Trustee and not in its individual  
capacity (as directed by John Hancock Life  
Insurance Company), as a Lender

By: /s/Bernadette Rist  
Name: Bernadette Rist  
Title: Authorized Signatory

MELLON BANK, N.A. AS TRUSTEE FOR BELL  
ATLANTIC MASTER TRUST, solely in its  
capacity as Trustee and not in its individual capacity  
as directed by John Hancock Life Insurance  
Company), as a Lender

By: /s/Bernadette Rist  
Name: Bernadette Rist  
Title: Authorized Signatory

THE NORTHERN TRUST COMPANY, AS  
TRUSTEE OF THE LUCENT TECHNOLOGIES  
INC. MASTER PENSION TRUST, as a Lender  
BY: John Hancock Life Insurance Company, as  
Investment Manager

By: /s/ Marlene J. DeLeon  
Name: Marlene J. DeLeon  
Title: Authorized Signatory

INVESTORS PARTNER LIFE INSURANCE  
COMPANY, as a Lender

By: /s/ Marlene J. DeLeon  
Name: Marlene J. DeLeon  
Title: Authorized Signatory

SUNTRUST BANK, as a Lender

By: /s/Byron P. Kurtgis  
Name: Byron P. Kurtgis  
Title: Director

## SECOND AMENDMENT TO SECURITIES PURCHASE AGREEMENT

AMENDMENT dated as of August 28, 2002 but effective as of August 19, 2002 (this "Amendment") to (a) SECURITIES PURCHASE AGREEMENT, dated as of February 4, 1999, (as amended pursuant to the First Amendment (as hereinafter defined), the "Purchase Agreement") among RECOTON CORPORATION, a New York corporation (the "Company" or "Recoton"), THE PRUDENTIAL INSURANCE COMPANY OF AMERICA ("Prudential") and ING CAPITAL LLC, f/k/a ING (U.S.) Capital LLC ("ING"; ING together with Prudential, individually referred to as a "Purchaser" and collectively as "Purchasers") and (b) Registration Rights Agreement dated as of February 4, 1999 (as amended, the "Registration Rights Agreement") among the Company, Prudential and ING (U.S.) INVESTMENT CORPORATION. Capitalized terms used herein and not defined herein shall have the respective meanings set forth for such terms in the Purchase Agreement.

### R E C I T A L S:

WHEREAS, the Company and the Purchasers are party to the Purchase Agreement;

WHEREAS, on or about October 31, 2000 the Company and the Purchasers entered into that certain First Amendment to Securities Purchase Agreement, Guaranty and Registration Rights Agreement (the "First Amendment");

WHEREAS, the Company has requested that the Purchasers agree to amend certain provisions of the Purchase Agreement; and

WHEREAS, subject to the terms and provisions of this Amendment, the Required Holders have agreed to amend certain terms and conditions of the Purchase Agreement and the Registration Rights Agreement as specifically set forth in this Amendment.

NOW, THEREFORE, it is agreed as follows:

Section 1. Amendment of Section 4 of the Purchase Agreement and the Notes. As of the Amendment Effective Date, the first sentence of Section 4G of the Purchase Agreement and the corresponding provisions of the Notes are amended to state that:

(a) Interest Payment; Limited Waiver. The interest previously due on the Notes on or about August 4, 2002 and November 4, 2002 (collectively, the "Deferred Interest Payments") shall instead be due on February 4, 2003 (the "Deferred Interest Payment Date"), and the Purchasers hereby waive (i) any Event of Default under Section 7(A)(i)(y) of the Purchase Agreement arising from the previous failure of the Company to make the interest payment due on or about August 4, 2002 and (ii) subject to the next succeeding sentence, any other Event of Default existing as of the Amendment Effective Date by reason of an Event of Default (a "Senior Default") under the Bank Credit Agreement or Bank Financing Agreement (but only so long as such Senior Default shall have been waived by the holders of Senior Debt as of the Amendment Effective Date). The waiver set forth in clause (ii) of the immediately preceding sentence will expire automatically and be of no further force or effect if at any time prior to the Deferred Interest Payment Date the Obligations under the Bank Credit Agreement become due and payable as a result of the acceleration thereof or the Administrative Agent (the "Senior Administrative Agent") or any holder of Senior Debt under the Bank Credit Agreement initiates the exercise of remedies under the Bank Credit Agreement or any agreement or instrument relating thereto.

(b) Blockage. For the benefit of the Senior Administrative Agent and each of the holders of the Senior Debt, the Purchasers and the Company agree that (i) that certain Blockage Notice, dated August 19, 2002, that was delivered by the Senior Administrative Agent to the Holders (the "Existing Blockage Notice") is hereby

withdrawn, (ii) the Senior Administrative Agent, on behalf of the holders of the Senior Debt under the Bank Credit Agreement, shall have all the rights and remedies it would otherwise have had, if the Existing Blockage Notice had never been issued, including, without limitation, the right to issue another Blockage Notice in accordance with the terms of the Purchase Agreement, and (iii) the Payment Blockage Period has not commenced. The Senior Administrative Agent, on behalf of the holders of the Senior Debt by virtue of the Bank Credit Agreement, shall be a third party beneficiary with respect to all agreements and related rights provided for under this Section 1(b).

(c) New Rate. The interest rate applicable from the Amendment Effective Date shall be 18.5% per annum, with such rate increasing as of the first Business Day of each Fiscal Quarter after the Amendment Effective Date by an additional 0.5% per annum, up to the maximum amount permitted by law (the "Non-Default Interest Rate").

(d) Deferred Payments. The Deferred Interest Payments will accrue interest at the Non-Default Interest Rate plus 2.0%. On the Deferred Interest Payment Date, the Company will pay (x) the Deferred Interest Payments and all interest thereon and (y) all interest that accrued (at the Non-Default Interest Rate) on the unpaid principal balance of the Notes from November 4, 2002 through the Deferred Interest Payment Date. From and after the Deferred Interest Payment Date, the Company will pay interest on the Interest Payment Dates provided for in the Purchase Agreement.

(e) Payment in Kind. At the Company's option on any Interest Payment Date, the Company may pay Excess Interest (as hereinafter defined) by issuing additional Notes on the relevant Interest Payment Date in an amount equal to such Excess Interest. "Excess Interest" means that portion of interest due and payable on an Interest Payment Date based upon the excess of the Non-Default Interest Rate over 16.5% per annum.

(d) Deferral Fee. On the Deferred Interest Payment Date, the Company shall pay to the Purchasers a cash fee equal to 1% of the unpaid principal balance of the Notes.

Section 2. Amendment of Sections 7 and 10 of the Purchase Agreement. As of the Amendment Effective Date, (a) Section 7 of the Purchase Agreement is hereby amended by adding thereto the provisions set forth in Section 8.1(F)(iii) and 8.1(AA) of the Bank Credit Agreement and (b) Section 10 of the Purchase Agreement is hereby amended by adding the defined terms (and the corresponding definitions) referred to in the aforementioned Sections of the Bank Credit Agreement.

Section 3. Amendment to Registration Rights Agreement. The definition of "Warrants" in the Registration Rights Agreement is amended to read as follows: "the Company's Warrants as defined in and issued under the Purchase Agreement and any Additional Warrants (as defined in the Purchase Agreement, including without limitation the 1999 Replacement Warrants, the Amendment Warrants (as referenced in an October 31, 2000 Amendment to the Purchase Agreement) and the New Warrants (as referenced in an August 28, 2002 Amendment to the Purchase Agreement)) to the extent issued as provided in the Purchase Agreement. The definition of "Registrable Securities" in the Registration Rights Agreement is amended by adding "and the New Shares (as referenced in an August 28, 2002 Amendment to the Purchase Agreement)" at the end of clause (b) thereof. The Registration Rights Agreement is further amended by (a) giving each Purchaser one additional Limited Demand Registration and (b) deeming such additional Limited Demand Registration to have been requested or exercised as of the Amendment Operative Date with respect to the New Shares.

Section 4. Financial Adviser. The Company shall have retained as of the Amendment Effective Date, and shall at all times thereafter, maintain the employment of a Financial Advisor (as hereinafter defined) (x) whose duties will include, among other matters, oversight responsibility for the disposition of assets outside the ordinary course of business, communication with the Purchasers on no less than a bi-weekly basis (or such less frequent basis as the Purchasers otherwise agree) on all matters concerning the Company's business, operations and financial performance as may be requested by the Purchasers and the preparation of a business plan for the Company and its Subsidiaries for

the calendar years 2002 and 2003, and (y) who shall report directly to the Company's board of directors or any committee comprised primarily of independent directors designated by the board of directors for such purpose. The Company, in cooperation with the Financial Adviser shall deliver to the Purchasers all reports, business plans and other similar documents delivered to the holders of Senior Debt. "Financial Advisor" means Zolfo Cooper, LLC, or another nationally recognized firm specializing in the provision of financial advisory services, reasonably satisfactory to the Purchasers.

Section 5. Releases. As of the Amendment Effective Date, the Company shall be deemed to have released each of the Purchasers and their respective officers, directors, employees, agents, attorneys and advisors, from any and all claims, debts, obligations, rights, suits, damages, actions, causes of action, remedies, and liabilities of every kind and nature arising from or in any way related to the negotiation, execution, delivery and performance of this Amendment or the transactions contemplated hereby.

Section 6. Standstill. From and after the Amendment Effective Date through the Deferred Interest Payment Date, the Holders agree severally, and not jointly or jointly and severally, not to exercise any rights or remedies they may have under the Purchase Agreement, the Notes, applicable law or otherwise against the Company, any Guarantor or their respective assets on account of any Event of Default under the Purchase Agreement that may occur at any time hereafter through the Deferred Interest Payment Date; provided, however, that the Senior Default existing as of the Amendment Effective Date which is subject to the limited waiver set forth in Section 1(a) herein, shall be governed exclusively by the provisions of Section 1(a) herein. The standstill agreement contained in the immediately preceding sentence shall immediately expire and be of no further force or effect if at any time prior to the Deferred Interest Payment Date the Obligations under the Bank Credit Agreement become due and payable as a result of the acceleration thereof or the Senior Administrative Agent or any holder of Senior Debt under the Bank Credit Agreement initiates the exercise of remedies under Bank Credit Agreement or any agreement or instrument relating thereto.

Section 7. Amendment Effective Date. The "Amendment Operative Date" will be the date (no later than August 28, 2002) on which all of the following shall have occurred:

(a) Counterparts. The Purchasers shall have executed and delivered a counterpart of this Amendment and received a duly executed counterpart of this Amendment from the Company (which aforesaid executions and deliveries may be effected by delivery and receipt by facsimile transmission).

(b) New Shares. The Company shall have issued from treasury pro rata to the Purchasers (or, in the case of ING, ING (U.S.) Investments Corporation, if so instructed) 265,000 shares (the "New Shares") of fully-paid, non-assessable common stock of the Company (the "Common Stock"), all pursuant to documentation in form and substance satisfactory to the Purchasers.

(c) New Warrants. The Company shall have issued pro rata to the Purchasers (or, in the case of ING, ING (U.S.) Investments Corporation, if so instructed) five-year warrants to purchase 8% of the fully-diluted Common Stock (the "New Warrants") at an exercise price equal the average closing price of the Common Stock for the period from August 15, 2002 through and including August 25, 2002, exercisable commencing October 1, 2003, pursuant to a warrant agreement in form and substance satisfactory to the Purchasers. The New Warrants will be cancelable by the Company if the Notes and all other obligations under or in connection with the Purchase Agreement are fully repaid by September 30, 2003.

(d) Existing Warrants. The exercise price of all other warrants issued to the Purchasers under or in connection with the Purchase Agreement (the "Existing Warrants") will be adjusted to equal the average closing price of the Common Stock for the period from August 15, 2002 through and including August 25, 2002, and the expiration date for the Existing Warrants will be extended for two years beyond their expiration dates as in effect on the Amendment Effective Date, all pursuant to documentation in form and substance satisfactory to the Purchasers.

(e) Senior Debt. The Company and the holders of Senior Debt shall have entered into Waiver and amendment arrangements for the Senior Debt (such Senior Debt shall include all Obligations under the Bank Credit Agreement as amended by the Waiver and Amendment No. 6 to the Loan Agreement, dated as of August 28, 2002 among the Company, the Senior Administrative Agent and the holders of the Senior Debt, among others), all in form and substance satisfactory to the Purchasers, and the Administrative Agent under each of the Bank Credit Agreement and the Bank Financing Agreement shall have consented to this Amendment by executing the signature page hereof.

(f) Expenses. The Company shall have paid all of the Purchasers' out-of-pocket expenses (including, without limitation, the reasonable fees and disbursements of outside legal counsel and the allocated costs of internal counsel) in connection with this Amendment.

(g) Legal opinion. The Company shall have delivered to the Purchasers a favorable opinion of counsel to the Company, in form and substance satisfactory to the Purchasers, as to due authorization, execution, and delivery of this Amendment and the agreements, instruments and documents executed and delivered in connection herewith, the enforceability thereof and such other matters as may be reasonably requested by the Purchasers.

Section 8. Representations and Warranties. Company hereby represents and warrants to the Purchasers that after giving effect to this Amendment:

(a) no Default or Event of Default has occurred and is continuing on and as of the Amendment Effective Date under the Purchase Agreement; and

(b) the representations and warranties of the Company contained in the Purchase Agreement are true and correct on and as of the date hereof as if made on and as of the date hereof, except to the extent such representations and warranties expressly relate to a different date.

Section 9. Status of Purchase Agreement, Registration Rights Agreement and Existing Warrants.

(a) This Amendment is limited solely for the purposes and to the extent expressly set forth herein, and, except as expressly amended hereby, the terms, provisions and conditions of the Purchase Agreement and the Registration Rights Agreement shall continue in full force and effect and are hereby ratified and confirmed in all respects. This Amendment shall be deemed part of the Purchase Agreement for all purposes thereof. In the event that the Amendment Operative Date does not occur by August 28, 2002, this Amendment shall be null and void and of no further force or effect.

(b) No amendment of any terms or provisions of the Purchase Agreement or the Registration Rights Agreement made hereunder shall relieve the Company or any Guarantor from complying with any other term or provision of the Purchase Agreement, the Guaranty or any other agreement, instrument or document related thereto.

(c) The Purchasers hereby waive any entitlement that they may have to any adjustment in the number of shares issuable and/or the purchase price to be paid under any existing warrants issued to them which may otherwise arise based on the repricings as of the date of this Agreement of warrants previously issued to (a) the holders of the securities issued under the Securities Purchase Agreement dated as of February 4, 1999 between Recoton Corporation and the purchasers thereof and (b) the lenders under the Credit Agreement dated as of October 31, 2000 and prior credit agreements between Recoton Corporation and the lenders thereunder.

Section 10. Miscellaneous.

(a) No Waiver, Cumulative Remedies. No failure or delay or course of dealing on the part of the Purchasers in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or privilege preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder. The rights, powers and remedies herein expressly provided are

cumulative and not exclusive of any rights, powers or remedies which the Purchasers would otherwise have. No notice to or demand on the Company in any case shall entitle the Company to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of the Purchasers to any other or further action in any circumstances without notice or demand.

(b) Expenses. Company agrees to pay and reimburse the Purchasers for all of their reasonable costs and expenses (including, without limitation, the reasonable fees and disbursements of legal counsel) in connection with this Amendment.

(c) Headings Descriptive. The headings of the several Sections and subsections of this Amendment are inserted for convenience only and shall not in any way affect the meaning or construction of any provision.

(d) Severability. In case any provision in or obligation under this Amendment shall be invalid, illegal or unenforceable in any jurisdiction, the validity, legality and enforceability of the remaining provisions or obligations, or of such provision or obligation in any other jurisdiction, shall not in any way be affected or impaired thereby.

(e) Counterparts. This Amendment may be executed and delivered in any number of counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. A complete set of counterparts shall be lodged with each of the Company and the Purchasers.

Section 11. Governing Law. THIS AMENDMENT SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, WITHOUT REGARD TO THE CONFLICTS OF LAW PRINCIPLES THEREOF.

[Remainder of page intentionally left blank]

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

**RECOTON CORPORATION**

**COMPANY:**

By: /s/ Arnold Kezsbom  
Name: Arnold Kezsbom  
Title: Executive Vice President-Finance

**GUARANTORS:**

INTERACT ACCESSORIES, INC.  
RECOTON AUDIO CORPORATION  
AAMP OF FLORIDA, INC.  
RECOTON HOME AUDIO, INC.  
CHRISTIE DESIGN CORPORATION  
RECOTON INTERNATIONAL HOLDINGS, INC.  
RECOTON JAPAN, INC.  
RECOTON CANADA LTD  
RECONE, INC.

By: /s/ Arnold Kezsbom



Name: Arnold Kezsbom  
Title: Vice President

**THE PRUDENTIAL INSURANCE  
COMPANY OF AMERICA**

By: /s/ Gwendolyn S. Foster  
Name: Gwendolyn S. Foster  
Title: Vice President

**ING CAPITAL LLC, f/k/a ING (U.S. Capital LLC)**

**PURCHASERS:**

By: /s/ Lawrence P. Eyink  
Name: Lawrence P. Eyink  
Title: Director

**ING (U.S.) INVESTMENT CORPORATION**

By: /s/ Lawrence P. Eyink  
Name: Lawrence P. Eyink  
Title: Director

**ING CAPITAL LLC, f/k/a ING (U.S. Capital LLC)**

**AGREED** (For purposes of Section 7)

By: /s/ Lawrence P. Eyink  
Name: Lawrence P. Eyink  
Title: Director

**HELLER FINANCIAL INC.**, as Agent under the  
Bank Credit Agreement

By: /s/ Hugh B. Wilder  
Name: Hugh B. Wilder  
Title: SVP

**CONSENTED** (for purposes of  
Section 11C of the Purchase Agreement:

**JPMORGAN CHASE BANK**, as Administrative  
Agent under the Bank Financing Agreement

By: /s/ R. A. Odell  
Name: R. A. Odell  
Title: Managing Director

## SECURITIES ISSUANCE AGREEMENT

SECURITIES ISSUANCE AGREEMENT (this "Agreement"), dated as of August 28, 2002 (the "Closing Date"), among RECOTON CORPORATION, a New York corporation (the "Company"), THE PRUDENTIAL INSURANCE COMPANY OF AMERICA ("Prudential") and ING CAPITAL LLC, (f/k/a ING (U.S.) Capital LLC) ("ING"; together with Prudential, individually referred to as an "Issuee" and collectively as the "Issuees").

### RECITALS

WHEREAS, the Company and the Issuees are party to that certain Securities Purchase Agreement, dated as of February 4, 1999, as subsequently amended pursuant to the First Amendment to Securities Purchase Agreement, Guaranty and Registration Rights Agreement, dated as of October 31, 2000 (collectively, the "Securities Purchase Agreement");

WHEREAS, the Company and the Issuees are entering into that certain Second Amendment to the Securities Purchase Agreement, dated as of the Closing Date (the "Second Amendment") to amend certain provisions of the Securities Purchase Agreement; and

WHEREAS, it is a condition precedent to the Second Amendment that the Company and the Issuees enter into this Agreement pursuant to which the Company shall issue to the Issuees shares of common stock, par value \$0.20 per share, of the Company (the "Common Stock") and warrants substantially in the form attached hereto as Exhibit A (the "Warrants").

NOW, THEREFORE, in consideration of good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereby agree as follows:

#### Section 1. Authorization of Issuance of the Securities.

(a) The Company hereby issues from treasury, and the Issuees hereby accept, that number of shares of Common Stock set forth opposite the name of such Issuee on Schedule 1 attached hereto (the "Shares"), for consideration of \$1.00 in the aggregate and other good and valuable consideration, the adequacy and receipt of which the parties hereby acknowledge.

(b) The Company hereby issues, and the Issuees hereby accept, Warrants exercisable for the number shares of Common Stock (subject to certain adjustment as provided in the Warrants) set forth opposite the name of such Issuee on Schedule 1 attached hereto, for consideration of \$1.00 in the aggregate, the adequacy and receipt of which the parties hereby acknowledge.

Section 2. Registration Rights of Shares. The Shares shall have registration rights on the same terms and conditions as set forth in that certain Registration Rights Agreement, dated as of February 4, 1999 among the Company and the Issuees (the "Registration Rights Agreement"); provided, that the Issuees jointly, and not individually, shall have the right to only one Limited Demand Registration (as defined in the Registration Rights Agreement) in addition to the registration rights currently existing in the Registration Rights Agreement with respect to all, but not less than all, of the Shares. The Company shall promptly prepare for filing, and shall use its best efforts to effect upon the request of the Issuees pursuant to their exercise of the Limited Demand Registration, the registration of the Shares on Form S-3, or such other applicable form, under the Securities Act of 1933, as amended (the "Securities Act").

Section 3. Representations and Warranties of the Company. The Company hereby represents, warrants, acknowledges and agrees with the Issuee as follows:

(a) Organization of the Company. The Company is a corporation duly organized, validly existing and in good standing under the laws of the State of New York and has the requisite corporate power to own its properties and assets and to carry on its business as now being conducted.

(b) Authorization; Enforcement. (i) The Company has the requisite corporate power and authority to enter into and perform this Agreement and to issue the Shares and the Warrants in accordance with the terms hereof; (ii) the execution and delivery of this Agreement and the Warrants, the issuance and delivery of the Shares and the Warrants and the consummation by the Company of the transactions contemplated hereby have been duly authorized by all necessary corporate action, and no further consent or authorization of the Company or its board of directors or shareholders is required; (iii) this Agreement and the Warrants have been duly executed and delivered by the Company; and (iv) this Agreement and the Warrants constitute legal, valid and binding obligations of the Company enforceable against the Company in accordance with their terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, or similar laws relating to, or affecting generally the enforcement of, creditors' rights and remedies or by other equitable principles of general application.

(c) Valid Issuance of the Shares. Upon issuance and payment for the Shares in accordance with the terms of this Agreement, the Shares shall be (i) validly authorized and issued, fully paid and non-assessable, (ii) free and clear from all taxes, liens and charges with respect to the issuance thereof and (iii) entitled to the rights and preferences set forth in the Company's Certificate of Incorporation.

(d) No Conflicts. To the best of the Company's knowledge, the Company is not (i) in violation of any provisions of its Certificate of Incorporation or its Bylaws in effect on and as of the Closing Date, (ii) in any material breach of any provisions of any material agreements or (iii) in violation of any judgment, decree or order by which it is bound or any statute, rule or regulation applicable to it. The execution, delivery and performance of this Agreement, and the issuance and sale of the Shares, the Warrants and the shares of Common Stock issuable upon exercise of the Warrants, will not result in any such violation or be in conflict with or constitute a default under any such provisions or result in the creation of any mortgage, pledge, lien, encumbrance or charge upon any properties or assets of the Company.

Section 4. Representations and Warranties of the Issuees. Each Issuee, individually, and not jointly, hereby represents, warrants, acknowledges and agrees with the Company as follows:

(a) Authority. This Agreement has been duly authorized and validly executed and delivered by the Issuee and is a legal, valid and binding obligation of the Issuee, enforceable against the Issuee in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, or similar laws relating to, or affecting generally the enforcement of, creditors' rights and remedies or by other equitable principles of general application.

(b) Investment Intent. (i) The Issuee acknowledges and understands that the Shares have not been registered under the Securities Act and the Issuee represents and warrants that it is acquiring the Shares without a view to, or in connection with, any resale or other distribution of such Shares in violation of the Securities Act.

(ii) The Issuee acknowledges and agrees that it will not sell, transfer or otherwise dispose of any Shares unless: (A) such proposed transfer qualifies for an exemption from registration under the Securities Act; (B) it shall have advised the Company in writing that it intends to dispose of such Shares in a manner to be described in such advice, and counsel reasonably acceptable to the Company or the in-house counsel of the Issuees shall have delivered to the Company an opinion that registration is not required under the Securities Act or under any applicable securities laws of any jurisdiction; or (C) a registration statement on an appropriate form under the Securities Act, or a post-effective amendment to such registration statement, covering the proposed sale or other disposition of such Shares shall be in effect under the Securities Act and such Shares or the proposed sale or other disposition thereof shall have been registered or qualified under applicable securities laws of any jurisdiction.

(c) Investment Experience. (i) The Issuee is knowledgeable, sophisticated and experienced in making, and is qualified to make, decisions with respect to investments in shares representing an investment decision like that involved in the purchase of the Shares, including investments in securities issued by the Company, and has requested, received, reviewed and considered all information it deems relevant in making an informed decision to acquire the Shares and (ii) the Issuee is an “accredited investor” within the meaning of Rule 501(a) of Regulation D promulgated under the Securities Act.

(d) Access to Information. The Issuee has had the opportunity to review all documents and information, including all documents filed with the Securities and Exchange Commission, which the Issuee has requested concerning its investment and the Company. The Issuee has had the opportunity to ask questions of the Company’s management, which questions were answered to its satisfaction. In making its decision to purchase the Shares herein issued, the Issuee has relied solely upon the representations, warranties, agreements, undertakings and acknowledgments of the Company in this Agreement and upon independent investigations made by such Issuee.

Section 5. Legend. Each Issuee, individually and not jointly, hereby acknowledges that each Share certificate will contain a legend substantially to the following effect:

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR APPLICABLE STATE SECURITIES LAWS. SUCH SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND MAY NOT BE OFFERED FOR SALE, SOLD, TRANSFERRED OR ASSIGNED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT FOR SUCH SECURITIES UNDER THE SECURITIES ACT OR APPLICABLE STATE SECURITIES LAWS, OR AN OPINION OF COUNSEL, IN A FORM REASONABLY SATISFACTORY TO THE ISSUER, THAT REGISTRATION IS NOT REQUIRED UNDER THE SECURITIES ACT OR APPLICABLE STATE SECURITIES LAWS OR UNLESS SOLD PURSUANT TO RULE 144 UNDER THE SECURITIES ACT.

The Company shall remove such legend upon receipt of an opinion from counsel to the Company (or other counsel, including in-house counsel for a Purchaser, reasonably acceptable to the Company) that the requirements for such legend have terminated.

Section 6. Miscellaneous.

(a) Entire Understanding. This Agreement states the entire understanding between the parties with respect to the subject matter hereof, and supersedes all prior oral and written communications and agreements, and all contemporaneous oral communications and agreements, with respect to the subject matter hereof.

(b) Survival of Representations, Warranties and Agreements. Notwithstanding any investigation made by any party to this Agreement, all covenants, agreements, representations and warranties made by the Company and each of the Issuees herein and in the certificates for the Shares delivered pursuant hereto shall survive the execution of this Agreement, the delivery to the Issuees of the Shares being purchased and the payment therefor.

(c) Parties in Interest. This Agreement, upon acceptance by the Company, shall bind, benefit, and be enforceable by and against each party hereto and its successors and assigns.

(d) Severability. If any provision of this Agreement is construed to be invalid, illegal or unenforceable, then the remaining provisions hereof shall not be affected thereby and shall be enforceable without regard thereto.

(e) Section Headings. The section headings in this Agreement are for convenience of reference only, do not constitute a part of this Agreement, and shall not affect its interpretation.

(f) References. All words used in this Agreement shall be construed to be of such number and gender as the context requires or permits. Unless a particular context clearly provides otherwise, the words “hereof” and “hereunder” and similar references refer to this Purchase Agreement in its entirety and not to any specific section or subsection.

(g) Governing Law. THIS AGREEMENT IS MADE UNDER, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED SOLELY THEREIN, WITHOUT GIVING EFFECT TO PRINCIPLES OF CONFLICTS OF LAW.

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

RECOTON CORPORATION

By: /s/ Arnold Kezsbom  
Name: Arnold Kezsbom  
Title: Executive Vice President-Finance

THE PRUDENTIAL INSURANCE COMPANY OF AMERICA

By: /s/ Gwendolyn S. Foster  
Name: Gwendolyn S. Foster  
Title: Vice President

ING CAPITAL LLC (f/k/a ING (U.S.) Capital LLC)

By: /s/ Lawrence P. Eyink  
Name: Lawrence P. Eyink  
Title: Director

**SCHEDULE 1**

<u>Issue</u>	<u>Number Shares of Common Stock</u>	<u>Number of Shares of Common Stock Upon Exercise of the Warrants</u>
Prudential	151,429	620,505
ING	113,571	465,378

**EXHIBIT A**

**THIS WARRANT AND ANY SHARES ACQUIRED UPON THE EXERCISE OF THIS WARRANT HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 AND MAY NOT BE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SUCH ACT.**

# RECOTON CORPORATION

## Cancelable Deferral Fee Common Stock Purchase Warrant

No. CD \_\_\_\_\_  
PPN: \_\_\_\_\_

New York, New York  
August 28, 2002

RECOTON CORPORATION (the "**Company**"), a New York corporation, for value received, hereby certifies that ING Capital LLC or its registered assigns is entitled to purchase from the Company \_\_\_\_\_ duly authorized, validly issued, fully paid and nonassessable common shares of the Company, par value \$0.20 per share (the "**Original Common Stock**"), at an initial exercise price per share equal to \$2.04 (the "**Initial Exercise Price**") at any time or from time to time after September 30, 2003 and prior to 5:00 p.m. (United States Eastern Time), on the fifth anniversary date of the date hereof (the "**Expiration Date**"), all subject to the terms, conditions and adjustments set forth below in this Warrant; *provided, however*, that if on the fifth anniversary date of the date hereof, the Company is then required, pursuant to an effective request therefor under the Registration Rights Agreement (as defined herein), or is in the process of effecting a registration under the Securities Act for a public offering in which Warrant Shares (as defined herein) are entitled to be included as provided in the Registration Rights Agreement, or if the Company is in default of any of such obligations to register the sale of such shares, the right to exercise this Warrant shall continue until 5:00 p.m. (United States Eastern Time) on the 30<sup>th</sup> day following the date on which such registration shall have become effective or on the 30<sup>th</sup> day following the date all such defaults shall have been cured, whichever is the later date.

This Warrant is one of the Cancelable Warrants (the "**Warrants**", such term to include all Warrants issued in substitution therefor or upon transfer thereof) issued to the Purchasers (such term, and all other capitalized terms used herein without being otherwise defined, having the meaning referred to in Section 13 below) pursuant to the Securities Issuance Agreement, dated as of August 28, 2002, among the Company and the Purchasers (the "**Securities Issuance Agreement**"). The Warrants originally so issued evidence rights to purchase an aggregate of 1,085,883 shares of Original Common Stock, subject to adjustment as provided herein.

### Section 1. Exercise of Warrant.

A. Manner of Exercise. This Warrant may be exercised by the holder hereof, in whole or in part during normal business hours on any business day during the Exercise Period, by surrender of this Warrant, with the form of subscription at the end hereof (or a reasonable facsimile thereof) duly executed by such holder, to the Company at the principal office of the Company located at 2950 Lake Emma Road, Lake Mary, FL 32746, or such other location in the United States which shall at the time be the principal office of the Company and of which the Company shall have notified the holder hereof in writing (or, if such exercise shall be in connection with an underwritten public offering of shares of Common Stock (or Other Securities) subject to this Warrant, at the location at which the underwriters shall have agreed to accept delivery thereof), accompanied by payment of an amount obtained by multiplying (a) the number of shares of Original Common Stock (without giving effect to any adjustment therein) designated in such form of subscription by (b) the Initial Exercise Price (the "**Exercise Payment**"). The Exercise Payment shall be payable (i) in cash or its equivalent, (ii) in shares of Common Stock newly acquired upon exercise of this Warrant (valued at the Market Price), (iii) by surrendering to the Company the right to purchase a number of shares of Common Stock issuable upon exercise of this Warrant (valued at the Market Price) equal to the product obtained by multiplying the number of shares of Common Stock to be purchased (including the shares relating to the surrendered rights) by a fraction, the numerator of which is the Exercise Payment per share and the denominator of which is the Market Price per share, or (iv) any combination of (i), (ii) and (iii).

B. Adjustment to Number of Shares of Common Stock. The number of duly authorized, validly issued, fully paid and nonassessable shares of Common Stock which the holder of this Warrant shall be entitled to receive upon each exercise hereof shall be determined by multiplying the number of shares of Common Stock which would

otherwise (but for the provisions of Section 2) be issuable upon such exercise, as designated by the holder hereof pursuant to this Section 1B, by a fraction of which (x) the numerator is the Initial Exercise Price and (y) the denominator is the Exercise Price in effect on the date of such exercise. The "Exercise Price" shall initially be an amount equal to the Initial Exercise Price per share, shall be adjusted and readjusted from time to time as provided in Section 2 and, as so adjusted and readjusted, shall remain in effect until a further adjustment or readjustment thereof is required by Section 2.

C. When Exercise Effective. Each exercise of this Warrant shall be deemed to have been effected and the Exercise Price shall be determined immediately prior to the close of business on the Business Day on which this Warrant shall have been surrendered to the Company as provided in Section 1A, and at such time the person or persons in whose name or names any certificate or certificates for shares of Original Common Stock (or Other Securities) shall be issuable upon such exercise as provided in Section 1D shall be deemed to have become the holder or holders of record thereof.

D. Delivery of Stock Certificates, etc. Promptly after the exercise of this Warrant, in whole or in part, and in any event within three Business Days thereafter (unless such exercise shall be in connection with an underwritten public offering of shares of Common Stock (or Other Securities) subject to this Warrant, in which event concurrently with such exercise), the Company at its expense will cause to be issued in the name of and delivered to the holder hereof or, subject to Section 8, as such holder may direct:

(1) a certificate or certificates for the number of duly authorized, validly issued, fully paid and nonassessable shares of Common Stock (or Other Securities) to which such holder shall be entitled upon such exercise, and

(2) in case such exercise is in part only, a new Warrant or Warrants of like tenor, specifying the aggregate on the face or faces thereof the number of shares of Common Stock equal to the number of such shares specified on the face of this Warrant minus the number of such shares designated by the holder upon such exercise as provided in Section 1A.

E. Company to Reaffirm Obligations. The Company will, at the time of or at any time after each exercise of this Warrant, upon the request of the holder hereof or of any shares of Common Stock (or Other Securities) issued upon such exercise, acknowledge in writing its continuing obligation to afford to such holder all rights to which such holder shall continue to be entitled after such exercise in accordance with the terms of this Warrant, provided that if any such holder shall fail to make any such request, the failure shall not affect the continuing obligation of the Company to afford such rights to such holder.

F. Fractional Shares. No fractional shares shall be issued upon exercise of this Warrant and no payment or adjustment shall be made upon any exercise on account of any cash dividends (except as provided in Section 2B) on the Common Stock or Other Securities issued upon such conversion. If any fractional interest in a share of Common Stock would, except for the provisions of the first sentence of this Section 1F, be deliverable upon the exercise of this Warrant, the Company shall, in lieu of delivering the fractional share therefor, pay to the holder exercising this Warrant an amount in cash equal to the Market Price of such fractional interest.

## **Section 2. Protection Against Dilution or Other Impairment of Rights; Adjustments of Exercise Price.**

A. Issuance of Additional Shares of Common Stock. In case the Company, at any time or from time to time after August 28, 2002 (the "**Initial Date**"), shall issue or sell Additional Shares of Common Stock (including Additional Shares of Common Stock deemed to be issued pursuant to Section 2D or 2E but excluding shares of Common Stock issued pursuant to the Securities Issuance Agreement) without consideration or for a consideration per

share (determined pursuant to Section 2F) less than 95% of the Market Price in effect, in each case, on the date of and immediately prior to such issue or sale (or, in the case of issuances where the price has been fixed or finally determined by contract prior to the date of such issuance or sale, as of the date that such price is fixed or finally determined), then, and in each such case, subject to Section 2I, the Exercise Price shall be reduced, concurrently with such issue or sale, to a price (calculated to the nearest .001 of a cent) determined by multiplying such Exercise Price by a fraction,

a) the numerator of which shall be (i) the number of shares of Common Stock outstanding immediately prior to such issue or sale plus (ii) the number of shares of Common Stock which the aggregate consideration received by the Company for the total number of such Additional Shares of Common Stock so issued or sold would purchase at the Market Price, and

b) the denominator of which shall be the number of shares of Common Stock outstanding immediately after such issue or sale,

provided that, for the purposes of this Section 2A, (x) immediately after any Additional Shares of Common Stock are deemed to have been issued pursuant to Section 2D or 2E, such Additional Shares of Common Stock shall be deemed to be outstanding, and (y) treasury shares shall not be deemed to be outstanding.

B. Extraordinary Dividends and Distributions; Pro Rata Repurchases. In case the Company at any time or from time to time after the date hereof shall declare, order, pay or make a dividend or other distribution to the holders of the Common Stock (including, without limitation, any distribution of other or additional stock or other securities or property or Options by way of dividend or spin-off, reclassification, recapitalization or similar corporate rearrangement and any redemption or acquisition of any such stock or Options on the Common Stock), other than (a) a dividend payable in additional Shares of Common Stock or in Options for Common Stock or (b) a regular periodic dividend payable in cash and not constituting an Extraordinary Cash Dividend, then, and in each such case, the Company shall pay over to the holder of this Warrant, on the date on which such dividend or other distribution is paid to the holders of Common Stock, the securities and property (including cash) which such holder would have received if such holder had exercised this Warrant immediately prior to the record date fixed in connection with such dividend or other distribution. In case the Company or any subsidiary thereof shall make a Pro Rata Repurchase, the Exercise Price shall be adjusted by dividing the Exercise Price in effect immediately prior to such action by a fraction (which in no event shall be less than one), the numerator of which shall be the product of (A) the number of shares of Common Stock outstanding immediately before such Pro Rata Repurchase minus the number of shares of Common Stock repurchased in such Pro Rata Repurchase and (B) the Market Price as of the date immediately preceding the first public announcement by the Company of the intent to effect such Pro Rata Repurchase, and the denominator of which shall be (A) the product of (x) the number of shares of Common Stock outstanding immediately before such Pro Rata Repurchase and (y) the Market Price as of the date immediately preceding the first public announcement by the Company of the intent to effect such Pro Rata Repurchase minus (B) the aggregate purchase price of the Pro Rata Repurchase.

C. Above Market Repurchases of Common Stock. In case the Company, at any time or from time to time after the date hereof shall repurchase, by self-tender offer or otherwise, any shares of Common Stock (or any Options or Convertible Securities) at a purchase price in excess of the Market Price thereof, on the Business Day immediately prior to the earliest of (i) the date of such repurchase, (ii) the commencement of an offer to repurchase, or (iii) the public announcement of either (such date being the "**Determination Date**"), the Exercise Price shall be determined by dividing the Exercise Price by a fraction, the numerator of which shall be the product of (A) the number of shares of Common Stock outstanding immediately prior to such Determination Date minus the number of shares of Common Stock repurchased and (B) the Market Price as of the Determination Date, and the denominator of which shall be (A) the product of (x) the number of shares of Common Stock outstanding immediately before such repurchase and (y) the Market Price as of the Determination Date, minus (B) the aggregate purchase price of such repurchase; provided, that in the case of a self-tender offer by the Company, any shares of Common Stock issued upon the exercise or partial



exercise of this Warrant at an Exercise Price adjusted pursuant to this Section 2C due to such self-tender offer, shall not be eligible to be sold in such self-tender offer.

D. Treatment of Options and Convertible Securities. In case the Company, at any time or from time to time after the date hereof, shall issue, sell, grant or assume, or shall fix a record date for the determination of holders of any class of securities entitled to receive, any Options or Convertible Securities, whether or not such Options or the right to convert or exchange any such Convertible Securities are immediately exercisable, then, and in each such case, the maximum number of Additional Shares of Common Stock (as set forth in the instrument relating thereto, without regard to any provisions contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or, in the case of Convertible Securities and Options thereof, issuable upon the conversion or exchange of such Convertible Securities (or the exercise of such Options for Convertible Securities and subsequent conversion or exchange of the Convertible Securities issued), shall be deemed to be Additional Shares of Common Stock issued as of the time of such issue, sale, grant or assumption of such Options or Convertible Securities or, in case such a record date shall have been fixed, as of the close of business on such record date; provided, that such Additional Shares of Common Stock shall not be deemed to have been issued unless the consideration per share (determined pursuant to Section 2F) of such shares would be less than 95% of the Market Price in effect on the date of and immediately prior to such issue, sale, grant or assumption or immediately prior to the close of business on such record date or, if the Common Stock trades on an ex-dividend basis, on the date prior to the commencement of ex-dividend trading, as the case may be, and provided, further, that in any such case in which Additional Shares of Common Stock are deemed to be issued,

a) if an adjustment of the Exercise Price shall be made upon the fixing of a record date as referred to in the first sentence of this Section 2D, no further adjustment of the Exercise Price shall be made as a result of the subsequent issue or sale of any Options or Convertible Securities for the purpose of which such record date was set;

b) no further adjustment of the Exercise Price shall be made upon the subsequent issue or sale of Additional Shares of Common Stock or Convertible Securities upon the exercise of such Options or the conversion or exchange of such Convertible Securities;

c) if such Options or Convertible Securities by their terms provide, with the passage of time or otherwise, for any change in the consideration payable to the Company, or change in the number of Additional Shares of Common Stock issuable, upon the exercise, conversion or exchange thereof (by change of rate or otherwise), the Exercise Price computed upon the original issue, sale, grant or assumption thereof (or upon the occurrence of the record date with respect thereto), and any subsequent adjustments based thereon, shall, upon any such change becoming effective, be recomputed to reflect such change insofar as it affects such Options, or the rights of conversion or exchange under such Convertible Securities, which are outstanding at such time;

d) upon the expiration of any such Options or of the rights of conversion or exchange under any such Convertible Securities which shall not have been exercised (or upon purchase by the Company and cancellation or retirement of any such Options which shall not have been exercised or of any such Convertible Securities the rights of conversion or exchange under which shall not have been exercised), the Exercise Price computed upon the original issue, sale, grant or assumption thereof (or upon the occurrence of the record date with respect thereto), and any subsequent adjustments based thereon, shall, upon such expiration (or such cancellation or retirement, as the case may be), be recomputed as if:

(i) in the case of Options for Common Stock or in the case of Convertible Securities, the only Additional Shares of Common Stock issued or sold (or deemed issued or sold) were the Additional Shares of Common Stock, if any, actually issued or sold upon the exercise of such Options or the conversion or exchange of such Convertible Securities and the consideration received therefor was (x) an amount equal to (A) the consideration actually received by the Company for the issue, sale, grant or assumption of all such Options, whether or not

exercised, plus (B) the consideration actually received by the Company upon such exercise, minus (C) the consideration paid by the Company for any purchase of such Options which were not exercised, or (y) an amount equal to (A) the consideration actually received by the Company for the issue, sale, grant or assumption of all such Convertible Securities which were actually converted or exchanged, plus (B) the additional consideration, if any, actually received by the Company upon such conversion or exchange, minus (C) the excess, if any, of the consideration paid by the Company for any purchase of such Convertible Securities, the rights of conversion or exchange under which were not exercised, over an amount that would be equal to the Fair Value of the Convertible Securities so purchased if such Convertible Securities were not convertible into or exchangeable for Additional Shares of Common Stock, and

(ii) in the case of Options for Convertible Securities, only the Convertible Securities, if any, actually issued or sold upon the exercise of such Options were issued at the time of the issue, sale, grant or assumption of such Options, and the consideration received by the Company for the Additional Shares of Common Stock deemed to have then been issued was an amount equal to (x) the consideration actually received by the Company for the issue, sale, grant or assumption of all such Options, whether or not exercised, plus (y) the consideration deemed to have been received by the Company (pursuant to Section 2F) upon the issue or sale of the Convertible Securities with respect to which such Options were actually exercised, minus (z) the consideration paid by the Company for any purchase of such Options which were not exercised; and

e) no recomputation pursuant to subsection (c) or (d) above shall have the effect of increasing the Exercise Price then in effect by an amount in excess of the amount of the adjustment thereof originally made in respect of the issue, sale, grant or assumption of such Options or Convertible Securities.

Notwithstanding the foregoing provisions of this Section 2D, any rights, options or warrants (herein called "**Special Options**") distributed by the Company to all holders of Common Stock that entitle the holders thereof to purchase shares of the Company's capital stock (either initially or under certain circumstances), and that, until the occurrence of an event (the "**Trigger Event**") (i) are deemed to be transferred with the Common Stock, (ii) are not exercisable and (iii) are also issued in respect of future issuances of Common Stock, shall not be deemed to have been distributed for the purposes of this Section 2D (and no adjustment of the Exercise Price shall be required) until the occurrence of the earliest Trigger Event. In addition, in the event of any distribution of Special Options, or any Trigger Event with respect thereto, that shall have resulted in an adjustment of the Exercise Price under this Section 2D, (A) in the case of any Special Options that shall have been redeemed or repurchased without exercise by any holders thereof, the Exercise Price shall be readjusted upon such final redemption or repurchase to give effect to such distribution or Trigger Event, as the case may be, as though it were an Extraordinary Cash Dividend, equal to the per share redemption or repurchase price received by a holder of Common Stock with respect to such Special Options (assuming such holder had retained the same), made to all holders of Common Stock as of the date of such redemption or repurchase, and (2) in the case of any such Special Options all of which shall have expired or terminated without having been exercised, redeemed or repurchased, the Exercise Price shall be readjusted as if such distribution had not occurred.

E. Treatment of Stock Dividends, Stock Splits, Etc. In case the Company, at any time or from time to time after the date hereof, shall declare or pay any dividend or other distribution on any class of securities of the Company payable in shares of Common Stock, or shall effect a subdivision of the outstanding shares of Common Stock into a greater number of shares of Common Stock (by reclassification or otherwise than by payment of a dividend in Common Stock), then, and in each such case, Additional Shares of Common Stock shall be deemed to have been issued (a) in the case of any such dividend or other distribution, immediately after the close of business on the record date for the determination of holders of any class of securities entitled to receive such dividend or other distribution, or (b) in the case of any such subdivision, at the close of business on the day immediately prior to the day upon which such corporate action becomes effective.

F. Computation of Consideration. For the purposes of this Warrant:

a) The consideration for the issue or sale of any Additional Shares of Common Stock or for the issue, sale, grant or assumption of any Options or Convertible Securities, irrespective of the accounting treatment of such consideration,

(i) insofar as it consists of cash, shall be computed as the amount of cash received by the Company, and insofar as it consists of securities or other property, shall be computed as of the date immediately preceding such issue, sale, grant or assumption as the Fair Value of such consideration (or, if such consideration is received for the issue or sale of Additional Shares of Common Stock and the Market Price thereof is less than the Fair Value of such consideration, then such consideration shall be computed as the Market Price of such Additional Shares of Common Stock), in each case without deducting any expenses paid or incurred by the Company, any commissions or compensation paid or concessions or discounts allowed to underwriters, dealers or others performing similar services and any accrued interest or dividends in connection with such issue or sale, and

(ii) in case Additional Shares of Common Stock are issued or sold or Options or Convertible Securities are issued, sold, granted or assumed together with other stock or securities or other assets of the Company for a consideration which covers both, shall be the proportion of such consideration so received, computed as provided in clause (i) above, allocable to such Additional Shares of Common Stock or Options or Convertible Securities, as the case may be, all as determined in good faith by the Board of Directors of the Company.

b) All Additional Shares of Common Stock, Options or Convertible Securities issued in payment of any dividend or other distribution on any class of stock of the Company and all Additional Shares of Common Stock issued to effect a subdivision of the outstanding shares of Common Stock into a greater number of shares of Common Stock (by reclassification or otherwise than by payment of a dividend in Common Stock) shall be deemed to have been issued without consideration.

c) Additional Shares of Common Stock deemed to have been issued for consideration pursuant to Section 2D, relating to Options and Convertible Securities, shall be deemed to have been issued for a consideration per share determined by dividing

(i) the total amount, if any, received and receivable by the Company as consideration for the issue, sale, grant or assumption of the Options or Convertible Securities in question, plus the minimum aggregate amount of additional consideration (as set forth in the instrument relating thereto, without regard to any provision contained therein for a subsequent adjustment of such consideration) payable to the Company upon the exercise in full of such Options or the conversion or exchanges of such Convertible Securities or, in the case of Options for Convertible Securities, the exercise of such Options for Convertible Securities and the conversion or exchange of such Convertible Securities, in each case computing such consideration as provided in the foregoing subsection (a),

by

(ii) the maximum number of shares of Common Stock (as set forth in the instruments relating thereto, without regard to any provision contained therein for a subsequent adjustment of such number) issuable upon the exercise of such Options or the conversion or exchange of such Convertible Securities.

G. Adjustments for Combinations, Etc. In case the outstanding shares of Common Stock shall be combined or consolidated, by reclassification or otherwise, into a lesser number of shares of Common Stock, the Exercise Price in effect immediately prior to such combination or consolidation shall, concurrently with the effectiveness of such combination or consolidation, be proportionately increased.

H. Minimum Adjustment of Exercise Price. If the amount of any adjustment of the Exercise Price required hereunder would be less than one percent of the Exercise Price in effect at the time such adjustment is otherwise so required to be made, such amount shall be carried forward and adjustment with respect thereto made at the time of and together with any subsequent adjustment which, together with such amount and any other amount or amounts so carried forward, shall aggregate at least one percent of such Exercise Price; provided, that upon the exercise of this Warrant all adjustment carried forward and not therefore made up to and including the date of such exercise shall be made to the nearest .001 of a cent.

I. Changes in Common Stock. At any time while this Warrant remains outstanding and unexpired, in case of any reclassification or change of outstanding securities of the class issuable upon exercise of this Warrant (other than a change in par value, or from par value to no par value, or from no par value to par value, or as a result of a subdivision or combination of outstanding securities issuable upon the exercise of this Warrant) or in case of any consolidation or merger of the Company with or into another corporation (herein called a "**Transaction**") (other than a merger with another corporation in which the Company is a continuing corporation and which does not result in any reclassification or change, other than a change in par value, or from par value to no par value, or from no value to par value, or as a result of a subdivision or combination of outstanding securities issuable upon the exercise of this Warrant), the Company, or such successor corporation, as the case may be, shall, without payment of any additional consideration therefor, execute and deliver to the holder of this Warrant (upon surrender of this Warrant) a new Warrant providing that the holder of this Warrant shall have the right to exercise such new Warrant (upon terms not less favorable to the holder of this Warrant than those then applicable to this Warrant) and to receive upon such exercise, in lieu of each share of Common Stock theretofore issuable upon exercise of this Warrant, the kind and amount of shares of stock, other securities, money or property receivable upon such reclassification, change, consolidation or merger, by the holder of one Common Share issuable upon exercise of this Warrant had it been exercised immediately prior to such reclassification, change, consolidation or merger. Such new Warrant shall provide for adjustments which shall be as nearly equivalent as may be practicable to the adjustment provided for in this Section 2. Notwithstanding the foregoing, in the case of any Transaction which pursuant to this Section 2I would result in the execution and delivery by the Company or any successor of a new Warrant to the holder of this Warrant and in which the holders of shares of Common Stock are entitled only to receive money or other property exclusive of common equity securities, then in lieu of such new Warrant being exercisable as provided above, the holder of this Warrant shall have the right, at its sole option, to require the Company to purchase this Warrant (without prior exercise by the holder of this Warrant) at its fair value as of the day before such Transaction became publicly known, as determined by an unaffiliated internationally recognized accounting firm or investment bank selected by the holder of this Warrant and reasonably acceptable to the Company. The provisions of this Section 2I shall similarly apply to successive reclassifications, changes, consolidations, mergers, sales and transfers.

Notwithstanding anything contained herein to the contrary, the Company shall not effect any Transaction unless prior to the consummation thereof each corporation or entity (other than the Company) which may be required to deliver any securities or other property upon the exercise of Warrants shall assume, by written instrument delivered to each holder of Warrants, the obligation to deliver to such holder such securities or other property as to which, in accordance with the foregoing provisions, such holder may be entitled, and such corporation or entity shall have similarly delivered to each holder of Warrants an opinion of counsel for such corporation or entity, satisfactory to each holder of Warrants, which opinion shall state that all the outstanding Warrants, shall thereafter continue in full force and effect and shall be enforceable against such corporation or entity in accordance with the terms hereof and thereof, together with such other matters as such holders may reasonably request.

J. Certain Issues Excepted. Anything herein to the contrary notwithstanding, the Company shall not be required to make any adjustments of the Exercise Price in the case of the issuance of the Warrants and the issuance of shares of Common Stock issuable upon exercise of the Warrants.

K. Notice of Adjustment. Upon the occurrence of any event requiring an adjustment of the Exercise Price, then and in each such case the Company shall promptly deliver to the holder of this Warrant an Officer's

Certificate stating the Exercise Price resulting from such adjustment and the increase or decrease, if any, in the number of shares of Common Stock issuable upon the exercise of this Warrant, setting forth in reasonable detail the method of calculation and the facts upon which such calculation is based. Within 90 days after each fiscal year in which any such adjustment shall have occurred, or within 30 days after any request therefor by the holder of this Warrant stating that such holder contemplates the exercise of such Warrant, the Company will obtain and deliver to the holder of this Warrant the opinion of its regular independent auditors or another firm of independent public accountants of recognized national standing selected by the Company's Board of Directors, which opinion shall confirm the statements in the most recent Officer's Certificate delivered under this Section 2K.

L. Other Notices. In case at any time:

a) the Company shall declare or pay any dividend upon Common Stock payable in stock or make any dividend or other distribution to the holders of Common Stock;

b) the Company shall offer for subscription pro rata to the holders of Common Stock any additional shares of stock of any class or other rights;

c) there shall be any capital reorganization, or reclassification of the capital stock of the Company, or consolidation or merger of the Company with, or sale of all or substantially all of its assets to, another corporation or other entity (other than a merger or consolidation with a directly or indirectly wholly-owned subsidiary of the Company in which the Company is the survivor);

d) there shall be voluntary or involuntary dissolution, liquidation or winding-up of the Company;

e) there shall be made any tender offer for any shares of capital stock of the Company; or

f) there shall be any other Transaction.

then, in any one or more of such cases, the Company shall give to the holder of this Warrant (i) at least 15 days prior to the record date for any dividend or distribution referred to in subsection (a) above, at least 30 days prior to any event referred to in subsection (b), (c) or (d) above, and within five days after it has knowledge of any pending tender offer or other Transaction, written notice of the date on which the books of the Company shall close or a record shall be taken for such dividend, distribution or subscription rights or for determining rights to vote in respect of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, winding-up or Transaction or the date by which shareholders must tender shares in any tender offer and (ii) in the case of any such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, winding-up or tender offer or Transaction known to the Company, at least 30 days prior written notice of the date (or, if not then known, a reasonable approximation thereof by the Company) when the same shall take place. Such notice in accordance with the foregoing clause (i) shall also specify, in the case of any such dividend, distribution or subscription rights, the date on which the holders of Common Stock shall be entitled thereto, and such notice in accordance with the foregoing clause (ii) shall also specify the date on which the holders of Common Stock shall be entitled to exchange their Common Stock for securities or other property deliverable upon such reorganization, reclassification, consolidation, merger, sale, dissolution, liquidation, winding-up, tender offer or Transaction, as the case may be. Such notice shall also state that the action in question or the record date is subject to the effectiveness of a registration statement under the Securities Act or to a favorable vote of security holders or any other approval requirement, if such is required.

M. Certain Events. If any event occurs as to which, in the good faith judgment of the Board of Directors of the Company, the other provisions of this Warrant are not strictly applicable or if strictly applicable would not fairly protect the exercise rights of the holders of the Warrants in accordance with the essential intent and principles of such provisions, then the Board of Directors of the Company shall make such adjustments, if any, on a basis consistent with such essential intent and principles, necessary to preserve, without dilution, the rights of the holders of the Warrants;

provided, that no such adjustment shall have the effect of increasing the Exercise Price as otherwise determined pursuant to this Warrant. The Company may make such reductions in the Exercise Price as it deems advisable, including any reductions necessary to ensure that any event treated for Federal income tax purposes as a distribution of stock or stock rights not be taxable to recipients.

N. Prohibition of Certain Actions. The Company will not, by amendment of its certificate of incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms to be observed or performed hereunder by the Company, but will at all times in good faith assist in the carrying out of all the provisions of this Warrant and in the taking of all such action as may be necessary in order to protect the exercise privilege of the holder of this Warrant against dilution or other impairment, consistent with the tenor and purpose of this Warrant. Without limiting the generality of the foregoing, the Company (a) will not increase the par value of any shares of Common Stock receivable upon the exercise of this Warrant above the Exercise Price then in effect, (b) will take all such action as may be necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable shares of Common Stock upon the exercise of all Warrants from time to time outstanding, and (c) will not take any action which results in any adjustment of the Exercise Price if the total number of shares of Common Stock or Other Securities issuable after the action upon the exercise of all of the Warrants would exceed the total number of shares of Common Stock or Other Securities then authorized by the Company's certificate of incorporation and available for the purpose of issue upon such conversion.

**Section 3. Stock to be Reserved.** The Company will at all times reserve and keep available out of the authorized Common Stock, solely for the purpose of issue upon the exercise of the Warrants as herein provided, such number of shares of Common Stock as shall then be issuable upon the exercise of all outstanding Warrants and the Company will maintain at all times all other rights and privileges sufficient to enable it to fulfill all its obligations hereunder. The Company covenants that all shares of Common Stock which shall be so issuable shall, upon issuance, be duly authorized, validly issued, fully paid and nonassessable, free from preemptive or similar rights on the part of the holders of any shares of capital stock or securities of the Company or any other Person, and free from all taxes, liens and charges with respect to the issue thereof (not including any income taxes payable by the holders of Warrants being exercised in respect of gains thereon), and the Exercise Price will be credited to the capital and surplus of the Company. The Company will take all such action as may be necessary to assure that such shares of Common Stock may be so issued without violation of any applicable law or regulation, or of any applicable requirements of the National Association of Securities Dealers, Inc. and of any domestic securities exchange upon which the Common Stock may be listed.

**Section 4. Registration of Common Stock.** If any shares of Common Stock required to be reserved for purposes of the exercise of Warrants require registration with or approval of any governmental authority under any Federal or State law (other than the Securities Act, registration under which is governed by the Registration Rights Agreement), before such shares may be issued upon the exercise thereof, the Company will, at its expense and as expeditiously as possible, use its best efforts to cause such shares to be duly registered or approved, as the case may be. Shares of Common Stock issuable upon exercise of the Warrants shall be registered by the Company under the Securities Act or similar statute then in force if required by the Registration Rights Agreement and subject to the conditions stated in such agreement. At any such time as the Common Stock is listed on any national securities exchange or quoted by the Nasdaq National Market or any successor thereto or comparable system, the Company will, at its expense, obtain promptly and maintain the approval for listing on each such exchange or quoting by the Nasdaq National Market on such successor thereto a comparable systems, upon official notice of issuance, the shares of Common Stock issuable upon exercise of the then outstanding Warrants and maintain the listing or quoting of such shares after their issuance so long as the Common Stock is so listed or quoted; and the Company will also cause to be so listed or quoted, will register under the Exchange Act and will maintain such listing or quoting of, any Other Securities that at any time are issuable upon exercise of the Warrants, if and at the time that any securities of the same class shall be listed on such national securities exchange by the Company.

**Section 5. Expenses.** The Company will pay, and save each Person which is or has been the holder of a Warrant (a "**Warrantholder**") harmless against liability for the payment of, all out-of-pocket expenses arising in connection with the transactions contemplated by the Warrants, including (i) all document production and duplication charges and the reasonable fees and expenses of any counsel engaged by any Warrantholder in connection with the Warrants or the transactions contemplated thereby and any subsequent proposed modification, amendment or waiver of, or proposed consent under, the Warrants, whether or not such proposed modification, amendment or waiver shall be effected or proposed consent granted, and (ii) the costs and expenses, including reasonable attorneys' fees, incurred by any Warrantholder in enforcing or defending (or determining whether or how to enforce or defend) any rights under the Warrants or in responding to any subpoena or other legal process or informal investigative demand issued in connection with the Warrants or the transactions contemplated thereby or by reason of the Warrantholder's have acquired any Warrant or any securities issuable upon exercise thereof, including without limitation costs and expenses (including the costs and expenses of financial advisors) incurred in any bankruptcy case or in connection with any work-out or restructuring of the transactions contemplated by the Warrants. The Company will pay, and will save each Warrantholder harmless from all claims in respect of any fees, costs or expenses, if any, of brokers and finders (other than those retained by any such holder). The issuance of certificates for shares of Common Stock upon exercise of the Warrants shall be made without charge to the Warrantholders for any issuance tax or other governmental charge in respect thereof, all of which shall be paid by the Company. The obligations of the Company under this Section 5 shall survive the transfer or exercise of any Warrant or any portion thereof or interest therein by the Warrantholder.

**Section 6. Closing of Books.** The Company will at no time close its transfer books to the transfer of any Warrant or of any share of Common Stock issued or issuable upon the exercise of any Warrant in any manner which interferes with the timely exercise of such Warrant.

**Section 7. No Rights or Liabilities as Stockholders.** This Warrant shall not entitle the holder thereof to any of the rights of a stockholder of the Company, except as expressly contemplated herein. No provision of this Warrant, in the absence of the actual exercise of such Warrant and receipt by the holder thereof of Common Stock issuable upon such conversion, shall give rise to any liability on the part of such holder as a stockholder of the Company, whether such liability shall be asserted by the Company or by creditors of the Company.

**Section 8. Restrictive Legends.** Except as otherwise permitted by this Section 8, each Warrant originally issued and each Warrant issued upon direct or indirect transfer or in substitution for any Warrant pursuant to this Section 8 shall be stamped or otherwise imprinted with a legend in substantially the following or a comparable form:

"This Warrant and any shares acquired upon the exercise of this Warrant have not been registered under the Securities Act of 1933 and may not be transferred in the absence of such registration or an exemption therefrom under such Act."

Except as otherwise permitted by this Section 8, (a) each certificate for shares of Common Stock (or Other Securities) issued upon the exercise of any Warrant, and (b) each certificate issued upon the direct or indirect transfer of any such Common Stock (or Other Securities) shall be stamped or otherwise imprinted with a legend in substantially the following or a comparable form:

"The shares represented by this certificate have not been registered under the Securities Act of 1933 and may not be transferred in the absence of such registration or an exception therefrom under such Act."

The holder (or its transferee, as applicable) of any Restricted Securities shall be entitled to receive from the Company, without expense, new securities of like tenor not bearing the applicable legend set forth above in this Section 8 when such securities shall have been (a) effectively registered under the Securities Act and disposed of in accordance with the registration statement covering such Restricted Securities, (b) disposed of pursuant to the provisions of Rule 144 or any comparable rule under the Securities Act, or (c) when, in the written reasonable opinion of independent counsel for the holder thereof experienced in Securities Act matters, such restrictions are no longer required in order to insure

compliance with the Securities Act (including when the provisions of Rule 144(k) or any comparable rule under the Securities Act have been satisfied). The Company will pay the reasonable fees and disbursements of counsel for any holder of Restricted Securities in connection with all opinions rendered pursuant to this Section 8.

**Section 9. Availability of Information.** The Company will cooperate with each holder of any Restricted Securities in supplying such information as may be necessary for such holder to complete and file any information reporting forms presently or hereafter required by the Commission as a condition to the availability of an exemption from the Securities Act for the sale of any Restricted Securities. The Company will furnish to each holder of any Warrants, promptly upon their becoming available, copies of all financial statements, reports, notices and proxy statements sent or made available generally by the Company to its stockholders, and copies of all regular and periodic reports and all registration statements and prospectuses filed by the Company with any securities exchange or with the Commission.

**Section 10. Information Required By Rule 144A10.** The Company will, upon the request of the holder of this Warrant, provide such holder, and any qualified institutional buyer designated by such holder, such financial and other information as such holder may reasonably determine to be necessary in order to permit compliance with the information requirements of Rule 144A under the Securities Act in connection with the resale of Warrants, except at such times as the Company is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act. For the purpose of this Section 10, the term "qualified institutional buyer" shall have the meaning specified in Rule 144A under the Securities Act.

**Section 11. Registration Rights Agreement.** The holder of this Warrant and the holders of any securities issued or issuable upon the exercise hereof are each entitled to benefits of the Registration Rights Agreement.

**Section 12. Ownership, Transfer and Substitution of Warrants.**

A. Ownership of Warrants. Except as otherwise required by law, the Company may treat the Person in whose name any Warrant is registered on the register kept at the principal office of the Company as the owner and holder thereof for all purposes, notwithstanding any notice to the contrary except that, if and when any Warrant is properly assigned in blank, the Company, in its discretion, may (but shall not be obligated to) treat the bearer thereof as the owner of such Warrant for all purposes, notwithstanding any notice to the Company to the contrary. Subject to Section 8, a Warrant, if properly assigned, may be exercised by a new holder without first having a new Warrant issued.

B. Transfer and Exchange of Warrants. Upon the surrender of any Warrant, properly endorsed, for registration of transfer or for exchange at the principal office of the Company, the Company at its expense will (subject to compliance with Section 8, if applicable) execute and deliver to or upon the order of the holder thereof a new Warrant or Warrants of like tenor, in the name of such holder or as such holder (upon payment by such holder of any applicable transfer taxes) may direct, calling in the aggregate on the face or faces thereof for the number of shares of Original Common Stock called for on the face or faces of the Warrant or Warrants so surrendered.

C. Replacement of Warrants. Upon receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of any Warrant and, in the case of any such loss, theft or destruction of any Warrant held by a Person other than the original holder thereof, upon delivery of its unsecured indemnity reasonably satisfactory to the Company in form and amount or, in the case of any such mutilation, upon surrender of such Warrant for cancellation at the principal office of the Company, the Company at its expense will execute and deliver, in lieu thereof, a new Warrant of like tenor.

**Section 13. Definitions.** As used herein, the following terms have the following respective meanings:

"**Acquiring Company**" shall have the meaning specified in Section 2J.



**"Acquirer's Common Stock"** shall have the meaning specified in Section 2J.

**"Additional Shares of Common Stock"** shall mean all shares (including treasury shares) of Common Stock issued or sold (or, pursuant to Section 2D or 2E deemed to be issued) by the Company after the date hereof, whether or not subsequently reacquired or retired by the Company, other than (i) shares of Common Stock issued pursuant to the Securities Issuance Agreement, (ii) shares of Common Stock issued upon the exercise or partial exercise of the Warrants or the warrants issued pursuant to the Securities Purchase Agreement, (iii) shares issuable upon exercise of options, warrants or rights granted to employees or consultants or directors of the Company or its subsidiaries under shareholder approved plans and (iv) other options, warrants or rights in each case providing for an exercise price of at least 95% of Market Price at the date of grant.

**"Affiliate"** shall have the meaning specified in the Securities Purchase Agreement.

**"Announcement Date"** shall have the meaning specified in Section 2J.

**"Commission"** shall mean the Securities and Exchange Commission or any successor federal agency having similar powers.

**"Common Stock"** shall mean the Original Common Stock, any stock into which such stock shall have been converted or changed or any stock resulting from any reclassification of such stock and all other stock of any class or classes (however designated) of the Company the holders of which have the right, without limitation as to amount, either to all or to a share of the balance of current dividends and liquidating dividends after the payment of dividends and distributions on any shares entitled to preference.

**"Company"** shall mean Recoton Corporation, a New York corporation, and its permitted successors hereunder.

**"Convertible Securities"** shall mean any evidences of indebtedness, shares of stock (other than Common Stock) or other securities directly or indirectly convertible into or exchangeable for Additional Shares of Common Stock.

**"Exchange Act"** shall mean the Securities and Exchange Act of 1934, as amended.

**"Exercise Period"** shall mean October 1, 2003 to and including the Expiration Date.

**"Exercise Price"** shall have the meaning specified in Section 1B.

**"Expiration Date"** shall have the meaning specified in the opening paragraphs of this Warrant.

**"Extraordinary Cash Dividend"** shall mean, with respect to any consecutive 12-month period, the amount, if any, by which the aggregate amount of all cash and non-cash dividends or distributions on any shares of Common Stock occurring in such 12-month period (or, if such Common Stock was not outstanding at the commencement of such 12-month period, occurring in such shorter period during which such Capital Stock was outstanding) exceeds on a per share basis 5% of the average of the daily Market Prices per share of such Common Stock over such 12-month period (or such shorter period during which such Common Stock was outstanding); provided that, for purposes of the foregoing definition, the amount of cash and non-cash dividends paid on a per share basis will be appropriately adjusted to reflect the occurrence during such period of any stock dividend or distribution of shares of capital stock of the Company or any subdivision, split, combination or reclassification of shares of such Common Stock.

**"Fair Value"** shall mean with respect to any securities or other property, the fair value thereof as of a date which is within 15 days of the date as of which the determination is to be made as determined by the Board of

Directors of the Company in good faith, unless such determination is to be made in connection with a transaction with an Affiliate in which case such fair value shall be (a) determined by agreement between the Company and the Required Holders, or (b) if the Company and the Required Holders fail to agree, determined jointly by an independent investment banking firm retained by the Company and by an independent investment banking firm retained by the Required Holders, either of which firms may be an independent investment banking firm regularly retained by the Company, or (c) if the Company or the Required Holders shall fail so to retain an independent investment banking firm within 10 Business Days of the retention of such a firm by the Required Holders or the Company, as the case may be, determined solely by the firm so retained, or (d) if the firms so retained by the Company and by such holders shall be unable to reach a joint determination within 15 Business Days of the retention of the last firm so retained, determined by another independent investment banking firm which is not a regular investment banking firm of the Company chosen by the first two such firms.

**"Initial Date"** shall have the meaning specified in Section 2A.

**"Market Price"** shall mean on any date specified herein, (a) with respect to Common Stock or to common stock (or equivalent equity interests) of an Acquiring Company or its Parent, the amount per share equal to (i) the last sale price of shares of Common Stock, regular way, or of shares of such common stock (or equivalent equity interests) on such date or, if no such sale takes place on such date, the average of the closing bid and asked prices thereof on such date, in each case as officially reported on the principal national securities exchange on which the same are then listed or admitted to trading, or (ii) if no shares of Common Stock or no shares of such common stock (or equivalent equity interests), as the case may be, are then listed or admitted to trading on any national securities exchange, the last sale price of shares of Common Stock, regular way, or of shares of such common stock (or equivalent equity interests) on such date, in each case or, if no such sale takes place on such date, the average of the reported closing bid and asked prices thereof on such date as quoted in the Nasdaq National Market or other over-the-counter market or, if no shares of Common Stock or no shares of such common stock (or equivalent equity interests), as the case may be, are then quoted in the Nasdaq National Market or other over-the-counter market, as published by the National Quotation Bureau, Incorporated or any similar successor organization, and in any such case as reported by any member firm of the New York Stock Exchange selected by the Company, or (iii) if no shares of Common Stock or no shares of such common stock (or equivalent equity interests), as the case may be, are then listed or admitted to trading on any national securities exchange or quoted or published in the over-the-counter market, the higher of (x) the book value thereof as determined by any firm of independent public accountants of recognized standing selected by the Board of Directors of the Company, as of the last day of any month ending within 60 days preceding the date as of which the determination is to be made or (y) the Fair Value thereof, and (b) with respect to any other securities, the Fair Value thereof.

**"Officer's Certificate"** shall mean a certificate signed in the name of the Company by its President, one of its Vice Presidents or its Treasurer.

**"Options"** shall mean rights, options or warrants to subscribe for, purchase or otherwise acquire either Additional Shares of Common Stock or Convertible Securities.

**"Original Common Stock"** shall have the meaning specified in the opening paragraphs of this Warrant.

**"Other Securities"** shall mean any stock (other than Common Stock) and any other securities of the Company or any other Person (corporate or otherwise) which the holders of the Warrants at any time shall be entitled to receive, or shall have received, upon the exercise of the Warrants, in lieu of or in addition to Common Stock, or which at any time shall be issuable or shall have been issued in exchange for or in replacement of Common Stock or Other Securities pursuant to Section 2J or otherwise.

**"Parent"** shall have the meaning specified in Section 2J.

**"Person"** shall mean and include an individual, a partnership, a limited liability company, a joint venture, a corporation, a trust, an unincorporated organization and a government or any department or agency thereof.

**"Pro Rata Repurchase"** shall mean any purchase of shares of Common Stock by the Company or by any of its subsidiaries whether for cash, shares of Common Stock of the Company, other securities of the Company, evidences of indebtedness of the Company or any other Person or any other property (including, without limitation, shares of capital stock, other securities or evidences of indebtedness of a subsidiary of the Company), or any combination thereof, which purchase is subject to Section 13(e) of the Securities Exchange Act of 1934, as amended, or is made pursuant to an offer made available to all holders of shares of Common Stock.

**"Purchasers"** shall mean The Prudential Life Insurance Company of America and ING (U.S.) Capital LLC.

**"Registration Rights Agreement"** shall mean the Registration Rights Agreement dated as of August 31, 1999, among the Company and the holders of "Registrable Securities" party thereto, as amended pursuant to the Second Amendment to Securities Purchase Agreement, dated as of August 28, 2002, as the same may be amended, supplemented or otherwise modified from time to time.

**"Required Holders"** shall mean the holders of at least 66 2/3% of all the Warrants at the time outstanding, determined on the basis of the number of shares of Common Stock then purchased upon the exercise of all Warrants then outstanding.

**"Restricted Securities"** shall mean (a) any Warrants bearing the applicable legend set forth in Section 8 and (b) any shares of Common Stock (or Other Securities) which have been issued upon the exercise of Warrants and which are evidenced by a certificate or certificates bearing the applicable legend set forth in such section, and (c) unless the context otherwise requires, any shares of Common Stock (or Other Securities) which are at the time issuable upon the exercise of Warrants and which, when so issued, will be evidenced by a certificate or certificates bearing the applicable legend set forth in such section.

**"Securities Act"** shall mean the Securities Act of 1933, as amended.

**"Securities Purchase Agreement"** shall mean that certain Securities Purchase Agreement, dated as of February 4, 1999, among the Company and the Purchasers, as amended pursuant to that certain First Amendment to Securities Purchase Agreement, Guaranty and Registration Rights Agreement, dated as of October 31, 2000, as further amended pursuant to that certain Second Amendment to Securities Purchase Agreement, dated as of August 28, 2002, as the same may be amended, supplemented or otherwise modified from time to time.

**"Transaction"** shall have the meaning specified in Section 2I.

**"Warrant"** shall have the meaning specified in the opening paragraphs of this Warrant.

**Section 14. Remedies.** The Company stipulates that the remedies at law of the holder of this Warrant in the event of any default or threatened default by the Company in the performance of or compliance with any of the terms of this Warrant are not and will not be adequate and that, to the fullest extent permitted by law such terms may be specifically enforced by a decree for the specific performance of any agreement contained herein or by an injunction against a violation of any of the terms hereof or otherwise.

**Section 15. Notices.** All notices and other communications under this Warrant shall be in writing and shall be sent (a) by registered or certified mail, return receipt requested, or (b) by a recognized overnight delivery service, addressed (i) if to any holder or any Warrant or any holder of any Common Stock (or Other Securities), at the registered address of such holder as set forth in the applicable register kept at the principal office of the Company, or

(ii) if to the Company, to the attention of its Secretary at its principal office, provided that the exercise of any Warrant shall be effected in the manner provided in Section 1.

**Section 16. Cancellation.** If on or prior to September 30, 2003, all Notes issued pursuant to the Securities Purchase Agreement and all other obligations of the Company and its Subsidiaries (as defined in the Securities Purchase Agreement) under or in respect of the Notes and the Securities Purchase Agreement, shall have been repaid in full, this Warrant shall be canceled and returned to the Company.

**Section 17. Miscellaneous.**

A. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought.

B. The agreements of the Company contained in this Warrant other than those applicable solely to the Warrants and the holders thereof shall inure to the benefit of and be enforceable by any holder or holders at the time of any Common Stock (or Other Securities) issued upon the exercise of Warrants, whether so expressed or not.

C. This Warrant shall be construed and enforced in accordance with and governed by the laws of the State of New York.

D. The section headings in this Warrant are for purposes of convenience only and shall not constitute a part hereof.

IN WITNESS WHEREOF, this Warrant has been executed and delivered on behalf of Recoton Corporation by one of its duly authorized officers at of the date first above written.

RECOTON CORPORATION

By: \_\_\_\_\_

Name:

Title:

**FORM OF SUBSCRIPTION  
(To be executed only upon exercise of Warrant)**

To RECOTON CORPORATION

The undersigned registered holder of the within Warrant hereby irrevocably exercises such Warrant for, and purchases thereunder, <sup>1</sup> shares of Original Common Stock of RECOTON CORPORATION, [and herewith makes payment of \$ \_\_\_\_\_ therefor]<sup>2</sup> [in a "cashless exercise" pursuant to Section 1A of the within Warrant]<sup>3</sup>, and requests that the certificates for such shares be issued in the name of, and delivered to \_\_\_\_\_ whose address is \_\_\_\_\_.

Dated: \_\_\_\_\_

(Signature must conform in all respects to name of holder as specified on the face of this Warrant)

(Street Address)

\_\_\_\_\_ (City) (State) (Zip Code)

1 Insert here the number of shares called for on the face of this Warrant (or, in the case of a partial exercise, the portion thereof as to which this Warrant is being exercised), in either case without making any adjustment for additional Common Stock or any other stock or other securities or property or cash which, pursuant to the adjustment provisions of this Warrant, may be delivered upon exercise. In the case of a partial exercise, a new Warrant or Warrants will be issued and delivered, representing the unexercised portion of this Warrant, to the holder surrendering the same.

2 Use in connection with an exercise involving a delivery of funds to the Company.

3 Use in connection with a cashless exercise.

**FORM OF ASSIGNMENT  
(To be executed only upon transfer of Warrant)**

For value received, the undersigned registered holder of the within Warrant hereby sells, assigns and transfers unto \_\_\_\_\_ the right represented by such Warrant to purchase \_\_\_\_\_<sup>4</sup> shares of Original Common Stock of RECOTON CORPORATION, to which such Warrant relates, and appoints \_\_\_\_\_ Attorney to make such transfer on the books of RECOTON CORPORATION, maintained for such purpose, with full power of substitution in the premises.

Dated: \_\_\_\_\_

(Signature must conform in all respects to name of holder as specified on the face of this Warrant)

(Street Address)

(City) (State) (Zip Code)

Signed in the presence of:

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4

Insert here the number of shares called for on the face of the within Warrant (or, in the case of a partial assignment, the portion thereof as to which this Warrant is being assigned), in either case without making any adjustment for additional Common Stock or any other stock or other securities or property or cash which, pursuant to the adjustment provisions of the within Warrant, may be delivered upon exercise. In the case of a partial assignment, a new Warrant or Warrants will be issued and delivered, representing the portion of the within Warrant not being assigned, to the holder assigning the same.

**RECOTON CORPORATION**

2950 Lake Emma Road  
Lake Mary, FL 32746

August 28, 2002

The Prudential Insurance Company of America  
Four Gateway Center  
Newark, NJ 07102-4069

ING (U.S.) Investments Corporation and  
ING Capital LLC (f/k/a ING (U.S.) Capital LLC  
1325 Avenue of the Americas  
New York, NY 10019

Ladies and Gentlemen:

This will confirm, pursuant to the Second Amendment to Securities Purchase Agreement dated as of August 28, 2002 amending (i) the Securities Purchase Agreement dated as of February 4, 1999 between Recoton Corporation and The Prudential Insurance Company of America (“Prudential”) and ING (U.S.) Capital LLC and (ii) the Registration Rights Agreement dated as of February 4, 1999 between Recoton Corporation and The Prudential Insurance Company of America and ING (U.S.) Investments Corporation, that the (a) Common Stock Purchase Warrants issued February 4, 1999 (PPN: 756268 2#4) to Prudential and ING (U.S.) Investments Corporation for an aggregate of 310,000 Common Shares, par value \$.20 per share, of Recoton Corporation (the “Common Shares”), (b) 1999 Replacement Common Stock Purchase Warrants issued September 8, 1999 (PPN: 756268 2\*8) to Prudential and ING (U.S.) Capital LLC for an aggregate of 100,000 Common Shares and (c) Refinancing Warrants issued October 31, 2000 (PPN: 756268 6\*4) to Prudential and ING (U.S.) Investments Corporation for an aggregate of 20,000 Common Shares (collectively, the “Warrants”) are hereby amended as follows:

- 1) The Exercise Price is changed to \$2.04 and

- 2) The Expiration Date is extended by two years, to February 4, 2006 for the February 4, 1999 warrants, September 8, 2006 for the September 8, 1999 warrants and October 31, 2007 for the October 31, 2000 warrants.

RECOTON CORPORATION

By: /s/ Arnold Kezsbom

Name: Arnold Kezsbom

Title: Executive Vice President-Finance

**RECOTON CORPORATION**

2950 Lake Emma Road  
Lake Mary, FL 32746

August 28, 2002

JPMorgan Chase Bank  
Harris Trust and Savings Bank  
HSBC Bank, U.S.A.  
Harwood Street Partners I, L.P.  
The Prudential Insurance Company of America  
John Hancock Life Insurance Company  
John Hancock Variable Life Insurance Company  
Mellon Bank, N.A., as Trustee for the Long-Term  
Investment Trust  
Mellon Bank, N.A., as Trustee for Bell Atlantic  
Master Trust  
The Northern Trust Company, as Trustee of the  
Lucent Technologies Inc. Master Pension Trust  
Investors Partner Life Insurance Company  
SunTrust Bank

Ladies and Gentlemen:

This will confirm, pursuant to the Second Amendment and Waiver to the Credit Agreement dated as of August 28, 2002 amending our Credit Agreement dated as of October 31, 2000 that the currently outstanding (a) Fixed Facility Fee Warrants issued September 8, 1999 (PPN: 756268 3\*7) for an aggregate of 68,020 Common Shares, par value \$.20 of Recoton Corporation (the "Common Shares"), (b) Cancelable Facility Fee Warrants issued September 8, 1999 (PPN: 756268 4\*6) for an aggregate of 158,712 Common Shares, (c) Prepayment Warrants (PPN 756268 5\*5) issued October 2, 2000 for an aggregate of 22,673 Common Shares and (d) Facility Fee Warrants issued October 31, 2000 for an aggregate of 5,001 Common Shares, for an aggregate total of 254,406 Common Shares (PPN: 756268 7\*3) (collectively, the "Warrants") are hereby amended as follows:

- 1) The Exercise Price is changed to \$.01;
- 2) The Common Shares shall be issued from our treasury shares and we agree to maintain an adequate number of treasury shares to facilitate such issuance; and
- 3) The Expiration Date shall be the seventh anniversary of the date of issuance of the respective Warrants.

Each term used herein without a definition shall have the meaning assigned thereto by the respective Warrants.

RECOTON CORPORATION

By: /s/ Arnold Kezsbom

Name: Arnold Kezsbom

Title: Executive Vice President-Finance



UNAUDITED PRO FORMA FINANCIAL STATEMENTS AS AT AND FOR THE THREE  
AND SIX MONTHS PERIOD ENDED JUNE 30, 2002

The following unaudited *pro forma* balance sheet as at June 30, 2002 and the unaudited *pro forma* statements of operations for the three and six months ended June 30, 2002 and notes to unaudited *pro forma* financial statements as of and with respect for the period ended June 30, 2002 have been prepared on a *pro forma* basis, reflecting what we believe would have been our financial results as of and for that period had the recent amendments to the agreements for our senior loan, subordinated loan and subordinated notes been executed on June 30, 2002, the date of our Form 10-Q for the second quarter of 2002. The *pro forma* adjustments described in the accompanying notes to the *pro forma* financial statements should be read in conjunction with such statements. Final amounts will differ from these set fourth in the unaudited *pro forma* financial statements. Such *pro forma* financial statements have not been reviewed by our accountants and they do not constitute an amendment of the financial statements included in our previously-filed Form 10-Q for the period ended June 30, 2002, which previously-filed financial statements reflected the situation as it existed at the time that such Form 10-Q was filed.

The unaudited *pro forma* financial statements are based in part on the historical financial statements of the Company and should be read in conjunction with each of the consolidated financial statements of the Company and related notes thereto contained in (i) the Company's Annual Report on Form 10-K for the year ended December 31, 2001, (ii) the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2002, and (iii) the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.

**RECOTON CORPORATION AND SUBSIDIARIES**

**PRO FORMA BALANCE SHEET AS OF  
JUNE 30, 2002)  
(UNAUDITED)  
(DOLLARS IN THOUSANDS)**

	As Reported	Proforma Adjustments	As Adjusted
ASSETS			
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CURRENT ASSETS:			
Cash and cash equivalents	\$ 7,163	\$ --	\$ 7,163
Accounts receivable (less allowance for doubtful accounts of \$3,775	141,010		141,010
Inventories, net	140,925		140,925
Prepaid expenses and other current assets	18,323	10,080 (3)	28,403
	-----	-----	-----
TOTAL CURRENT ASSETS	307,421	10,080	317,501
PROPERTY AND EQUIPMENT, NET	45,712		45,712
TRADEMARKS AND PATENTS, NET	4,000		4,000
GOODWILL, NET	30,536		30,536
DEFERRED INCOME TAXES AND OTHER ASSETS	9,032	20,340 (3)	
	-----	2,633 (1)	32,005
		-----	-----

TOTAL ASSETS	\$396,701	\$33,053	\$429,754
	=====	=====	=====
LIABILITIES			
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CURRENT LIABILITIES:			
Current portion of long-term debt	\$233,678	(213,642) (2)	\$ 20,036
Accounts payable	88,199		88,199
Accrued expenses	20,185	2,633 (1)	
	-----	1,154 (3)	23,972
TOTAL CURRENT LIABILITIES	342,062	-----	-----
		(209,855)	132,207
LONG-TERM DEBT (less current portion above)	-	210,585 (1,2)	210,585
OTHER LIABILITIES	2,431		2,431
	-----	-----	-----
TOTAL LIABILITIES	344,493	530	345,223
	-----		-----

SHAREHOLDERS' EQUITY

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PREFERRED SHARES - \$1.00 par value each - authorized 10,000,000 shares; none issued			
COMMON SHARES - \$.20 par value each - authorized 40,000,000 shares; issued 13,573,530 shares in 2002 and 13,838,530 as adjusted	2,715	53 (1)	2,768
ADDITIONAL PAID-IN CAPITAL	92,895	3,004 (1)	95,899
RETAINED EARNINGS	(24,424)	29,266	4,842
UNEARNED DEFERRED COMPENSATION	(2,455)		(2,455)
ACCUMULATED OTHER COMPREHENSIVE LOSS	(9,526)	(3)	(9,526)
	-----	-----	-----
TOTAL	59,205	32,323	91,528
	-----	-----	-----

TREASURY SHARES - 1,272,532 shares, and 1,753,532  
as adjusted.

	(6,997)		(6,997)
	-----		-----
TOTAL SHAREHOLDERS' EQUITY	52,208	32,323	84,531
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TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$396,701	\$33,043	\$429,754

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See Notes to unaudited financial statements

**RECOTON CORPORATION AND SUBSIDIARIES**

**PRO FORMA STATEMENT OF OPERATIONS  
FOR THE THREE MONTHS ENDED JUNE 30, 2002  
(UNAUDITED,)**

**(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)**

	As Reported -----	Proforma Adjustments -----	As Adjusted -----
NET SALES, INCLUDING \$1,271 IN RESTRUCTURING AND OTHER CHARGES IN 2002	\$124,227	\$ --	\$124,227
COST OF SALES, INCLUDING \$12,840 IN ADDITIONAL VALUATION ADJUSTMENTS IN 2002	98,470		98,470
GROSS PROFIT	25,757		25,757
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES, INCLUDING \$6,537 IN RESTRUCTURING AND OTHER CHARGES IN 2002	44,837 -----	-----	44,837 -----
OPERATING INCOME (LOSS)	(19,080)	-	(19,080)
OTHER (INCOME) EXPENSES:			
Interest expense	5,351		5,351
Amortization of financing costs	867		867
Investment income	(15)		(15)
	-----		
LOSS BEFORE INCOME TAXES	(25,283)	-	(25,283)
INCOME TAX BENEFIT	29,266	(29,266)	(1)
	-----	-----	
NET LOSS	\$ (54,549) =====	29,266 =====	\$ (25,283) =====
BASIC AND DILUTED LOSS PER SHARE:	\$ (4.49) =====		\$ (2.08) =====

NUMBER OF SHARES USED IN COMPUTING  
 BASIC AND DILUTED PER SHARE AMOUNTS:

12,138

12,141

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See Notes to unaudited financial statements

**RECOTON CORPORATION AND SUBSIDIARIES**

***PRO FORMA* STATEMENT OF OPERATIONS  
 FOR THE SIX MONTHS ENDED JUNE 30, 2002  
 (UNAUDITED  
 (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)**

	As Reported -----	Proforma Adjustments -----	As Adjusted -----
NET SALES, INCLUDING \$1,271 IN RESTRUCTURING AND OTHER CHARGES IN 2002	\$255,443	\$ --	\$255,443
COST OF SALES, INCLUDING \$12,840 IN ADDITIONAL VALUATION ADJUSTMENTS IN 2002	189,528		189,528
GROSS PROFIT	65,915		65,915
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES, INCLUDING \$6,537 IN RESTRUCTURING AND OTHER CHARGES IN 2002	84,271 -----		84,271 -----
OPERATING INCOME (LOSS)	(18,356)	-	(18,356)
OTHER (INCOME) EXPENSES:			
Interest expense	11,804		11,804
Amortization of financing costs	867		867
Investment income	(27) -----		(27) -----
LOSS BEFORE INCOME TAXES	(31,809)	-	(31,809)
INCOME TAX BENEFIT	27,281 -----	(29,266) -----	(1) (1,985) -----
NET LOSS	\$ (59,090) =====	29,266 =====	\$ (29,824) =====

BASIC AND DILUTED LOSS PER SHARE:	\$ (4.87)	\$	\$ (2.46)
	=====		=====
NUMBER OF SHARES USED IN COMPUTING			
BASIC AND DILUTED PER SHARE AMOUNTS:	12,137		12,139
	=====		=====

See Notes to unaudited financial statements

## RECOTON CORPORATION AND SUBSIDIARIES

### NOTES TO PRO FORMA FINANCIAL STATEMENTS

#### Note 1.

In connection with the amendments and waiver agreements with our existing senior lenders, subordinated lenders and subordinated noteholders, we were required to pay certain fees, reprice outstanding warrants and issue additional shares and warrants as follows:

Senior lender fee of 1% of the outstanding term loans A and B and the revolving loan commitments	\$1,933
A fee to JP Morgan Chase of \$500,000 (which amount would be reduced to \$300,000 if there was no default on February 4, 2003)	500
A fee to Prudential and ING of 1% of the unpaid principal balance	200
	-----
	\$2,633
Repriced the existing warrants issued to the subordinated lenders to purchase an aggregate of 254,406 shares to \$0.01 per share and extended the term of such warrants by two years	456
Repriced existing warrants issued to Prudential and ING to purchase an aggregate of 430,000 shares to \$2.04 per share and extended the term of such warrants by two years.	437
Issued new warrants to Prudential and ING to purchase an aggregate of 1,085,883 shares at \$2.04 per share for five years.	1,478
Issued to Pru and ING from our treasury an aggregate of 265,000 shares of our common stock	686
	-----
	\$3,057

#### Note 2.

On August 28, 2002, we entered into certain amendments and waiver agreements with our existing senior lenders, subordinated lenders and subordinated noteholders. Such agreements were effective as of August 19, 2002; as such, we reclassified the appropriate portion of the debt as long term.

Note 3.

We previously recorded a valuation allowance for the deferred income taxes due to uncertainties associated with generating taxable income needed to recover such assets. When we entered into certain amendments and waiver agreements with our existing senior lenders, subordinated lenders and subordinated noteholders, we believed it was more likely than not that we could generate sufficient taxable income, consequently, we are recognizing \$29.3 million related to the reversal of such valuation reserves.