

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K/A

Current report filing [amend]

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FILER

ALCOHOL SENSORS INTERNATIONAL LTD

CIK: **929313** | IRS No.: **113104480** | State of Incorporation: **NY** | Fiscal Year End: **1231**
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Mailing Address
28 BRANDYWINE DRIVE
DEER PARK NY 11729

Business Address
28 BRANDYWINE DRIVE
DEER PARK NY 11729

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 8-K/A

CURRENT REPORT

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

Date of Report (Date of earliest event reported): May 7, 1999

ALCOHOL SENSORS INTERNATIONAL, LTD.

(Exact name of registrant as specified in its charter)

NEW YORK

0-26998

11-3104480

(State or other jurisdiction (Commission File Number)
of incorporation)

(IRS Employer
Identification Number)

28 BRANDYWINE DRIVE, DEER PARK, NEW YORK 11729

(Address of principal executive offices) (Zip code)

Registrant's telephone number, including area code: (516) 586-4497

ITEM 7. Financial Statements and Exhibits.

a) In conjunction with the filing of Form 8-K on May 19, 1999, the Exhibits to be filed by amendment are provided herewith as Exhibits 1-3.

b) Exhibits. The following exhibits are hereby filed with this Form 8-K:

Exhibit
Number

Description

-
1. Order Scheduling Hearing to Consider Approval of a Post-Petition Financing Agreement with Acquisition Funding, LLC, Application, Order Approving Financing Agreement with Acquisition Funding, LLC.
 2. Order Scheduling a Hearing on Approval of the Disclosure Statement and Fixing a Last Date to File Proofs of Claims, Application, Plan of Reorganization, Disclosure Statement Pursuant to ss. 1125 of the Bankruptcy Code, Classes of Claims, Notice of Hearing on Disclosure Statement, Notice Requiring Assertion of Claims Against and Interests in the Debtor, and Order Approving Disclosure Statement.
 3. Ratification and Amendment Agreement, Security Agreement by and between Alcohol Sensors International, Ltd. and Acquisition Funding, LLC, Certificate of Corporate Resolutions, Intellectual Property Security Agreement by and between Alcohol Sensors International, Ltd. and Acquisition Funding, LLC and Special Power of Attorney.

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.

ALCOHOL SENSORS INTERNATIONAL, LTD.

By: /s/EDWARD GOULD

EDWARD GOULD
President

Date: May 20, 1999

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK

-----X

In re:

Chapter 11
Case No. 899-83790-511

ALCOHOL SENSORS INTERNATIONAL, LTD.,

ORDER SCHEDULING HEARING
TO CONSIDER APPROVAL
OF A POST-PETITION
FINANCING AGREEMENT
WITH ACQUISITION FUNDING, LLC

Debtor.

-----X

Upon the annexed application (the "Application") of Alcohol Sensors International, Ltd., debtor and debtor-in-possession (the "Debtor"), for entry of an order pursuant to section 364(c) of the Bankruptcy Code (the "Code") and Rule 4001(c) of the Federal Rules of Bankruptcy Procedure, to schedule a preliminary and final hearing to consider the proposed financing order (the "Proposed Financing Order") annexed as Exhibit "A" to the Application, pursuant to which the Debtor proposes to ratify, assume, adopt and amend a certain pre-petition financing, loan and security agreement (the "Pre-Petition Agreement") by and between the Debtor and Acquisition Funding, LLC ("AFL"), in accordance with a certain ratification and amendment agreement, which together with the Pre-Petition Agreements shall be referred to hereinafter collectively as the Financing Agreements, annexed as Exhibit "B" to the Application, pursuant to which AFL shall make loans, advances and other financial accommodations to the Debtor, all as more fully set forth in the Application, it is

ORDERED, that (i) a preliminary hearing (the "Preliminary Hearing") shall be held before the undersigned bankruptcy judge on May 25, 1999 at 2 o'clock in the afternoon of said day at the United States Bankruptcy Court, 601 Veterans Memorial Highway, Hauppauge, NY 11788 to consider the Application for entry of an order authorizing the Debtor to obtain postpetition financing in accordance with the Financing Agreements, as approved by the Proposed Financing Order, (ii) pending the Preliminary Hearing, the Proposed Financing Order is approved in all respects, except that pending the interim hearing (1) no superpriority status to AFL's claim shall be granted, and (2) no exit fee shall be granted and AFL shall be entitled to the full benefits and protections of such Order with respect to any advances made by AFL from the date hereof through and including the date of the Preliminary Hearing, and (iii) in accordance with the Financing Agreements and the Proposed Financing Order, AFL is hereby authorized to make loans, advances and other financial accommodations to the Debtor in an amount not to exceed \$45,000 and such advances shall be secured by the liens, security interests and super-priority claims granted under the Proposed Financing Order, subject to the Carveout, as defined in the Financing Order, and it is further

ORDERED, that a final hearing (the "Final Hearing") on the Application is

hereby scheduled for June 7, 1999 at 1:30 o'clock in the afternoon of said day, and it is further

ORDERED, that service by hand delivery or an overnight mail service of this order scheduling hearing, the Application, the Financing Agreement and the Proposed Financing Order upon AFL, c/o Law Offices of Donald T. Rave, 11 The Plaza, Locust Valley, New York 11560, special corporate counsel for the Debtor, Ruskin, Moscou, Evans & Faltischek, 170 Old Country Road, Mineola, NY 11501, Attn: Jeffrey Wurst, Esq., the twenty (20) largest unsecured creditors of the Debtor, all other creditors known to the Debtor to assert liens against the Debtor's assets, the United States Trustee, 825 East Gate Blvd., Garden City, NY 11530, and all parties having filed a notice of appearance in this case, on or before May 10, 1999 shall be deemed good and sufficient notice of the Preliminary Hearing and the Final Hearing, this Application and the relief requested therein, pursuant to Bankruptcy Rule 4001, and it is further

ORDERED, that responsive papers, if any, at the Preliminary Hearing and the Final Hearing shall be set forth in writing, and served on bankruptcy counsel for the Debtor, Marilyn Simon & Associates, 200 Park Avenue South, New York, NY 10003-1503, Attn: Marilyn Simon, Esq., special corporate counsel for the Debtor, Ruskin, Moscou, Evans & Faltischek, 170 Old Country Road, Mineola, NY 11501, attn: Jeffrey Wurst, Esq., attorneys for AFL, Law Offices of Donald T. Rave, 11 The Plaza, Locust Valley, New York 11560, the Office of the United States Trustee, 825 East Gate Blvd., Garden City, NY 11530 and filed with the Court in Hauppauge (with a copy to chambers) so as to be received no later than May 20, 1999 and June 2, 1999, respectively.

Dated: Hauppauge, New York
May 10, 1999

s/Melanie L. Cyganowski

UNITED STATES BANKRUPTCY JUDGE

Proof of service of this order must be filed by May 14, 1999. Debtor's attorney and/or the proposed financing lender are directed to serve and file a memorandum of law addressed to the issues raised by the request for an exit fee, no later than May 19, 1999.

s/ Melanie L. Cyganowski

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK
-----X

In re: Chapter 11
Case No.

ALCOHOL SENSORS INTERNATIONAL, LTD., APPLICATION

Debtor.

-----X

TO THE HONORABLE UNITED STATES
BANKRUPTCY JUDGE IN THIS PROCEEDING:

The application of Alcohol Sensors International, Ltd., debtor and debtor in possession (the "Debtor") respectfully represents:

1. Heretofore, the Debtor filed a petition for reorganization under chapter 11, 301 of the Bankruptcy Code (the "Code") and automatically remained in possession of its assets and property as well as the operation of its business, pursuant to 1107 and 1108 of the Code. No trustee or examiner has been appointed.

2. The Debtor is a New York corporation in the business of designing, marketing and selling electronic motor vehicle after-market safety products, including a patent-pending line of breath alcohol ignition interlock devices ("BAIID") under the Sens-O-Lock name. The Sens-O-Lock BAIID is designed to detect, evaluate and assist in the prevention of an alcohol impaired driver operating a vehicle. The Debtor also markets and sells, under the Weather Eye brand name, a line of modular products designed to automatically engage and adjust the headlights and taillights of automobiles depending upon the weather and sunlight conditions.

3. Prior to the filing of this case, the Debtor financed its operations through secured loans and advances made available by Acquisition Funding, LLC ("AFL"), under a loan and security agreement dated April 30, 1999 pursuant to which AFL made available to the Debtor a credit facility in an amount not to exceed \$1,000,000. Such loans are secured by accounts receivable, inventory, furniture and fixtures, machinery and equipment, leasehold interests, and general intangibles (including licenses, patents, trade names, trademarks and tax refunds) (collectively, the "Pre-Petition Collateral"). The value of the Pre-Petition Collateral approximates \$337,852 estimated as follows:

Accounts receivable	0.00
Inventory	311,682.87
Interests in Patents Pending	undetermined
Fixed assets	26,169.66

Prepetition advances by AFL against the Pre-Petition Collateral aggregate \$147,000, inclusive of the \$50,000 retainer advanced to Debtor's bankruptcy counsel and the \$65,000 retainer advanced to Debtors special corporate counsel.

4. Simultaneously with the commencement of the case, the Debtor filed a plan of reorganization (the "Plan") and disclosure statement pursuant to which AFL shall acquire ninety-four (94%) percent of the equity interests in the Debtor and fund a distribution to creditors in accordance with the priorities of the Code.

5. The Debtor requires an immediate infusion of cash in order to continue to operate, make payroll and obtain other services. The Debtor believes that the financing available through AFL, as described in paragraph 7 hereof, will give the Debtor sufficient capital to continue to operate.

6. AFL has agreed to continue to make loans, advances and other accommodations to the Debtor in accordance with certain a certain pre-petition financing, loan and security agreement (the "Pre-Petition Agreement") by and between the Debtor and AFL, as ratified, assumed, adopted and amended by a certain ratification and amendment agreement (the "Ratification Agreement"). The Pre-Petition Agreement and Ratification Agreement shall be referred to hereinafter collectively as the Financing Agreements, as annexed as Exhibit "B" hereto. Annexed hereto as Exhibit "A" is a proposed financing order (the "Proposed Financing Order") under which the parties seek to approve the Financing Agreements.

7. The Proposed Financing Order and the Financing Agreements contain substantially the following provisions:

a. AFL, in its sole discretion, shall make advances (the "Advances") to the Debtor in an amount up to \$1,000,000 (inclusive of the Pre-Petition Indebtedness). Advances shall bear interest at the rate of eight (8%) percent above the prime rate charged by Citibank from time to time. Said rate of interest is identical to the amount charged by AFL prior to the date on which this case was filed (the "Filing Date").

b. As security for post-petition advances by AFL, the Debtor shall grant to AFL liens and security interests in and to the Debtor's post-petition assets consisting of all now existing and hereafter acquired personal property, wherever located, and of whatever kind or nature, whether acquired prior to or after the Filing Date, including without limitation, accounts receivable, inventory, furniture and fixtures, machinery and equipment, leasehold interests, general intangibles, patents, patents pending, trade names, trademarks, tax refunds and all property recovered as a result of transfers or obligations avoided under sections 544, 545, 547, 548, 551 and 553 of the Code (the "Post-Petition Collateral"). The grant of the security interests shall be senior to any other interests, subject only to

(1) liens and security agreements granted AFL under the Pre-Petition Agreements,

(2) validly perfected pre-petition liens which are superior to AFL's security interests, and not subject to avoidance under the Code,

(3) the Carve-out, as such term is hereinafter defined.

c. AFL shall be granted a Super-Priority Claim under §364(c)(1) of the Code, having priority in right of payment over any and all other obligations, liabilities and indebtedness of the Debtor, now in existence or hereafter incurred by the Debtor and over all administrative expenses or priority claims of a kind specified in or ordered pursuant to sections 326, 330, 331, 503(b),

506(c) or 507(a), subject only to the Carveout.

d. AFL will receive an exit fee of \$45,000 following a default under or other termination of the Financing Agreements, a sale of substantially all of the Debtor's assets, or confirmation of a plan of reorganization which has not been filed by Debtor and approved by AFL.

e. to the extent the Post-Petition Collateral of the Debtor is insufficient to pay the fees to the Office of the United States Trustee, pursuant to 28 U.S.C. 1930(a) (6) (the "UST Fees") and the reasonable fees and expenses, fixed by orders of this Court, of Marilyn Simon & Associates, bankruptcy counsel retained by the Debtor ("MS&A"), net of any pre-petition retainers paid, the liens, security interests and the Superpriority Claim recognized or granted to AFL under the Financing Agreements or the Proposed Financing Order, shall be junior and subordinate to the claims for UST Fees, without limit and the post-petition claims of MS&A, not to exceed \$25,000 in the aggregate (collectively, the "Carveout").

8. Pending the hearing scheduled by the prefixed order, the Debtor anticipates that it will need to borrow sums from AFL to continue operations, pay necessary expenses including post-petition rent, gross payroll, utilities, make certain purchases and pay other charges. Accordingly, the Debtor believes that it is absolutely essential for its continued operation that the Proposed Financing Order be approved on an interim basis pending the hearing scheduled herein. As set forth in the affidavit pursuant to Local Rule 1007-3, the Debtor will require approximately \$105,000 during the first thirty (30) days of operations. It is estimated that, if the hearing to consider the Proposed Financing Order is conducted within the first two (2) weeks after the Filing Date, the following expenses will have to be paid:

Gross Payroll	\$13,769.22
Rent	\$ 1,354.16
Purchases of Product	\$10,000.00
Operating Overhead	\$20,000.00

TOTAL	\$45,123.38

9. Because of the Debtor's essential need for funds under the Proposed Financing Order, the Debtor proposes to send notice of this application by hand delivery or an overnight mail service upon AFL, the twenty (20) largest unsecured creditors of the Debtor, all creditors known to assert liens against the Debtor's assets, all parties having filed a notice of appearance in this case and the United States Trustee. Applicants submit that, under the circumstances, such notice fulfills the requirements of Rules 2002 and 4001 of the Federal Rules of Bankruptcy Procedure. WHEREFORE, the Debtors respectfully request that the Court enter the prefixed order scheduling hearing and for such other and further relief as to this court is just and proper.

Dated: New York,
New York May 7, 1999

ALCOHOL SENSORS INTERNATIONAL, LTD.
Debtor and Debtor in Possession

By: s/Edward S. Gould

EDWARD S. GOULD, President

MARILYN SIMON & ASSOCIATES
Attorneys for the
Debtor and Debtor in Possession

By: s/Marilyn Simon

Marilyn Simon MS-6537
200 Park Avenue South
New York, New York 10003-1503
(212) 529-4400

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK

-----X

In re:

Chapter 11
Case No.

ALCOHOL SENSORS INTERNATIONAL, LTD.

ORDER APPROVING
FINANCING AGREEMENT WITH
ACQUISITION FUNDING, LLC

Debtor.

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The above captioned debtor and debtor in possession (the "Debtor") having moved by order scheduling hearing dated May 10, 1999 (the "Prior Order") pursuant to section 364(c) of the Bankruptcy Code (the "Code") and Rule 4001(c) of the Federal Rules of Bankruptcy Procedure, to ratify, assume, adopt and amend a certain pre-petition financing, loan and security agreement (the "Pre-Petition Agreement") by and between the Debtor and Acquisition Funding, LLC ("AFL"), in accordance with a certain ratification and amendment agreement (the "Ratification Agreement"), which together with the Pre-Petition Agreements shall be referred to hereinafter collectively as the Financing Agreements, annexed as Exhibit "B" to the Application, and notice of the hearing having been given to AFL, the twenty (20) largest unsecured creditors of the Debtor, all creditors known to assert liens against the Debtor's assets, all parties having filed a notice of appearance in this case and the United States Trustee as provided in the Prior Order and a preliminary hearing and final hearing thereon having been held on May 25, 1999 and June 7, 1999, respectively, and upon the record taken before me, after due deliberation and sufficient cause appearing therefor, and

THE COURT HAVING FOUND and determined that

1. the Debtor is unable to obtain unsecured credit allowable under section 503(b)(1) of the Code as an administrative expense;

2. the Debtor is unable to obtain secured credit, except under the terms and conditions provided in this order; and

3. it is in the best interests of the estate that the Debtor be permitted to enter into the Financing Agreements and, thereby, receive advances to pay for operating expenses including rent, gross payroll, utilities, make certain purchases and pay other charges; it is

ORDERED, that the Debtor is hereby authorized to enter into and perform the Financing Agreements the terms of which are hereby approved except that the exit fee is void and unenforceable, and it is further

ORDERED, that the Debtor be, and hereby is, authorized to execute and deliver to AFL the Financing Agreements, including without limitation the Ratification Agreement and such other documents as may be reasonably requested by AFL to effectuate the transactions contemplated thereby, and it is further

ORDERED, that the Debtor be, and hereby is, authorized to borrow money from time to time from AFL in accordance with and upon the terms and conditions set forth in the Financing Agreements, and AFL is authorized to make such loans, advances and other financial accommodations to the Debtor, and it is further

ORDERED, that payment to AFL of all indebtedness to AFL incurred by the Debtor after the commencement of the Debtor's proceeding under chapter 11 ("Indebtedness") shall be secured by a first lien and security interest on the Debtor's post-petition assets consisting of all now existing and hereafter acquired personal property, wherever located, and of whatever kind or nature, whether acquired prior to or after the commencement of the chapter 11 case, including without limitation, accounts receivable, inventory, furniture and fixtures, machinery and equipment, leasehold interests, general intangibles, patents, patents pending, trade names, trademarks, tax refunds and all property recovered as a result of transfers or obligations avoided under sections 544, 545, 547, 548, 551 and 553 of the Code (the "Post-Petition Collateral"), and the grant of the security interests shall be senior to any other interests, subject only to;

a. liens and security agreements granted AFL under the Pre-Petition Agreements,

b. validly perfected pre-petition liens which are superior to AFL's security interests, and not subject to avoidance under the Code,

c. the Carve-out, as such term is hereinafter defined, and

and it is further

ORDERED, that to the extent the unsecured assets of the Debtor are

insufficient to pay the UST Fees and the reasonable fees and expenses, fixed by orders of this Court, of Marilyn Simon & Associates, bankruptcy counsel retained by the Debtor ("MS&A"), net of any pre-petition retainer paid, the liens, and security interests granted to AFL under the Financing Agreements or this Order, shall be junior and subordinate to (i) the claims for the fees payable to the Office of the United States Trustee, pursuant to 28 U.S.C. 1930(a) (6) (the "UST Fees"), without limit and (ii) the post-petition claims of MS&A, not to exceed \$25,000 in the aggregate (collectively, the "Carveout"), and it is further

ORDERED, that except as provided in the Financing Agreements, the Debtor may not at any time apply for or acquiesce in an application for an order which authorizes (a) under section 363 of the Code, the use, sale or lease of property of the estate in which AFL has a lien, or security interest, or (b) under section 364 of the Code, the obtaining of credit or the incurring of indebtedness (i) secured by a lien or security interest on property which is equal or senior to that possessed by AFL or (ii) entitled to a priority as an administrative expense which is superior to the administration claim AFL has herein, unless AFL shall have consented thereto in writing, and it is further

ORDERED, that the automatic stay provided for under section 362(a) of the Code be, and hereby is modified to the extent necessary to permit the Debtor to permit the execution and filing of any financing statements or other similar documents which may in AFL's discretion be desirable, though no such filing shall be necessary for perfection of the liens and security interests granted to AFL, and it is further

ORDERED, that the Debtor is authorized and directed to reimburse AFL for all present and future reasonable costs and expenses incurred by AFL to effectuate the financing transactions contemplated by this Order, including, but not limited to filing fees, reasonable audit and field examination expenses, other costs and expenses, and the reasonable fees of counsel to effectuate and administer said transactions and to enforce AFL's rights hereunder. Copies of such invoices shall be delivered to and reviewed by the committee of unsecured creditors ("Committee"), if appointed, and the office of the United States Trustee, and it is further

ORDERED, that in the event of the termination of the Financing Agreements by AFL as to future transactions as a result of the occurrence of an event of default thereunder, or the conversion of this case to a case under chapter 7 of the Code, or at any time thereafter, then upon three business day's notice to the Debtor and the Office of the United States Trustee, any chapter 11 trustee that may be appointed, the chairman of the Committee, if appointed, and if there be a counsel to a Committee, then to such counsel, AFL shall be relieved from the automatic stay under section 362 of the Code and shall be permitted to assert its rights as a secured party after default against its collateral, all without further order of this Court; provided, however, nothing contained herein shall limit the rights AFL may then already possess by reason of the financing authorized herein, consisting of notification financing as contemplated by section 9-502 of the Uniform Commercial Code as adopted by the State of New York, and it is further

ORDERED, that the provisions of this Order shall survive entry of any subsequent order whether the same be an order confirming a chapter 11 plan or for relief under chapter 7 of the Code, and the provisions of this Order, as well as the liens and security interests arising pursuant hereto in favor of AFL, shall continue in this and any subsequent proceeding under the Code and shall be binding on the Debtor's successors and assigns (including any Trustee or other fiduciary hereafter appointed as a legal representative of the Debtor or with respect to property of the Debtor's estate whether in this chapter 11 case or any subsequent chapter 7 case), and such liens and security interests shall maintain their priority as provided for under this Order until all of the Indebtedness is paid in full; and it is further

ORDERED, that no obligation arising under the Financing Agreements shall be extended or affected by any plan confirmed in this chapter 11 case or by any other action hereafter taken or relief sought in this chapter 11 case, and it is further

ORDERED, that AFL shall be entitled to the full protection of 11 U.S.C. section 364(e), and in the event any or all of the provisions of this Order are hereafter modified, vacated or stayed by subsequent order of this Court or any other Court, such stay, modification or vacatur shall not affect the validity of any indebtedness to AFL incurred pursuant to this Order, and which is incurred prior to the effective date of such stay, modification or vacatur, or the validity and enforceability of any lien, security interest or priority authorized herein with respect to any such debt to AFL; and, notwithstanding such stay, modification or vacatur, any obligations of the Debtor to AFL pursuant to this Order arising prior to the effective date of such stay, modification or vacatur shall be governed in all respects by the original provisions of this Order and AFL shall be entitled to all of its rights, privileges and benefits, including, without limitation, the liens, security interests, priorities and collection rights granted herein to or for the benefit of AFL.

ORDERED, that all amounts, obligations, debts and liabilities of the Debtor to AFL whether incurred pre-petition or post-petition, shall become immediately due and payable in the event that the present chapter 11 case is dismissed and shall become immediately due in the event the chapter 11 case is converted to a liquidation under chapter 7 of the Code, and it is further

ORDERED, that if there is any inconsistency between this Order and the Financing Agreements, the terms and provisions of this Order shall control; and it is further

ORDERED, that the Debtor is authorized and directed to take such steps and execute such instruments or documents as may be necessary to effectuate the terms and conditions hereof.

Dated: New York, New York
May , 1999

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In re: Chapter 11
Case No. 899-83790-511

ALCOHOL SENSORS INTERNATIONAL, LTD., ORDER SCHEDULING A HEARING ON
APPROVAL OF DISCLOSURE
STATEMENT AND FIXING A LAST
DATE TO FILE PROOFS OF CLAIMS

Debtor.

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Upon the annexed application (the "Application") of Alcohol Sensors International, Ltd., debtor and debtor in possession (the "Debtor") to, among other things, fix a date by which all claims and interests must be filed against the Debtor and to schedule a hearing on approval of the Debtor's disclosure statement,

AND no adverse interest represented and sufficient cause appearing therefor, it is

ORDERED, that June 23, 1999 at 2:30 in the afternoon of said day be fixed as the date and time for the hearing (the "Hearing") to be held before this Court to consider the Application for an order:

1. finding that the Debtor's disclosure statement, dated May 7, 1999 (the "Disclosure Statement"), a copy of which is annexed to the Application as Exhibit "B", contains "adequate information" as such term as defined in 1125(a) (1) of Chapter 11 of Title 11 of the United States Code (the "Code"),

(b) approving the Disclosure Statement,

(c) authorizing the Debtor, pursuant to 1125(b) of the Code, to solicit acceptances of its plan of reorganization dated May 7, 1999 (the "Plan"), a copy of which is annexed to the Application as Exhibit "A", from holders of claims against or interests in the Debtor by the transmission of the Disclosure Statement and the Plan to holders of claims and interests,

(d) fixing a date by which all acceptances to or rejections of the Plan must be received in order for them to be counted in the determination of whether the Plan has been accepted in accordance with the provisions of 1126 of the Code, and

(e) granting such other relief as this Court may deem just and proper;

and it is further

ORDERED, that objections, if any, to the Disclosure Statement, must be served upon Marilyn Simon & Associates, Associates, counsel for the Debtor, 200 Park Avenue South, New York, New York 10003, Attention Debra J. Cohen, Esq., and filed with the Court in Hauppauge (with a copy to Chambers) so as to be received no later than 5:00 p.m. on June 17, 1999, and it is further

ORDERED, that pursuant to Rules 2002(a)(8) and 3003(c)(3) of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"), all entities, including all persons, partnerships, corporations, estates, trusts and governmental units who hold Claims, as defined in 101(5) of the Code, against the Debtor, which arose at any time prior to the date of entry of this order, whether or not fixed, contingent, disputed or unliquidated, exclusive of the claims of professional persons retained by the Debtor pursuant to 327, 328 and 1103 of the Code, shall file proofs of such claims with this Court on or before June 14, 1999 no later than 4:30 p.m. (the "Bar Date"), provided, however, that any entity

(a) which has already filed a proof of claim in the form and manner required by Bankruptcy Rule 3001, or

(b) whose claim is listed in the Debtor's Schedules of Assets and Liabilities and Statement of Financial Affairs (the "Schedules") as undisputed, non-contingent or liquidated,

may, but need not, file a proof of claim; and it is further

ORDERED, that each proof of claim shall be filed in conformity with Form No. 10 of the Official Bankruptcy Forms, and its is further

ORDERED, that the Debtor shall serve the Notice of the Hearing to consider the Disclosure Statement, and the Notice of Bar Date, substantially in the forms annexed to the Application as Exhibits "C" and "D", respectively, the provisions of which are hereby approved, by first class mail on or before May 17, 1999, upon all entities listed on the Schedules as holding claims against or interests in the Debtor, the entities required by Chambers Rule V1(A), the United States Trustee, and all persons who have filed notices of appearance pursuant to ?1109 of the Code or have, in writing, requested notice in this case in accordance with Bankruptcy Rule 2002, which shall be deemed good and sufficient notice of the Hearing and the Bar Date; and it is further

ORDERED, that a copy of the Bar Date Notice shall be published in the New York Times National Edition during the week of May 17, 1999, and it is further

ORDERED, that any entity required to file a proof of claim pursuant to this Order, but which shall fail to do so on or before the Bar Date, shall not, with respect to any such claim, be treated as a creditor of the Debtor for the purposes of voting and distribution under the Plan, and shall be forever barred, estopped and enjoined from asserting such claim against the Debtor or its estate.

Dated: Hauppauge, New York
May 10, 1999

s/Melanie L. Cyganowski

UNITED STATES BANKRUPTCY JUDGE

NO OBJECTION:

UNITED STATES TRUSTEE

Affidavit evidencing proof of service and proof of publication must be filed by May 28, 1999.

s/Melanie L. Cyganowski

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK

-----X
In re: Chapter 11
Case No. 899-83790-511

ALCOHOL SENSORS INTERNATIONAL, LTD., APPLICATION

Debtor.
-----X

The application of Alcohol Sensors International, Inc., debtor and debtor in possession (the "Debtor"), by its attorneys, Marilyn Simon & Associates, respectfully sets forth and represents as follows:

BACKGROUND

1. Heretofore, the Debtor filed a petition for reorganization under Chapter 11 of Title 11 of the United States Code (the "Code").

2. The Debtor is a New York corporation in the business of designing, marketing and selling electronic motor vehicle after-market safety products, including a patent-pending line of breath alcohol ignition interlock devices ("BAIID") under the Sens-O-Lock name. The Sens-O-Lock BAIID is designed to detect, evaluate and assist in the prevention of an alcohol impaired driver operating a vehicle. The Debtor also markets and sells, under the Weather Eye brand name, a line of modular products designed to automatically engage and adjust the headlights and taillights of automobiles depending upon the weather and sunlight conditions.

3. The Debtor commenced this case in order to confirm a plan of reorganization, filed contemporaneously with the filing of the chapter 11 petition (the "Plan"), which provides for the treatment of claims against and interests in the Debtor. The Debtor believes that confirmation of the plan is the most efficient and expeditious means to resolve claims and maximize value for all creditors. A copy of the Plan is annexed hereto as Exhibit "A".

4. The Debtor is on a fast track toward confirmation of the Plan. Thus, the time is appropriate to fix a date for the filing of claims against the estate. Accordingly, by the prefixed order, the Debtor requests that this Court fix a final date (the "Bar Date") by which all claims against the Debtor must be filed or deemed to be filed, pursuant to Rule 3003 of the Federal Rules of Bankruptcy Procedure (the "Bankruptcy Rules"). Bankruptcy Rule 3003(c)(2) provides, inter alia, as follows:

Any creditor or equity security holder whose claim or interest is not scheduled or scheduled as disputed, contingent, or unliquidated shall file a proof of claim or interest within the time prescribed by subdivision (c)(3) of this rule; any creditor who fails to do so shall not be treated as a creditor with respect to such claim for the purposes of voting and distribution.

The Debtor seeks a Bar Date that is no more than 45 days following the date of this application.

5. The Debtor is in a position to solicit acceptances to the Plan. As a pre-condition to the solicitation process, the Debtor must transmit to holders of claims against and interests in the Debtor a written disclosure statement which has been approved by this Court as containing adequate information to enable the hypothetical reasonable investor, typical of such holders, to make an informed judgment about the Plan. A copy of the Disclosure Statement is annexed hereto as Exhibit "B". Certain of the information contained therein including information (a) regarding the Bar Date and (b) with respect to claims against the estate, may be modified prior to the hearing. Notwithstanding the minor changes which may occur, the Debtor seeks entry of the prefixed order fixing a hearing date (the "Hearing") to consider the Disclosure Statement for approval.

6. At the Hearing, the Debtor shall seek entry of an order, substantially in the form annexed hereto as Exhibit "E", (a) finding that the Disclosure Statement contains "adequate information" as such term as defined in 1125(a)(1) of the Code, (b) approving the Disclosure Statement as it may be modified prior to the Hearing, (c) authorizing the Debtor to solicit acceptances of the Plan from holders of claims against or interests in the Debtor by the transmission of the Disclosure Statement and the Plan to such holders of claims and interests, and (d) fixing a date by which all acceptances to or rejections of the Plan must be received in order for them to be counted in the determination of whether the Plan has been accepted in accordance with the provisions of 1126 of the Code and Rule 3003 of the Bankruptcy Rules.

7. Bankruptcy Rule 2002(b) requires that at least 25 days' notice by mail of the time fixed for the hearing to consider approval of the Disclosure Statement and for filing objections to the Disclosure Statement be given to all of the Debtor's creditors and equity security holders. Bankruptcy Rule 2002(a)(4) requires at least 20 days' notice by mail of the Bar Date. The Debtor proposes that notice of the Hearing, as well as notice of the Bar Date, substantially in the forms annexed hereto as Exhibits "C" and "D", respectively, be given to all of the Debtor's creditors and equity security holders, the United States Trustee, and all persons who have filed notices of appearance pursuant to 11 U.S.C. 1109 or have requested, in writing, notice in accordance with Rule 2002. The prefixed proposed order approves the form and substance of the notices of the Hearing and the Bar Date. The Debtor submits that such notice

satisfies the requirements of the Code, Bankruptcy Rule 2002 and the Local Rules of this Court.

8. The Debtor respectively requests that the Court waive and dispense with the requirement set forth in Rule 9013-1(b) of the Local Bankruptcy Rules that any motion filed shall have an accompanying memorandum of law. This application does not raise a novel issue of law. Accordingly, the Debtor submits that a waiver of Rule 9013-1(b) requirement is appropriate in this circumstance.

9. No other application for the relief requested herein has been made to this or any other court.

WHEREFORE, the Debtor respectfully seeks entry of the prefixed order and for such other relief and further as this Court may deem just and proper.

Dated: New York, New York
May 7, 1999

ALCOHOL SENSORS INTERNATIONAL, LTD.
Debtor and Debtor in Possession
By its Attorneys,
MARILYN SIMON & ASSOCIATES

By: s/Marilyn Simon

Marilyn Simon MS 6537
200 Park Avenue South
New York, NY 10003-1503
(212) 529-4400

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK
-----X

In re: Chapter 11
Case No. 899-83790-511

ALCOHOL SENSORS INTERNATIONAL, LTD. PLAN OF REORGANIZATION

Debtor.
-----X

Alcohol Sensors International, Ltd., debtor and debtor in possession, and Acquisition Funding, LLC, propose the following plan of reorganization pursuant to 1121(b) of Chapter 11 of Title 11 of the United States Code.

ARTICLE I
DEFINITIONS

1.1 Meaning. For the purpose of this chapter 11 Plan, each of the terms set forth herein shall have the meaning ascribed below and such meaning shall be equally applicable to the singular and plural forms of the terms defined. All of the definitions and provisions contained in this Article 1 are, and shall be, regarded as integral, substantive and operative provisions of this Plan.

1.2 Other Terms. A term that is used in the Plan and not defined herein, but that is defined in the Bankruptcy Code or in the Federal Rules of Bankruptcy Procedure, shall have the meaning set forth therein. Any reference contained in this Plan to a particular exhibit, paragraph or article shall be deemed to be a reference to an exhibit, paragraph or article of this Plan.

1.3 Rules of Construction. The rules of construction set forth in 102 of the Bankruptcy Code shall be applicable to all of the provisions of this Plan. Without in any way limiting the foregoing, as used in this Plan, the words "includes" and "including" are without limitation.

"Administrative Claim" shall mean any cost or expense of administration of the Case allowed under 503(b) or 507(a)(1) of the Bankruptcy Code, including all allowances of compensation or reimbursement of expenses to Professional Persons

to the extent allowed by the Court only upon entry of a Final Order under 330 of the Bankruptcy Code and the Federal Rules of Bankruptcy Procedure, and any fees or charges assessed against the Debtor's estate under 28 U.S.C. 1930.

"AFL" shall mean Acquisition Funding, LLC, the third party proponent of this Plan.

"AFL Agreements" shall mean the Financing, Loan and Security Agreements made as of April 30, 1999, and the Ratification and Amendment Agreement made as of May __, 1999 by and between the Debtor and AFL.

"Allowed" or "Allowed Amount", when referring to a Claim, shall mean the amount of a Claim

1. filed with the Court on or before the Bar Date and as to which no objection to the allowance thereof has been interposed within any applicable period of limitation fixed by Final Order or this Plan,

(b) which has been or hereafter is scheduled by the Debtor as liquidated and not disputed or contingent in amount, as to which no objection to the allowance thereof has been interposed within any applicable period of limitation,

(c) as to which any objection has been interposed, to the extent such Claim has been allowed by a Final Order, or

(d) any Claim specifically identified in this Plan as an Allowed Claim.

"Ballot" shall mean the form distributed to holders of Claims and Interests on which is to be indicated acceptance or rejection of the Plan.

"Bankruptcy Code" shall mean Chapter 11 of Title 11 of the United States Code, 11 U.S.C 101, et. seq., as amended.

"Bar Date" shall mean _____, 1999, the last date fixed by Final Order dated _____, 1999 for filing proofs of Claim or Interests in this Case, which arose at any time either (a) prior to the Filing Date, or (b) on or after the Filing Date through and including the Bar Date.

"Business Day" shall mean any day on which commercial banks are open for business in New York, New York.

"Case" shall mean the Debtor's case under chapter 11 of the Bankruptcy Code, Case No. 899-83790-511, which was commenced by the filing of a voluntary petition with the Court on the Filing Date.

"Cash" shall mean, with respect to payments under the Plan, lawful currency of the United States of America (U.S. dollars), regular check, certified check, bank check or wire transfer from a domestic bank.

"Claim" shall have the meaning given to such term in ?101(5) of the Bankruptcy Code.

"Claimant" shall mean the holder of a Claim.

"Class" shall mean any category of Claims or Interests as specified in Article III of this Plan.

"Common Interests" shall mean the rights of owners of issued and outstanding shares of either Class A or Class B Common Stock.

"Committee" shall mean any Official Committee of Unsecured Creditors appointed in this Case by the United States Trustee.

"Committee Counsel" shall mean the attorneys retained by the Committee to represent it in this Case, which retention is approved by Final Order.

"Confirmation Date" shall mean the date of entry by the Court of the Confirmation Order.

"Confirmation Order" shall mean an order of the Court confirming the Plan in accordance with the Bankruptcy Code.

"Consummation Date" shall mean the date which is thirty (30) days following the Effective Date.

"Court" shall mean the United States Bankruptcy Court for the Eastern District of New York, and any appellate or other court that is competent to exercise jurisdiction over any matter or proceeding arising in or relating to this Case.

"Debtor" shall mean Alcohol Sensors International, Ltd.

"Disputed Claim" shall mean a Claim as to which an objection has been timely filed and which objection (a) is not the subject of a Final Order allowing or disallowing the Claim; and (b) has not been withdrawn.

"Distributions" shall mean Cash which is required under the Plan to be distributed to the holders of Allowed Claims.

"Effective Date" shall mean the date on which the Confirmation Order becomes a Final Order.

"Federal Rules of Bankruptcy Procedure" shall mean the Federal Rules of Bankruptcy Procedure in effect on the date of this Plan.

"Filing Date" shall mean May 7, 1999, the date on which the Debtor filed its voluntary petition under chapter 11 of the Code, thereby commencing the Case.

"Final Order" shall mean an order of the Court which has not been reversed, stayed, modified or amended and (i) the time to appeal from, or to seek review or rehearing of, has expired, (ii) no appeal, review, certiorari or rehearing is pending, and (iii) the order has become conclusive of all matters adjudicated therefor and is in full force and effect.

"Interest" shall mean collectively Preferred Interests, Common Interests, Warrant Interests, or the rights of owners of any other equity securities of the Debtor.

"Interest Holder Claims" shall mean any and all Claims held by Interest holders on account of, or with respect to, their Interests (including Claims for unpaid dividends or the exercise of warrants), which Claims (a) are not secured by a lien or security interest in the assets of the Debtor and (b) are not entitled to priority under 507 of the Bankruptcy Code.

"New Stock" shall mean the stock, with full voting and dividend privileges, issued on the Effective Date, or as soon as practicable thereafter, to AFL or its designee or nominee, which shall represent all issued and outstanding stock in the reorganized Debtor as of the Effective Date.

"Plan" shall mean this Plan of Reorganization.

"Preferred Interests" shall mean the rights of owners of issued and outstanding shares of Series A or Series B Preferred Stock.

"Priority Claim" shall mean any Claim entitled to priority in accordance with 507(a) of the Bankruptcy Code other than an Administrative Claim or a Priority Tax Claim.

"Priority Tax Claim" shall mean any tax claim entitled to priority under 507(a) (8) of the Bankruptcy Code.

"Professional Persons" shall mean all attorneys, accountants and financial consultants retained by a Final Order within the meaning of 327 or 1103 of the Bankruptcy Code or otherwise.

"Professional Fees" shall mean all fees, costs and expenses of Professional Persons incurred in the Case up to and including the Confirmation Date which

fees, costs, and expenses shall have been awarded by Final Order pursuant to 330 or 503(b) of the Bankruptcy Code.

"Pro Rata" shall mean the proportion that the Allowed Claim or Interest in a particular Class bears to the aggregate amount of all Claims (including Disputed Claims until allowed or disallowed) or the aggregate number of all Interests in such Class.

"Secured Claim" shall mean any Claim that is secured, within the meaning of 506(a) of the Bankruptcy Code.

"Unsecured Claim" shall mean any Claim that is not a Secured Claim, an Administrative Claim, a Priority Claim, or a Priority Tax Claim.

"Warrant Interests" shall mean the rights of owners of issued and outstanding warrants to purchase Class A or Class B common stock of the Debtor.

ARTICLE II

Provisions for Treatment of Administrative Claims

2(a) Administrative Claims are not impaired and the Allowed Amount of such Claims shall be satisfied, settled and discharged, in full, by the payment in Cash on the Consummation Date or as soon as practicable thereafter, or shall be paid upon such terms as may be agreed upon between the Debtor and the respective Claimant entitled to such payment.

ARTICLE III

Classification of Claims and Interests

3...1 A Claim is in a particular class only to the extent that the Claim falls within the description of that Class and is in a different Class to the extent that the remainder of the Claim falls within the description of such different Class. In addition, a Claim or Interest is in a particular Class only to the extent that the Claim or Interest is an Allowed Claim.

Class I	-	Secured Claim of AFL
Class II	-	Priority Tax Claims.
Class III	-	Priority Claims.
Class IV	-	Unsecured Claims.
Class V	-	Interest Holder Claims.
Class VI	-	Interests.

3...2 Unimpaired Claims. All classes of Claims are impaired except for Classes II and III.

ARTICLE IV

Treatment of Classes of Claims and Interests

4...1 The Allowed Class I Claim is impaired. The holder of the Allowed Class I Claim shall be issued ninety-six (96%) of the New Stock in full and final satisfaction, settlement and discharge of said Claim.

4...2 Class II Claims are not impaired and shall be satisfied, settled and discharged, in full, by the payment of 100% of the Allowed Amount of such Claims in quarterly deferred Cash installments, inclusive of interest at a rate of 9%

per annum, in equal self amortizing payments commencing on the Consummation Date and every ninety (90) days thereafter, over a period not to exceed six (6) years after the date of assessment of said Claims.

4...3 The Class III Claims are not impaired and shall be satisfied, settled and discharged, in full, by the payment of one hundred (100%) percent of the Allowed Amount of such Claims in Cash on the Consummation Date.

4...4 The Class IV Claims are impaired and shall be satisfied, settled and discharged, by the payment of ten (10%) percent of the Allowed Amount of such Claims in Cash on the Consummation Date, together with such Claimant's Pro Rata share of 4% of the New Stock, in full and final satisfaction, settlement and discharge of said Claims.

4...5 The holders of Class V Interest Holder Claims are impaired inasmuch as they shall receive no Distribution under the Plan.

4...6 The Class VI Interests are impaired. All preferred stock, common stock and warrants of the Debtor issued and outstanding as of the Confirmation Date, as well as any and all preemptive, redemption, dividend and registration rights relating thereto, shall be canceled, and the holders of said Interests shall receive no Distribution under the Plan.

ARTICLE V

MEANS FOR EXECUTION OF THE PLAN

5...1 Distributions. AFL shall fund the Plan to the extent necessary and required to (a) make all of the payments to the holders of Allowed Administrative Claims, Allowed Class II Priority Tax Claims, Allowed Class III Priority Claims, and Allowed Class IV Unsecured Claims, and (b) to issue the New Stock to be issued to Allowed Class IV Unsecured Claims in accordance with the terms of the Plan, in exchange for which AFL shall be issued ninety-six (96%) of the New Stock. Except as otherwise provided herein, on the Effective Date, title to all properties and assets of the Debtor shall pass to and vest in the reorganized Debtor, free and clear of all Claims and Interests. The Class I Secured Claim shall be satisfied in full by the issuance of ninety-six (96%) of the New Stock. Any asset(s) acquired by the reorganized Debtor from and after the Effective Date shall be free and clear of all Claims and Interests.

The Confirmation Order shall be a judicial determination of the discharge of all of the Debtor's liabilities, except as provided in the Plan, whether or not (a) a proof of Claim is filed or deemed filed under 501 of the Bankruptcy Code, (b) such Claim becomes an Allowed Amount, or (c) the holder of such Claim has accepted the Plan. The Debtor shall make Distributions to Claimants only in accordance with the Plan. Distributions of Cash pursuant to the Plan shall be rounded to the nearest whole dollar.

5...2 Distribution Schedules. As soon as practical following the Confirmation Date, but no later than the Consummation Date, the Debtor shall prepare Distribution schedules with respect to Administrative Claims and each Class of Claims, including Claims to which objections have been asserted.

5...3 Objections to Claims. The Debtor may file objections to the allowance of any Claim. Any such objection must be filed and served no later than the later of (a) the sixtieth (60th) day following the Effective Date, (b) thirty (30) days after the filing of the proof of such Claim, or (c) any later date set by Final Order. Any Claim for which no objection has been filed within the time fixed therefor shall be deemed an Allowed Claim in such amount as is set forth in a proof of claim filed with the Bankruptcy Court, or if no proof of claim is filed, as listed in the schedules filed by the Debtor with the Bankruptcy Court pursuant to Rule 1007 of the Federal Rules of Bankruptcy Procedure and not identified as disputed, contingent or unliquidated as to amount.

5...4 Procedure. Unless otherwise ordered by the Bankruptcy Court or agreed to by written stipulation approved by a Final Order, or until the objection thereto is withdrawn, the Debtor may litigate the merits of each Disputed Claim

until determined by Final Order. The Debtor shall have the sole and exclusive authority to assert objections to Claims and to prosecute, and settle all such objections to Claims pursuant to 510, 543 through 551 and 553 of the Bankruptcy Code.

5...5 Unclaimed Distributions. Unclaimed Distributions (including Distributions made by checks which fail to be negotiated) shall be retained by the Debtor and held in trust for the beneficial holders of Allowed Claims entitled thereto for a period of 90 days after the Distribution date. Any Distribution remaining unclaimed 90 days after the distribution date shall be canceled (by a stop payment order or otherwise), the Claim(s) relating to such Distributions(s) shall be deemed forfeited and expunged and the holder of such Claim shall be removed from the Distribution schedule, shall receive no further Distributions under this Plan, and the Distributions shall be returned to AFL. All Distributions shall be made to the holders of Claims at the address listed on their respective proofs of claim filed with the Bankruptcy Court or, if no proof of claim was filed, at their last known address.

5...6 Avoidable Transfers. The Debtor shall retain all causes of action under 510, 543, 544, 545, 547, 548, 549, 550, 551 and 553 of the Bankruptcy Code.

5...7 Post-Confirmation Professional Fees. Counsel and accountants to the Debtor and to the Committee may, from time to time, provide professional services following the Confirmation Date. Such services will not be encompassed within an application for allowance which has been approved by the Court. Such services, inclusive of disbursements, shall be paid within ten (10) days after submission of a bill to the Debtor with copies to AFL and Committee Counsel, provided that no objection to the payment is asserted. If an objection is asserted and remains unresolved, the affected Professional Person may file an application for allowance with the Court and such fees will be paid by the Debtor in amounts as may be fixed by the Court.

ARTICLE VI

EXECUTORY CONTRACTS

All executory contracts and unexpired leases of the Debtor not expressly assumed by the Debtor by a Final Order or previously rejected by the Debtor by Final Order shall be deemed assumed by the Debtor.

ARTICLE VII

COVENANTS OF THE DEBTOR AND AFL

For the period commencing the Consummation Date and until all Classes of Claims have been paid and satisfied pursuant to Article IV of this Plan, the Debtor or AFL, as the case may be, shall:

7...1 Pay when due all current, post-Confirmation Date taxes to taxing authorities, unless such taxes are disputed in good faith.

7...2 Pay when due all payments required to be made under this Plan.

7...3 Maintain business records in accordance with generally accepted accounting principles.

7...4 Prepare annual financial reports and, within sixty (60) days following the end of the Debtor's fiscal year, furnish copies of such reports to AFL and to the Committee Counsel and accountants.

7...5 Furnish to any holder of a Claim or New Stock upon request, a copy of the Debtor's annual financial report, when available.

ARTICLE VIII

THE COMMITTEE

8...1 Until all of the payments are made to the holders of Class IV Claims in accordance with the terms of this Plan, the members of the Committee shall constitute the Committee.

8...2 In the event that a vacancy occurs on the Committee by reason of death, resignation or retirement, or because a designee of a member of the Committee shall no longer be employed by such member, the vacancy thereby created shall be filled within thirty (30) days thereafter by a person designated by the member of the Committee that employed the former designee or with whom the former designee was affiliated. In the event such member of the Committee fails to designate a successor representative to serve on the Committee, the vacancy shall be filled by a designee of a majority of the remaining members of the Committee from among the employees or representatives of the remaining holders of Class IV Claims.

8...3 Upon the occurrence of any one of the following events, and effective immediately upon such occurrence, a member of the Committee shall be deemed to have resigned from the Committee if such member:

8...3a. shall assign all or any portion of its Claim (other than as security for an obligation of, or to an affiliate of, such Claimant), or

8...3b. releases the Debtor from payment of all or a portion of its Claim.

Any vacancy created as a result of the foregoing may, but need not, be filled by a designee of a majority of the remaining members of the Committee from among the employees or representatives of the remaining holders of the Class IV Claims.

8...4 The Committee shall function as such whether or not any vacancy is filled. No holder of a Class IV Claim shall have more than one representative on the Committee at any given time.

8...5 The Committee shall act by a majority vote of its members present and voting, either with or without formal meetings.

8...6 The Committee shall have the power and right, upon such terms and conditions as the Committee may determine, to waive, modify or excuse performance of any of the covenants of the Debtor set forth in the Plan, but such waiver or excuse shall not be deemed to constitute a waiver of any other term or provision of this Plan or waiver or excuse of the same covenant on a different occasion.

8...7 Members of the Committee and their designees shall serve without compensation. However, the Debtor shall reimburse each member of the Committee for all reasonable out-of-pocket expenses or disbursements incurred by it or its designee in the performance of its duties as a member of the Committee, or a designee thereof.

8...8 No member of the Committee, or any of its agents, shall be liable for any action taken, or failure to act, as a member of the Committee, except for their own gross negligence or wilful misconduct.

8...9 Upon the completion of the Distributions to be made to the holders of Class IV Claims in accordance with Article IV of the Plan, the duties, powers, responsibilities and rights of the Committee and its agents shall terminate, ipso facto.

ARTICLE IX

EVENTS OF DEFAULT

9...1 Monetary Defaults. The failure to make any Distribution when due under the Plan, which failure shall continue for a period of thirty (30) days after receipt of notice, as provided in paragraph 12.4 hereof, shall constitute a default under this Plan.

9...2 Other Defaults. The breach of any covenant under the Plan, other than the failure to make any Distribution when due for which provision has already been made in paragraph 9.1 hereof, shall constitute a default under this Plan unless cured within thirty (30) days following receipt by the Debtor of notice of such breach from any Claimant as provided in paragraph 12.4 hereof. In addition, the filing of a subsequent voluntary petition under the Bankruptcy Code by the Debtor, the filing of an involuntary petition under the Bankruptcy Code against the Debtor, or an assignment by the Debtor of its assets for the benefit of creditors, each at any time prior to full satisfaction of the payment provisions of this Plan, shall constitute a default under this Plan. In any such event, a holder of an Allowed Claim shall have the right, upon ten (10) business days' prior written notice thereafter to the Debtor to move the Bankruptcy Court for appropriate relief.

ARTICLE X

DISCHARGE

Except as otherwise expressly provided in this Plan, as of the Effective Date, the Debtor shall be discharged from, and the Confirmation Order shall operate as an injunction against, the commencement or continuation of any action or the employment of any process to collect, offset or recover any sums against the Debtor with respect to

(a) any Claim or interest thereon, and the Debtor's liability therefor shall be extinguished completely, whether or not a proof of claim is filed or deemed filed under 501 of the Bankruptcy Code, such Claim becomes an Allowed Amount under 502 of the Bankruptcy Code or the holder of such Claim has accepted the Plan, and whether or not such Claim is reduced to judgment, liquidated or unliquidated, contingent or noncontingent, asserted or unasserted, fixed or unfixed, matured or unmatured, disputed or undisputed, legal or equitable, known or unknown, that arises or may arise from any agreement of the Debtor entered into or obligation of the Debtor incurred before the Confirmation Date, or from any conduct of the Debtor prior to the Confirmation Date, or that otherwise arose before the Confirmation Date, and

(b) any liability of a kind specified in 502(g), 502(h), and 502(i) of the Bankruptcy Code, whether or not a proof of claim is filed or deemed filed under 501 of the Bankruptcy Code, such Claim becomes an Allowed Amount under 502 of the Bankruptcy Code, or the holder of such Claim has accepted the Plan.

ARTICLE XI

BOARD OF DIRECTORS AND CHARTER OF REORGANIZED DEBTOR

11...1 Board of Directors. The duties, powers, responsibilities and rights of the members of the Debtor's Board of Directors shall continue from and after the Effective Date.

11...2 Charter. After the Confirmation Date and on or before the Effective Date, the Debtor's Certificate of Incorporation and By-Laws shall be amended as provided in the Plan and in a manner as is necessary to implement the provisions of this Plan. On the Effective Date, the Debtor's Certificate of Incorporation and By-Laws shall be deemed modified by this Plan.

ARTICLE XII

MISCELLANEOUS PROVISIONS

12...1 Effect of Confirmation. The Distributions and other treatment afforded holders of Claims and Interests under this Plan shall be in full and complete satisfaction, settlement and discharge of all Claims against and Interests in the Debtor.

12...2 Entire Agreement. This Plan and the Confirmation Order, including any exhibits to this Plan, sets forth the entire agreement and understanding among the parties hereto relating to the subject matter hereof and supersedes all prior discussions and documents. No party shall be bound by any terms,

conditions, definitions, warrants, understandings or representations with respect to the Plan other than as are expressly provided for herein. Should any provision in the Plan be determined to be unenforceable by a court of competent jurisdiction, such determination shall in no way limit or affect the enforceability and operative effect of any and all other provisions of the Plan. The duties, rights and obligations of any person or entity named or referred to in the Plan shall be binding upon, inure to the benefit of and shall be the responsibility of, the successors and assigns of such person or entity.

12...3 Headings; Entire Plan. The headings of the Articles, paragraphs and sections of this Plan are inserted for convenience only and shall not affect the interpretation hereof. This Plan, including any exhibits and other attachments hereto, shall constitute the entire Plan, subject to amendment or modification solely as provided herein. Article I of this Plan is and shall be regarded as an integral, substantive and operative part of the Plan.

12...4 Notices. Any notice described in or required by the terms of this Plan shall be deemed to have been properly given (a) when actually received or, (b) if mailed, five (5) days after the date of mailing, if such notice shall have been sent by registered or certified mail return receipt requested, or (c) if sent via facsimile, on the date of the transmission confirmation, to

- the Debtor, addressed to its counsel:

Marilyn Simon & Associates
200 Park Avenue South, Suite 1700
New York, New York 10003-1503
Attn: Marilyn Simon, Esq.
Facsimile: 212-529-4823

with a copy to:

Ruskin, Moscou, Evans & Faltischek, P.C.
170 Old Country Road
Mineola, New York 11501
Attn: Jeffrey Wurst
Facsimile: (516) 663-6678

- the Committee, addressed to its counsel:

- AFL, addressed to its counsel:

Law Offices of Donald T. Rave
11 The Plaza
Locust Valley, New York 11560
Attn: Donald Rave, Jr., Esq.
Facsimile: (516) 671-1294

or to such other address or addressee as the recipient may give written notice in accordance with the provisions of this section of the Plan.

12...5 Revocation. The Debtor and AFL reserve the right to revoke and withdraw this Plan at any time prior to the Confirmation Date. If the Plan is revoked or withdrawn, then the Plan shall be deemed null and void, and in such event, nothing contained herein shall be deemed to constitute a waiver or release any Claim by or against the Debtor or any other entity, or to prejudice in any manner, the rights of the Debtor, AFL or any entity in any further proceeding involving the Debtor.

12...6 Substantial Consummation. The Plan will be deemed substantially consummated, as such term is used in 1101(2) of the Bankruptcy Code, upon the commencement of distributions to the holders of Administrative Claims, Priority Claims, Priority Tax Claims, and Unsecured Claims. Following such substantial consummation, any appeal, rehearing or other post-confirmation motion of any nature with respect to this Plan or the Confirmation Order except as specifically provided herein or therein shall be rendered moot and no longer justiciable.

12...7 Cramdown. If any impaired Class fails to accept the Plan in accordance with 1129(a) of the Bankruptcy Code, the Debtor reserves the right to request the Bankruptcy Court to confirm the Plan in accordance with the

provisions of 1129(b) of the Bankruptcy Code.

ARTICLE XVIII

RESERVATION OF RIGHTS

In the event that this Plan is not confirmed or that the Effective Date does not occur, the rights of all parties in interest in the Chapter 11 Case shall be reserved in full.

ARTICLE XIV

RETENTION OF JURISDICTION

The Court shall retain jurisdiction of this proceeding under the provisions of the Bankruptcy Code, including, without limitation, 1142(b) thereof and of the Federal Rules of Bankruptcy Procedure to ensure that the intent and the purpose of the Plan is carried out and given effect. Without limitation by reason of specification, the Court shall retain jurisdiction for the following purposes:

- (a) To consider any modification of the Plan pursuant to 1127 of the Bankruptcy Code and/or any modification of the Plan after substantial consummation thereof;
- (b) To hear and to determine:
 - (i) all controversies, suits and disputes, if any, as may arise in connection with the interpretation or enforcement of the Plan including whether an Event of Default has occurred pursuant to Article IX hereof;
 - (ii) all controversies, suits and disputes, if any, as may arise between or among the holders of any Class of Claim or Interest and the Debtor;
 - (iii) all causes of action which may exist on behalf of the Debtor;
 - (iv) applications for allowance of compensation and objections to Claim which have been timely asserted in accordance with orders of this Court;
 - (v) any and all pending applications, adversary proceedings and litigated matters.

Dated: New York, New York
May 7, 1999

ALCOHOL SENSORS INTERNATIONAL, LTD.
Debtor in Possession

By: s/Edward S. Gould

Edward S. Gould

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK
-----X

In re: Chapter 11
Case No. 899-83790-511

ALCOHOL SENSORS INTERNATIONAL, LTD., DISCLOSURE STATEMENT OF
PURSUANT TO 1125 OF THE
BANKRUPTCY CODE

Debtor.
-----X

PRELIMINARY STATEMENT

Alcohol Sensors International, Ltd. (the "Debtor") and AFL Funding LLC, the third party proponent of the Plan of Reorganization dated May 7, 1999 (the "Plan"), submit this disclosure statement ("Disclosure Statement") pursuant to §1125 of Title 11 of the United States Code (the "Bankruptcy Code") to all holders of Claims (the "Claimants") against or interests in the Debtor in order to solicit acceptances or rejections of the Plan.

Accompanying this Disclosure Statement are copies of the following documents:

(a) The Plan;

(b) The notice fixing the time for filing of acceptances or rejections of the Plan, the date, time and place of a hearing to consider confirmation of the Plan and related matters including objections to the Plan;

(c) A ballot (the "Ballot") for acceptance or rejection of the Plan.

The Court has scheduled a hearing to consider confirmation of the Plan for _____, 1999 at _____ o'clock in the _____ noon in the United States Bankruptcy Court, 601 VETERANS MEMORIAL HIGHWAY, HAUPPAUGE, NEW YORK 11788. EXCEPT WHERE EXPRESSLY DEFINED HEREIN, CAPITALIZED TERMS USED IN THIS DISCLOSURE STATEMENT HAVE THE MEANINGS ASCRIBED TO THEM IN THE PLAN.

The Court has directed that Ballots accepting or rejecting the Plan, substantially in conformity with Official Bankruptcy Form No. 30, be received by counsel to the Debtor, Marilyn Simon & Associates, Attn: Debra J. Cohen, Esq., no later than the close of business on _____, 1999, from all holders of Claims or Interests, whose Claims or Interests are impaired by the Plan. Under the Bankruptcy Code, only classes of Claims and Interests which are "impaired" under the Plan may vote to accept or reject the Plan. Generally, a claim or interest is impaired if the holder's legal, equitable or contractual rights are changed under a plan of reorganization. A plan is accepted by an impaired class of claims if the holders of at least two-thirds (2/3) in dollar amount and more than one-half (1/2) in number of the Claims of that class which vote, vote to accept the plan. A plan is accepted by an impaired class of interests if the holders of at least two-thirds (2/3) in amount of the allowed interests of such class which vote, vote to accept the Plan. Under the Plan, Classes I, IV, V and VI are impaired within the meaning of §1124 of the Bankruptcy Code and the holders of such Claims and Interests are entitled to vote to accept or reject the Plan. Classes II and III are not impaired and shall be conclusively deemed to have accepted the Plan. ACCORDINGLY, A BALLOT FOR ACCEPTANCE OR REJECTION OF THE PLAN IS BEING PROVIDED ONLY TO THE HOLDERS OF THE CLAIMS AND INTERESTS IN CLASSES I, IV, V and VI UNDER THE PLAN.

This Disclosure Statement has been approved by the Honorable Melanie Cyganowski, United States Bankruptcy Judge, as containing "adequate information" as that term is defined in §1125 of the Bankruptcy Code. This Disclosure Statement is the only authorized disclosure with respect to the Plan. Approval of the Disclosure Statement by Judge Cyganowski does not constitute a recommendation as to the merits of the Plan. Except as provided in this Disclosure Statement, no other representations concerning the Debtor, its operations, the value of its property or the Claims against the Debtor has been authorized, and none should be relied upon in arriving at your decision to vote to accept or to reject the Plan.

An Official Committee of Unsecured Creditors was appointed in this Case by the United States Trustee on _____. Annexed hereto as Exhibit "A" is a Schedule listing the members of the Office Committee of Unsecured Creditors. Enclosed herewith is a statement prepared by Committee Counsel on behalf of the Committee with respect to its recommendation to accept the Plan.

CLAIMANTS AND INTEREST HOLDERS ARE URGED TO READ THE PLAN IN FULL. THE PLAN REPRESENTS A PROPOSED LEGALLY BINDING AGREEMENT BETWEEN THE DEBTOR, ITS CREDITORS AND INTEREST HOLDERS AND SHOULD BE READ TOGETHER WITH THIS DISCLOSURE STATEMENT IN ORDER THAT AN INFORMED AND INTELLIGENT JUDGMENT CONCERNING THE PLAN CAN BE MADE. TO THE EXTENT THERE IS ANY INCONSISTENCY BETWEEN THE PLAN AND THIS DISCLOSURE STATEMENT, THE TERMS OF THE PLAN SHALL CONTROL.

INTRODUCTION TO THE PLAN

The Plan provides for the division of Claims and Interests into six (6) classes:

Class I is comprised of the Allowed Secured Claim of AFL.

Class II is comprised of the Allowed Priority Claims of Taxing Authorities, which Claims are entitled to priority in accordance with 507(a)(8) of the Bankruptcy Code, including withholding and corporation taxes due the federal, state and local governments. Class II Claims are all accorded the same treatment under the Plan.

Class III is comprised of Allowed Priority Claims, consisting primarily of wage and wage related claims, which Claims are entitled to priority in accordance with 507(a)(3) and (4) of the Bankruptcy Code. Class III Claims are all accorded the same treatment under the Plan.

Class IV is comprised of the Allowed Unsecured Claims. Such Claims are those that arose prior to the date the chapter 11 case was filed, which are not secured by a lien or security interest in the assets of the Debtor and are not entitled to priority under 507 of the Bankruptcy Code, except as may be included in Class II and III Claims, and include Claims for damages arising from the rejection of executory contracts. Class IV Claims are all accorded the same treatment under the Plan.

Class V is comprised of the Allowed Interest Holder Claims. Such Claims are Claims held by certain Interest holders on account of, or with respect to, their Interests (including Claims for unpaid dividends or the exercise of warrants), which Claims (a) are not secured by a lien or security interest in the assets of the Debtor and (b) are not entitled to priority under 507 of the Bankruptcy Code. Class V Claims are all accorded the same treatment under the Plan.

Class VI is comprised of Interests.

III.

ANALYSIS OF THE PLAN

Administrative Claims consist of claims incurred during the pendency of the Case in the ordinary course of business, as well as compensation to be paid to Professional Persons, pursuant to a Final Order. The Debtor has been paying, and shall continue to pay, ordinary course claims as they become due. With respect to claims of Professional Persons, such claims shall be paid in full on or about the later of the Consummation Date or the date of entry of a Final Order allowing their fees and expenses or over such period of time as may be agreed upon between the Debtor and the Administrative Claimant. The Professional Persons consist of Marilyn Simon & Associates, bankruptcy counsel to the Debtor, Ruskin, Moscou, Evans & Faltischek, P.C., special corporate counsel to the Debtor, the Debtor's accountants, and counsel and accountants to the Committee if appointed and if such professionals are retained. No interim fees were paid to Professional Persons during the pendency of the chapter 11 Case. It is anticipated that, subject to Court approval, the final fees payable to the Professional Persons (including xeroxing charges and the cost to print and mail the solicitation package) for work performed and expenses incurred during the administration of the Case after crediting the prepetition retainers paid, will not exceed \$_____ in the aggregate.

If there are any Administrative Claims, other than Professional Fees, such Claims will be paid in full, in Cash, when they accrue or upon such terms as may be agreed upon between the Administrative Claimant and the Debtor. Administrative Claims are not impaired under the Plan because they are being paid in full when they are incurred or fixed by the Court.

A Class is not impaired within the meaning of the Bankruptcy Code if under the Plan the holders of Allowed Claims in such Class receive the Allowed amount of their Claims in Cash or other property of the Debtor equal to the Allowed amount of such Claim or Interest as of the Consummation Date of the Plan. All classes of Claims are unimpaired under the Plan except for Classes I, IV, V, and VI.

The Plan provides that AFL's Allowed Secured Claim, designated in the Plan as the Class I Claim, is impaired. AFL shall be issued ninety-six (96%) of the New Stock in full and final satisfaction, settlement and discharge of said claim. In accordance with the AFL Agreements AFL is authorized to advance up to \$1,000,000 to the Debtor of which \$147,000 was incurred at the Filing Date. AFL's claim includes an unliquidated amount for post-petition advances, interest, costs and fees accrued from and after the Filing Date which, as at the Anticipated Confirmation Date will approximate \$_____. Based upon the report of an investment banker retained by AFL, a summary of which is annexed hereto as Exhibit "B", 96% of the New Stock is valued at not more than \$_____.

The Plan provides that the Allowed Class II Claims of taxing authorities are not impaired and shall be satisfied, settled and discharged, in full, by the payment of 100% of the Allowed amount of such Priority Tax Claims in quarterly deferred cash installments, inclusive of interest at a rate of 9% per annum, in equal self amortizing payments commencing on the Consummation Date and every ninety (90) days thereafter, over a period not to exceed six (6) years after the date of assessment of said Claims. Upon information and belief, the Class II Claims were not assessed prior to the Filing Date. The Debtor's Schedules of Assets and Liabilities (the "Schedules") indicate that there are no Priority Tax claims for withholding, corporation or sales tax, or unemployment insurance, obligations to federal, state and local taxing units.

The Plan provides that Class III Claims, consisting of all wage and wage related Priority Claims, are not impaired and shall be satisfied, settled and discharged, in full, by the payment of one hundred (100%) percent of the Allowed Amount of such Claims in Cash on the Consummation Date. Under 507(a)(3) and (4) of the Bankruptcy Code, wage and wage related claims are afforded priority status only to the extent of \$4,300 for each Claimant. The Schedules indicate that there are no Priority Claims against the Debtor.

The Plan provides that the Allowed Class IV Unsecured Claims are impaired and shall be satisfied, settled and discharged, in full, by the payment of ten (10%) percent of the Allowed Amount of such Claims in Cash on the Consummation Date, together with such Claimant's pro rata share of 4% of the New Stock. The Schedules indicate that the Unsecured Claims aggregate \$649,012.92.

The Plan provides that Class V Interest Holder Claims are impaired and shall receive no distribution. The Debtor believes that there will be no Interest Holder Claims since it has never declared any dividends on any stock and all redemption rights have always been at the Debtor's sole option.

The Plan provides that the Class VI Interests are impaired. All preferred stock, common stock and warrants of the Debtor issued and outstanding as of the Confirmation Date, as well as any and all preemptive, redemption, dividend and registration rights relating thereto, shall be canceled and the holders of said Interests shall receive no Distribution under the Plan.

The absolute priority rule of the Bankruptcy Code, requires that a plan may not provide for payment to a junior class unless it provides for payment in full to the superior classes of creditors unless the superior class consents to such treatment. Consequently, the holders of Interests may not retain their Interests under the Plan unless (a) the holders of Classes I, II, III and IV Claims are paid in full, (b) the holders of the Interests contribute to the reorganized Debtor new value in an amount reasonably equivalent to the value of the Interests, or (c) the impaired superior classes accept the Plan as proposed. Classes I and IV are not paid in full under the Plan and therefore, they are impaired. As a result, the holders of Interests may not retain their respective Interests under the Plan.

Annexed hereto as Exhibit "C" is a schedule which sets forth the various classes of Claims and Interests and the amounts asserted by each class of Claims and Interests. The Debtor believes that the Plan affords holders of Claims and Interests the potential for the greatest realization on the Debtor's assets and, therefore, is in the best interests of such holders. The Debtor's primary assets are its patents in breath alcohol ignition interlock devices ("BAIID") under the Sens-O-Lock name and modular products designed to automatically engage and adjust the headlights and taillights of automobiles under the Weather Eye brand name. If the Plan is not confirmed, the Debtor will yield little or no value from these assets. AFL has agreed to fund the Plan to the extent necessary and

required to make all of the payments and/or to issue the New Stock, as the case may be, to the holders of Allowed Administrative Claims, Allowed Class II Priority Tax Claims, Allowed Class III Priority Claims, and Allowed Class IV Unsecured Claims in accordance with the terms of the Plan in exchange for ninety-six (96%) of the New Stock. If the Plan is not confirmed, the only alternative is liquidation of the Debtor under chapter 7 of the Bankruptcy Code. In the event the Case is converted to a chapter 7 liquidation, the proceeds recovered from the assets of the Debtor will be insufficient to satisfy the Secured Claim in full. Therefore, the holders of Administrative Claims, and all Classes of Claims and Interests would not receive any distribution from the Debtor on account of their respective Claims and Interests. Annexed hereto as Exhibit "D" is a liquidation analysis which indicates that if the case were converted to a liquidation under chapter 7 of the Bankruptcy Code as at July, 1999, the Class I Claim would not be paid in full and therefore, no other class of claims would receive any distribution. Thus, the Plan represents the best available alternative for maximizing returns to holders of Claims and Interests.

IV.

ANALYSIS OF DEBTOR'S CLAIMS

The Plan provides that the Debtor shall retain all causes of action under 510, 543, 544, 545, 547, 548, 549, 550, 551 and 553 of the Bankruptcy Code. The Debtor has reviewed payments made prior to the Filing Date in light of its rights to recovery under the foregoing sections of the Bankruptcy Code and the Debtor believes it either has no recoverable claims which it may assert against third parties with respect thereto or the costs of litigation would exceed any potential recovery.

By order dated _____, 1999, the Court fixed _____, 1999 (the "Bar Date") as the last day by which all entities, except for certain Administrative claimants, but including all persons, partnerships, corporations, estates, trusts and governmental units that may assert a claim against the Debtor which claim arose through and including the Bar Date. Thus, any holder of a Claim against the Debtor which failed to file a proof of Claim on or before the Bar Date (and which was not listed on the Schedules as non-contingent, undisputed and liquidated) shall not, with respect to such Claim, be treated as a creditor for purposes of voting or distribution under the Plan, and is forever barred, estopped and enjoined from asserting such Claim against the Debtor or its estate.

The Plan provides that the Debtor may file objections to the allowance of any Claim. Any such objection must be filed and served by the later of (a) the sixtieth (60th) day following the Effective Date, (b) thirty (30) days after the filing of the proof of such Claim, or (c) any later date set by Final Order. Any Claim for which no objection has been filed within the time fixed therefor shall be deemed an Allowed Claim in such amount as is set forth in a proof of claim filed with the Bankruptcy Court, or if no proof of claim is filed, as listed in the Schedules and not identified as disputed, contingent or unliquidated as to amount. Unless otherwise ordered by the Court or agreed to by written stipulation approved by a Final Order, or the objection thereto is withdrawn, the Debtor may litigate the merits of each Disputed Claim until determined by Final Order. The Debtor shall have the sole and exclusive authority to assert objections to Claims and to prosecute, and settle all such objections to Claims pursuant to 510, 543 through 551 and 553 of the Bankruptcy Code. Unclaimed Distributions (including Distributions made by checks which have not been negotiated by the payee) shall be retained by the Debtor or AFL, as the case may be, and held in trust for the beneficial holders of Allowed Claims entitled thereto for a period of 90 days after the Distribution date. Any Distribution remaining unclaimed 90 days after the distribution date shall be canceled (by a stop payment order or otherwise), the Claim(s) relating to such Distributions(s) shall be deemed forfeited and expunged and the holder of such Claim shall be removed from the Distribution schedule, shall receive no further Distributions under this Plan, and the Distributions shall be returned to the Debtor or AFL, as the case may be. All Distributions shall be made to the holders of Claims at the address listed on their respective proofs of claim filed with the Bankruptcy Court or, if no proof of claim was filed, at their last known address.

V.

BACKGROUND INFORMATION

The Debtor is a New York corporation in the business of designing, marketing and selling electronic motor vehicle after-market safety products, including a patent-pending line of breath alcohol ignition interlock devices ("BAIID") under the Sens-O-Lock name. The Sens-O-Lock BAIID is designed to detect, evaluate and assist in the prevention of an alcohol impaired driver operating a vehicle. The Debtor also markets and sells, under the Weather Eye brand name, a line of modular products designed to automatically engage and adjust the headlights and taillights of automobiles depending upon the weather and sunlight conditions.

The Debtor is a public corporation whose stock is traded on the electronic bulletin board maintained by the National Association of Securities Dealers, Inc. under the symbol "AFL" (for common stock), "AFLW" (for Class A Warrants) and "AFLZ" (for Class B Warrants).

The Debtor's financial difficulties commenced when it discovered in the Spring of 1996 inconsistencies in certain integral components manufactured for the Debtor, as well as other manufacturing, design and quality control problems with the original Sens-O-Lock product. The Debtor had to discontinue manufacturing the original product, recalled all of the Sens-O-Lock units which had been sold, temporarily ceased marketing efforts and wrote down its inventory by approximately \$556,000. Since that time, the Debtor devoted substantially all of its resources to researching and developing new technology for and designing the current Sens-O-Lock product line, developing new and better relationships with component suppliers and manufacturers, improving quality control procedures, enhancing the Sens-O-Lock operating software and developing the Debtor's network of distributors and dealers.

In late February 1998, the Debtor received confirmation from an independent testing laboratory that the new Sens-O-Lock product successfully completed testing under the National Highway Traffic Safety Administration ("NHTSA") Model Specifications for Breath Alcohol Ignition Interlock Devices (the "Model Specifications") for the battery of required tests for the 37-day calibration stability challenge protocol. The Model Specifications are utilized by the various states in their individual certification processes for use in legislative and judicial programs for supervision of persons convicted of alcohol-related motor vehicle infractions, violations and crimes.¹ The Sens-O-Lock has been certified in six states. The Debtor anticipates seeking additional state certifications of the Sens-O-Lock on state-by-state basis, with priority based, among other factors, upon the location of the Debtor's distributors and dealers. The Debtor anticipates publicizing the Model Specification testing success and applicable state certification in promoting the Sens-O-Lock devices for additional markets such as parents of teenage drivers, and truck, bus and taxi fleets.

¹The various states have differing certification processes. Some states merely require compliance with the Model Specifications while other states have much higher standards and/or a complex certification procedure.

Due to its faulty start and inefficient management, the Debtor has had limited sales of Sens-O-Lock units, primarily in the United Kingdom and elsewhere in Europe. During 1998, the Debtor sold only approximately 200 Sens-O-Lock units and there have been minimal revenues generated by the WeatherEye product line. Prior to the Filing Date, the Debtor has been dependent upon unsecured loans and equity investments from its officers, directors and shareholders and others to fund its operations.

In January 1999, the Debtor replaced its management, which presently consists of its president, Edward S. Gould, and Vice President, Rose-Marie Massimillo. In addition, immediately prior to the filing of its chapter 11 case, the Debtor obtained a commitment from AFL to lend the Debtor up to \$1,000,000 of which \$147,000 was advanced prior to the Filing Date, the repayment of which is secured by a fully perfected lien upon and security interest in all of the Debtor's assets.

The Debtor commenced this Case in order to confirm the Plan, which provides for the treatment of claims against and interests in the Debtor. The Debtor believes this the most efficient and expeditious means of transforming itself, resolving claims and maximizing value for all creditors. Annexed hereto as Exhibit "D" is a copy of an internal, unaudited financial statement of the Debtor as at _____, 1999. The Debtor submits that without the funding

available from AFL and confirmation of the Plan, pursuant to which AFL's Secured Claim is satisfied by the issuance of the New Stock, the Debtor will not be able to continue to operate and will be unable to confirm a plan.

The Debtor filed the Case on May 7, 1999 and has been continued in the management and operation of its business and property pursuant to 1107 and 1108 of the Bankruptcy Code since that time. On _____, 1999, the United States Trustee appointed the Committee.

VI.

TAX IMPLICATIONS OF PLAN

Each Creditor is urged to consult with its accountants or other tax professional as to the tax consequences of the Plan.

VII.

POST-CONFIRMATION MANAGEMENT OF THE DEBTOR

The duties, powers, responsibilities and rights of the members of the Debtor's Board of Directors shall continue from and after the Effective Date. Edward S. Gould and Rose-Marie Massimillo shall continue as the officers of the reorganized Debtor in the position of president and vice-president, respectively. Mr. Gould's annual salary is \$180,000 and Ms. Massimillo's annual salary is \$100,000. Although no agreement has been reached, it is anticipated that following confirmation Mr. Gould and Ms. Massimillo shall continue to be employed by the Debtor and as part of their compensation package they may be offered an equity position in AFL of between 15% and 25%, in the aggregate.

VIII.

EFFECT OF CONFIRMATION

The Distributions and other treatment afforded all holders of Claims and Interests under the Plan shall be in full and complete satisfaction of all Claims against and Interests in the Debtor. On the Consummation Date of the Plan, title to all properties and assets of the Debtor shall pass to and vest in the reorganized Debtor, free and clear of all Claims and Interests Except as otherwise expressly provided in this Plan, as of the Effective Date, the Debtor shall be discharged from, and the Confirmation Order shall operate as an injunction against the commencement or continuation of any action or the employment of process to collect, offset or recover against the Debtor or its estate, any Claim that arose or was incurred before the Confirmation Date, or from any conduct, act or omission, of the Debtor prior to the Confirmation Date.

IX.

CRAMDOWN

The Debtor reserves the right to request the Bankruptcy Court to confirm the Plan in accordance with the provisions of 1129(b) of the Bankruptcy Code in the event any impaired Class fails to accept the Plan in accordance with 1129(a) of the Bankruptcy Code.

X.

ANTICIPATED CONFIRMATION DATE

It is anticipated that the Confirmation of the Plan will occur in or about _____, 1999. The Consummation Date is the first business day following the 15th day after the Effective Date, the date on which the Confirmation Order becomes a Final Order.

Dated: New York, New York

May 7, 1999

ALCOHOL SENSORS INTERNATIONAL, LTD.
Debtor in Possession

By: s/Edward S. Gould

<TABLE>
<CAPTION>

EXHIBIT C

<S>	<C>
Classes of Claims	Scheduled Claims
I - AFL	175,000.002
II - Priority Tax Claims	0.00
III - Priority Claims	0.00
IV - Unsecured Claims	649,012.92
V - Interest Holder Claims	0.00

</TABLE>

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK

Hearing Date: June 23, 1999
@ 2:30 p.m.

-----X

In re: Chapter 11
Case No. 899-83790-511

ALCOHOL SENSORS INTERNATIONAL, LTD.,

NOTICE OF HEARING ON
DISCLOSURE STATEMENT

Debtor.

-----X

TO ALL HOLDERS OF CLAIMS AGAINST AND
INTERESTS IN THE ABOVE-CAPTIONED DEBTOR:

PLEASE TAKE NOTICE that on June 23, 1999 in Room 103 of the United States Bankruptcy Court, 601 Veterans Memorial Highway, Hauppauge, New York 11788, at 2:30 o'clock in the afternoon of that day, a hearing will be held before the Honorable Melanie Cyganowski, United States Bankruptcy Judge, to consider entry of an order:

1. finding that the Debtor's disclosure statement (the "Disclosure Statement") contains "adequate information" as that term is defined in 1125(a) of Chapter 11 of Title 11 of the United States Code (the "Code");
2. approving the Disclosure Statement;
3. authorizing the Debtor to solicit acceptances to its Plan of Reorganization dated May 7, 1999 (the "Plan"), from holders of claims against and interests in the Debtor by the transmission of the Disclosure Statement and the Plan to the holders of such claims and interests;
4. fixing a date by which all acceptances and/or rejections of the Plan must be received in order to

be counted in the determination of whether the Plan has been accepted in accordance with the provisions of 1126 of the Code; and

- 5. granting such other and further relief as the Court may deem just and proper.

THIS IS NOT A SOLICITATION OF ACCEPTANCES OF THE PLAN. ACCEPTANCES MAY NOT BE SOLICITED UNTIL A DISCLOSURE STATEMENT HAS BEEN APPROVED BY THE BANKRUPTCY COURT.

Copies of the Disclosure Statement and the Plan are on file with the Bankruptcy Court and may be examined at the Bankruptcy Court, 601 Veterans Memorial Highway, Hauppauge, New York 11788, Monday through Friday from 9:00 a.m. to 4:00 p.m.

Objections to the Disclosure Statement or to any of the other relief hereinabove sought by the Debtor must be in writing, filed with the Bankruptcy Court (with a copy to chambers), 601 Veterans Memorial Highway, Hauppauge, New York 11788, and served upon counsel to Debtor, Marilyn Simon & Associates, attn: Debra J. Cohen, Esq., 200 Park Avenue South, New York, New York 10003-1503, so as to be received no later than 4:30 p.m. on June 17, 1999.

Upon approval of the Disclosure Statement by Bankruptcy Judge Cyganowski, holders of claims against and interests in the Debtor will receive a copy of the Disclosure Statement and the Plan.

The hearing scheduled herein to consider the proposed Disclosure Statement may be adjourned from time to time without further notice to creditors or other parties in interest other than by an announcement of such adjournment on the date scheduled for the hearing.

Dated: New York, New York
May 17, 1999

MARILYN SIMON & ASSOCIATES
Attorneys for Debtor and
Debtor in Possession
200 Park Avenue South
New York, New York 10003-1503
(212) 529-4400

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK

LAST DAY TO FILE CLAIMS
AGAINST THE DEBTOR: June 14, 1999
@4:30 p.m.

-----X
In re:

Chapter 11
Case No. 899-83790-511

ALCOHOL SENSORS INTERNATIONAL, LTD.,

NOTICE REQUIRING
ASSERTION OF CLAIMS
AGAINST AND INTERESTS
IN THE DEBTOR

Debtor.

-----X

PLEASE TAKE NOTICE, that an order has been entered by the United States Bankruptcy Court for the Eastern District of New York, in accordance with Rule 3003(c) of the Federal Rules of Bankruptcy Procedure, requiring all entities, including all persons, partnerships, corporations, estates, trusts and governmental units which may assert a claim against or equity security interest in ALCOHOL SENSORS INTERNATIONAL, LTD., debtor and debtor in possession (the "Debtor"), to file such claims or equity security interest no later than 4:30 p.m. on June 14, 1999. As defined in 101(2) of Title 11 of the United States Code, "Claim" is defined as the right to payment, whether or not such right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured. "Equity Security" is defined as a share in a corporation whether or not transferrable or denominated "stock" or similar security.

Any holder of a Claim or Equity Security who is required to file a proof of claim or equity security but fails to do so in the manner and time prescribed herein shall not, with respect to such Claim or Equity Security, be treated as a creditor for purposes of voting or distribution under any plan of reorganization or liquidation in this case and shall be forever barred, estopped and enjoined from asserting such Claim against or Equity Security in the Debtor or its estate. Any entity which has previously filed a proof of claim or equity security need not file an additional proof of claim.

TO BE TIMELY, A PROOF OF CLAIM OR EQUITY SECURITY MUST BE RECEIVED, ON OR BEFORE JUNE 14, 1999, NO LATER THAN 4:30 P.M., BY THE CLERK, UNITED STATES BANKRUPTCY COURT, EASTERN DISTRICT OF NEW YORK, 601 VETERANS MEMORIAL HIGHWAY, HAUPPAUGE, NEW YORK 11788.

If a person or an entity has been scheduled by the Debtor in its Schedules of Assets and Liabilities which were filed with the Bankruptcy Court, as the holder of a Claim that is undisputed, non-contingent and liquidated in amount, such entity is not required to file a proof of claim pursuant hereto unless such entity disputes the amount for which such Claim is scheduled by the Debtor. The Schedules may be examined and inspected by interested parties in the office of the Bankruptcy Clerk, Monday through Friday from 9:00 a.m. to 4:00 p.m.

Dated: Hauppauge, New York
May 10, 1999

Attorneys for the Debtor
Marilyn Simon & Associates
200 Park Avenue South
New York, NY 10003
(212) 529-4400

BY ORDER OF THE BANKRUPTCY COURT
s/Melanie L. Cyganowski

UNITED STATES BANKRUPTCY JUDGE

UNITED STATES BANKRUPTCY COURT
EASTERN DISTRICT OF NEW YORK

-----X

In re: Chapter 11
Case No. 899-83790-511

ALCOHOL SENSORS INTERNATIONAL, LTD., ORDER APPROVING
DISCLOSURE STATEMENT

Debtor.

-----X

A Plan of Reorganization (the "Plan") dated May 7, 1999, and a disclosure statement, having heretofore been filed herein by Alcohol Sensors International, Ltd., debtor and debtor in possession (the "Debtor"),

AND a hearing having been held on _____, 1999, and upon the record and minutes taken before me and sufficient cause appearing therefor, it is

FOUND, that the Disclosure Statement contains "adequate information" as that term is defined in 1125(a)(1) of Chapter 11 of Title 11 of the United States Code (the "Code"), and it is further

ORDERED, that the Disclosure Statement be and the same hereby is approved in all respects, and it is further

ORDERED, that on or before _____, 1999, the Debtor be and it hereby is authorized and directed to transmit by regular mail to all creditors and other parties in interest (i) the Plan, (ii) the Disclosure Statement approved herein, (iii) the Ballot Form for acceptance or rejection of the Plan, and (iv) the Notice fixing the time for the filing of acceptances or rejections to the Plan, substantially in the form annexed hereto, which documents are incorporated herein and marked as Exhibit "A", the terms of which are hereby approved, and it is further

ORDERED, that the Ballot Form for acceptances or rejections of the Plan shall be filed by the holders of all impaired claims against and interests in

the Debtor on or before _____, 1999, with Marilyn Simon & Associates, counsel for the Debtor, 200 Park Avenue South, Suite 1700, New York, New York 10003, attn: Debra J. Cohen, Esq., and it is further

ORDERED, that any objection to confirmation of the Plan shall be served upon Marilyn Simon & Associates, attorneys for the Debtor, 200 Park Avenue South, New York, New York 10003, Attn: Debra J. Cohen, Esq., Ruskin, Moscou, Evans & Faltischek, 170 Old Country Road, Mineola, NY 11501, attn: Jeffrey Wurst, Esq., and filed with the Clerk of the Bankruptcy Court, on or before _____, 1999, with a courtesy copy delivered to chambers, and it is further

ORDERED, that a hearing to consider acceptances of or rejections to the Plan, confirmation of the Plan, and of any objections as may be made to confirmation of the Plan shall be held on _____, 1999 at ____ o'clock in the ____ noon of said day in the United States Bankruptcy Court, .

Dated: New York, New York
_____, 1999

UNITED STATES BANKRUPTCY JUDGE

RATIFICATION AND AMENDMENT AGREEMENT

This Ratification and Amendment Agreement made and entered into in New York, New York, this ___ day of May, 1999, by and between Alcohol Sensors International, Ltd., a corporation existing under and by virtue of the laws of the State of New York, with its principal place of business located at 28 Brandywine Drive, Deer Park, New York 11729 ("Borrower") and Acquisition Funding, LLC, a New York limited liability company, with its principal place of business located at 949 Edgewood Avenue, Pelham Manor, New York 10803 ("AFL").

WHEREAS, certain financing arrangements were entered into on April 30th , 1999 by and between Borrower and AFL (the "Financing"); and

WHEREAS, in order to secure the obligations of Borrower to AFL pursuant to the Financing, Borrower granted to AFL a security interest in and to all of its assets including, but not limited to, accounts receivable, chattel paper, inventory, furniture and fixtures, machinery and equipment, leasehold interests, general intangibles, including licenses, trademarks, tradenames, tax refunds, patents and patents pending and all property recovered as a result of transfers or obligations avoided under Bankruptcy Code Sections 544, 545, 547, 548, 551 and 553.

WHEREAS, AFL has perfected its security interest in and to the assets of Borrower, inter alia, by duly filing UCC-1 Financing Statements; and

WHEREAS, performance of all of the obligations of Borrower under the Financing, including the payment of attorney's fees and all other costs and fees of AFL, is secured by the assets of Borrower; and

WHEREAS, Borrower filed a bankruptcy petition in the United States Bankruptcy Court for the Eastern District of New York on May ____, 1999 (the "Bankruptcy Case"); and

WHEREAS, pursuant to an Order of the United States Bankruptcy Court of the Eastern District of New York issued May ____, 1999, Borrower was authorized to enter into a post-petition ratification and amendment agreement with AFL reaffirming, restating and ratifying the Financing and to grant AFL a super-priority security interest in and to all of Borrower's post-petition assets consisting of all now existing and hereafter acquired personal property, wherever located, and of whatever kind or nature, whether acquired prior to or after the commencement of Borrower's Bankruptcy Case, including, without limitation, accounts receivable, inventory, furniture and fixtures, machinery and equipment, leasehold interests, general intangibles, including licenses, patents, patents pending, tradenames, trademarks, tax refunds and all property recovered as a result of transfers or obligations avoided under Bankruptcy Code Sections 544, 545, 547, 548, 551 and 553 (the "Finance Order").

NOW, THEREFORE, in consideration of and in order to induce AFL, its successors, endorsees or assigns to grant and continue to grant such advances, loans or extensions of credit directly or indirectly to Borrower, the parties hereto agree as follows:

1. This Agreement reaffirms, restates and ratifies that certain Security Agreement dated April 30, 1999 by and between AFL and Borrower and any and all other documents executed by Borrower and delivered to AFL in connection with the Financing.

2. The Borrower hereby: (i) acknowledges, covenants and agrees that there are no defenses, offsets or counterclaims to any of the obligations of the Borrower under the Financing; and (ii) reacknowledges and reaffirms all of the terms, conditions, covenants and obligations contained in the Financing, except as modified herein.

3. The Borrower hereby grants AFL a first lien and security interest in and to all of the Borrower's post-petition assets consisting of all now existing and hereafter acquired personal property, wherever located, and of whatever kind or nature, whether acquired prior to or after the commencement of the Bankruptcy Case, including, without limitation, accounts receivable, inventory, furniture and fixtures, machinery and equipment, leasehold interests, general intangibles, including licenses, patents, patents pending, trademarks, tradenames, tax refunds and all property recovered as a result of transfers or obligations avoided under Bankruptcy Code Sections 544, 545, 547, 548, 551 and 553.

4. The Borrower and AFL hereby agree that if there is any inconsistency between this Agreement or any of the documents executed in connection with the Financing and the Finance Order, the terms and provisions of the Finance Order shall control.

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

ALCOHOL SENSORS INTERNATIONAL, LTD.

By: _____
Edward Gould, President

AQUISITION FUNDING, LLC

By: _____
Michael Recca, Managing Member

This Security Agreement, made and entered into in New York, New York, this 30th day of April, 1999, by and between ALCOHOL SENSORS INTERNATIONAL, LTD., a corporation existing under and by virtue of the laws of the State of New York, with its principal place of business located at 28 Brandywine Drive, Deer Park, New York 11729 ("Borrower") and ACQUISITION FUNDING LLC, a New York limited liability company, with its principal place of business located at 949 Edgewood Avenue, Pelham Manor, New York 10803 ("AFL"). This Agreement sets forth the terms and conditions upon which AFL may, in its sole and absolute discretion, make loans, advances and other financial accommodations to or for the benefit of Borrower upon the security referred to herein.

SECTION 1. DEFINED TERMS

1.1. All terms used herein which are defined in Article 1 or Article 9 of the Uniform Commercial Code (the "UCC") shall have the same meaning as given therein unless otherwise defined in this Agreement. All references to the plural shall also mean the singular.

1.2. "Account" or "Accounts" shall mean all of Borrower's present and hereafter created accounts receivable, contract rights, general intangibles, security deposits, letters of credit, trade styles, trademarks, trademark applications, chattel paper, notes, drafts, acceptances, leases, lease payments, rents, tax refunds, options to purchase real or personal property, securities, stock options, customer lists, insurance claims, patents, patent applications, documents, instruments, copyrights, claims, and any other choses in action, as such terms may be defined in the UCC, including, without limitation, all obligations for the payment of money arising out of Borrower's sale, lease or other disposition of goods or other property or Borrower's rendition of services, and to all of Borrower's merchandise which is represented thereby whether delivered or undelivered, all monies, credit balances, deposits, deposit accounts, all claims and property recovered by or on behalf of the Borrower including, but not limited to, all property recovered as a result of transfers or obligations avoided under the Bankruptcy Code and to all proceeds thereof including, but not limited to, the proceeds of any insurance thereon whether or not specifically assigned to AFL.

1.3. "Account Debtor" shall mean each debtor or obligor in any way obligated on or in connection with any Account.

1.4. "Collateral" shall have the meaning set forth in Section 4.1 hereof.

1.5. "Costs and Expenses" shall include, but not be limited to commissions, fees, appraisal fees, taxes, title insurance premiums, internal and external audit expenses for routine and non-routine audits, field examination expenses, filing, recording and search expenses, reasonable attorney's fees and disbursements (as may be incurred with respect to the effectuation of this Agreement or any claim of any kind or nature or litigation whatsoever arising out of or as a result of the interpretation of this Agreement or the financing provided for hereunder, including, but not limited to, all fees and expenses for

the service and filing of papers, premiums on bonds and undertakings, fees of marshals, sheriffs, custodians, auctioneers and others, travel expenses and all court costs and collection charges), Closing Fees (as defined herein), Exit Fees (as defined herein), postage, wire transfer fees, check dishonor fees and other out of pocket expenses arising out of or relating to the negotiations, preparation, consummation, administration and enforcement of this Agreement or any other agreement between Borrower and AFL including, but not limited to any guaranty of the Obligations (as defined herein).

1.6. "Default Rate of Interest" shall have the meaning set forth in Section 3.2 hereof.

1.7. "Events of Default" shall have the meaning set forth in Section 8.1 hereof.

1.8 "Exit Fee" shall have the meaning set forth in Section 3.5 hereof.

1.9. "Line of Credit" as used herein is solely for the purpose of computing the Closing Fee and the Exit Fee and does not represent any amount or amounts available for borrowing purposes nor any limit as to the amount or amounts available for borrowing purposes, each of which shall be determined at AFL's sole and absolute discretion. Subject to the preceding sentence Borrower's Line of Credit is \$1,000,000.

1.10 "Obligations" shall mean any and all loans, advances, accommodations, indebtedness, liabilities, Costs and Expenses and all obligations of every kind and nature owing by Borrower to AFL, however evidenced, whether as principal, guarantor or otherwise, whether arising under this Agreement, any supplement hereto, or otherwise, whether now existing or hereafter arising, whether direct or indirect, absolute or contingent, joint or several, due or not due, primary or secondary, liquidated or unliquidated, secured or unsecured, original, renewed, modified or extended, and whether arising directly or acquired from others (including, without limitation, wherever applicable, AFL's participations or interests in Borrower's obligations to others) and including, without limitation, AFL's charges, of whatever nature, commissions, interest, expenses, costs and attorneys' fees, all of which are chargeable to Borrower in connection with any of the foregoing.

1.11. "Records" shall have the meaning set forth in Section 4.1(f) hereof.

Section 2. LOANS AND ADVANCES

2.1. AFL shall from time to time, in its sole and absolute discretion, make loans, advances and other financial accommodations to or for the benefit of Borrower of up to \$1,000,000 (the "Loan Advance"). The Loan Advance together with all other obligations shall be repaid to AFL upon the earlier of: (a) April 26, 2000; (b) confirmation of a plan of reorganization in Borrower's Chapter 11 bankruptcy case in the United States Bankruptcy Court for the Eastern District of New York (the "Bankruptcy Case"); or (c) upon any Event of Default as set forth in this Agreement or in any financing order entered in the Borrower's Bankruptcy Case.

2.2. All Obligations shall be charged to an account in the Borrower's name as maintained on AFL's books. AFL shall render to Borrower a monthly statement of its account (the "Statement") by facsimile, which notice shall be deemed to be received when confirmation of facsimile transmittal is received, which Statement shall be deemed correct, accepted by, and conclusively binding upon Borrower as an account stated, except to the extent that Borrower shall deliver to AFL written notice of any specific exceptions thereto within thirty (30) days after the date such Statement is received. Notwithstanding the foregoing, if Borrower fails to advise AFL of any change in Borrower's facsimile number or if AFL is unable to obtain confirmation of a facsimile transmittal to Borrower, AFL may render such Statement to Borrower in accordance with Section 9.5 of this Agreement.

2.3. All principal, interest, fees, charges, Costs and Expenses incurred with or in respect of this Agreement or any supplement or amendment hereto (all of which shall be cumulative and not exclusive) and any and all Obligations shall be charged as an advance to Borrower's account as maintained by AFL.

2.4. All Obligations shall be payable at AFL's office specified above or at such other place as AFL may hereafter designate from time to time. If requested, Borrower shall execute and deliver to AFL one or more promissory notes in form and substance satisfactory to AFL to further evidence the Obligations.

2.5 Borrower shall pay AFL monthly: all interest, fees, charges, Costs and Expenses, incurred with or in respect of this Agreement or any supplement or amendment hereto ("Charges"). All Charges shall be reflected on the Statement and shall be payable to AFL on or before the first day of the month immediately following the month in which AFL rendered such Statement. AFL may, from time to time, in its sole and absolute discretion, agree in writing to allow all or some of the Charges to accrue and become part of the Obligations.

Section 3. INTEREST AND FACILITY FEES

3.1. AFL is authorized to charge the Borrower's loan account as an advance on the first day of each month as follows: (a) all fees, charges, Costs and Expenses; and (b) interest on Borrower's loan balance. Interest shall be payable by Borrower to AFL at the per annum Prime Rate (the "Prime Rate") plus 8% (the "Interest Rate"). As used herein the term "Prime Rate" shall be deemed to mean the prime commercial rate charged by Citibank, N.A., in effect on the date hereof (whether or not such rate is the lowest rate available at such bank) and as same may be adjusted upwards or downwards from time to time. The Interest Rate shall never be less than six (6%) percent per annum nor greater than the highest rate permitted by law. Any change in the Interest Rate shall become effective on the first day of the month following the month in which the Prime Rate shall have been increased or decreased, as the case may be. The Interest Rate shall be calculated based on a three hundred sixty (360) day year for the actual number of days elapsed and shall be charged to Borrower on all Obligations. All interest charged or chargeable to Borrower shall be deemed as an additional advance and shall become part of the Obligations.

3.2. Borrower agrees that upon the occurrence of any Event of Default (whether caused by the Borrower, an Account Debtor or others), the Interest Rate on all Obligations shall immediately convert to a rate per annum which is two (2%) percent in excess of the rate which would otherwise be applicable thereto (the "Default Rate of Interest") and all interest accruing hereunder together with all Obligations shall thereafter be payable upon demand.

3.3. In no event shall the Interest Rate or the Default Rate of Interest exceed the highest rate permitted under any applicable law or regulation. If any part or provision of this Agreement is in contravention of any such law or regulation such part or provision shall be deemed amended to conform thereto and any payments of interest made in excess of such highest rate permitted, if any, shall be deemed to be payments of principal Obligations to the extent of such excess.

3.4. Borrower shall pay AFL a Closing Fee in the amount of two (2%) percent of the Line of Credit payable upon the execution and delivery of this Agreement.

3.5. Unless the Plan of Reorganization filed by Borrower in Borrower's Bankruptcy Case is confirmed and is not objected to by AFL, Borrower shall pay AFL an Exit Fee in the amount of nine (9%) percent of the Line of Credit which shall be deemed fully earned upon the execution and delivery of this Agreement and shall be payable upon the earlier of: (a) April 26, 2000; (b) upon any Event of Default under this Agreement; or (c) the termination of this Agreement in accordance with its terms.

Section 4. GRANTING PROVISIONS

4.1. As security for the prompt performance, observance and payment in full of all Obligations, Borrower hereby grants to AFL a continuing security interest in, lien upon and right of setoff against, and Borrower hereby assigns, transfers, pledges and sets over to AFL the following (which, together with any of Borrower's other property in which AFL may at any time have a security interest or lien, whether pursuant to any supplement or amendment hereto, or otherwise, all of which are herein collectively referred to as the "Collateral"): (a) all of Borrower's present and future Accounts; (b) all of Borrower's monies, securities and other property and the proceeds thereof, now or hereafter held or received by, or in transit to, AFL from or for Borrower, or for the account of Borrower, whether for safekeeping, pledge, custody, transmission, collection or otherwise, and all of Borrower's deposits (general or special) including, but not limited to security deposits, balances, sums and credits with AFL at any time existing or with a third party for the Borrower's account; (c) all of Borrower's present and future right, title and interest, and all of Borrower's present and future rights, remedies, security and liens, in, to and in respect of the Accounts and other Collateral, including, without limitation, rights of stoppage in transit, replevin, repossession and reclamation and other rights and remedies of an unpaid vendor, lienor or secured party, guarantees or other contracts of suretyship with respect to the Accounts, deposits or other security for the obligation of any Account Debtor, and credit and other insurance; (d) all of Borrower's present and future right, title and interest in, to and in respect of all goods relating to, or which by sale have

resulted in, Accounts including, without limitation, all goods described in invoices, documents, contracts or instruments with respect to, or otherwise representing or evidencing, any Accounts or other Collateral, including without limitation, all returned, reclaimed or repossessed goods; (e) all of Borrower's present and future deposit accounts; (f) all of Borrower's present and future books, records, ledger cards, computer programs (including all software and data contained in or by any computer whether in the possession of the Borrower or any other party) and other property and general intangibles evidencing or relating to the Accounts and any other Collateral or any Account Debtor, together with the file cabinets, containers, tapes or disks, in which the foregoing are stored ("Records"); (g) all of Borrower's presently owned or hereafter acquired inventory; (h) all of Borrower's machinery and equipment, whether presently owned or hereinafter acquired subject to any existing purchase money security interest; (i) all other of Borrower's present and future general intangibles of every kind and description, including, without limitation, customer lists, stock options, patent, trademark and copyright applications, trade names and trademarks, and the goodwill of the business symbolized thereby, patents, copyrights, licenses and Federal, State and local tax refund claims, leases, rents and insurance claims of all kinds; (j) all property recovered as a result of transfers or obligations avoided under bankruptcy Sections 544, 545, 547, 548 and 553; and (k) all proceeds of the foregoing, in any form, including, without limitation, all claims against third parties for loss or damage to or destruction of any or all of the foregoing. The security interests granted herein shall remain effective whether or not the Collateral covered thereby is acceptable to AFL for the purposes of any loans or advances contemplated under this Agreement.

Section 5. ENFORCEMENT OF RIGHTS IN AND TO COLLATERAL

5.1. AFL or AFL's representatives shall at all times have free access to and right of inspection of the Collateral upon one (1) business day prior notice provided, however, if AFL alleges the occurrence of an Event of Default, AFL will not have to give prior notice and AFL shall have full access to and the right to examine and make copies of Borrower's Records, to perform general audits and to do whatever else AFL deems necessary to protect AFL's interests. AFL may at any time make copies of the Records or require Borrower or its accountants or auditors to deliver any copies of Records to AFL. AFL may, at AFL's cost and expense, use any of Borrower's personnel, supplies, computer equipment (including all computer programs, software and data) and space at Borrower's places of business or at any other place as AFL may designate, as may be reasonably necessary for the handling of collections. All costs and expenses incurred by AFL pursuant to this Section shall be charged as an advance to Borrower's account as maintained by AFL and become part of the Obligations.

5.2. All returns of merchandise, credits, issued by Borrower, claims or disputes of Account Debtors whether or not accepted by Borrower or given an allowance of any nature shall be reported by Borrower to AFL at least monthly. Each such report shall be accompanied by copies of all documentation provided to Borrower in support of all merchandise returns, credits, claims and disputes. Borrower shall immediately upon obtaining knowledge thereof report to AFL all reclaimed, repossessed and returned goods, Account Debtor claims and any other

matter affecting the value, enforceability or collectability of Accounts.

5.3 All claims and disputes relating to Accounts shall be adjusted within a reasonable time at Borrower's own cost and expense.

5.4. AFL is authorized and empowered at any time, with or without the occurrence of an Event of Default, to compromise or extend the time for payment of any Account, for such amounts and upon such terms as AFL may in its sole discretion determine, and to accept the return of the merchandise represented by any Account, all without prior notice to or consent by Borrower, and without discharging or affecting Borrower's Obligations hereunder to any extent, provided however, that AFL shall promptly give Borrower notice of such action, and Borrower will, upon demand, pay to AFL the amount of any allowance given or authorized by AFL hereunder, AFL in its discretion may allow the amount of any allowance given or authorized by AFL hereunder to be charged as an advance to Borrower's account as maintained by AFL and become part of the Obligations. AFL shall have the right (in addition to its other rights hereunder or otherwise), upon AFL alleging the occurrence of an Event of Default and without notice to Borrower, to appropriate, set off and apply to the payment of any or all of the Obligations, any portion or all of the Collateral, in such manner as AFL shall in AFL's sole discretion determine, to enforce payment of any Collateral, to settle, compromise or release in whole or in part, any amounts owing on any Collateral, to prosecute any action, suit or proceeding with respect to the Collateral, to extend the time of payment of any and all Collateral, to make allowances and adjustments with respect thereto, to issue credits in AFL's or Borrower's name, to sell, assign and deliver the Collateral (or any part thereof) at public or private sale, for cash, upon credit or otherwise at AFL's sole option and discretion, and AFL may bid or become purchaser at any such sale, free from any right of redemption which is hereby expressly waived.

SECTION 6. REPRESENTATIONS AND WARRANTIES

Borrower hereby represents, warrants and covenants to AFL the following (which shall survive the execution and delivery of this Agreement), the truth and accuracy of which, and continuing compliance with, being a continuing condition of the making of all loans and advances hereunder by AFL or under any supplement or amendment hereto:

6.1. Except as set forth on Schedule "A" annexed hereto and incorporated herein by reference, Borrower is and shall be the owner of the Collateral free and clear of all liens, security interests, claims and encumbrances of every kind and nature, except in favor of AFL or as otherwise consented to in writing by AFL, and Borrower shall indemnify and defend AFL from and against all cost, loss and expense with regard to the same. None of Borrower's Accounts nor any of its inventory has been previously sold or assigned to any person, firm or corporation and will not be sold or assigned, other than to AFL, at any time during the term of this Agreement without first obtaining AFL's consent in writing. Borrower shall not execute any security agreement or UCC financing statement in favor of any other party or borrow against the security of any corporate asset, including but not limited to the Collateral, without first obtaining AFL's consent in writing.

6.2. (a) Without first obtaining AFL's consent in writing Borrower will not directly or indirectly sell, lease, transfer, abandon or otherwise dispose of all or any portion of Borrower's property or assets (except in the ordinary course of business) or consolidate or merge with or into any other entity or permit any other entity to consolidate or merge with or into Borrower; (b) Borrower will preserve, renew and keep in full force and effect Borrower's existence and good standing as a corporation and its rights and franchises with respect thereto;

(c) Borrower will continue to engage in business of the same type as Borrower is engaged as of the date hereof; and

(d) Borrower will give AFL thirty (30) days prior written notice of any proposed change in Borrower's corporate name which notice shall set forth the new name.

6.3. Borrower's Records and principal executive office are maintained at the address referred to herein. Borrower shall not change such location without AFL's prior written consent (which shall not be unreasonably withheld) and prior to making any such change, Borrower agrees to execute any additional financing statements or other documents or notices which AFL may require.

6.4. Borrower shall maintain its shipping forms, invoices and other related documents in a form reasonably satisfactory to AFL and shall maintain its books, records and accounts in accordance with generally accepted accounting principles consistently applied.

6.5. Borrower agrees to furnish AFL with: (a) monthly detailed inventory report, accounts payable report, sales report; (b) monthly operating reports as required in Borrower's Bankruptcy Case; (c) quarterly financial statements (including balance sheet, statement of income and surplus account, and cash flow statement); (d) copies of all reports delivered to members of Borrower's Board of Directors; and (e) copies of any and all Bankruptcy filings, together with any and all pleadings in any litigation in which Borrower is now, or may become a party; (f) with such other information regarding Borrower's business affairs and financial condition as AFL may reasonably request, including, without limitation, cash flow and other projections, earnings forecasts, schedules, agings and reports. Borrower hereby irrevocably authorizes and directs all accountants, auditors and any other third parties to deliver to AFL, at Borrower's expense, copies of Borrower's financial statements, papers related thereto, and other accounting records of any kind or nature in their possession and to disclose to AFL any information they may have regarding Borrower's business affairs and financial condition. Borrower shall furnish AFL with internal financial statements within ninety (90) days of the end of its fiscal year end. All financial statements and information shall fairly present Borrower's financial condition and the results of Borrower's operations for the periods in which the financial statements are furnished.

6.6. All statements made and all unpaid balances appearing in the invoices, documents and instruments evidencing each Account are true and correct and are

in all respects what they purport to be and all signatures and endorsements that appear thereon are genuine and all signatories and endorsers have full capacity to contract. None of the transactions underlying or giving rise to any Account shall violate any state or federal laws or regulations, and all documents relating to the Accounts shall be legally sufficient under such laws or regulations and shall be legally enforceable in accordance with their terms and all recording, filing and other requirements of giving public notice under any applicable law have been and shall be duly complied with.

6.7. To the best of Borrower's knowledge, Borrower's federal, state and local taxes of every kind and nature, including, but not limited to employment taxes, other than for the years 1997 and 1998, are current, and there are no pending tax audits or examinations with respect to Borrower's federal, state or local tax returns.

6.8 Borrower shall duly pay and discharge all taxes, assessments, contributions and governmental charges upon or against it or its properties or assets prior to the date on which penalties attach thereto. Borrower shall be liable for all taxes and penalties imposed upon any transaction under this Agreement or any supplement or amendment hereto or giving rise to the Accounts or any other Collateral or which AFL may be required to withhold or pay for any reason. Borrower agrees to indemnify and hold AFL harmless with respect thereto, and to repay to AFL on demand the amount thereof, and until paid by Borrower such amounts shall be added to and included in Borrower's Obligations.

6.9. Except as set forth on Schedule "B" annexed hereto and incorporated herein by reference, there is no investigation by any state, federal or local agency pending or threatened against Borrower and there is no action, suit, proceeding or claim pending or threatened against Borrower or Borrower's assets or goodwill or affecting any transactions contemplated by this Agreement, or any supplement or amendment hereto, or any agreements, instruments or documents delivered in connection herewith or therewith before any court, arbitrator, or governmental or administrative body or agency which if adversely determined with respect to Borrower would result in any material adverse change in Borrower's business, properties, assets, goodwill or condition, financial or otherwise.

6.10. The execution, delivery and performance of this Agreement, any supplement or amendment hereto, or any agreements, instruments and documents executed and delivered in connection herewith, are within Borrower's corporate powers, have been duly authorized, are not in contravention of law or the terms of Borrower's charter, by-laws or other incorporation papers, or of any indenture, agreement or undertaking to which Borrower is a party or by which Borrower is bound.

6.11. Borrower shall keep and maintain, at its sole cost and expense, satisfactory and complete Records including records of all Accounts, all payments received and credits granted thereon, and all other dealings therewith. Borrower shall execute and deliver all papers and instruments, and do all things necessary to effectuate this Agreement and facilitate the collection of the Accounts. AFL is hereby vested with all of Borrower's rights, securities and guarantees with respect to each Account, including the right of stoppage in

transit. Each Account created by Borrower shall be deemed assigned to AFL and shall become its property.

6.12. Borrower's obligations as set forth in this Agreement shall remain applicable and enforceable as against Borrower should AFL be merged into or with any other entity, including, but not limited to, its parent corporation. AFL shall give Borrower notice of any such merger if AFL is not the surviving entity of such merger.

6.13. AFL's agents and examiners shall have the right at any time upon one (1) business day prior notice to review, inspect, examine, check and make copies of extracts from Borrower's Records during business hours. Notwithstanding the foregoing, AFL's agents and examiners shall have the right at any time after AFL alleges the occurrence of an Event of Default for the purposes of this Section 6.13 only, AFL shall send Borrower notice of such allegation of the occurrence of an Event of Default by facsimile and upon transmittal of such notice by facsimile have immediate access to review, inspect, examine, check and make copies of extracts from Borrower's Records during business hours.

6.14. Borrower shall, at Borrower's expense, duly execute and deliver, or shall cause to be duly executed and delivered, such further agreements, instruments and documents, including, without limitation, additional security agreements, mortgages, deeds of trust, deeds to secure debt, collateral assignments, UCC financing statements or amendments and continuations thereof, landlord's or mortgagee's waivers of liens and consents to the exercise by AFL of all of its rights and remedies hereunder, under any supplement or amendment hereto, or applicable law with respect to the Collateral. In addition, Borrower shall do or cause to be done such further acts as may be necessary or proper, in AFL's opinion, to evidence, perfect, maintain and enforce its security interest and the priority thereof in and to the Collateral and to otherwise effect the provisions and purposes of this Agreement or any supplement or amendment hereto. Where permitted by law, Borrower hereby authorizes AFL to execute and file one or more UCC financing statements covering the Collateral signed only by AFL.

6.15. Borrower shall, at Borrower's expense, maintain liability insurance, including without limitation, Director's and Officers Liability Insurance, in such amounts and with such insurance companies as may be acceptable to AFL in its sole and absolute discretion.

Section 7. ADDITIONAL POWERS

7.1. Borrower hereby appoints AFL or AFL's designee as Borrower's attorney-in-fact, at Borrower's own cost and expense, to exercise at any time all or any of the following powers which, being coupled with an interest, shall be irrevocable until all Obligations have been paid in full: (a) to execute and file in Borrower's name financing statements and amendments under the UCC; (b) to sign Borrower's name on any invoice or bill of lading relating to any of the Collateral; (c) to sign Borrower's name on any drafts against Account Debtors; (d) to transmit to Account Debtors notice of AFL's interest therein and to request from such Account Debtors at any time, in AFL's or Borrower's name or that of AFL's designee, information concerning the Accounts and the amounts

owing thereon; (e) to notify Account Debtors to make payment directly to AFL; (f) to take or bring, in AFL's or Borrower's name, and in AFL's sole and absolute discretion all steps, actions, suits or proceedings deemed necessary or desirable by AFL to effect collection of the Collateral (after such action is taken, AFL shall promptly give Borrower notice of such action); and (g) to do all other acts and things necessary to carry out this Agreement. Borrower hereby releases AFL and AFL's officers, employees and designees, from all liability arising from any act or acts under this Agreement or in furtherance thereof, whether by omission or commission, and whether based upon any error of judgment or mistake of law or fact except for willful misconduct or gross negligence.

Section 8. EVENTS OF DEFAULT

8.1. All Obligations shall be, at AFL's option, immediately due and payable without notice or demand and the provision of this Agreement (or any supplement or amendment hereto) as to future loans and advances to or for the benefit of Borrower shall, at AFL's option, terminate forthwith upon the occurrence of any one or more of the following events of default (the "Events of Default"): (a) if Borrower shall fail to pay AFL when due any amounts owing to AFL under any Obligation, or shall breach any of the terms, covenants, conditions or provisions of this Agreement, any supplement or amendment hereto or any other agreement between Borrower and AFL; (b) if any guarantor, endorser or other person liable on the Obligations shall terminate or breach any of the terms, covenants, conditions or provisions of any guaranty, endorsement or other agreement of such person with, or in favor of AFL; (c) if any representation, warranty, or statement of fact made to AFL at any time by Borrower or on Borrower's behalf is false or misleading; (d) if the Borrower's Chapter 11 bankruptcy proceeding shall be dismissed or converted to one pursuant to Chapter 7, or if any order is entered in the Borrower's Chapter 11 bankruptcy proceeding which grants any party relief from the automatic stay under 11 U.S.C. ss.362 to which AFL has not consented, or if Borrower shall fail to meet its post-petition obligations as they mature, or if Borrower or any Guarantor, endorser or other person liable on the Obligations suspends or discontinues doing business for any reason, or if a receiver, custodian or trustee of any kind is appointed with regard to any property of Borrower, or Guarantor, or endorser or other person liable on the Obligations; (e) if a bankruptcy petition is filed by Borrower and a financing order in form and substance acceptable to AFL is not entered in Borrower's Bankruptcy Case; (f) if there shall be a material adverse change in Borrower's business, assets or condition (financial or otherwise) from the date hereof; (g) if there is any change in Borrower's majority control or ownership; (h) if there is any change in the management of the Borrower including, but not limited to, Edward Gould no longer being President of Borrower, or Rosemarie Massimillo no longer being Secretary of Borrower; or (i) if at any time AFL shall, in AFL's sole and absolute discretion, consider the Obligations insecure or any part of the Collateral unsafe, insecure or insufficient and Borrower (or other person or entity acting on Borrower's behalf) shall not on AFL's demand furnish other Collateral or make payment on account, satisfactory to AFL.

8.2. In the event AFL seeks to take possession of all or any portion of the Collateral by judicial process (including, but not limited to, AFL obtaining an order of attachment, a temporary restraining order, a preliminary or permanent

injunction or otherwise) against the Borrower or with regard to the Collateral, Borrower irrevocably waives: (a) the posting of any bond, surety or security with respect thereto which might otherwise be required, (b) any demand for possession prior to the commencement of any suit or action to recover the Collateral, and (c) any requirement that AFL retain possession and not dispose of any Collateral until after trial or final judgment.

8.3. Borrower agrees that the giving of five (5) days' notice by AFL, sent by certified mail, return receipt requested to Borrower's address set forth herein, designating the place and time of any public sale or of the time after which any private sale or other intended disposition of the Collateral is to be made, shall be deemed to be reasonable notice thereof and Borrower waives any other notice with respect thereto.

8.4. The net cash proceeds resulting from the exercise of any of AFL's rights or remedies under this Agreement, under the UCC or otherwise, shall be applied by AFL to the payment of the Obligations in such order as AFL may elect, and Borrower shall remain liable to AFL for any deficiency. Without limiting the generality of the foregoing, if AFL enters into any credit transaction, directly or indirectly, in connection with the disposition of any Collateral, AFL shall have the option, at any time, in AFL's sole and absolute discretion, to reduce the Obligations by the amount of such credit transaction or any part thereof or to defer the reduction thereof until actual receipt by AFL of cash in connection therewith.

8.5. The enumeration of the foregoing rights and remedies is not intended to be exclusive, and such rights and remedies are in addition to and not by way of limitation of any other rights or remedies AFL may have under the UCC or other applicable law. AFL shall have the right, in AFL's sole and absolute discretion, to determine which rights and remedies, and in which order any of the same, are to be exercised, and to determine which Collateral is to be proceeded against and in which order, and the exercise of any right or remedy shall not preclude the exercise of any others, all of which shall be cumulative.

8.6. No act, failure or delay by AFL shall constitute a waiver of any of its rights or remedies. No single or partial waiver by AFL of any provision of this Agreement or any supplement or amendment hereto, or breach or default thereunder, or of any right or remedy which AFL may have shall operate as a waiver of any other provision, breach, default, right or remedy or of the same provision, breach, default, right or remedy on a future occasion.

8.7. Borrower waives presentment, notice of dishonor, protest and notice of protest of all instruments included in or evidencing any of the Obligations or the Collateral and any and all notices or demands whatsoever (except as expressly provided herein). AFL may, at all times, proceed directly against Borrower or any guarantor or endorser to enforce payment of the Obligations and shall not be required to take any action of any kind to preserve, collect or protect AFL's or Borrower's rights in the Collateral.

Section 9. MISCELLANEOUS

9.1. This Agreement shall become effective upon acceptance by AFL and shall continue in full force and effect for a term ending the earlier of: (a) April 26, 2000; (b) upon any Event of Default under this Agreement; or (c) until terminated pursuant to the terms hereof. No termination of this Agreement, however, shall relieve or discharge Borrower of Borrower's duties, obligations and covenants hereunder until all Obligations have been paid in full and AFL's continuing security interest in and to the Collateral shall remain in effect until all such Obligations have been fully discharged.

9.2. If AFL terminates this Agreement upon the occurrence of an Event of Default or if Borrower terminates this Agreement as to future transactions other than on April 26, 2000, in view of the impracticality and extreme difficulty in ascertaining AFL's actual damages and by mutual agreement of the parties as to a reasonable calculation of AFL's lost profits as a result thereof, Borrower hereby agrees that it shall immediately pay to AFL by wire transfer, certified check or bank cashier's check, Borrower's entire Obligations owing thereunder, plus liquidated damages of an amount equal to the amount of interest that AFL would have received for the remainder of the unexpired term of this Agreement if this Agreement had not been terminated. Prior to its actual receipt of payment as aforesaid, AFL shall be free to exercise, without limitation, all of its rights under this Agreement or under any other agreement it may then have with Borrower. Borrower's default of any provision under this Agreement may be considered and construed at the sole option of AFL, as a termination of this Agreement by Borrower. The liquidated damages provided for in this paragraph 9.2 shall be deemed included in the Obligations and shall be presumed to be the amount of damages sustained by AFL due to the Borrower's early termination and Borrower agrees that such damages are reasonable and appropriate under the circumstances currently existing.

9.3. This Agreement, and any supplement or amendment hereto and any agreements, instruments or documents delivered or to be delivered in connection herewith, constitute the entire agreement and understanding between AFL and Borrower concerning the subject matter hereof and thereof and as such supersedes all other prior or contemporaneous agreements, understandings, negotiations and discussions, representations, warranties, commitments, offers, contracts, whether written or oral, all of which are merged into this Agreement. AFL and Borrower agree that neither party shall be bound by anything not expressed herein, nor shall this Agreement be modified orally.

9.4. All amendments to and modifications of this Agreement shall be in writing and signed by Borrower and AFL, which requirements shall not be modified by oral agreement or by course of conduct.

9.5. All notices, requests and demands to or upon the respective parties hereto shall be deemed to have been duly given or made: (a) by hand, immediately upon sending; (b) upon posting if by Federal Express, Express Mail or any other overnight delivery service; or (c) if by facsimile upon confirmation of facsimile transmittal. All notices, requests and demands are to be given or made to the respective parties at the addresses set forth herein or at such other addresses as either party may designate in writing by notice in accordance with the provisions of this paragraph.

9.6. Borrower and AFL each hereby waive all rights to a trial by jury in any action or proceeding of any kind arising out of or relating to this Agreement, any supplement or amendment hereto, the Obligations, the Collateral or any such other transaction. Borrower hereby waives all of its rights of setoff and rights to interpose any defenses and/or counterclaims in the event of any litigation with respect to any matter connected with this Agreement, any supplement or amendment hereto, the Obligations, the Collateral or any other transaction between the parties. Borrower hereby irrevocably consents and submits to the exclusive jurisdiction and venue of the Supreme Court of the State of New York or the United States District Court for the Eastern District of New York or prior to confirmation of a plan of reorganization in Borrower's Bankruptcy Case in the United States Bankruptcy Court for the Eastern District of New York in connection with any action or proceeding of any kind arising out of or relating to this Agreement, any supplement hereto, the Obligations, the Collateral or any such other transaction.

9.7. In any litigation brought by AFL, Borrower waives personal service of any summons, complaint or other process and agrees that service thereof may be made by certified or registered mail directed to Borrower at Borrower's address set forth below and service so made shall be complete five (5) days after the same shall have been posted. Within twenty (20) days after such mailing, Borrower shall appear and answer such summons, complaint or other process, failing which Borrower shall be deemed in default and judgment may be entered by AFL against Borrower for the amount of the claim and for any other relief requested therein.

9.8. This Agreement and all transactions hereunder are deemed to be consummated in the State of New York and shall be governed by and interpreted in accordance with the substantive and procedural laws of the State of New York. If any part or provision of this Agreement shall be determined to be invalid or in contravention of any applicable law or regulation of the controlling jurisdiction, such part or provision shall be severed without affecting the validity of any other part or provision of this Agreement.

9.9 Borrower hereby consents to and authorizes AFL to issue appropriate press releases and to cause a tombstone to be published announcing the consummation of this transaction and the aggregate amount thereof.

9.10. This Agreement shall inure to and be binding upon the parties hereto and their successors and assigns.

ALCOHOL SENSORS INTERNATIONAL, LTD.

By: _____
EDWARD GOULD, President

ACCEPTED:

ACQUISITION FUNDING, LLC

By: _____
MICHAEL RECCA, Managing Member

CERTIFICATE OF CORPORATE RESOLUTIONS

I, Rosemarie Massimillo, do hereby certify that I am Secretary of ALCOHOL SENSORS INTERNATIONAL, LTD., a corporation organized under the laws of the State of New York, and that a special meeting of the Board of Directors of said corporation, duly held at its office on April 30, 1999, at which a quorum was present and acting throughout, the following resolutions were duly moved, seconded and unanimously adopted:

RESOLVED: That it is to the best interest of this corporation to enter into a financing agreement with ACQUISITION FUNDING LLC.

RESOLVED: That any officer or officers of this corporation are hereby authorized and empowered, on its behalf, to execute said agreement and any modification thereof, and any such formal schedules of assignment of accounts, transfer of instruments, financial and other statements, and any and all further agreements, papers, documents and certificates, as may from time to time be required by said ACQUISITION FUNDING LLC., upon any matters or transactions arising under said agreement or in connection with any further financial arrangements with this corporation; and it was further

RESOLVED: That all acts of the officers of this corporation, and all agreements, modifications, transfers, assignments, certificates and statements, which they or any of them may do, execute or deliver in pursuance of said agreement and to facilitate transactions thereunder, are hereby ratified and approved; and

I further certify that the foregoing resolutions remain in full force and effect, and have not been rescinded or modified.

IN WITNESS WHEREOF, I have hereunto set my hand as Secretary of said corporation, and affixed its corporate seal, by order of its Board of Directors, this 30th day of April, 1999.

ROSEMARIE MASSIMILLO, Secretary

Attest:

EDWARD GOULD, President

INTELLECTUAL PROPERTY SECURITY AGREEMENT

THIS INTELLECTUAL PROPERTY SECURITY AGREEMENT (the "Agreement") is made and entered into effective as of this 30th day of April, 1999 by and between ALCOHOL SENSORS INTERNATIONAL, LTD., a corporation existing under and by virtue of the laws of the State of New York, with its principal place of business located at 28 Brandywine Drive, Deer Park, New York 11729 ("Borrower"), and ACQUISITION FUNDING LLC, a New York limited liability company, with its principal place of business located at 949 Edgewood Avenue, Pelham, New York 10803 ("AFL").

WHEREAS, AFL has provided and/or will provide Borrower with a loan of funds;

WHEREAS, Borrower has an obligation to repay the loan; and

WHEREAS, Borrower has agreed to provide AFL with a security interest in, among other things, certain intellectual property to secure repayment of the loan in accordance with the terms of a Security Agreement (the "Security Agreement") executed concurrently herewith.

NOW, THEREFORE, the parties hereto agree as follows:

1. CREATION OF SECURITY INTEREST

Borrower hereby grants to AFL a security interest in all of Borrower's collateral described in Paragraph 2 below ("Collateral") in order to secure the payment and performance of the obligations of Borrower to AFL, (hereinafter, the "Obligations").

2. COLLATERAL

a. The Collateral under this Agreement includes all right, title and interest of Borrower in all intellectual property, now owned or hereafter acquired by Borrower, in any country, including, without limitation, the following:

1. U.S. Design Patent No. D-370,065 issued May 21, 1996 For: Hand-Held Breath Analyzer Housing Design Inventors: Peter L. Squillante, Alan J. Squillante.

2. U.S. Patent No. 5,734,090 issued March 31, 1998 For: Method And Apparatus For Sonic Breath Determination Inventors: R. Koppel, E. Kirchmeier Corresponding Taiwan Patent No. 84-114114 of May 6, 1997

3. U.S. Design Patent No. D-404,131 issued January 12, 1999 For: Housing For A Hand-Held Breath Monitoring Device Inventor: Michael Ghazarian Corresponding design registrations issued in Belgium, The Netherlands, Luxembourg, Germany, Spain, France, Great Britain, and Italy.

4. Patent Cooperation Treaty ("PCT") application serial number US 97/18355 filed October 1997 (and that certain subsequent filing of the continuation-in-part ("CIP") application serial number 8/947,041 filed October 8, 1997) for "Breath Monitoring Apparatus" including all national and regional applications resulting therefrom.

5. U.S. Patent No. 5,780,973 issued July 14, 1998 for "Vehicle Windshield Wiper-Light Control System Incorporation Daytime Running Light Modes," issued in the names of J. Lively, R. Koppel and E. Kirchmeier.

6. U.S. Trademark and Registration therefor bearing U.S. Registration No. 1,973,994 of May 14, 1996 for the mark "SENS-O-LOCK."

b. With respect to Borrower's intellectual property, the Collateral shall also include, but not be limited to: (i) all royalties or proceeds resulting from said intellectual property; (ii) all causes of action for infringement thereof, now existing or hereafter arising; (iii) all reissues, extensions and renewals thereof; (iv) all rights of priority under International Conventions, all corresponding foreign applications, and all registrations which may be granted thereon in the United States or any foreign country; and (v) all goodwill associated with the Borrower's intellectual property, especially as such goodwill relates to marks (trademark(s) and service mark(s)).

3. COVENANTS OF BORROWER

Borrower represents, covenants and warrants that:

a. The Collateral is legally owned by it and is and will be free and clear of any liens, claims, taxes, encumbrances and equities of every kind and nature; except that U.S. Patent No. 5,780,973 of July 14, 1998 and PCT application serial number US 97/18355 filed October 1997 (and that certain subsequent filing of the continuation-in-part ("CIP") application serial number 8/947,041 filed October 8, 1997) does not appear to have been assigned as of record from the Inventors to Borrower.

b. Borrower has the unqualified right to enter into this Agreement and perform its terms;

c. Borrower has used and will continue to use for the duration of this Agreement, proper statutory notice in connection with its use of the intellectual property enumerated herein;

d. Borrower hereby grants to AFL and its employees and agents the right to visit Borrower's plants and facilities which manufacture, inspect or store said products, and to inspect the products and quality control records relating thereto.

e. That until all of the Obligations shall have been satisfied in full, Borrower will not enter into any agreement (for example, a license agreement) which is inconsistent with Borrower's Obligations under this Agreement, without AFL's prior written consent which consent AFL shall not unreasonably withhold;

f. If before the Obligations shall have been satisfied in full, Borrower shall obtain new rights to any new patents, trademarks or other intellectual property, the provisions of Paragraph 1 shall automatically apply thereto and Borrower shall give AFL prompt written notice thereof, and shall execute any amendment to Paragraph 1 hereof adding such new patents, trademarks or other intellectual property;

g. During the term of this Agreement, Borrower will, consistent with the exercise of reasonable business judgment in defending AFL's security interest therein, defend Collateral against all claims and demands of all persons at any time claiming the same or any interest therein, and, except in the ordinary course of business, will not sell or otherwise transfer or dispose of the Collateral, or any part thereof without the written consent of AFL, which consent shall not be unreasonably withheld.

h. Borrower will, promptly upon the request by AFL, execute and deliver to AFL any form UCC financing statements and other documents which are necessary or desirable to perfect or continue the perfection of the security interest in the Collateral created hereunder, and will take all actions which are necessary to protect the Collateral against the rights, claims or interests of third persons or to effect the purposes of this Agreement. Furthermore, Borrower hereby appoints AFL as its attorneys-in-fact with full rights hereunder and authority to execute any documents necessary to perfect AFL's security interest and otherwise enforce its rights hereunder. The parties hereto acknowledge that this power of attorney is coupled with an interest and is irrevocable.

i. Borrower agrees to defend, indemnify and hold AFL harmless from and against any damages, liabilities, losses and expenses (including, but not limited to, actual attorneys' fees, disbursements of counsel and interest from the date such damages, liabilities, losses and expenses are incurred to the date of payment) of any kind based upon a breach of any representation, warranty or covenant made by Borrower herein, or by reason of any claim, action or proceedings asserted or instituted as a result of any matter or thing covered by such representations, warranties, or covenants.

4. BREACH AND REMEDIES

If Borrower breaches any provision of this Agreement or fails to make any payment pursuant to the Security Agreement, AFL, may, at its option, exercise any or all rights and remedies provided for by law including, but not limited to, the applicable New York Uniform Commercial Code provisions, and may proceed by an action or actions at law or in equity to recover the indebtedness secured hereunder to foreclose this Agreement and sell the Collateral, or any portion thereof, pursuant to a judgment or decree of a court or courts of competent jurisdiction. If any Event of Default as defined in the Security Agreement shall

have been alleged by AFL, AFL shall have, in addition to all other rights and remedies given it by this Agreement, those allowed by law and the rights and remedies of a secured party under the Uniform Commercial Code as enacted in any jurisdiction wherein any rights, title and interest in and to the Collateral exist or can be claimed and, without limiting the generality of the foregoing, AFL may immediately, without demand of performance and without other notice (except as set forth next below) or demand whatsoever to Borrower, all of which are hereby expressly waived, and without advertisement, sell at public or private sale or otherwise realize upon, in New York, or elsewhere, all or from time to time any of any of the Intellectual Property, or any interest which the Borrower may have therein, and after deducting from the proceeds of sale or other disposition of the collateral all expenses (including all expenses for broker's fees and legal services), shall apply the residue of such proceeds to the payment of the Obligations. Any remainder of the proceeds after payment in full of the Obligations shall be paid over to the Borrower. Notice of any sale or other disposition of the collateral shall be given to Borrower by certified mail, return receipt requested, at least five (5) days before the time of any intended public or private sale or other disposition of the Collateral, which Borrower hereby agrees shall be reasonable notice of such sale or other disposition. At any such sale or other disposition, any holder of any Notice (as defined in the Security Agreement) or AFL may, to the extent permissible under applicable law, purchase the whole or any part of the collateral sold, free from any right of redemption on the part of Borrower, which right is hereby waived and released. In the event AFL alleges the occurrence of an Event of Default under the Security Agreement, Borrower hereby authorizes and empowers AFL to make, constitute and appoint any officer or agent of AFL as AFL may select, in its exclusive direction, as Borrower's true and lawful attorney-in-fact, with the power to endorse Borrower's name on all applications, documents, papers and instruments necessary for AFL to use the Collateral or to grant or issue any exclusive or nonexclusive license to use same to anyone else, or necessary for AFL to assign, pledge, convey or otherwise transfer title in or dispose of the Collateral to anyone else. Borrower hereby ratifies all that such attorney shall lawfully do or cause to be done by virtue hereof. This power of attorney shall be irrevocable for the life of this Agreement.

5. MISCELLANEOUS PROVISIONS

a. This Agreement shall commence as of the effective date set forth above and shall continue in force and effect until all amounts owing by Borrower to AFL have been paid in full.

b. This Agreement shall be construed in accordance with the laws of the State of New York. In the event any legal action becomes necessary to enforce or interpret the terms of this Agreement, the parties agree that such action will be brought in the state courts of New York or in the U.S. District Court for the Eastern District of New York, or prior to confirmation of a plan of reorganization in Borrower's Bankruptcy Case in the United States Bankruptcy Court for the Eastern District of New York, the parties hereby submit to the jurisdiction of said courts. This Agreement shall be binding on the parties, their affiliated companies and on their successors and assigns.

LLC, a New York limited liability company, with its principal place of business located at 949 Edgewood Avenue, Pelham Manor, New York 10803 ("Secured Party") its true and lawful attorney upon the occurrence of an Event of Default, as defined in the Security Agreement, dated as of the date hereof, between Borrower and the Secured Party (the "Security Agreement") or the Intellectual Property Security Agreement, dated as of the date hereof, between Borrower and the Secured Party (the "Intellectual Property Security Agreement") with full power of substitution, and with full power and authority to perform the following acts on behalf of Borrower:

1. For the purpose of assigning, selling or otherwise disposing of all right, title and interest of Borrower in and to any and all of the Collateral as such term is defined in the Security Agreement together with the Intellectual Property described in the Intellectual Property Security Agreement, including without limitation, the following: (a) the patents set forth in the Intellectual Property Security Agreement; (b) the trademarks shown in the Intellectual Property Security Agreement; (c) any and all licenses to said patents and/or trademarks set forth in the Intellectual Property Security Agreement; and (d) all other rights to letters patents and applications for letters patent now or hereafter acquired by Borrower, the inventions covered by such patents and patent applications, and all reissues, divisions, continuations, extensions, renewals and continuations-in-part thereof, and for the purpose of recording, registering, applying for registration of, or accomplishing any other formality with respect to the foregoing, to execute and deliver any and all agreements, documents, instruments of assignment or other papers necessary or advisable to effect such purpose; and

2. To execute all documents, statements, certificates or other papers necessary or advisable in order to obtain the purposes described above as Secured Party may in its sole discretion determine.

This power of attorney is made pursuant to the Security Agreement and the Intellectual Property Security Agreement and may not be revoked until the payment, performance and fulfillment of all Borrower's covenants and obligations under the Security Agreement and the Intellectual Property Security Agreement.

ALCOHOL SENSORS
INTERNATIONAL, LTD.

By: _____
Name:
Title:

Subscribed and Sworn to
before me on April 27, 1999

Notary Public