

SECURITIES AND EXCHANGE COMMISSION

FORM 10KSB

Annual and transition reports of small business issuers [Section 13 or 15(d), not S-B Item 405]

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FILER

EIP MICROWAVE INC

CIK: **26782** | IRS No.: **952148645** | State of Incorporation: **DE** | Fiscal Year End: **0930**
Type: **10KSB** | Act: **34** | File No.: **000-05351** | Film No.: **96687988**
SIC: **3825** Instruments for meas & testing of electricity & elec signals

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SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-KSB

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934 [FEE REQUIRED]
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 1996.

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

Commission file NO. 0-5351

EIP MICROWAVE, INC.

(Name of small business issuer as specified in its charter)

Delaware

95-2148645

(State or other jurisdiction of
incorporation or organization)

(IRS Employer
Identification Number)

3 Civic Plaza, Suite 265, Newport Beach, California

92660

(Address of principal executive offices)

(Zip Code)

Issuer's telephone number, including area code: (714) 720-1766

Securities registered under Section 12(b) of the Exchange Act: NONE
Securities registered under Section 12(g) of the Exchange Act:

Common Stock, \$.01 Par Value

(Title of Class)

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

Yes No

Check if there is no disclosure of delinquent filers in response to Item 405 of Regulation S-B contained in this form, and no disclosure will be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-KSB or any amendment to this Form 10-KSB.

The issuer's revenues for the fiscal year ended September 30, 1996, were \$6,492,000. The aggregate market value of the voting stock held by non-affiliates of the issuer, computed by reference to the average bid and asked prices as of December 20, 1996, was approximately \$663,000. For purposes of this determination only, directors and officers of the issuer have been assumed to be affiliates. There were a total of 424,907 shares of the issuer's common stock outstanding as of December 20, 1996.

The number of sequentially numbered pages is 67. Exhibit Index on page 28

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DOCUMENTS INCORPORATED BY REFERENCE

- (1) Portions of the Definitive Proxy Statement filed with Securities and Exchange Commission relating to the Company's 1997 Annual Meeting of Stockholders - Part III.

Transitional Small Business Disclosure Format
(check one): Yes No

PART I

ITEM 1. DESCRIPTION OF BUSINESS

THE FOLLOWING DISCUSSION CONTAINS TREND INFORMATION AND OTHER FORWARD-LOOKING STATEMENTS THAT INVOLVE A NUMBER OF RISKS AND UNCERTAINTIES. THE ACTUAL RESULTS OF EIP MICROWAVE, INC. (THE "COMPANY") COULD DIFFER MATERIALLY FROM THE COMPANY'S HISTORICAL RESULTS OF OPERATIONS AND THOSE DISCUSSED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY INCLUDE, BUT ARE NOT LIMITED TO, THOSE IDENTIFIED IN "ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION - CERTAIN FACTORS."

GENERAL/PRODUCTS

The Company was incorporated under the laws of the State of Delaware in 1987 under the name EIP Microwave, Inc. The predecessor corporation was organized under the laws of California in 1961, and merged with the Company in 1987.

The Company is engaged in a single industry segment constituting the development, manufacture and sale of high frequency microwave and radio frequency (RF) test and measurement instruments. These instruments include microwave heterodyne-type automatic frequency counters, microwave and RF pulse frequency counters, microwave and RF synthesized signal generators, pulse generators, and downconverters. All of these products are electronic devices which are used in the design, manufacture and maintenance of microwave and RF products and systems throughout the world.

Stand-alone microwave frequency counters represented 50% of net sales in 1996, 64% of sales in 1995, and 75% of sales in 1994. The balance of sales in those years was mainly derived from the Company's VXIbus-based products. VXIbus is a hardware and software standard for modular instrumentation. EIP manufactures individual modules in the VXIbus format that provide various functions, including frequency measurement, synthesized signal generation, downconversion and modulation. These modules plug in to standardized racks that supply power and computer resources.

The Company designs and manufactures its own YIG (Yttrium iron garnet) filters, which are a key feature of many EIP microwave products. Additionally, the Company manufactures hybrid microwave integrated circuits (MICs) and proprietary microwave subassemblies used in its microwave products. The Company's YIG and MIC capabilities provide its microwave products with competitively superior performance, protection from overload, and compact size.

During fiscal 1995, the Company obtained rights to purchase and resell, on an original equipment manufacturer basis, VXI-based multipurpose synthesized RF data modulators from SRI International. During fiscal 1994, the Company introduced a microwave pulse frequency counter with peak power measurement capability.

MARKETS/PRINCIPAL CUSTOMERS

The Company has a variety of customers worldwide for its microwave products, including the military, government agencies, government subcontractors, the telecommunications industry, the aerospace industry, and research and development facilities. The primary customers for the Company's RF products are

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telecommunication companies. The Company's principal customers include Grumman, Lockheed Martin, Kelly Air Force Base, Hughes Aircraft, and Harris Corporation.

The Company sells its microwave products to approximately 1,000 customers, of which sales to the United States Government and its contractors comprised approximately 33%, 36%, and 44%, of net sales for fiscal years 1996, 1995, and 1994, respectively. Foreign sales represented 36% of net sales in fiscal 1996, 43% of net sales in fiscal 1995, and 36% of net sales in fiscal 1994.

METHODS OF DISTRIBUTION

The Company uses independent manufacturers' representatives for distribution in the United States and in foreign countries. The Company provides service and technical support to its manufacturers' representatives, and directly to its customers.

From November 1992 until December 1995, the Company's products were distributed in a number of foreign countries through an exclusive distribution agreement with Marconi Instruments, a subsidiary of The General Electric Company, Plc. of England. Foreign sales through Marconi Instruments represented 19% and 16% of net sales in fiscal 1995 and 1994, respectively. The Company has since established agreements with other independent manufacturers' representatives in these countries previously covered by Marconi Instruments.

COMPETITION

The Company believes there are three to six competitors in the respective markets in which it competes; however, reliable data on sales and profits of most of the Company's competitors is not readily available because the competitors are either privately held or are separate divisions of large publicly held companies which do not separately report financial results for competing divisions.

The markets in which the Company's frequency counters are sold are well-defined and narrow markets which have become increasingly competitive both in the United States and abroad. Within these narrow markets, the Company believes it holds a significant competitive position, generally believed to be number two or three in market share. The Company encounters competition, however, from certain firms which are substantially larger and have greater financial resources than the Company; the dominant competitor is believed to be Hewlett-Packard.

The market for the microwave synthesized signal generators is considered to be larger than the microwave frequency counter market. As the market for this type of product is still just emerging, we are not able to determine market share. At present, the only other known supplier of VXIbus synthesized signal generators is Giga-tronics.

The Company's VXIbus pulse generator and downconverter are sold primarily as companion products for integrated systems. Competitors for the pulse generator include Wavetek and Tektronix. There is no known current direct competition for the VXIbus downconverter.

Competition is based upon performance, reliability, product design, availability and price and is characterized by technological change.

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RESEARCH, DEVELOPMENT AND ENGINEERING

Management believes that the Company's future success is dependent to a significant extent upon engineering and new product development. Expenditures for research, development and engineering during the past three years have ranged between 17% and 11% of annual net sales. Research, development and engineering expenditures were \$978,000, \$742,000, and \$620,000, for fiscal years ended September 30, 1996, 1995, and 1994, respectively. All of the Company's research, development and engineering activities have been Company-funded.

RAW MATERIALS

The principal raw materials used by the Company in its manufacturing operations include capacitors, resistors, semiconductors, integrated circuits, transformers, printed circuit boards, display devices, and metal and plastic cases, most of which are purchased from outside suppliers. For the majority of materials, the Company has access to many suppliers, and believes that it is not dependent upon any one supplier, and that adequate alternate sources for its materials are, for the most part, readily available. There are, however, many applications which require specialized components currently available, in each instance, only through a single source of supply. The loss of any of these sources, or the inability of any such source to meet the Company's production and quality control requirements, could be detrimental to the Company with respect to the specific products involved.

EMPLOYEES

The Company had 52 employees at September 30, 1996, 49 of whom were full

time and 3 part time. The Company is not a party to any collective bargaining agreements, and the Company believes its relations with employees are excellent.

PATENTS AND TRADEMARKS

The Company holds no patents, trademarks, franchises, concessions or royalty agreements that have a material importance to or effect on its frequency counter, pulse counter, synthesized signal generator, pulse generator, downconverter, or frequency selective level meter product lines. The Company has obtained a license from SRI International for certain VXI-based multipurpose data modulator circuitware and software.

GOVERNMENT APPROVAL OF PRINCIPAL PRODUCTS

Government approval is not required for any of the Company's principal products.

EFFECT OF EXISTING OR PROBABLE GOVERNMENTAL REGULATIONS

The Company believes it is in compliance with applicable governmental regulations. The Company is not aware of any probable governmental regulation which would have a detrimental or disruptive effect on the Company.

COMPLIANCE WITH FEDERAL, STATE AND LOCAL PROVISIONS ON ENVIRONMENTAL PROTECTION

The Company does not believe that compliance with federal, state, and local provisions which have been enacted or adopted regulating the discharge of materials into the environment, or otherwise relating to the

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protection of the environment, will have any material effect upon the capital expenditures, earnings, or competitive position of the Company.

ITEM 2. PROPERTIES

The Company leases a 20,331 square foot one story, concrete structure located in Milpitas, California, which contains production, warehouse and office facilities. The lease term continues until October 1998, with an option to renew for an additional three years. The annual rent for the current term is \$226,000 plus applicable real property taxes and insurance. The Company also leases 978 square feet of space as the Company's corporate offices, at a monthly rate of \$1,320 on a month-to-month basis, located in Newport Beach, California. The current facilities are believed by the Company to be suitable and adequate for its present requirements.

The Company also owns and uses machinery, equipment, and furniture with an original cost of approximately \$5,319,000, and leases and uses equipment with capital lease obligations of \$129,000 at September 30, 1996. This personal property is believed to be in acceptable condition. The Company's management believes the facilities and all machinery and equipment of the Company are adequately insured.

The Company does not have any investments in real estate, real estate mortgages or securities of persons primarily engaged in real estate activities, and has no present policy or limitations with respect to any such future investments.

ITEM 3. LEGAL PROCEEDINGS

There are no pending legal proceedings to which the Company or its subsidiary is a party or of which any of their property is the subject. The Company is not aware of any such legal proceeding contemplated by a governmental authority.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

During the fourth quarter of fiscal 1996 no matters were submitted to a vote of security holders through the solicitation of proxies or otherwise.

PART II

ITEM 5. MARKET FOR COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's common stock is traded over-the-counter on the NASDAQ Small Cap system.

The following table reflects the high and low bid information for the common stock of the Company based on quotes provided by NASDAQ Small Cap. These quotations reflect interdealer prices, without retail mark-up, mark-down or commission, and may not necessarily represent actual transactions.

1996	BID		1995	BID	
	HIGH	LOW		HIGH	LOW
First Quarter	5 1/2	1 1/2	First Quarter	3 1/4	1 3/4
Second Quarter	7 1/4	2 3/4	Second Quarter	7	1 3/4
Third Quarter	7 1/2	2	Third Quarter	9 1/4	1 1/4
Fourth Quarter	6 3/4	3 1/2	Fourth Quarter	7 1/2	5 1/2

The number of stockholders of record as of December 20, 1996 was 144.

No dividends were paid during the past two fiscal years. Under the terms of agreements with the Company's senior and subordinated lenders, the Company may not pay or declare dividends without the lenders' prior written consent.

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL CONDITION

THE FOLLOWING DISCUSSION CONTAINS TREND INFORMATION AND OTHER FORWARD-LOOKING STATEMENTS THAT INVOLVE A NUMBER OF RISKS AND UNCERTAINTIES. THE COMPANY'S ACTUAL RESULTS COULD DIFFER MATERIALLY FROM THE COMPANY'S HISTORICAL RESULTS OF OPERATIONS AND THOSE DISCUSSED IN THE FORWARD-LOOKING STATEMENTS. FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY INCLUDE, BUT ARE NOT LIMITED TO, THOSE IDENTIFIED UNDER THE HEADING "CERTAIN FACTORS" BELOW.

RESULTS OF OPERATIONS

Net sales for fiscal 1996 were \$6,492,000, a 3% decrease from fiscal 1995 sales of \$6,721,000. The decrease in net sales in fiscal 1996, compared to the prior year, was primarily attributable to market softness for the Company's products. The 25% increase in fiscal 1995 net sales, compared to fiscal 1994 net sales of \$5,389,000 was primarily attributable to increased international sales, orders from government contractors, and sales of products configured in the VXIbus format. Foreign exchange rate fluctuations did not have a material impact on net sales or gross profit margins for the last three fiscal years.

The Company's gross profit margin decreased in fiscal 1996 to 37%, from 46% in fiscal 1995, and 44% in fiscal 1994. The decrease in the fiscal 1996 gross profit margin, compared to fiscal 1995 and fiscal 1994, is primarily due to a sales mix shift from higher margin stand-alone counter products to lower margin VXIbus products and lower than expected gross profit margin on these VXI products.

Inflation did not have a material effect on revenues nor gross profit during fiscal years 1996, 1995 or 1994.

Incoming orders for fiscal 1996 were \$6,115,000, a 14% decrease from \$7,127,000 for the same period a year ago. Backlog at September 30, 1996, was \$763,000, a 37% decrease from \$1,210,000 at September 30, 1995. The decrease in orders and backlog in fiscal 1996, compared to the prior year, was primarily due to a 36% decrease in large government-related orders.

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Incoming orders for the fiscal 1995 year increased 20% from \$5,929,000 for the same period of the previous year. Backlog at September 30, 1995 increased 40% from \$862,000 at September 30, 1994. The increases in orders and backlog for fiscal 1995, compared to fiscal 1994, were primarily due to increased international orders, orders from government contractors, and orders for products configured in the VXIbus format.

Research, development and engineering expenditures increased 32% to \$978,000 in fiscal 1996, from \$742,000 in the prior fiscal year. The increase in fiscal 1996, compared to fiscal 1995, was a result of increased new product development expenditures, primarily to support a new frequency measurement product currently under development. Research, development and engineering expenditures in fiscal 1995 increased 20%, compared to \$620,000 in fiscal year 1994, due to increased new product development expenditures. The majority of the fiscal 1996 and 1995 investment was in the development of non-VXIbus

standard product.

Selling, general and administrative expenses decreased 9% in fiscal 1996 to \$2,084,000, compared to \$2,289,000 in fiscal 1995, primarily due to the decrease in commission expense resulting from lower sales volume, and a decrease in advertising expenses. Selling, general and administrative expenses increased 4% in fiscal 1995 to \$2,289,000, compared to \$2,197,000 in fiscal 1994, primarily due to increased commission expense resulting from increased sales volume.

During fiscal 1996, the Board of Directors waived fees owed to them by the Company totaling \$112,000. The reversal of previously accrued fees was included in "Interest and other, net" cost and expenses in the statement of operations, and thereby reduced the net loss for the year ended September 30, 1996.

The Company earned interest and dividend income of \$26,000, \$25,000, and \$4,000, during fiscal 1996, 1995, and 1994, respectively. The increase in interest and dividend income earned in fiscal 1996 and fiscal 1995, as compared to fiscal 1994, was primarily due to increased earnings performance in short-term securities. Also included in interest and other for fiscal 1996 and fiscal 1995, are gains on sales of fixed assets of \$14,000 and \$56,000, respectively.

As a result of the foregoing, the Company incurred a loss of \$493,000 in fiscal 1996, as compared to earnings of \$125,000 in fiscal 1995, and a net loss of \$453,000 in fiscal 1994.

FINANCIAL CONDITION

At September 30, 1996, the Company's cash, cash equivalents and short-term investment balance was \$540,000, as compared to \$445,000, at September 30, 1995. The Company's accounts payable balance was \$706,000 at September 30, 1996, compared to \$610,000 at September 30, 1995. At September 30, 1996, the Company had no material commitments for capital expenditures.

Working capital decreased by \$724,000 in fiscal 1996, after an increase of \$313,000 in fiscal 1995. The Company's current ratio decreased to 1.42:1 at September 30, 1996, from 2.09:1 at September 30, 1995.

As of September 30, 1996, the Company had a bank line of credit ("line") which provided for borrowings up to \$500,000, not to exceed 60% of eligible accounts receivable. The balance outstanding was \$185,000 as of September 30, 1996. The line bears interest at the bank's prime rate plus 3% per annum, provided that the interest rate in effect each month shall not be less than 10% per annum, and is payable monthly (11.25% as of September 30, 1996). The line contains various restrictive covenants requiring, among other matters, the maintenance of minimum levels of tangible net worth and profitability and certain financial

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ratios, including minimum quick ratio and maximum debt to net worth ratio. The line also precludes or limits the Company in taking certain actions, such as paying dividends, making loans, making acquisitions or incurring indebtedness, without the bank's prior written consent. The line is secured by substantially all of the Company's assets. As of November 15, 1996, the bank extended the maturity date of the line to January 15, 1997 and amended certain restrictive covenants, but limited borrowings to the \$185,000 outstanding. As of September 30, 1996, the Company was in compliance with the restrictive covenants of the line, as so amended. The Company is in the process of renewing its line through January 1998 with an increase in available borrowing from \$185,000 to \$500,000. Management believes the Company will be able to renew the line on such terms. However, in the event that the line of credit negotiations are not successful or the Company is unable to maintain compliance with financial covenants, J. Bradford Bishop, the Chairman and Chief Executive Officer of the Company, and John F. Bishop, the Vice Chairman, Treasurer and Secretary of the Company (the "Bishops") have agreed to finance up to \$500,000 of working capital (in addition to funds provided under the subordinated loan agreement (described below)) on terms acceptable to the Bishops and the Company to replace the line of credit.

On December 16, 1996, the Company entered a subordinated loan agreement with the Bishops. This agreement provides for borrowings up to a maximum aggregate amount of \$600,000 by the Company. The commitment of the Bishops to make advances to the Company expires on February 1, 1998, and all advances must be repaid by February 1, 2000. Interest is charged at 8% per annum, and is payable quarterly. The advances are secured by substantially all of the

assets of the Company and are subordinated to the Company's bank line of credit. The agreement contains various restrictive covenants. In connection with the subordinated loan agreement, the Company will issue warrants entitling the Bishops to purchase up to 90,000 shares of the Company's common stock at \$3.00 per share. The warrants expire on December 16, 2001.

Future performance and levels of capital expenditures could reduce the total amount of funds available under the bank line of credit and the subordinated loan agreement at any given time.

The Company believes that cash on hand, funds available under the bank line of credit and subordinated loan agreement, and funds generated from operations will provide for the cash requirements for fiscal 1997.

CERTAIN FACTORS

IN ADDITION TO THE FACTORS DISCUSSED ELSEWHERE IN THIS 1996 ANNUAL REPORT AND FORM 10-KSB, THE FOLLOWING ARE IMPORTANT FACTORS WHICH COULD CAUSE ACTUAL RESULTS OR EVENTS TO DIFFER MATERIALLY FROM THOSE CONTAINED IN ANY FORWARD-LOOKING STATEMENT MADE BY OR ON BEHALF OF THE COMPANY.

PRODUCT DEVELOPMENT AND INTRODUCTION

The Company expects to continue to invest in research and development of new products, and anticipates the introduction of a new frequency measurement product in fiscal year 1997. Due to the uncertainty associated with any product development and introduction (such as delays in development and lack of market acceptance of the new product), there can be no assurances that the Company's development and introduction efforts will be successful. If the Company does not successfully introduce a new frequency measurement product in fiscal year 1997, the Company's business, financial condition and results of operations will be materially adversely effected.

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LIQUIDITY

The Company's fiscal 1997 operating plan assumes that additional financing will be necessary to fund its 1997 operations. The Company is in the process of renewing its bank line of credit through January 1998 and increasing its availability under the line of credit up to \$500,000 (see description under "Financial Condition" above). The inability to successfully renew the bank line of credit with the availability requested by the Company could have a material adverse effect on the Company's business, financial condition and results of operations. If the Company is unable to secure an alternate source of capital, it may be required to significantly curtail its planned operations.

Although the Company believes that its existing and available cash resources, together with the requested availability under a renewed bank line of credit, should be sufficient to meet its needs for fiscal year 1997, there can be no assurance that such cash resources will be sufficient to satisfy the Company's operating requirements. The actual cash resources required will depend upon numerous factors, including those described under "Product Development and Introduction" above and "Other Factors" below.

OTHER FACTORS

The Company's results of operations are also affected by a wide variety of other factors, including fluctuations in customer demand, competitive factors (such as pricing pressures on existing products and the timing and market acceptance of new product introductions by competitors of the Company), and both general economic conditions and conditions specific to the microwave and RF test and measurement industry.

Due to the foregoing and other factors, past results are not a reliable predictor of future results. In addition, the securities of many technology and developmental companies, such as the Company, have historically been subject to extensive price and volume fluctuations that may adversely affect the market price of their common stock.

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ITEM 7. FINANCIAL STATEMENTS

Reference is made to the Financial Statements, together with the notes thereto and the report thereon of Price Waterhouse LLP appearing on the pages of this report set forth below:

	Page (s)

Consolidated Balance Sheets as of September 30, 1996 and 1995	12
Consolidated Statements of Operations for the three years ended September 30, 1996.	13
Consolidated Statements of Stockholders' Equity for the three years ended September 30, 1996.	13
Consolidated Statements of Cash Flows for the three years ended September 30, 1996.	14
Notes to Consolidated Financial Statements	15-21
Report of Independent Accountants	22

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CONSOLIDATED BALANCE SHEETS

<TABLE>
<CAPTION>

(Dollars in thousands, except share data)	September 30, 1996	September 30, 1995
<S>	<C>	<C>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 216	\$ 126
Short-term investments	324	319
	-----	-----
Accounts receivable, net	540	445
Inventories	686	1,064
Prepaid expenses	1,067	1,133
	59	74
	-----	-----
Total current assets	2,352	2,716
Property and equipment, net	631	271
Other assets	-	30
	-----	-----
	\$ 2,983	\$ 3,017
	-----	-----

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:		
Accounts payable	\$ 706	\$ 610
Accrued liabilities	546	676
Advanced payments from customers	190	-
Bank borrowings	185	-
Current portion of obligations under capital leases	34	15
	-----	-----
Total current liabilities	1,661	1,301
	-----	-----
Long term obligations under capital leases	95	-
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Common stock, \$.01 par value; authorized - 10,000,000 shares; 424,907 and 423,307 shares issued and outstanding, respectively	5	5
Additional paid-in capital	848	844
Retained earnings	374	867
	-----	-----
Total stockholders' equity	1,227	1,716
	-----	-----
	\$ 2,983	\$ 3,017
	-----	-----

</TABLE>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

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CONSOLIDATED STATEMENTS OF OPERATIONS AND OF STOCKHOLDERS' EQUITY

CONSOLIDATED STATEMENTS OF OPERATIONS

<TABLE>

<CAPTION>

For the years ended September 30, (In thousands except per share data)	1996	1995	1994
<S>	<C>	<C>	<C>
Net sales	\$ 6,492	\$ 6,721	\$ 5,389
Cost and expenses:			
Cost of sales	4,064	3,646	3,029
Research, development and engineering	978	742	620
Selling, general and administrative	2,084	2,289	2,197
Interest and other, net	(141)	(81)	(4)
Total costs and expenses	6,985	6,596	5,842
Net income (loss) before income tax	(493)	125	(453)
Income tax provision	-	-	-
Net income (loss)	\$ (493)	\$ 125	\$ (453)
Net income (loss) per share	\$ (1.16)	\$ 0.30	\$ (1.06)
Weighted average common shares outstanding	423	423	428

</TABLE>

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

<TABLE>

<CAPTION>

(Dollars in thousands)	Common Stock		Additional	Retained	Total
<S>	Shares	Amount	Paid-in Capital	Earnings	
	<C>	<C>	<C>	<C>	<C>
Balance at September 30, 1993	451,439	\$ 5	\$ 844	\$1,195	\$ 2,044
Rescission of fiscal 1993 stock issuance	(28,132)	-	-	-	-
Net loss	-	-	-	(453)	(453)
Balance at September 30, 1994	423,307	5	844	742	1,591
Stock issues	-	-	-	-	-
Net income	-	-	-	125	125
Balance at September 30, 1995	423,307	5	844	867	1,716
Stock issues	1,600	-	4	-	4
Net income	-	-	-	(493)	(493)
Balance at September 30, 1996	424,907	\$ 5	\$ 848	\$ 374	\$ 1,227

</TABLE>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Increase (decrease) in cash

<TABLE>

<CAPTION>

For the years ended September 30, (Dollars in thousands) <S>	1996 <C>	1995 <C>	1994 <C>
Cash flows from operating activities:			
Net income (loss)	\$ (493)	\$ 125	\$ (453)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	147	220	286
(Gain) loss on the sale of capital equipment	(50)	(146)	10
Change in assets and liabilities:			
Accounts receivable, net	378	(350)	(215)
Inventories	66	(149)	161
Prepaid expenses and other assets	45	(36)	29
Accounts payable	96	83	306
Accrued liabilities	(130)	65	(90)
Advanced payments from customers	190	-	-
	-----	-----	-----
Cash provided by (used in) operating activities	249	(188)	34
	-----	-----	-----
Cash flows from investing activities:			
Purchase of short-term investments	(213)	(11)	-
Sale of short-term investments	208	-	-
Capital expenditures	(394)	(41)	(70)
Proceeds from the sale of capital equipment	61	155	-
	-----	-----	-----
Cash (used in) provided by investing activities	(338)	103	(70)
	-----	-----	-----
Cash flows from financing activities:			
Proceeds from bank borrowings	185	-	-
Proceeds from sales of common stock to employees	4	-	-
Repayment of obligations under capital leases	(10)	-	-
	-----	-----	-----
Cash provided by financing activities	179	-	-
	-----	-----	-----
Increase (decrease) in cash and equivalents	90	(85)	(36)
Cash and equivalents at beginning of period	126	211	247
	-----	-----	-----
Cash and equivalents at end of period	\$ 216	\$ 126	\$ 211
	-----	-----	-----
Supplemental information:			
Equipment acquired pursuant to capital leases	124	-	-

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE CONSOLIDATED FINANCIAL STATEMENTS.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

September 30, 1996

NOTE 1. THE COMPANY AND A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE COMPANY

The Company is engaged in a single industry segment constituting the development, manufacture, and sale of high frequency microwave and radio frequency (RF) test and measurement instruments. The Company's stand-alone microwave frequency counters represented 50% of net sales in 1996, 64% of net sales in 1995, and 75% of net sales in 1994. Substantially all of its activities are conducted in the United States, and the Company has no foreign manufacturing operations nor material amounts of foreign assets. Export sales, principally to customers in Western Europe and Pacific Rim countries, as a percent of net sales were approximately 36% in 1996, 43% in 1995, and 36% in

1994. Profit margins are similar on foreign and domestic sales. Direct sales to the United States government and its contractors as a percent of net sales were approximately 33% in 1996 (22% to one government subcontractor), 36% in 1995 (11% to one government subcontractor), and 44% in 1994 (14% to one government subcontractor).

LIQUIDITY

As shown in the accompanying financial statements, the Company incurred a loss from operations for the year ended September 30, 1996 of \$493,000 and has experienced significant fluctuations in operating results in the past. The fiscal 1997 operating plan anticipates the release of a new frequency measurement product. To the extent that product development is delayed or the new product introduction does not achieve sufficient market acceptance, the Company's financial position and results of operations will be adversely impacted. The Company's fiscal 1997 operating plan also assumes additional financing will be necessary to fund its 1997 operations (see notes 6 and 7). The Company believes that cash on hand, funds available from financing arrangements, and funds generated from operating activities will be sufficient to support operations for fiscal 1997.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany transactions and accounts have been eliminated.

CASH EQUIVALENTS

The Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

SHORT-TERM INVESTMENTS

Short-term investments, consisting of publicly traded preferred stocks and government bonds, are stated at fair value. The Company has adopted Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS 115"). SFAS 115 requires companies to classify investments in debt and equity securities with readily determinable fair values as "held-to-maturity", "available for sale", or "trading" and establishes accounting and reporting requirements for each classification. The Company classifies all securities held as available for sale. Securities classified as

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available for sale are reported at their fair market value with unrealized gains and losses reported as a separate component of stockholders' equity. Such unrealized gains and losses were immaterial as of September 30, 1996 and 1995. The Company's government bonds have a maturity of one year or less. Publicly traded preferred stocks are considered highly liquid and are classified as short-term investments.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist principally of cash, cash equivalents and short-term investments and trade accounts receivable. The Company places its cash, cash equivalents and short-term investments in a variety of financial instruments such as certificates of deposit and marketable equity securities.

The Company performs ongoing credit evaluations of its customers' financial condition and, generally, requires no collateral from its customers. The Company maintains an allowance for uncollectible accounts receivable based upon the expected collectibility of all accounts receivable balances. At September 30, 1996, the accounts receivable balance from three customers represented 32%, 12%, and 10% of net trade receivables.

INVENTORIES

Inventories are stated at the lower of standard cost, which approximates actual cost (determined on a first-in, first-out basis), or market.

PROPERTY AND EQUIPMENT

Purchased property and equipment are stated at cost and are depreciated

using the straight-line method over lives ranging from three to eight years. Self-constructed demonstrator products are stated at their standard manufacturing cost.

REVENUE RECOGNITION AND WARRANTY

Sales are recognized at the time of shipment provided no significant obligations remain and collectibility is probable. The Company provides for the estimated costs of fulfilling its warranty obligation at the time the related sale is recorded.

INCOME TAXES

The Company utilizes an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequence of events that have been recognized in the Company's financial statements or tax returns.

NET INCOME (LOSS) PER SHARE

The calculation of net income (loss) per share is based upon the weighted average number of shares outstanding during the year. Common stock equivalents were not materially dilutive for the year ended September 30, 1995. As a result of the losses incurred in fiscal 1996 and 1994, the common equivalent shares were antidilutive and, accordingly, were excluded from the computation of loss per share for those years.

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USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

ADOPTION OF NEW ACCOUNTING PRONOUNCEMENT.

In 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation." Only the disclosure requirements of this standard will be adopted by EIP for the year ending September 30, 1997, and therefore there will be no impact on EIP's consolidated financial position or results of operations.

NOTE 2. CONSOLIDATED BALANCE SHEET DETAIL

(Dollars in thousands)	September 30,	
	1996	1995
Accounts receivable:		
Trade	\$ 736	\$ 1,138
Less - allowance for doubtful accounts	(50)	(74)
	-----	-----
	\$ 686	\$ 1,064
	-----	-----
Inventories:		
Raw materials	\$ 719	\$ 633
Work-in-process	320	489
Finished goods	28	11
	-----	-----
	\$ 1,067	\$ 1,133
	-----	-----
Property plant and equipment:		
Machinery and equipment	\$ 3,121	\$ 3,168
Computer equipment and software	1,054	1,160
Demonstrator equipment	337	359
Furniture, fixtures and other fixed assets	807	471
	-----	-----
	5,319	5,158
	-----	-----
Less: accumulated depreciation	(4,688)	(4,887)
	-----	-----

	\$ 631	\$ 271

Accrued liabilities:		
Salaries, wages and benefits	\$ 215	\$ 157
Commissions	83	61
Warranty	53	66
Other	195	392
	-----	-----
	\$ 546	\$ 676
	-----	-----
	-----	-----

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NOTE 3. EMPLOYEE BENEFIT PLANS

RETIREMENT PLAN

The Company has a Retirement/Savings Plan which qualifies as a thrift plan under Section 401(k) of the Internal Revenue Code. All employees who have completed three months of service on or before the semiannual entry period are eligible to participate in the Retirement Plan. The Retirement Plan allows participants to contribute up to 12% of their earnings to the Retirement Plan and deduct this amount from their wages for federal income tax purposes. The Company will contribute 50 cents for each dollar contributed by the employee up to 3% of total wages. Company contributions in fiscal years 1996, 1995, and 1994, totaled \$49,000, \$38,000, and \$37,000, respectively.

INCENTIVE COMPENSATION

The Company has an incentive compensation plan which provides for awards of bonuses to officers and key employees based principally on achieving stipulated Company financial objectives. In making specific awards, consideration is given to the individual's contribution to the success of the Company, to the success and performance of the unit or department of which the individual is a member, and to the achievement of individual performance goals established at the beginning of the fiscal year. The formula for computing bonuses has been subject to annual modification and may in the future be again modified at the discretion of the Board of Directors. No bonuses were awarded for fiscal 1996. Bonuses of \$61,000 were awarded for fiscal 1995 results. No bonuses were awarded for fiscal 1994 results.

STOCK APPRECIATION RIGHTS PLAN

On November 11, 1992, the Board of Directors adopted a Stock Appreciation Rights Plan ("SAR Plan"). The SAR Plan provides for the award of appreciation rights ("SARs") to officers and key management employees of the Company entitling such participants to receive the increase, if any, in the value of one share of Company common stock from the date of the award to the date(s) of valuation established at the time of the award. Generally, SARs are deemed vested in five equal annual installments. Each award vested will be paid in cash on a scheduled payment date. During fiscal 1996, 1995 and 1994, no SARs were awarded. A total of 2,760, 2,760 and 7,760 SARs were vested during fiscal 1996, 1995 and 1994, respectively. A total of 0, 960, and 24,040 SARs were canceled during fiscal 1996, 1995, and 1994, respectively, leaving an aggregate of 5,520 SARs outstanding at September 30, 1996. The Company accrues a compensation liability over the vesting period based on the increase in the market value of the common stock over the award price. The liability recorded in fiscal 1996 and 1995 was \$7,900 and \$20,293, respectively. No compensation liability was recorded for fiscal 1994 relating to the SAR Plan.

STOCK OPTION PLAN

Under the Company's Amended and Restated 1994 Stock Option Plan (the "Plan"), as in effect on September 30, 1996, stock options may be awarded to directors, consultants and employees to purchase up to 100,000 shares of common stock at exercise prices determined by the Board of Directors. The options can generally be awarded for periods up to 10 years and are subject to vesting schedules as determined by the Board of Directors.

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The following table summarizes option activity under the Plan:

<TABLE>

<CAPTION>

	Options Available <C>	Options Outstanding <C>	Options Price Per Share <C>
<S>			
Balance at September 30, 1994	-	-	\$ -
Options authorized	80,000	-	-
Options granted	(57,500)	57,500	2.375

Balance at September 30, 1995	22,500	57,500	\$ 2.375

Additional options authorized	20,000	-	-
Options granted	(37,500)	37,500	3.875-4.263
Options exercised	-	(1,600)	2.375

Balance at September 30, 1996	5,000	93,400	\$ 2.375-4.263

As of September 30, 1996, 23,899 awarded options are exercisable.

NOTE 4. INCOME TAXES

Deferred tax assets (liabilities) are summarized as follows:

(Dollars in thousands)	1996	1995	1994
Net operating loss carryforwards	\$ 1,104	\$ 1,016	\$ 1,104
Tax credit carryforwards	106	106	106
Inventory and other valuation reserves	221	190	182
Other	-	-	77

Gross deferred tax asset	1,431	1,312	1,469

Depreciation expense	-	-	(35)
Other	-	-	(5)

Gross deferred tax liability	-	-	(40)

Deferred tax asset valuation allowance	\$ (1,431)	\$ (1,312)	\$ (1,429)

</TABLE>

The Company provides a valuation allowance for deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The U.S. net operating loss carryforward of approximately \$2,800,000 at September 30, 1996, expires by fiscal year 2010 if not offset against taxable income. The amount of and the benefit from net operating losses that can be carried forward may be impaired in certain circumstances. Events which may cause changes in the Company's tax carryovers include, but are not limited to, a cumulative ownership change of more than 50% over a three-year period.

NOTE 5. COMMITMENTS AND CONTINGENCIES

The Company has signed a lease for 20,331 square feet in a building located in Milpitas, California, for an initial term of three years ending October 31, 1998. The lease provides for rentals of, \$226,000, \$226,000, and \$19,000 for fiscal years 1997, 1998, and 1999 plus applicable real property taxes and insurance, and contains one three year renewal option. Future lease commitments for the next five fiscal years for all other leases as of September 30, 1996 were as follows (in thousands):

<TABLE>

<CAPTION>

Fiscal year ending September 30,	Capital Leases	Operating Leases
----------------------------------	----------------	------------------

<S>	<C>	<C>
1997	\$ 46	\$ 34
1998	36	32
1999	28	24
2000	26	23
Thereafter	19	16
	-----	-----
Total minimum lease payments	\$ 155	\$ 129
	-----	-----
Less amount representing interest	(26)	

Present value of minimum lease payments	129	
Less current portion	(34)	

Long-term lease obligation	\$ 95	

</TABLE>

The Company also leases certain equipment on a month-to-month basis. Total rental expense under all operating leases was \$258,000, \$300,000, and \$364,000, in fiscal years 1996, 1995, and 1994, respectively.

On October 1, 1995, the Company entered into an Employment Agreement (the "Agreement") with John F. Bishop, Vice-Chairman of the Board, Treasurer, and Secretary of the Company, whereby Mr. Bishop will provide his services for a monthly salary of \$6,500 for an initial term of two years. On the first day of each month, the initial term is automatically extended for an additional month, unless either party notifies the other in writing of his or its desire not to extend the term. In the event the Company elects not to extend the term or there is a change in control of the Company (the date of such event is referred to as the "Transition Date"), Mr. Bishop will continue to perform services for the Company for a three month transition period and the Company would maintain his compensation and other benefits for the three month transition period and an additional twenty-one months. Effective January 1, 1997, Mr. Bishop has agreed to reduce his monthly salary to \$3,250 until the Transition Date. The Agreement also allows Mr. Bishop the use of an automobile and the right to receive title to the automobile, arising out of his agreement to forgo \$56,846 of salary in prior years. Maintenance, insurance and gasoline costs for the automobile and an office location are also part of the Agreement. The corporate office is currently located in Newport Beach, California, leased at a monthly rate of \$1,320 on a month-to-month basis.

NOTE 6. BANK BORROWINGS

As of September 30, 1996, the Company had a bank line of credit ("line") which provided for borrowings up to \$500,000, not to exceed 60% of eligible accounts receivable. The balance outstanding was \$185,000 as of September 30, 1996. The line bears interest at the bank's prime rate plus 3% per annum, provided that the interest rate in effect each month shall not be less than 10% per annum, and is payable monthly (11.25% as of September 30, 1996). The line contains various restrictive covenants requiring, among

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other matters, the maintenance of minimum levels of tangible net worth and profitability and certain financial ratios, including minimum quick ratio and maximum debt to net worth ratio. The line also precludes or limits the Company in taking certain actions, such as paying dividends, making loans, making acquisitions or incurring indebtedness, without the bank's prior written consent. The line is secured by substantially all of the Company's assets. As of November 15, 1996, the bank extended the maturity date of the line to January 15, 1997 and amended certain restrictive covenants, but limited borrowings to the \$185,000 outstanding. As of September 30, 1996, the Company was in compliance with the restrictive covenants of the line, as so amended. The Company is in the process of renewing its line through January 1998 with an increase in available borrowing from \$185,000 to \$500,000. Management believes the Company will be able to renew the line on such terms. However, in the event that the line of credit negotiations are not successful or the Company is unable to maintain compliance with financial covenants, J. Bradford Bishop, the Chairman and Chief Executive Officer of the Company, and John F. Bishop, the Vice Chairman, Treasurer and Secretary of the Company (the "Bishops") have agreed to finance up to \$500,000 of

working capital (in addition to funds provided under the subordinated loan agreement (note 7)) on terms acceptable to the Bishops and the Company to replace the line of credit.

NOTE 7. SUBSEQUENT EVENT

On December 16, 1996, the Company entered a subordinated loan agreement with the Bishops. This agreement provides for borrowings up to a maximum aggregate amount of \$600,000 by the Company. The commitment of the Bishops to make advances to the Company expires on February 1, 1998, and all advances must be repaid by February 1, 2000. Interest is charged at 8% per annum, and is payable quarterly. The advances are secured by substantially all of the assets of the Company and are subordinated to the Company's bank line of credit. The agreement contains various restrictive covenants. In connection with the subordinated loan agreement, the Company will issue warrants entitling the Bishops to purchase up to 90,000 shares of the Company's common stock at \$3.00 per share. The warrants expire on December 16, 2001.

Future performance and levels of capital expenditures could reduce the total amount of funds available under the bank line of credit and the subordinated loan agreement at any given time.

NOTE 8. BOARD OF DIRECTORS' FEES

During fiscal 1996, the Board of Directors waived fees owed to them by the Company totaling \$112,000. The reversal of previously accrued fees was included in "Interest and other, net" cost and expenses in the statement of operations, and thereby reduced the net loss for the year ended September 30, 1996.

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REPORT OF INDEPENDENT ACCOUNTANTS

To the Board of Directors and
Stockholders of EIP Microwave, Inc.

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, stockholders' equity and cash flows present fairly, in all material respects, the financial position of EIP Microwave, Inc. and its subsidiary at September 30, 1996 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended September 30, 1996, in conformity with generally accepted accounting principles. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with generally accepted auditing standards which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

/s/ PRICE WATERHOUSE LLP

PRICE WATERHOUSE LLP
San Jose, California
December 23, 1996

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ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON
ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 9. DIRECTORS, EXECUTIVE OFFICERS, PROMOTERS AND CONTROL PERSONS;
COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

The information set forth under the captions "ELECTION OF DIRECTORS - Information With Respect to the Class I Director Nominees, - Information With Respect to Other Directors, and - Information With Respect to Executive Officers", and "COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS AND TRANSACTIONS WITH MANAGEMENT AND OTHERS - Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive proxy statement (the "Proxy Statement") for the Annual Meeting of Stockholders scheduled to be held on February 5, 1997, is incorporated herein by reference. The Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the close of fiscal year ended September 30, 1996.

ITEM 10. EXECUTIVE COMPENSATION

The information set forth under the caption "COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS AND TRANSACTIONS WITH MANAGEMENT AND OTHERS - Executive Compensation, and - Compensation of Directors" in the Proxy Statement is incorporated herein by reference.

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information set forth under the caption "SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT" in the Proxy Statement is incorporated herein by reference.

ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information set forth under the caption "COMPENSATION OF EXECUTIVE OFFICERS AND DIRECTORS AND TRANSACTIONS WITH MANAGEMENT AND OTHERS - Certain Transactions" in the Proxy Statement is incorporated herein by reference.

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ITEM 13. EXHIBITS AND REPORTS ON FORM 8-K

(A) Exhibits

Exhibit No.

- 3(a) Company's Certificate of Incorporation, filed on April 29, 1987, and Certificate of Amendment of Certificate of Incorporation, filed February 8, 1993, previously filed on February 12, 1993, as Exhibit 3(a) to Form 10-QSB Quarterly Report for quarter ended December 31, 1992, and incorporated herein by reference.
- 3(b) Company's Bylaws, previously filed June 25, 1987 (File No. 0-5351), as Exhibit 3(b) to Form 8-K, and incorporated herein by reference.
- 10(a) Standard Form Lease dated August 18, 1995, by and between Berg & Berg Developers, as landlord, and the Company, as tenant, covering the Company's manufacturing facility located at 1745 McCandless Drive, Milpitas, California, previously filed on December 29, 1995, as Exhibit 10(a) to Form 10-KSB Annual Report for fiscal year ended September 30, 1995 (the "1995 Annual Report"), and incorporated herein by reference.
- 10(b) Loan and Security Agreement dated March 10, 1992, between the Company and Silicon Valley Bank, previously filed on May 14, 1992, as Exhibit 10(a) to Form 10-Q Quarterly Report for quarter ended March 31, 1992, and incorporated herein by reference.
- 10(c) Amendment to Loan Agreement dated December 20, 1994, between the Company and Silicon Valley Bank, previously filed on December 29, 1994, as Exhibit 10(h) to the 1994 Annual Report, and incorporated herein by reference.

- 10(d) Loan Modification Agreement dated as of November 27, 1995, between the Company and Silicon Valley Bank, previously filed on December 29, 1995, as Exhibit 10(i) to the 1995 Annual Report, and incorporated herein by reference.
- 10(e) Loan Modification Agreement dated as of June 28, 1996, between the Company and Silicon Valley Bank, previously filed on August 13, 1996, as Exhibit 10(a) to Form 10-QSB Quarterly Report for quarter ended June 30, 1996, and incorporated herein by reference.
- 10(f) Loan Modification Agreement dated as of November 15, 1996 between the Company and Silicon Valley Bank.
- 10(g) Subordinated Loan Agreement dated as of December 16, 1996, between the Company and the lenders referred to therein, including the schedule and exhibits thereto.
- *10(h) Employment Agreement dated as of October 1, 1995, between the Company and John F. Bishop, previously filed on December 29, 1995, as Exhibit 10(k) to Form 10-KSB Annual Report, and incorporated herein by reference.

* Management contract or compensatory plan or arrangement.

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- *10(i) Amendment dated November 20, 1996 to Employment Agreement between the Company and John F. Bishop.
- *10(j) Company's medical reimbursement plan (entitled "Full Medical Coverage") covering certain officers, previously filed on December 23, 1981 (File No. 0-5351), as Exhibit 10(o) to Form 10-K Annual Report for fiscal year ended September 30, 1981, and incorporated herein by reference.
- *10(k) Company's Tax and Financial Counseling reimbursement plan covering officers, previously filed on December 23, 1981 (File No. 0-5351), as Exhibit 10(p) to Form 10-K Annual Report for fiscal year ended September 30, 1981, and incorporated herein by reference.
- *10(l) Written description of EIP Bonus Plan for Fiscal 1997.
- *10(m) Amended and Restated 1994 Stock Option Plan, previously filed on February 14, 1996, as Exhibit 10(a) to Form 10-QSB Quarterly Report for quarter ended December 31, 1995, and incorporated herein by reference.
- *10(n) Second Amended and Restated 1994 Stock Option Plan.
- *10(o) Non-qualified Stock Option Agreement-Form, previously filed on December 29, 1995, as Exhibit 10(v) to the 1995 Annual Report, and incorporated herein by reference.
- *10(p) Incentive Stock Option Agreement-Form, previously filed on December 29, 1995, as Exhibit 10(w) to the 1995 Annual Report, and incorporated herein by reference.
- 10(q) Indemnification Agreement dated July 15, 1992, between the Company and John B. Bishop, previously filed on December 20, 1992, as Exhibit 10(n) to Form 10-KSB Annual Report for fiscal year ended September 30, 1992 (the "1992 Annual Report"), and incorporated herein by reference.
- 10(r) Indemnification Agreement dated July 15, 1992, between the Company and Robert D. Johnson, previously filed on December 20, 1992, as Exhibit 10(o) to Form 10-KSB Annual Report for fiscal year ended September 30, 1992, and incorporated herein by reference.
- 10(s) Indemnification Agreement dated July 15, 1992, between the Company and James J. Shelton, previously filed on December 20, 1992, as Exhibit 10(p) to Form 10-KSB Annual Report for fiscal year ended September 30, 1992, and incorporated herein by reference.
- 10(t) Indemnification Agreement dated July 15, 1992, between the Company

and J. Sidney Webb, Jr., previously filed on December 20, 1992, as Exhibit 10(q) to Form 10-KSB Annual Report for fiscal year ended September 30, 1992, and incorporated herein by reference.

10(u) Indemnification Agreement dated July 15, 1992, between the Company and John F. Bishop, previously filed on December 23, 1993, as Exhibit 10(m) to Form 10-KSB Annual Report, for fiscal year 1993 (the "1993 Annual Report"), and incorporated herein by reference.

*Management contract or compensatory plan or arrangement.

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10(v) Indemnification Agreement dated February 13, 1996, between the Company and Michael E. Johnson, previously filed on May 9, 1996, as Exhibit 10(a) to Form 10-QSB Quarterly Report for quarter ended March 31, 1996, and incorporated herein by reference.

21 Subsidiaries of the Company.

27 Financial Data Schedule

(B) No reports on Form 8-K were filed during the quarter ended September 30, 1996.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

EIP MICROWAVE, INC.

December 20, 1996

By: /s/ J. Bradford Bishop

J. Bradford Bishop
Chairman of the Board
Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Lewis R. Foster President and Chief December 20, 1996

Operating Officer

Lewis R. Foster

/s/ John F. Bishop Vice Chairman, Treasurer, December 20, 1996

Secretary, and Director
(Principal Financial Officer)

John F. Bishop

/s/ Michael E. Johnson

Michael E. Johnson Director December 20, 1996

/s/ Robert D. Johnson

Robert D. Johnson Director December 20, 1996

/s/ J. Sidney Webb ----- J. Sidney Webb	Director	December 20, 1996
/s/ J. Bradford Bishop ----- J. Bradford Bishop	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	December 20, 1996
/s/ E. O. Bince ----- E. O. Bince	Controller (Principal Accounting Officer)	December 20, 1996

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INDEX TO EXHIBITS

Exhibit No. -----	Description -----	Sequentially Numbered Page -----
10(f)	Loan Modification Agreement dated as of November 15 , 1996 between the Company and Silicon Valley Bank.	29
10(g)	Subordinated Loan Agreement dated as of December 16, 1996, between the Company and the lenders referred to therein, including the schedule and exhibits thereto.	31
10(i)	Amendment dated November 20, 1996 to Employment Agreement between the Company and John F. Bishop.	60
*10(l)	Written description of EIP Bonus Plan for Fiscal 1997.	61
*10(n)	Second Amended and Restated 1994 Stock Option Plan.	62
21	Subsidiaries of the Company.	66
27	Financial Data Schedule	67

*Management contract or compensatory plan or arrangement.

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LOAN MODIFICATION AGREEMENT

This Loan Modification Agreement is entered into as of November 15, 1996, by and between EIP Microwave, Inc. ("Borrower") whose address is 1745 McCandless Drive, Milpitas, CA 95035, and Silicon Valley Bank ("Silicon") whose address is 3003 Tasman Drive, Santa Clara, CA 95054.

1. DESCRIPTION OF EXISTING INDEBTEDNESS: Among other indebtedness which may be owing by Borrower to Silicon, Borrower is indebted to Silicon pursuant to, among other documents, a Loan and Security Agreement, dated March 10, 1992 (including the Schedule thereto), as may be amended from time to time (the "Loan Agreement"). The Loan Agreement provided for, among other things, a Credit Limit in the original principal amount of Five Hundred Thousand and 00/100 Dollars (\$500,000.00) (the "A/R Facility"). Defined terms used but not otherwise defined herein shall have the same meanings as in the Loan Agreement.

Hereinafter, all indebtedness owing by Borrower to Silicon shall be referred to as the "Indebtedness."

2. DESCRIPTION OF COLLATERAL AND GUARANTIES: Repayment of the indebtedness is secured by the Collateral as described in the Loan Agreement.

Hereinafter, the above-described security documents and guaranties, together with all other documents securing repayment of the Indebtedness shall be referred to as the "Security Documents." Hereinafter, the Security Documents, together with all other documents evidencing or securing the Indebtedness shall be referred to as the "Existing Loan Documents."

3. DESCRIPTION OF CHANGE IN TERMS.

A. Modification(s) to Loan Agreement.

1. The following modifications pertain to the Schedule to the Loan Agreement:

a. Modification to Credit Limit.

The first paragraph of the section entitled "Credit Limit (Section 1.1)" is hereby amended in its entirety to read as follows:

An amount not to exceed the lesser of: (i) \$185,000.00 at any one time outstanding; or (ii) 60% of the Net Amount of Borrower's accounts, which Silicon in its discretion

deems eligible for borrowing.

b. Extension of Maturity Date.

The Maturity Date as set forth in the section entitled "Maturity Date (Section 5.1)" is hereby deleted and replaced, effective as of the date hereof, with "January 15, 1997."

c. Modification of the Financial Covenants.

The Debt to Tangible Net Worth Ratio and the Profitability covenants as set forth in "Financial Covenants (Section 4.1)" are hereby amended to read as follows:

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DEBT TO TANGIBLE NET WORTH RATIO. Borrower shall maintain, on a monthly basis, beginning with the month ended September 30, 1996, a ratio of total liabilities to tangible net worth of not more than 1.50 to 1.00.

PROFITABILITY. Borrower shall be profitable (after taxes) on a quarterly basis with an allowance for losses (subject to an infusion of capital of not less than \$600,000.00 no later than December 31, 1996), provided such losses do not exceed \$120,000.00 for the quarter ending December 31, 1996 and \$90,000.00 for the quarter ending March 31, 1997.

2. Notwithstanding anything to the contrary contained in the section entitled "1.1 Loans", Silicon shall no longer make further Loans to Borrower, as pertaining to the A/R Facility.

4. CONSISTENT CHANGES. The Existing Loan Documents are hereby amended wherever necessary to reflect the changes described above.

5. PAYMENT OF LOAN FEE. Borrower shall pay Silicon a fee in the amount of Three Hundred and 00/100 Dollars (\$300.00) (the "Loan Fee") plus all out-of-pocket expenses.

6. NO DEFENSES OF BORROWER. Borrower (and each guarantor and pledgor signing below) agrees that it has no defenses against the obligations to pay any amounts under the Indebtedness.

7. CONTINUING VALIDITY. Borrower (and each guarantor and pledgor signing below) understands and agrees that in modifying the existing Indebtedness, Silicon is relying upon Borrower's representations, warranties, and agreements, as set forth in the Existing Loan Documents. Except as expressly modified pursuant to this Loan Modification Agreement, the terms of the Existing Loan

Documents remain unchanged and in full force and effect. Silicon's agreement to modifications to the existing Indebtedness pursuant to this Loan Modification Agreement in no way shall obligate Silicon to make any future modifications to the Indebtedness. Nothing in this Loan Modification Agreement shall constitute a satisfaction of the Indebtedness. It is the intention of Silicon and Borrower to retain as liable parties all makers and endorsers of Existing Loan Documents, unless the party is expressly released by Silicon in writing. No maker, endorser, or guarantor will be released by virtue of this Loan Modification Agreement. The terms of this paragraph apply not only to this Loan Modification Agreement, but also to all subsequent loan modification agreements.

8. CONDITIONS. The effectiveness of this Loan Modification Agreement is conditioned upon Borrower's payment of the Loan Fee.

This Loan Modification Agreement is executed as of the date first written above.

BORROWER:

SILICON :

EIP MICROWAVE, INC.

SILICON VALLEY BANK

By: /s/ Lewis R. Foster

By: /s/ Christine L. Caywood

Name: Lewis R. Foster

Name: Christine L. Caywood

Title: President

Title: Vice President

SUBORDINATED LOAN AGREEMENT

THIS SUBORDINATED LOAN AGREEMENT (this "AGREEMENT") is entered into as of December 16, 1996, among EIP MICROWAVE, INC., a Delaware corporation (the "COMPANY"), and the lenders listed on the signature page hereof (each a "LENDER" and, together, the "LENDERS").

R E C I T A L S

A. The Company desires to obtain the commitment of the Lenders to advance up to a maximum of \$600,000 to the Company, and the Lenders are willing to make such commitment on the terms and conditions set forth in this Agreement.

B. As a condition to the initial advance of any funds by the Lenders to the Company, the Company is required to issue to each Lender a subordinated note evidencing the obligation of the Company to repay such advances and interest thereon, to issue a warrant certificate evidencing the right of the Lenders to acquire shares of common stock of the Company, and to grant a security interest in the assets of the Company to the Lenders, in each case, on the terms and subject to the conditions set forth in this Agreement.

C. The Lenders are willing to subordinate their right to repayment of the advances made to the Company by the Lenders and interest thereon to the rights of the holders of senior indebtedness of the Company.

A G R E E M E N T

NOW, THEREFORE, the parties hereto agree as follows:

SECTION 1. DEFINITIONS

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

"ADVANCE" means an advance by a Lender to the Company pursuant to Section 2.

"AFFILIATE" means, with respect to any specified Person, any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with"), as used with respect to any Person shall mean the possession, directly or indirectly, of the power to direct or cause the

direction of the management or policies of such Person, whether in the capacity of officer or director of such Person, through the ownership of securities, by agreement or otherwise.

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"BANK" means Silicon Valley Bank.

"BORROWING" means a borrowing consisting of advances made on the same day by the Lenders.

"BUSINESS DAY" means the date of the year on which banks are not required or authorized to close in California.

"CLOSING DATE" means the date on which the conditions set forth in Section 3 applicable to the making of the initial advances under this Agreement have been fulfilled and such initial advances are made.

"COMMITMENT" has the meaning specified in Section 2.1.

"COMMITMENT TERMINATION DATE" means February 1, 1998.

"COMMON STOCK" means, with respect to the Company, the Common Stock, par value \$0.01, of the Company.

"DEFAULT" means any event which is, or after notice or passage of time would be, a Event of Default.

"DOCUMENTS" means this Agreement, the Notes, the Warrants, the Security Agreement and any other security agreements, subordination agreements or other agreements relating to the Notes, the Warrants or this Agreement whether entered into on the date hereof or hereafter, collectively, together with any exhibits, schedules or other attachments thereto.

"INDEBTEDNESS" means, with respect to any Person, the aggregate amount of the following: (a) all obligations for borrowed money; (b) all obligations evidenced by bonds, debentures, notes or other similar instruments; (c) all obligations to pay the deferred purchase price of property or services, except trade payables, accrued commissions and other similar accrued current liabilities in respect of such obligations, in any case, not overdue, arising in the ordinary course of business; (d) all capitalized lease obligations; (e) all obligations or liabilities of others secured by a Lien on any asset owned by such Person or Persons whether or not such obligation or liability is assumed; (f) all obligations of such Person or Persons, contingent or otherwise, in respect of any letters of credit or bankers' acceptances; and (g) all guaranties.

"LIEN" means any mortgage, pledge, lien, encumbrance or claim affecting title or resulting in a charge against real or personal property, or security

interest of any kind (including, without limitation, any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell and any financing statement under the Uniform Commercial Code or equivalent statute of any jurisdiction).

"MATURITY DATE" means February 1, 2000.

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"PERMITTED LIEN" means any financing statement on file on the date hereof, and any continuations thereof, securing the Company's existing obligations on the date hereof, and any other Liens approved in writing by the Lenders.

"PERSON" means an individual, partnership, corporation, trust or unincorporated organization or a government or agency or political division thereof.

"SENIOR INDEBTEDNESS" means any Indebtedness of the Company from the extension of credit by the Bank or another financial institution in an aggregate amount not to exceed \$500,000, which Indebtedness and the terms thereof have been approved by the Lenders, such approval not to be unreasonably withheld.

SECTION 2. AMOUNTS AND TERMS OF THE ADVANCES

2.1 ADVANCES. Each Lender severally agrees, on the terms and conditions set forth in this Agreement, to make Advances to the Company from time to time on any Business Day during the period from the date hereof until the Commitment Termination Date in an aggregate amount not to exceed at any time outstanding the amount set forth opposite such Lender's name on SCHEDULE I hereto (such Lender's "COMMITMENT"). Each Borrowing shall be in an aggregate amount not less than \$100,000 or an integral multiple of \$50,000 in excess thereof. Amounts borrowed by the Company and prepaid pursuant to Section 2.4 may not be reborrowed under this Section 2.1.

2.2 MAKING THE ADVANCES. Each Borrowing shall be made on notice, given not later than 5:00 P.M. on the third Business Day prior to the date of the proposed Borrowing, by the Company to each Lender. Each such notice of a Borrowing (a "NOTICE OF BORROWING") shall be sent by facsimile to each Lender, specifying therein the requested date of such Borrowing, the aggregate amount of such Borrowing, and each Lender's ratable portion of such Borrowing. Each Lender shall, before 5:00 P.M. on the date of such Borrowing, make such Lender's ratable portion of such Borrowing available to the Company at its address, upon fulfillment of the applicable conditions set forth in Section 3. The failure of any Lender to make the Advance to be made by it as part of any Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make its Advance on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Advance to be made by such other Lender on the date of any Borrowing.

2.3 REDUCTION OF THE COMMITMENTS. The Commitment of each Lender shall be reduced on the date, and in the amount, of any prepayment by the Company pursuant to Section 2.4. The Commitment of each Lender shall be reduced to zero on the Commitment Termination Date.

2.4 REPAYMENT AND PREPAYMENT OF ADVANCES. The Company shall repay the principal amount of each Advance owing to each Lender on the Maturity Date. The Company may prepay the outstanding principal amounts of the Advances, in whole or in part, together with accrued interest to the date of such prepayment on the principal amount prepaid; PROVIDED, HOWEVER, that

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each partial prepayment shall be in an aggregate principal amount not less than \$100,000 or an integral multiple of \$50,000 in excess thereof.

2.5 INTEREST. The Company shall pay interest on the unpaid principal amount of each Advance owing to each Lender from the date of such Advance until such principal amount shall be paid in full, at the rate of eight percent (8%) per annum. Interest shall be payable on the first day of each January, April, July and October during the term of this Agreement and on the Maturity Date.

2.6 PAYMENTS AND COMPUTATIONS. The Company shall make each payment hereunder not later than 5:00 P.M. on the date when due in U.S. dollars to each Lender at its address referred to herein. All computations of interest shall be made on the basis of a year of 365 days for the actual number of days (including the first day but excluding the last day) occurring for which interest is payable. Whenever any payment hereunder shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest.

2.7 SHARING OF PAYMENTS, ETC. If any Lender shall obtain any payment (whether voluntary, involuntary, upon exercise of any right of set-off, or otherwise) on the account of the Advances owing to it in excess of its ratable share of payments on account of the Advances obtained by all the Lenders, such Lender shall forthwith share such excess payment with the other Lenders in such amount as shall be necessary to cause all payments on account of the Advances to be shared ratably by the Lenders.

SECTION 3. CONDITIONS

3.1 CONDITIONS PRECEDENT TO INITIAL ADVANCES. The obligation of each Lender to make its initial advance is subject to the conditions precedent that:

(a) The Lenders shall be satisfied that the Company has entered into an agreement with the Bank to amend the Loan and Security Agreement dated as of March 10, 1992 as previously amended, between the Company and the Bank, which agreement shall evidence the consent of the Bank to the

transactions contemplated by this Agreement, shall extend the maturity date (as defined therein) until January 31, 1998 and shall contain such other amendments deemed desirable by the Lenders.

(b) The Lenders shall have received the following, each dated the Closing Date (unless otherwise specified), in form and substance satisfactory to the Lenders and in sufficient copies for each Lender:

(i) A Subordinated Note for each Lender, duly executed by the Company, in substantially the form of EXHIBIT A (the "NOTE"), and in a principal amount equal to the Commitment of such Lender.

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(ii) A Warrant Certificate for each Lender, duly executed by the Company, in substantially the form of EXHIBIT B hereto (the "Warrant"), and for the number of shares of Common Stock (the "WARRANT SHARES") set forth opposite the name of such Lender on SCHEDULE I.

(iii) A Security Agreement, duly executed by the Company, in substantially the form of EXHIBIT C hereto (the "SECURITY AGREEMENT"), together with receipt of acknowledgment copies of proper Financing Statements (Form UCC-1) duly filed under the Uniform Commercial Code of all jurisdictions as may be necessary or, in the opinion of the Lenders, desirable or required to perfect the security interests created by the Security Agreement.

(iv) Certified copies of the resolutions of the independent committee of the Board of Directors of the Company approving this Agreement and each other Document, and the transactions contemplated hereby and thereby.

(c) The Lenders shall have received evidence in form and substance satisfactory to the Lenders that the Subordinated Note and the Warrant Certificate to be issued to each Lender have been qualified under Section 25112 of the California Securities Law by the California Department of Corporations.

3.2 ADDITIONAL CONDITIONS PRECEDENT TO EACH ADVANCE. It shall be an additional condition precedent to each Advance under this Agreement, before and after giving effect thereto and the application of the proceeds therefrom:

(a) The representations and warranties of the Company contained in Section 4 of this Agreement and Section 3 of the Security Agreement are correct on and as of the date of such Advance as though made on and as of such date.

(b) No event has occurred and is continuing, or would result from such Advance that constitutes a Default.

The giving of each notice of Borrowing and the receipt of the proceeds of each Advance referred to therein, shall each constitute a representation and warranty by the Company that each of the foregoing statements shall be true as of the date of such Advance.

SECTION 4. REPRESENTATIONS AND WARRANTIES OF THE COMPANY

The Company hereby represents and warrants as follows:

4.1 ORGANIZATION, STANDING AND QUALIFICATION. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware. The Company has all requisite power and authority to enter into and perform all of its obligations under the Documents, to issue and perform all of its obligations under the Notes and the Warrants and to carry out the transactions contemplated hereby and thereby.

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4.2 AUTHORIZATION OF AGREEMENT AND OTHER DOCUMENTS. The Company has taken all corporate actions necessary to authorize it to enter into and perform all of its obligations under the Documents to which it is a party, to issue and perform all of its obligations under the Notes and the Warrants and to consummate the transactions contemplated hereby and thereby. The Documents and the Notes and the Warrants are legal, valid and binding obligations of the Company, enforceable against it in accordance with their respective terms.

4.3 NO VIOLATION. Neither the execution or delivery of the Documents nor the issuance or delivery of the Notes or the Warrants nor the performance by the Company of its obligations under the Documents or the Notes or the Warrants nor the consummation of the transactions contemplated hereby and thereby, will (a) violate any provision of the certificate of incorporation and bylaws of the Company; (b) violate any statute, law, rule or regulation or any judgment, order, regulation or rule of any court or governmental authority to which the Company or any of its properties may be subject; (c) permit or cause the acceleration of the maturity of any debt or obligation of the Company; or (d) violate, or be in conflict with, or constitute a default under, or permit the termination of or require the consent of any Person under, or result in the creation of any Lien upon any property of the Company under, any mortgage, indenture, loan agreement, note, debenture or other agreement for borrowed money or any other agreement to which the Company is a party or by which the Company or its properties may be bound, PROVIDED that the parties acknowledge that the consent of the Bank is required with respect to the representations in clause (c) and (d) above.

4.4 USE OF PROCEEDS. The net proceeds from the Advances hereunder will be used for operating the Company's business and such other lawful purposes as the Company shall determine.

4.5 FINANCIAL STATEMENTS. The books of account and related records of the Company fairly reflect in all material respects and reasonable detail all of the assets, liabilities and transactions of the Company in accordance with generally accepted accounting principles. The audited balance sheet of the Company as at September 30, 1996, and the audited statement of income for the fiscal year then ended, as delivered to the Lenders, are in accord with the books and records of the Company and present fairly in all material respects the financial condition and results of operations of the Company as at September 30, 1996 and for the period therein referred to, in accordance with generally accepted accounting principles. Since September 30, 1996, the Company has not suffered any material adverse change in its properties, business, prospects, operations, earnings, assets, liabilities or condition (financial or otherwise).

4.6 FULL DISCLOSURE. None of the Documents or any document contemplated hereby or thereby, or the financial statements referred to in Section 4.5 contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements contained therein, in light of the circumstances under which they were made not misleading.

4.7 LITIGATION. There is no action, proceeding or investigation pending, or to the knowledge of the Company after due inquiry, threatened, against or affecting the Company in any court or before any governmental authority or arbitration board or tribunal, foreign or domestic, and there is no such action pending to restrain, enjoin, prevent the consummation of or

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otherwise challenge any of the Documents or the issuance of the Notes or the Warrants or the other transactions contemplated hereby or thereby. The Company is not subject to any judgment, order, decree, rule or regulation of any court, governmental authority or arbitration board or tribunal.

4.8 TITLE TO AND CONDITION OF PROPERTIES. Except for the Permitted Liens, the Company has good and marketable title to all assets used in its business free and clear of all Liens. The Company enjoys peaceful and undisturbed possession under all leases to which it is a party as lessee. All leases and other agreements to which the Company is a party are valid and binding and in full force and effect, no default has occurred or is continuing thereunder and no consent need be obtained from any Person (other than the Bank) in respect of any such lease or agreement in connection with the transactions contemplated hereby. All tangible assets, plants and facilities of the Company are in acceptable condition and repair and are proper for the uses to which they are being put; and none of such facilities and assets is in need of maintenance or repair, except for routine maintenance and repair.

4.9 TAXES. All tax returns required to be filed by the Company have been filed, and all taxes, assessments, fees and other charges due or claimed to be due from the Company which are due and payable have been paid. The Company does not know of any actual or proposed additional tax assessments for any fiscal

period against the Company or of any basis therefor. None of the Company's tax returns are under audit, and no waivers of the statute of limitations or extensions of time with respect to any tax returns have been granted by the Company.

SECTION 5. REPRESENTATIONS AND WARRANTIES OF THE LENDERS

Each Lender hereby represents and warrants that:

5.1 PURCHASE ENTIRELY FOR OWN ACCOUNT. The Note and the Warrant will be acquired and the Warrant Shares that each Lender may purchase upon exercise of the Warrant will be acquired for investment for each Lender's own account, not as a nominee or agent, and not with a view to the resale or distribution of any part thereof. Neither Lender has any present intention of selling, granting any participation in, or otherwise distributing the same.

5.2 DISCLOSURE OF INFORMATION. Each Lender believes he has received all the information he considers necessary or appropriate for deciding whether to acquire the Note and the Warrant and/or purchase the Warrant Shares. Each Lender has had an opportunity to ask questions and receive answers from the Company regarding the terms and conditions of the offering of the Note, Warrant and the Warrant Shares.

5.3 INVESTMENT EXPERIENCE. Each Lender is an investor in securities of companies in the development stage and acknowledges that he is able to fend for himself, and bear the economic risk of his investment and has such knowledge and experience in financial or business matters that he is capable of evaluating the merits and risks of the investment in the Note, the Warrant and the Warrant Shares.

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5.4 RESTRICTED SECURITIES. Each Lender understands that the Note, the Warrant and the Warrant Shares are "restricted securities" under the federal securities laws inasmuch as they are being acquired from the Company in a transaction not involving a public offering and that under such laws and applicable regulations such securities may be resold without registration under the Securities Act of 1933, as amended (the "ACT") only in certain limited circumstances. In this connection, each Lender represents that he is familiar with Rule 144 promulgated under the Act, as presently in effect, and understands the resale limitations imposed thereby and by the Act.

5.5 LEGENDS. Each Lender acknowledges that the Note, the Warrant and the certificates evidencing the Warrant Shares may bear one or all of the following legends:

(a) "THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933; THEY HAVE BEEN ACQUIRED BY HOLDER FOR INVESTMENT AND MAY NOT BE PLEDGED, HYPOTHECATED, SOLD,

TRANSFERRED OR OTHERWISE DISPOSED OF EXCEPT AS MAY BE AUTHORIZED UNDER THE SECURITIES ACT OF 1933 AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER."

(b) Any legend required by the laws of the State of California or any other applicable state.

SECTION 6. COVENANTS OF THE COMPANY

So long as any obligations under the Notes remain unpaid and outstanding, the Company covenants and agrees for the benefit of the Lenders as follows:

6.1 LIMITATION ON RESTRICTED PAYMENTS AND ADDITIONAL INDEBTEDNESS. The Company shall not, directly or indirectly: (a) declare or pay any dividend or make any distribution in respect of any capital stock; or (b) purchase, redeem or otherwise acquire or retire for value any capital stock. The Company will not, directly or indirectly, create, incur, guarantee or otherwise become or remain directly or indirectly liable with respect to any Indebtedness other than (a) Indebtedness reflected on the balance sheet of the Company as of September 30, 1996, (b) the Indebtedness represented by the Notes, (c) up to \$500,000 in the aggregate in Senior Indebtedness at any time outstanding, and (d) such other Indebtedness approved in writing by each Lender.

6.2 RESTRICTIONS ON LIENS. The Company will not create or suffer to exist any Liens upon any assets of the Company, other than the Permitted Liens.

6.3 COMPLIANCE WITH LAWS. The Company shall comply in all material respects with all statutes, ordinances, rules, regulations, judgements, orders and directives to which it is subject, and obtain and keep in effect in all material respects all licenses, permits, franchises and other governmental authorizations as to the ownership or operation of its properties or the conduct of its businesses. The Company shall pay prior to delinquency all taxes, assessments and governmental levies.

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6.4 NO MERGER, ETC. The Company shall not consolidate or merge with or into, or sell, lease, convey or otherwise dispose of all or substantially all of its assets to, any Person.

6.5 INSURANCE. The Company shall maintain liability, casualty and other insurance with reputable insurers in such amounts and against such risks as is carried by responsible companies engaged in similar businesses and owning similar assets.

SECTION 7. COVENANTS OF THE LENDERS

7.1 SUBORDINATION. Each Lender agrees to subordinate the payment of all obligations by the Company under the Notes to the Company's obligations under

any Senior Indebtedness, on such reasonable terms and conditions as are mutually agreed.

SECTION 8. INDEMNIFICATION AND CONTRIBUTION

8.1 INDEMNIFICATION. The Company hereby agrees, without limitation as to time, to indemnify each Lender and its agents and Affiliates (collectively, the "INDEMNIFIED PARTIES") against, and hold them harmless from, all loss, claims, damages, liabilities, costs (including the costs of preparation and attorneys' fees and expenses) (collectively, "LOSSES") incurred by them and arising out of or in connection with this Agreement or the other Documents or the transactions contemplated hereby or thereby (or any other document or instrument executed herewith or pursuant hereto or thereto), whether or not any Indemnified Party is a formal party to any proceeding, other than to the extent, and only to the extent, that any Losses directly result from action on the part of any Indemnified Party which is finally determined to constitute either gross negligence or willful misconduct. The Company agrees to reimburse any Indemnified Party promptly for all such Losses as they are incurred by such Indemnified Party. The obligations of the Company to each Indemnified Party hereunder shall be separate obligations and the Company's liability to any such Indemnified Party hereunder shall not be extinguished solely because any other Indemnified Party is not entitled to indemnity hereunder. The obligations of the Company under this Section 8.1 shall survive the payment or prepayment of the Notes, at maturity, upon acceleration, redemption or otherwise, any transfer of the Notes by the Lender, and the termination of this Agreement and the other Documents.

8.2 PROCEDURE FOR INDEMNIFICATION. In case any action shall be brought against any Indemnified Party with respect to which indemnity may be sought against the Company hereunder, such Indemnified Party shall promptly notify the Company in writing and it shall, if it so desires, assume the defense thereof, including the employment of counsel reasonably satisfactory to such Indemnified Party and payment of all reasonable fees and expenses. The failure to so notify the Company shall not affect any obligation it may have to any Indemnified Party under this letter or otherwise except to the extent the Company is materially adversely affected by such failure. Each Indemnified Party shall have the right to employ separate counsel in such action and participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of the Indemnified Party unless: (i) the Company has agreed in writing to pay such expenses; or (ii) the Company has failed to assume the defense and employ counsel or (iii) the named parties to any such action (including any impleaded parties) include any Indemnified Party and the Company, and such Indemnified Party shall have been advised by

counsel that there may be one or more legal defenses available to it which are inconsistent with or additional to those available to the Company, PROVIDED that, if such Indemnified Party notifies the Company in writing that

it elects to employ separate counsel in the circumstances described in clauses (i), (ii) or (iii) above, the Company shall not have the right to assume the defense of such action or proceeding. The Company shall not be liable for any settlement of any such action affected without its written consent (which shall not be unreasonably withheld). The Company agrees that it will not, without the Indemnified Party's prior consent, which shall not be unreasonably withheld, settle or compromise any pending or threatened claim, action or suit in respect of which indemnification or contribution may be sought hereunder unless the foregoing contains an unconditional release of the Indemnified Parties from all liability and obligation arising therefrom.

8.3 CONTRIBUTION. If the indemnification provided for in Sections 8.1 and 8.2 is unavailable to any Indemnified Party in respect of any Losses referred to therein, then the Company, in lieu of indemnifying such Persons, shall contribute to the amount paid or payable by such Persons as a result of such Losses in such proportion as is appropriate to reflect the fault of the Company, and each Lender and the other Indemnified Parties in connection with the actions which resulted in such Losses as well as any other relevant equitable considerations. The amount paid or payable by any such Person as a result of the Losses referred to above shall be deemed to include, subject to the limitations set forth in Sections 8.1 and 8.2, any legal or other fees or expenses reasonably incurred by such Person in connection with any investigation, lawsuit or legal or administrative action or proceeding. The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 8.3 were determined by pro rata allocation or by any other method of allocation which does not take account of the equitable considerations referred to in this paragraph.

SECTION 9. DEFAULTS AND REMEDIES

9.1 EVENTS OF DEFAULT. An "EVENT OF DEFAULT" occurs if:

(a) the Company defaults in the payment of any principal on the Notes when the same becomes due and payable;

(b) the Company defaults in the payment of interest on any Note when the same becomes due and payable and the Default continues for a period of five days;

(c) the Company fails to comply in any material respect with any of the agreements, covenants, or provisions of this Agreement, the Notes, or the Documents and the Default continues for a period of 30 days;

(d) if any of the representations or warranties of the Company made in or in connection with any of the Documents are untrue in any respect as of the date such representations and warranties are made;

(e) an event of default occurs under any material loan agreement, note, mortgage, indenture or instrument under which there may be issued or by which there may be

acquired or evidenced any Indebtedness of the Company, whether such Indebtedness now exists or shall be created hereafter;

(f) a final judgment or final judgments for the payment of money in an amount in excess of \$100,000 are entered by a court of competent jurisdiction against the Company and such judgment remains undischarged for a period of 30 days;

(g) the Company pursuant to or within the meaning of any bankruptcy law or any similar federal or state law (1) commences a voluntary action, (2) consents to the entry of an order for relief against it in an involuntary case, (3) consents to the appointment of any custodian, receiver, trustee, assignee, liquidator or similar official of the Company or for all or substantially all of its property, (4) makes a general assignment for the benefit of its creditors, or (5) generally is unable to pay its debts as the same become due;

(h) a court of competent jurisdiction enters an order or decree under any bankruptcy law or any similar federal or state law that: (1) is for relief against the Company in an involuntary case against it, (2) appoints any custodian, receiver, trustee, assignee, liquidator or similar official of the Company or for all or substantially all of its property, or (3) grants the liquidation of the Company, and the order or decree remains unstayed and in effect for 30 days; or

(i) the security interest granted pursuant to the Security Agreement shall fail to be a first priority security interest in the Collateral (as defined in the Security Agreement) subject only to any senior Lien in favor of the holders of any Senior Indebtedness.

9.2 ACCELERATION OF NOTE. If an Event of Default (other than an Event of Default described in clauses (g) and (h) of Section 9.1) occurs and is continuing, either Lender by notice to the Company, may declare the unpaid principal of and any accrued interest on the Notes to be due and payable. Immediately upon such declaration, the principal and interest shall be due and payable. If an Event of Default described in clause (g) or (h) of Section 9.1 occurs, all principal and interest shall IPSO FACTO become and be immediately due and payable without any declaration or other act on the part of the Lenders.

9.3 OTHER REMEDIES. If an Event of Default occurs and is continuing, each Lender may pursue any available remedy to collect the payment of principal or interest on the Notes or to enforce the performance of any provision of the Notes or this Agreement. A delay or omission by any Lender exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. All remedies are cumulative to the extent permitted by law.

9.4 WAIVER OF PAST DEFAULTS. The Lenders by written notice to the Company may waive an existing Default or Event of Default and its consequences.

9.5 EXPENSES AND FEES. The Company agrees to promptly pay all reasonable fees, costs and expenses incurred by the Lenders in connection with any matters contemplated by or arising out of this Agreement, the Notes, the Warrants or the other Documents, including without

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limitation the reasonable fees, costs and expenses (including attorneys' fees) incurred in any action to enforce this Agreement, the Notes, the Warrants or the other Documents or to collect any payments due from the Company under this Agreement, the Notes, the Warrants or the other Documents.

SECTION 10. MISCELLANEOUS

10.1 NOTICES. All notices and other communications provided for or permitted hereunder shall be made by hand delivery, first class mail, telecopier, or overnight air courier guaranteeing next day delivery (a) if to a Lender, at its address set forth on the signature page; or (b) if to the Company, at its address set forth on the signature page. Any such notices and communications shall be deemed to have been duly given at the time delivered by hand, if personally delivered; five business days after being deposited in the mail, postage prepaid, if mailed; when receipt acknowledged, if telecopied; and the next business day after timely delivery to the courier, if sent by overnight air courier guaranteeing next day delivery. The parties may change the addresses to which notices are to be given by giving five days' prior notice of such change in accordance herewith.

10.2 COUNTERPARTS; HEADINGS; ENTIRE AGREEMENT; SEVERABILITY; SUCCESSORS AND ASSIGNS. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof. This Agreement, together with the other Documents and the Note, are intended by the parties as a complete statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein and therein. There are no restrictions or undertakings, other than those set forth or referred to herein and therein. This Agreement, together with the other Documents and the Note, supersedes all prior agreements and understandings between the parties with respect to such subject matter. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstances, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions hereof shall not be in any way impaired or affected, it being intended that all rights and privileges of the Lenders shall be enforceable to the fullest extent permitted by law. This

Agreement shall inure to the benefit of and be binding upon the successors and assigns of each of the parties.

10.3 AMENDMENT AND WAIVER. This Agreement may be amended, modified or supplemented, and waivers or consents to departure from the provisions hereof may be granted provided that the same are in writing and signed by the Company and each Lender.

10.4 GOVERNING LAW. This Agreement shall be governed by and construed in accordance with the internal laws of the State of California.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the date first set forth above.

THE COMPANY
EIP MICROWAVE, INC.
1745 McCandless Drive
Milpitas, CA 95035-8024
Fax Number: (408) 945-6312

By: /s/ Lewis R. Foster

Lewis R. Foster
President and Chief Operating Officer

THE LENDERS

/s/ John F. Bishop

John F. Bishop
3 Civic Plaza, Suite 265
Newport Beach, CA 92660
Fax Number: (714) 720-2086

/s/ J. Bradford Bishop

J. Bradford Bishop
6950 S.W. Hampton Street, Suite 200
Portland, OR 97223
Fax Number: (503) 620-9462

SCHEDULE I

Lender -----	COMMITMENT -----	WARRANT ----- SHARES -----
John F. Bishop	\$300,000	45,000 shares
J. Bradford Bishop	\$300,000	45,000 shares
TOTAL	----- \$600,000	----- 90,000 shares

EXHIBIT A

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933; THEY HAVE BEEN ACQUIRED BY THE HOLDER FOR INVESTMENT AND MAY NOT BE PLEDGED, HYPOTHECATED, SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF EXCEPT AS MAY BE AUTHORIZED UNDER THE SECURITIES ACT OF 1933 AND THE RULES AND

EIP MICROWAVE, INC.

U.S. \$ _____

SUBORDINATED NOTE

[DATE]

EIP MICROWAVE, INC., a Delaware corporation (the "COMPANY"), for value received, promises to pay to the order of _____ (the "LENDER"), or assigns, the principal amount of \$ _____ on _____, and interest on the unpaid principal amount hereof at the rate of eight percent (8%) per annum. This Note is issued under and pursuant to, and subject to the terms and conditions of, the Subordinated Loan Agreement dated as of December 16, 1996, by and between the Company and the Lender and the other lenders referred to therein (hereinafter, the "AGREEMENT").

The outstanding principal amount of the Note shall be payable on February 1, 2000. The Company may prepay the Note at any time either in whole or in part (subject to Section 2.4 of the Agreement) without any penalty or any premium.

Interest shall be payable in arrears on the first day of each January, April, July and October until the principal amount hereof shall have been paid in full. Notwithstanding the foregoing, if there has occurred and is continuing any Event of Default (as defined in the Agreement), then interest on all unpaid amounts outstanding hereunder (including overdue installments of principal or interest) shall be payable at the rate of twelve percent (12%) per annum, compounded monthly (or, if less, the highest rate permitted by applicable law).

The principal and interest on this Note shall be payable in lawful money of the United States of America.

The terms of this Note include those stated in the Agreement, including without limitation the provisions in the Agreement respecting Events of Default, the acceleration all unpaid principal and accrued interest hereunder upon the occurrence of any Event of Default and other remedies.

No course of dealing between the Company and the Lender or any delay or failure on the part of the Lender in exercising any rights hereunder shall operate as a waiver of any rights of the Lender, except to the extent expressly waived in writing by the Lender.

This Note shall be construed in accordance with and governed by the internal laws of the State of California.

All of the covenants, promises and agreements in this Note shall bind the

Company's successors and assigns, whether so expressed or not.

The prevailing party in any action related to this Note shall be entitled to reimbursement for all reasonable attorneys' fees and expenses.

IN WITNESS WHEREOF, the Company has has executed and delivered this Note as of the date first set forth above.

THE COMPANY
EIP MICROWAVE, INC.
1745 McCandless Drive
Milpitas, CA 95035-8024
Fax Number: (408) 945-6312

By:

Lewis R. Foster
President and Chief Operating Officer

EXHIBIT B

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933; THEY HAVE BEEN ACQUIRED BY THE HOLDER FOR INVESTMENT AND MAY NOT BE PLEDGED, HYPOTHECATED, SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF EXCEPT AS MAY BE AUTHORIZED UNDER THE SECURITIES ACT OF 1933 AND THE RULES AND REGULATIONS PROMULGATED THEREUNDER.

EIP MICROWAVE, INC.

WARRANT CERTIFICATE

_____, 199_

THIS WARRANT CERTIFICATE (this "WARRANT CERTIFICATE"), certifies that _____, or the registered assigns thereof ("HOLDER"), is the

owner of _____ warrants (the "Warrants"), each of which entitles Holder to purchase, as and when described herein, one share of Common Stock, \$0.01 par value (collectively, the "WARRANT SHARES" or individually a "WARRANT SHARE"), of EIP Microwave, Inc., a Delaware corporation (the "COMPANY"), at a purchase price of \$3.00 per share, during the term of this Warrant Certificate, subject to adjustment as provided in Section 6 hereof.

1. THE WARRANTS. Each of the Warrants entitles Holder to purchase one (1) fully paid and nonassessable Warrant Share (such number being subject to adjustment as provided in Section 6 hereof) on the terms and conditions herein set forth.

2. PURCHASE PRICE. The purchase price (the "PURCHASE PRICE") of the Warrant Shares covered by the Warrant shall be \$3.00 per Warrant Share.

3. TERM OF THE WARRANTS. The term of the Warrants shall commence on the date hereof and all rights to purchase any of the Warrant Shares hereunder shall cease at 11:59 P.M. on December 16, 2001 (the "EXPIRATION DATE"), subject to earlier termination as provided herein. Except as may otherwise be provided in this Warrant Certificate, the Warrants granted hereunder may be exercised, to the extent provided in Section 5.1 hereof, at any time preceding the Expiration Date or expiration pursuant to Section 5.2 hereof. The purchase price of the Warrant Shares as to which the Warrants shall be exercised shall be paid in full at the time or exercise in cash or by check. Holder shall not have any rights of a holder of any of the Warrant Shares covered by the Warrants with respect to any shares of the Company's Common Stock not actually issued and delivered to Holder.

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4. NONTRANSFERABILITY.

4.1 GENERAL RESTRICTION ON TRANSFER. Except as otherwise expressly provided in this Section 4, Holder shall not sell, pledge, assign, hypothecate, encumber, alienate or otherwise transfer or dispose of ("TRANSFER") any or all of the Warrants or any interest therein.

4.2 PERMITTED TRANSFERS. Notwithstanding Section 4.1 hereof, Holder may Transfer any or all of the Warrants either (a) to an Affiliate (as that term is defined in Rule 144(a) promulgated under the Securities Act of 1933, as amended) of Holder provided that, prior to such transfer, (i) the Company has received from Holder written notice of such proposed transfer and (ii) the transferee with respect to such transfer has agreed in writing (and the Company has received a copy of such writing) to be subject to the restrictions on transfer contained herein or (b) upon and in accordance with the Company's prior written consent; PROVIDED, HOWEVER, that Holder shall in no event Transfer any or all of the Warrants (or any interest therein) at any time except in compliance with applicable federal and state securities laws. Any transferee under this Section 4.2 shall take the Warrant(s) transferred to such transferee

subject to the restrictions on transfer set forth in this Section 4.

4.3 PROHIBITED TRANSFERS; NULL AND VOID. Any attempt to Transfer in violation of this Section 4 shall be null and void, and neither the Company nor any transfer agent shall give any effect in the Company's records to any such attempt to Transfer.

5. EXERCISABILITY AND EXPIRATION.

5.1 EXERCISABILITY. The Warrants (until expiration or termination) shall be exercisable only to the extent of 7,500 Warrants after the Holder has advanced \$50,000 to the Company pursuant to the Subordinated Loan Agreement dated as of December 16, 1996 between the Company and the Holder and the other lenders referred to therein, and to the extent of an additional 7,500 Warrants after each additional advance of \$50,000 by the Holder to the Company pursuant thereto.

5.2 EXPIRATION. In addition to any other event causing an expiration or termination of this Warrant Certificate, these Warrants shall expire and all rights to purchase any or all of the Warrant Shares shall cease (to the extent not theretofore terminated or expired as herein provided) upon the effective date of (a) the dissolution or liquidation of the Company, (b) a merger, consolidation, acquisition of property or shares, separation or reorganization of the Company, with one or more entities, corporate or otherwise, as a result of which the Company is not the surviving entity, (c) a sale of substantially all of the property or shares of the Company to another entity, corporate or otherwise, or (d) a "reverse" merger by which the Company is acquired but is the surviving entity. The Company shall cause written notice to be given to Holder of any such proposed transaction not less than fifteen (15) days prior to the anticipated effective date thereof, and Holder shall have the right to exercise these Warrants at any time prior to the effective date of (i) the termination of the Warrants, or (ii) such proposed transaction, whichever is earlier.

6. ADJUSTMENTS FOR STOCK SPLITS, CONSOLIDATIONS, ETC. The number and class of shares subject to this Warrant Certificate shall be proportionately adjusted in the event of any change or increase or decrease in the number of issued shares of the Company's Common Stock, without receipt of consideration by the Company, which result from a split-up or consolidation of shares, payment of a share dividend, a recapitalization, combination of shares or other like capital adjustment, so that, upon exercise of this Warrant Certificate, Holder shall receive the number and class of shares it would have received had it been the holder of the number of shares of Common Stock in the Company, for which this Warrant Certificate is being exercised, on the date of such change or increase or decrease in the number of issued shares of Common Stock in the Company. Subject to any required action by its stockholders, if the Company shall be a surviving entity in any reorganization, merger or consolidation (except a "reverse" merger under Section 5(d) hereof), this Warrant Certificate

shall be proportionately adjusted so as to apply to the securities to which the holder of the number of shares of Common Stock in the Company subject to this Warrant Certificate would have been entitled upon the effectiveness of such reorganization, merger or consolidation. Adjustments under this Section 6 shall be made by the Board of Directors or a committee thereof, whose determination with respect thereto shall be final and conclusive. No fractional share shall be issued under this Warrant Certificate or upon any such adjustment.

7. METHOD OF EXERCISING WARRANTS. Subject to the terms and conditions of this Warrant Certificate, this Warrant Certificate may be exercised by Holder (a) by giving written notice to the Secretary of the Company stating the number of the Warrant Shares with respect to which this Warrant Certificate is being exercised and (b) tendering payment of the Purchase Price for each of the Warrant Shares to be purchased. The Purchase Price for all of the Warrant Shares to be purchased upon any exercise under this Warrant Certificate must be paid in full upon such exercise. Payment shall be made in cash or such other form of consideration as the Board of Directors may permit. Holder's exercise notice provided for above shall be accompanied by (i) this Warrant Certificate (for appropriate endorsement by the Company to reflect such exercise), (ii) a completed and executed Investor's Certificate in substantially the form attached hereto as EXHIBIT A, and (iii) such other agreements and documents as may be reasonably requested by the Company. As soon as practicable after the exercise of this Warrant Certificate and compliance in full by Holder with this Section 7, Holder shall be entitled to receive a stock certificate evidencing ownership of the Warrant Shares purchased. The certificate or certificates for the shares as to which the Warrants shall have been so exercised shall be registered in the name of the person so exercising the Warrants and shall be delivered, as provided above, to or upon the written order of the person so exercising the Warrants. In the event the Warrants shall be exercised by any person other than the Holder in accordance with the terms hereof, such notice shall be accompanied by appropriate proof of the right of such person to exercise the Warrants. All of the Warrant Shares that shall be purchased upon the exercise of the Warrants as provided herein shall be fully paid and nonassessable. Holder shall not be entitled to the privileges of share ownership as to any shares of the Company's Common Stock not actually issued and delivered to Holder. Holder hereby certifies that all shares of Common Stock in the Company purchased or to be purchased by it pursuant to the exercise of this Warrant Certificate are being, or are to be, acquired by Holder for investment, and not with a view to the distribution thereof.

8. GENERAL. The Company shall at all times during the term of the Warrants reserve and keep available such number of shares of Common Stock as will be sufficient to satisfy the requirements of this Warrant Certificate, shall pay all original issue and transfer taxes with respect to the issue and transfer of shares pursuant hereto and all other fees and expenses necessarily incurred by the Company in connection therewith, and will from time to time use its best efforts to comply with all laws and regulations, which, in the opinion

of counsel for the Company, shall be applicable thereto.

IN WITNESS WHEREOF, the Company has executed and delivered this Warrant Certificate as of the date first set forth above.

THE COMPANY
EIP MICROWAVE, INC.
1745 McCandless Drive
Milpitas, CA 95035-8024
Fax Number: (408) 945-6312

By:

Lewis R. Foster
President and Chief Operating Officer

EXHIBIT A TO THE
WARRANT CERTIFICATE

INVESTOR'S CERTIFICATE

Date:

I, the undersigned, hereby certify that all of the shares of common stock of EIP Microwave, Inc. (the "COMPANY") being purchased by me pursuant to the exercise on this date of certain warrants granted to me by the Company (evidenced by the warrant certificate issued to me by the Company on _____, 199__) are being acquired by me for investment and not with a view to the distribution thereof. I hereby reconfirm the representations and warranties contained in Section 5 of the Subordinated Loan Agreement dated as of

December 16, 1996 between the Company, the undersigned and the other lenders referred to therein, with respect to all such shares of the Company's common stock.

Signature

Name (please print)

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EXHIBIT C

EIP MICROWAVE, INC.

SECURITY AGREEMENT

This Security Agreement (the "SECURITY AGREEMENT") is made and entered into as of _____, 199__, by and between EIP Microwave, Inc., a Delaware corporation ("COMPANY"), and John F. Bishop and J. Bradford Bishop (each a "LENDER").

RECITALS

WHEREAS, the Lenders have entered into a Subordinated Loan Agreement (the "LOAN AGREEMENT"; unless otherwise noted, capitalized terms used herein without definition have the meanings assigned thereto in the Loan Agreement) dated as of

December 16, 1996 between the Company and the Lenders; and

WHEREAS, the execution, delivery and performance of this Security Agreement is a condition to the making of advances by the Lenders under the Loan Agreement.

NOW, THEREFORE, in consideration of the premises and for good and valuable consideration, the Company and the Lenders agree as follows:

1. SECURITY INTEREST. As security for the obligations described in Section 2 hereof, the Company hereby grants to the Lenders, a security interest in and lien on all of the Company's right, title and interest in and to the following collateral (the "COLLATERAL"): (i) all Accounts, Inventory, Equipment, General Intangibles, fixtures, tax refunds, letters of credit and documents of title; (ii) all now owned and hereafter acquired real estate and leasehold and other interests in real property together with all purchase options and other rights related to such leaseholds or other interests; (iii) all deposit accounts (general or special and whether collected or uncollected) with credits and other claims against any financial institutions with which the Company maintains deposits; (iv) all insurance proceeds of or relating to any of the foregoing; (v) all of the Company's now owned or hereafter acquired chattel paper, documents and instruments; (vi) all of the Company's books and records relating to any of the foregoing; and (vii) all accessions and additions to, substitutions for, and replacements, products and proceeds of any of the foregoing.

"ACCOUNTS" shall mean all now owned or hereafter acquired accounts, contract rights, chattel paper, instruments, documents, claims to insurance, and other rights to payment for goods sold or leased by the Company or for services rendered by the Company.

"EQUIPMENT" shall mean all of the Company's now owned or hereafter acquired goods and other tangible property (other than Inventory) used or useable by the Company in its business, wherever the same are located, including, without limitation, fixtures, furniture, machinery, equipment, computer hardware, vehicles and trade fixtures, together with any and all accessories, parts, supplies and appurtenances thereto, substitutions, renewals and improvements therefor and replacements thereof.

"GENERAL INTANGIBLES" shall mean all choses in action, general intangibles, causes of action and all other intangible personal property of the Company of every kind and nature (other than Accounts) now owned or hereafter acquired by the Company. Without in any way limiting the generality of the foregoing, General Intangibles specifically include contracts and contract rights, all corporate or other business records, deposits (whether collected or uncollected), security deposits, inventions, designs, patents, patent applications, trademarks, trade names, trade secrets, trade styles, service

marks, goodwill, copyrights, registrations, licences, franchises, computer software and firmware and all licenses therefore, insurance policies and tax refund claims owned by the Company and all letters of credit, guarantee claims, security interests or other security held by or granted to the Company to secure payment by an account debtor of any Accounts.

"INVENTORY" shall mean all goods, inventory, merchandise and other personal property, including, without limitation, goods in transit, wherever located and whether now owned or hereafter acquired by the Company which are or may at any time be held for sale or lease, furnished under or incident to any contract or held as raw materials, work in progress, finished goods, supplies or materials used or consumed in the Company's businesses, and all such property the sale or other disposition of which has given rise to Accounts and which has been returned to or repossessed or stopped in transit by the Company.

2. OBLIGATIONS. The security interest hereby granted shall secure the due and punctual payment and performance by the Company of its indebtedness, liabilities and obligations to the Lenders under the Notes and any and all other obligations of the Company under this Security Agreement, including without limitation: (i) the due and punctual payment in full (and not merely the collectibility) of the principal and the premium, if any, and the interest on the Notes, in each case when due and payable, according to the terms of the Notes, whether at maturity, by acceleration or otherwise, regardless of the extent allowed as a claim in any proceeding in respect of the bankruptcy, reorganization or insolvency of the Company (a "REORGANIZATION"); and (ii) the due and punctual payment in full (and not merely the collectibility) of all other sums and charges which may at any time be due and payable in accordance with or under the terms of the Notes, regardless of the extent allowed as a claim in any Reorganization.

3. SPECIAL WARRANTIES AND COVENANTS OF THE COMPANY. The Company hereby represents, warrants and covenants to the Lenders that:

(a) The address specified in on the signature page hereto is the chief executive office and the place of business of the Company.

(b) The Company is (or with respect to Collateral acquired after the date hereof, will be) the sole owner of the Collateral; the security interest hereunder in the Collateral is a valid and enforceable security interest in that Collateral and, upon the filing of financing statements, will be duly perfected as to all Collateral in which a security interest can be perfected by the filing of a financing statement and there are no security interests in, liens or encumbrances on, adverse claims of title to, or any other interest whatsoever in, the Collateral or any portion thereof, except the Permitted Liens (as defined in the Loan Agreement).

(c) The Company will defend the Collateral against all claims and

demands of all persons at any time claiming the same or any interest therein.

(d) The Company will promptly execute and deliver to the Lenders such financing statements, certificates and other documents and instruments, and will give any notices to third parties, as may be necessary to enable the Lenders to perfect or from time to time continue perfection of the security interest granted herein, or to protect the Collateral against the rights, claims or interests of third parties, including, without limitation, such financing statements, certificates, notices and other documents as may be necessary to perfect a security interest in any additional Collateral hereafter acquired by the Company or in any replacements or proceeds thereof.

(e) The Company will maintain all Collateral only in California.

(f) The Company has not, in the conduct of its business, been known as or used any other corporate or fictitious name.

(g) The Company will promptly upon either Lender's request deliver to such Lender records and schedules that show the status, condition and location of the Collateral, including accounts receivable aging reports and will promptly notify the Lenders in writing of any event or change of law, regulation, business practice or business condition that may adversely affect the value of the Collateral. The Lenders shall have the right to review and verify such records, schedules and notices, including the right to contact account debtors of the Company to confirm balances owing on and the terms of Accounts, and the Company will reimburse the Lenders for all costs incurred thereby.

(h) The Lenders shall have the right at any time to make any payments and do any other acts the Lenders may deem necessary to protect its security interest in the Collateral, including, without limitation, the rights to pay, purchase, contest or compromise any encumbrance, charge or lien that in the judgment of the Lenders appears to be prior to or superior to the security interest granted hereunder, and appear in and defend any action or proceeding purporting to affect its security interest in and/or the value of the Collateral, and in exercising any such powers or authority, the right to pay all expenses incurred in connection therewith, including fees and expenses of counsel for the Lenders. The Company hereby agrees to reimburse the Lender for all payments made and expenses incurred under this Security Agreement, which amounts shall be secured under this Security Agreement, and agrees it shall be bound by any payment made or act taken by the Lenders hereunder. The Lenders shall have no obligation to make any of the foregoing payments or perform any of the foregoing acts.

4. RIGHTS OF LENDERS. Upon the occurrence of any Event of Default, the Lenders may declare all of the Obligations to be immediately due and payable and the Lender shall then have the rights and remedies of a Lender under the Uniform Commercial Code and under all other applicable laws, including, without limitation, the right to take possession of the Collateral and, in addition thereto, the right to enter upon any premises on which the Collateral or any part thereof may be situated and remove the same therefrom. The Lenders may require the Company to make the Collateral (to the extent the same is movable)

be designated by the Lenders which is reasonably convenient to the Company and the Lenders. Unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, the Lenders will give the Company at least ten (10) days' prior written notice, at the last address for notices to the Company specified in accordance with Section 10 hereof, of the time and place of any public sale thereof or of the time after which any private sale or any other intended disposition thereof is to be made. Each such notice shall be deemed to meet all requirements hereunder and under applicable law (including the Uniform Commercial Code) that reasonable notification be given of the time and place of such sale or other disposition. After deducting all costs and expenses of collection, storage, custody, sale or other disposition and delivery (including legal costs and attorneys' fees) and all other charges against the Collateral, the residue of the proceeds of any such sale or disposition shall be applied to the payment of the Obligations of the Company; and the surplus, if any, shall be paid to whomever may be lawfully entitled to receive the same.

In the event the proceeds of any sale, lease or other disposition of the Collateral hereunder are insufficient to pay all of the Obligations in full, the Company will be liable for the deficiency, together with interest thereon, and the costs and expenses of collection of such deficiency, including (to the extent permitted by law), without limitation, reasonable attorneys' fees, expenses and disbursements.

5. RIGHT OF LENDER TO USE AND OPERATE COLLATERAL, ETC. Upon the occurrence of any Event of Default and during the continuance of any Event of Default, but subject to the provisions of the Uniform Commercial Code or other applicable law, the Lenders shall have the right and power to take possession of all or any part of the Collateral, and to exclude the Company and all persons claiming under the Company wholly or partly therefrom, and thereafter to hold, store, and/or use, operate, manage and control the same. Upon any such taking of possession, the Lenders may, from time to time, at the expense of the Company, make all such repairs, replacements, alterations, additions and improvements to any of the Collateral as the Lenders may deem proper. In any such case, the Lender shall have the right to manage and control the Collateral and to carry on the business and to exercise all rights and powers of the Company, in respect thereto as the Lenders shall deem best, including the right to enter into any and all such agreements with respect to the operation of the Collateral or any part thereof as the Lenders may see fit; and the Lenders shall be entitled to collect and receive all issues, profits, fees, revenues and other income of the same and every part thereof. Such issues, profits, fees, revenues and other income shall be applied to pay the expenses of the Lenders and of operating the Collateral and of conducting the Company's business, and of all maintenance, repairs, replacements, alterations, additions and improvements, and to make all

payments which the Lenders may be required or may elect to make, if any, for taxes, assessments, insurance and other charges upon the Collateral or any part thereof, and all other payments which the Lenders may be required or authorized to make under any provision of this Security Agreement (including legal costs and attorneys' fees). The remainder of such issues, profits, fees, revenues and other income shall be applied to the payment of the Obligations. Without limiting the generality of the foregoing, the Lenders shall have the right to apply for and have a receiver appointed by a court of competent jurisdiction in any action taken by Lenders to enforce their rights and remedies hereunder in order to manage, protect and preserve the Collateral and continue the operation of the business of the Company and to collect all revenues and profits thereof and apply the same to

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the payment of all expenses and other charges of such receivership including the compensation of the receiver and to the payment of the Obligations as aforesaid until a sale or other disposition of such Collateral shall be finally made and consummated

6. COLLECTION OF ACCOUNTS, ETC. Upon the occurrence and during the continuance of any Event of Default, the Lenders may notify or may require the Company to notify account debtors on any or all of the Company's Accounts, whether now existing or hereafter arising, to make payment directly to the Lenders, and the Lenders may take possession of all proceeds of any accounts in the Company's possession, and may take any other steps which the Lenders deems necessary or advisable to collect any or all such Accounts or other Collateral or proceeds thereof. Without limiting the generality of the foregoing, upon the occurrence and during the continuance of any Event of Default: (a) the Lenders shall have the right to receive, endorse, assign and/or deliver in their name or the name of the Company any and all checks, drafts and other instruments for the payment of money relating to the Accounts, and the Company hereby waives notice of presentment, protest and nonpayment of any instrument so endorsed; (b) the Company hereby constitutes the Lenders or their designee as its attorney-in-fact with power to endorse the Company's name upon any notes, acceptances, checks, drafts, money orders or other evidences of payment or Collateral that may come into Lenders' possession; to sign the Company's name on any invoice or bill of lading relating to any of the Company's accounts, drafts against customers, assignments and verifications of such accounts and notices to customers; to notify the Post Office authorities to change the address for delivery of mail addressed to the Company to such address as the Lenders may designate; and to do all other acts and things necessary to carry out this agreement. All acts of said attorney or designee are hereby ratified and approved, and said attorney or designee shall not be liable for any acts of omission or commission, nor for any error of judgment or mistake of fact or law; this power being coupled with an interest is irrevocable until this Security Agreement terminates in accordance with its terms; (c) the Lenders may, without notice to or consent from the Company, in their reasonable business judgment, sue upon or otherwise collect, extend the time of payment, or compromise or settle for cash, credit or

otherwise upon any terms, any of the Company's Accounts or any securities, instruments or insurance applicable thereto and/or release the obligor thereon; and (d) the Lenders are authorized and empowered to accept the return of the goods represented by any of the Company's Accounts, without notice to or consent by the Company, all without discharging or in any way affecting the Company's liability thereunder.

7. WAIVERS, ETC. The Company hereby waives presentment, demand, notice, protest and, except as otherwise provided herein, all other demands and notices in connection with this Security Agreement or the enforcement of the Lenders' rights hereunder or in connection with any Obligations or any Collateral; the Company consents to and waives notice of the granting of renewals, extensions of time for payment or other indulgence to any account debtor in respect of any account receivable, the addition or release of persons primarily or secondarily liable on any account receivable or other Collateral, the acceptance of partial payments on any obligation or on any account receivable or other Collateral and/or the settlement or compromise thereof. No delay on the part of any Lender in exercising any right hereunder shall operate as a waiver of such right or of any other right hereunder. Any waiver of any such right on any one occasion shall not be construed as a bar to or waiver of any such right on any such future occasion. The Company further waives any right it may now or hereafter have to notice (other than any

requirement of notice provided herein) or to a judicial hearing prior to the exercise of any right or remedy provided by this Security Agreement to the Lenders and waives its right, if any, to set aside or invalidate any sale duly consummated in accordance with the foregoing provisions hereof on the grounds (if such be the case) that the sale was consummated without a prior judicial hearing. The Company hereby waives the right to plead any statute of limitations as a defense to any indebtedness or obligations hereunder or secured hereby to the full extent permitted by law. The Company's waivers under this section have been made voluntarily, intelligently and knowingly.

8. AUTHORITY OF THE LENDERS. The Lenders shall have and be entitled to exercise all powers hereunder which are specifically granted to the Lenders by the terms hereof together with such powers as are reasonably incident thereto. The Lenders may perform any of its duties hereunder or in connection with the Collateral by or through agents or employees and shall be entitled to retain counsel and to act in reliance upon the advice of counsel concerning all such matters. Neither any Lender nor any attorney or agent of the Lenders shall be liable to the Company for any action taken or omitted to be taken by it or them hereunder, except for its or their own gross negligence or willful misconduct, nor shall the Lender be responsible for the validity, effectiveness or sufficiency hereof or of any document or security furnished pursuant hereto. Each Lender and its attorneys and agents shall be entitled to rely on any communication, instrument or document believed by it or them to be genuine and correct and to have been signed or sent by the proper person or persons. The

Company agrees to indemnify and hold harmless the Lenders and any other person from and against any and all costs, expenses (including fees and expenses of counsel), claims or liability incurred by the Lenders or such person hereunder, unless such claim or liability shall be due to willful misconduct or gross negligence on the part of the Lenders or such person.

9. TERMINATION, ETC. This Security Agreement and the security interest in the Collateral created hereby shall terminate only when all of the Obligations have been paid, performed and discharged in full. No waiver by any Lender or by any other holder of Obligations of any default shall be effective unless in writing nor operate as a waiver of any other default or of the same default on a future occasion.

10. NOTICES. All notices, consents and other communications under this Security Agreement shall be in writing and shall be deemed to have been duly given when (a) delivered by hand, (b) sent by telecopier (with receipt confirmed), provided that a copy is mailed by registered mail, return receipt requested, or (c) when received by the addressee, if sent by Express Mail, Federal Express or other express delivery service (receipt requested), in each case to the appropriate addresses and telecopier numbers set forth on the signature page (or to such other addresses and telecopier numbers as a party may designate as to itself by notice to the other parties).

11. MISCELLANEOUS. This Security Agreement shall inure to the benefit of and be binding upon the Lenders and the Company and their respective successors and assigns. In the event any of the Obligations are transferred, each Lender may assign its rights and duties hereunder to the transferee or transferees of the Obligations. In case any provision of this Security Agreement shall be invalid, illegal or unenforceable, the validity, legality and

enforceability of the remaining provisions shall not in any way be affected or impaired thereby. This Security Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts. Each counterpart bearing, and each set of counterparts collectively bearing, the signatures of all parties shall be an original, but all the counterparts together shall constitute one and the same instrument. The terms of this Security Agreement may not be altered, modified, amended, supplemented or terminated in any manner whatsoever except by written instrument signed by the Company and the Lenders.

12. GOVERNING LAW; WAIVER OF RIGHTS, REPRESENTATION BY COUNSEL, WAIVER OF DAMAGES, ETC.

(a) This Agreement and (unless otherwise provided) all amendments hereof and waivers and consents hereunder shall be governed by the internal law of the State of California, without regard to the conflicts of law principles thereof.

(b) The Company waives all rights of notice and hearing of any kind prior to the exercise by the Lenders of their rights from and after the occurrence of an Event of Default to repossess the Collateral with judicial process or to replevy, attach or levy upon the Collateral or other security for the Obligations. The Company waives the posting of any bond otherwise required of the Lenders in connection with any judicial process or proceeding to obtain possession of, replevy, attach or levy upon the Collateral or other security for the Obligations to enforce any judgment or other court order entered in favor of the Lenders, or to enforce by specific performance, temporary restraining order, preliminary or permanent injunction this Security Agreement or any other agreement or document between the Company and the Lenders.

(c) Each party hereto acknowledges that it has been represented by counsel and/or has had an opportunity to seek the advice of counsel in connection with this Security Agreement and the transactions contemplated by this Security Agreement. Accordingly, any rule of law, including but not limited to Section 1654 of the California Civil Code, or any legal decision that would require interpretation of any claimed ambiguities in this Security Agreement against the party that drafted it has no application and is expressly waived. The provisions of this Security Agreement shall be interpreted in a reasonable manner to effect the intent of the parties hereto.

(d) Notwithstanding anything to the contrary elsewhere in this Security Agreement, no party (or its agents) shall, in any event, be liable to the other party (or its agents) for any consequential damages, including, but not limited to, loss of revenue or income, cost of capital, or loss of business reputation or opportunity relating to the breach or alleged breach of this Security Agreement. Each party agrees that it will not seek punitive damages as to any matter under, relating to or arising out of this Security Agreement.

IN WITNESS WHEREOF, the parties hereto have executed and delivered this Agreement as of the date first set forth above.

THE COMPANY
EIP MICROWAVE, INC.
1745 McCandless Drive
Milpitas, CA 95035-8024
Fax Number: (408) 945-6312

By:

Lewis R. Foster
President and Chief Operating Officer

THE LENDERS

John F. Bishop
3 Civic Plaza, Suite 265
Newport Beach, CA 92660
Fax Number: (714) 720-2086

J. Bradford Bishop
6950 S.W. Hampton Street, Suite 200
Portland, OR 97223
Fax Number: (503) 620-9462

AMENDMENT TO
EMPLOYMENT AGREEMENT

THIS AMENDMENT TO EMPLOYMENT AGREEMENT (the "AMENDMENT") is made as of November 20, 1996 by and between EIP Microwave, Inc., a Delaware corporation ("COMPANY"), and John F. Bishop ("EMPLOYEE").

WHEREAS, the Company and Employee are parties to an Employment Agreement dated as of October 1, 1995 (the "EMPLOYMENT AGREEMENT"), and desire to amend the Employment Agreement pursuant to the provisions of this Amendment.

NOW, THEREFORE, in consideration of the provisions hereinafter set forth, the parties agree as follows:

1. Section 4(a) of the Employment Agreement is hereby amended in its entirety to read as follows:

(a) SALARY. Company shall pay Employee a salary of Six Thousand Five Hundred Dollars (\$6,500) per month, which salary shall be payable in advance on the first day of each calendar month during the Term, PROVIDED that such salary shall be reduced to Three Thousand Two Hundred Fifty Dollars (\$3,250) per month during the period from January 1, 1997 until the Transition Date.

2. Except as expressly amended pursuant to this Amendment, the terms of the Employment Agreement remain unchanged and in full force and effect.

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

COMPANY: EIP MICROWAVE, INC.,
a Delaware corporation

By: /s/ Robert D. Johnson

Robert D. Johnson
Authorized Representative

EMPLOYEE: /s/ John F. Bishop

John F. Bishop

Written Description of
EIP BONUS PLAN FOR FISCAL 1997

EIP Microwave, Inc. (the "Company") has adopted a Bonus Plan for Lewis R. Foster, the President and Chief Operating Officer of the Company. The EIP Bonus Plan is designed to provide Mr. Foster with a financial incentive to achieve the profit objectives established by the Board of Directors for the 1997 fiscal year of the Company. Mr. Foster is eligible for a maximum annual bonus award of \$35,000.

As of December 20, 1996, the Company has not adopted a Bonus Plan for any other employees for the 1997 fiscal year. However, the Company may elect to do so in the future for the purpose of providing other employees of the Company with annual financial incentives to achieve specified orders, sales, pre-tax profit, product development and/or other objectives.

EIP MICROWAVE, INC.
SECOND AMENDED AND RESTATED
1994 STOCK OPTION PLAN
(as amended and restated on November 20, 1996)

1. PURPOSE. The purpose of the EIP Microwave, Inc. Second Amended and Restated 1994 Stock Option Plan is to provide a means whereby EIP Microwave, Inc. (the "Company") may attract and retain persons of ability as directors, employees and consultants and motivate such persons to exert their best efforts on behalf of the Company and any of its subsidiaries.

2. BENEFITS AVAILABLE UNDER PLAN. The total number of shares which may be issued and sold under options granted pursuant to this Stock Option Plan shall not exceed 200,000 shares of the common stock, \$.01 par value per share (the "Common Stock"), of the Company except to the extent of adjustments authorized by the last sentence of Paragraph 6 of this Stock Option Plan. Such shares may be treasury shares of shares of original issue or a combination of the foregoing. If any option terminates, expires or is cancelled with respect to any shares of Common Stock, new options may thereafter be granted covering such shares of Common Stock.

3. ADMINISTRATION. This Stock Option Plan shall be administered by a committee (the "Committee") of two or more members of the Board of Directors, appointed by and holding office at the pleasure of the Board. The members of the Committee shall be "non-employee directors" within the meaning of that term in Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended, or any successor rule to the same effect ("Rule 16b-3").

The Committee may, from time to time and upon such terms and conditions as it may determine, authorize the granting to members of the Board of Directors, to officers, to other key employees and to non-employee consultants of the Company or any of its subsidiaries (excluding John F. Bishop) of options to buy from the Company shares of Common Stock and to fix the number of shares to be covered by each such option. Successive options may be granted to the same person whether or not the option or options first granted to such person remain unexercised.

Subject to the express provisions of this Stock Option Plan, the Committee shall have the authority to construe and interpret this Stock Option Plan and, to the extent not otherwise defined herein, to define the terms used in this Stock Option Plan; to prescribe, amend and rescind rules and regulations relating to the administration of this Stock Option Plan; and to make all other determinations necessary or advisable for the administration of this Stock Option Plan. The determinations of the Committee on all matters referred to in

this Paragraph 3 shall be conclusive.

The Committee shall hold meetings at such times and places as it may determine in accordance with the Bylaws of the Company. A majority of the members of the committee shall constitute a quorum at any such meeting. All determinations of the Committee shall be

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made by a majority of its members at a meeting or by the unanimous written consent of all members of the Committee. In the event action by the Committee is taken by unanimous written consent, the action of the Committee shall be deemed to be at the date the last Committee member signs the consent.

4. ELIGIBILITY.

(a) All members of the Board of Directors, officers, other key employees and non-employee consultants of the Company or any of its subsidiaries (excluding John F. Bishop) shall be eligible to receive Nonstatutory Options (as defined in Paragraph 5(a) below), and all officers (including officers who are members of the Board of Directors) and other key employees of the Company or any of its subsidiaries (excluding John F. Bishop) shall be eligible to receive Incentive Options (as defined in Paragraph 5(a) below).

(b) Any officer or key employee who owns more than ten percent (10%) of the total combined voting power of all classes of outstanding stock of the Company or any of its subsidiaries shall not be eligible to receive any Incentive Option (as defined in Section 5(a) hereof) unless (i) the exercise price of the shares subject to such option is at least one hundred ten percent (110%) of the Fair Market Value of such shares on the date of grant and (ii) such option by its terms is not exercisable after the expiration of five years from the date of grant.

5. NATURE, TERMS AND CONDITIONS OF OPTIONS.

(a) Options granted under this Stock Option Plan may be (i) options which are intended to qualify under particular provisions of the Internal Revenue Code (the "Code"), as in effect from time to time ("Incentive Options"), (ii) options which are not intended to so qualify under the Code ("Nonstatutory Options"), or (iii) combinations of the foregoing.

(b) No option shall run for more than ten years from the date granted; provided, however, no Incentive Option granted to an optionee described in Paragraph 4(b) hereof shall be exercisable after the expiration of five years from the date granted.

(c) No option shall be transferrable by the optionee otherwise than (i) by will or the laws of descent and distribution or (ii) pursuant to a qualified domestic relations order as defined by the Code or Title I of the Employee Retirement Income Security Act or the rules thereunder.

(d) Options shall be exercisable during the optionee's lifetime only by him or, in the event of his legal incapacity to do so, by his guardian or legal representative acting in a fiduciary capacity under state law on behalf of the optionee and under court supervision.

(e) The option price shall be determined by the Committee at or prior to the time the option is granted; provided, however, that in the case of an Incentive Option, the option price shall be at least equal to the Fair Market Value per share at the time the Incentive Option is granted, and in the case of a Nonstatutory Option, the option price shall be at least

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equal to eight five percent (85%) of the Fair Market Value per share at the time the Nonstatutory Option is granted. "Fair Market Value" shall mean: (a) if the Common Stock is traded on an exchange, the closing price at which a share of Common Stock traded on the date of valuation; (b) if the Common Stock is traded over-the-counter on the NASDAQ System, the mean between the bid and asked closing prices of a share of Common Stock on said System at the close of business on the date of valuation or, if the Common Stock is designated a National Market System security, the closing price at which a share of Common Stock traded on the date of valuation; and (c) if neither (a) nor (b) applies, the fair market value as determined by the Committee in good faith. Such determination shall be conclusive and binding on all persons.

(f) In order to exercise options, the person or persons entitled to exercise them shall give written notice to the Company specifying the number of shares to be purchased pursuant to the exercise of options. This notice shall be accompanied by payment for the shares as provided in Paragraph 5(g). Options may be exercised at such time or times as may be determined by the Committee at the time of grant.

(g) The option price shall be payable (i) in cash or by check acceptable to the Company, (ii) at the discretion of the Committee, by the transfer to the Company by the optionee of shares of Common Stock having a Fair Market Value at the time of exercise equal to the total option price or (iii) by a combination of such methods of payment. The Committee shall determine, in its discretion, whether the requirement of payment in cash shall be deemed satisfied if the optionee shall have made arrangements satisfactory to the Company with a broker who is a member of the National Association of Securities Dealers, Inc.

to sell a sufficient number of shares being purchased so that the net proceeds of the sale transaction will at least equal the option exercise price and pursuant to which the broker undertakes to promptly deliver the full option exercise price to the Company.

6. ADJUSTMENTS IN EVENT OF CHANGE IN STOCK. The Committee may make or provide for such adjustments in the option price and in the number or kind of shares of the Company's Common Stock or other securities covered by outstanding options as such Committee in its sole discretion, exercised in good faith, may determine is equitably required to prevent dilution or enlargement of the rights of optionees that would otherwise result from (a) any stock dividend, stock split, combination of shares, recapitalization or other change in the capital structure of the Company, or (b) any merger, consolidation, reorganization, separation, partial or complete liquidation, issuance of rights or warrants to purchase stock, or (c) any other corporate transaction or event having an effect similar to any of the foregoing. Notwithstanding anything to the contrary, in the event of a merger or consolidation in which the Company is not the surviving corporation and the agreement of merger or consolidation provides for the assumption of options granted (and the Company's obligations) under this Plan, the shares of common stock or securities of the successor corporation may be issued under this Plan in lieu of shares of Common Stock, subject to the aforementioned adjustments which the Committee may determine are equitably required, and such substitution of securities shall not require the consent of any person who is granted options pursuant to this Plan. The Committee may also make or provide for such adjustments in the number or kind of shares of the Common Stock or other securities (including, but not limited to, shares of a successor referenced above) which may be sold under this Stock Option Plan as such Committee in its sole discretion, exercised in good faith, may

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determine is appropriate to reflect any transaction or event described in the two preceding sentences (subject, however, in the case of Incentive Options, to the provisions of the Code).

7. STOCK OPTION AGREEMENT. The form of each Stock Option Agreement shall be prescribed, and any Stock Option Agreement evidencing an outstanding option may with the concurrence of the affected optionee be amended, by the Committee, provided that the terms and conditions of each such Stock Option Agreement and amendment are not inconsistent with this Stock Option Plan.

8. CANCELLATION OF OPTION. The Committee may, with the concurrence of the affected optionee, cancel any option granted under this Stock Option Plan. In the event of any such cancellation, the Committee may authorize the granting of new options (which may or may not cover the same number of shares which had been the subject of any prior option) in such manner, at such option price and

subject to the same terms, conditions and discretions as, under this Stock Option Plan, would have been applicable had the cancelled options not been granted.

9. AMENDMENT. This Stock Option Plan may be amended from time to time by the Board of Directors, but without further approval by the shareholders of the Company no such amendment shall (a) increase the aggregate number of shares of Common Stock that may be issued and sold under this Stock Option Plan (except that adjustments authorized by the last sentence of Paragraph 6 shall not be limited by this provision) or (b) change the designation in Paragraph 4 of the class of persons eligible to receive options or (c) cause Rule 16b-3 to cease to be applicable to this Stock Option Plan.

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SUBSIDIARIES OF THE COMPANY

	Name and Description -----	State of Incorporation -----	Percent Owned By Company -----
1.	EIP International, Inc., a foreign sales corporation	Territory of the Virgin Islands	100%

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