

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K

Annual report pursuant to section 13 and 15(d)

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### FILER

#### **VICON INDUSTRIES INC /NY/**

CIK: **310056** | IRS No.: **112160665** | State of Incorporation: **NY** | Fiscal Year End: **0930**  
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SIC: **3669** Communications equipment, nec

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SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended:

September 30, 1996

Commission File No. 1-7939

VICON INDUSTRIES, INC.

(Exact name of registrant as specified in its charter)

NEW YORK  
(State or other jurisdiction of  
incorporation or organization)

11-2160665  
(I.R.S. Employer  
identification No.)

525 Broad Hollow Road, Melville, New York

11747

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code:

(516) 293-2200

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:

Common Stock, Par Value \$.01  
(Title of class)

American Stock Exchange  
(Name of each exchange on which registered)

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

Yes    X    No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not 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-K or any amendment to this Form 10-K.

The aggregate market value of Common Stock held by non-affiliates of the registrant as of December 15, 1996 was approximately \$5,500,000.

The number of shares outstanding of the registrant's Common Stock as of December 15, 1996 was 2,777,328.

## PART I

### ITEM 1 - BUSINESS

#### General

Vicon Industries, Inc. (the "Company"), incorporated in New York in October, 1967, designs, manufactures, assembles and markets a wide range of closed circuit television ("CCTV") components and CCTV systems for security, surveillance, safety, process and control applications by end users. The Company sells CCTV components and systems directly to distributors, dealers and original equipment manufacturers, principally within the security industry. The U.S. security industry is a multi-billion dollar industry which includes guard services, armored carrier, electronic alarms and sensing equipment, safes, locking devices and access systems, as well as CCTV. The nature of the Company's business and the general security market it serves has not changed materially in the past five years.

Users of the Company's products typically utilize them as a visual crime deterrent, for visual documentation, observing inaccessible or hazardous areas, enhancing safety, obtaining cost savings (such as lower insurance premiums), managing control systems, and improving the efficiency and effectiveness of personnel. The Company's products are marketed under its own brand names and registered trademarks. In fiscal 1996, no customer represented more than 10% of consolidated revenues.

#### Products

The Company's product line consists of approximately 600 products, of which about a third represent model variations. The Company's product line consists of various elements of a video surveillance system, including video cameras, display units (monitors), cassette recorders, switching equipment for video distribution, digital video and signal processing units (which perform character generation, multi screen display, video insertion, intrusion detection, source identification and alarm processing), motorized zoom lenses, remote camera positioning devices, manual and computer based system controls, environmental camera enclosures and consoles for system assembly. The Company maintains a large line of products due to the many varied climatic and operational environments under which the products are expected to perform. In addition to selling from a standard catalog line, for significant orders, the Company will produce to specification or modify an existing product to meet a customer's requirements. The Company's products range in price from \$10 for a simple camera mounting bracket to approximately one hundred thousand dollars (depending upon configuration) for a large digital control and video switching system.

## Marketing

The Company's products are sold worldwide, principally to independent distributors, dealers and integrators of various types of security-related systems. Sales are made by in-house customer service representatives, field sales engineers and by independent sales representatives in certain areas of the United States. The sales effort is supported by several in-house application engineers.

Although the Company does not sell directly to end users, much of its sales promotion and advertising is directed at end user markets. The Company's products are employed in video system installations by: (1) commercial and industrial users, such as office buildings, manufacturing plants, warehouses, apartment complexes, shopping malls and retail stores; (2) federal, state, and local governments for national security purposes, municipal facilities, prisons, and military installations; (3) financial institutions, such as banks, clearing houses, brokerage firms and depositories, for security purposes; (4) transportation departments for highway traffic control, bridge and tunnel monitoring, and airport, subway, bus and seaport surveillance; (5) gaming casinos, where video security is often mandated by local statute; and (6) health care facilities, such as hospitals, particularly psychiatric wards and intensive care units. The Company estimates that approximately 50 percent of its total revenues are sales for commercial and industrial uses.

The Company's principal sales offices are located in Melville, New York; Atlanta, Georgia and Segensworth, England.

## International Sales

The Company sells internationally by direct export to dealers and distributors, and, in Europe through the Company's United Kingdom (U.K.) subsidiary. In fiscal 1996, the operating profit and identifiable assets for the Company's U.K. subsidiary amounted to approximately \$421,000 and \$4.8 million, respectively. For more information regarding foreign operations, see Note 7 of Notes to Consolidated Financial Statements included elsewhere herein. Direct export sales and sales from the Company's U.K. subsidiary amounted to \$16.2 million, \$17.5 million, and \$16.7 million or 38%, 40% and 35% of consolidated revenues in fiscal years 1996, 1995, and 1994, respectively. Export sales are made through a wholly-owned subsidiary, Vicon Industries Foreign Sales Corporation, a tax advantaged foreign sales corporation. The Company's principal foreign markets are Europe and the Far East, which together accounted for approximately 82 percent of international sales in fiscal 1996. Additional information is contained in the discussion of foreign currency activity included in Item 7.

## Competition

The Company competes in areas of price, service, product performance and availability with several large and small public and privately-owned companies in the manufacture and distribution of CCTV systems and components (excluding cameras, monitors and video cassette recorders "Video Products") within the security industry. The Company's Video Products compete with many large companies whose financial resources and scope of operations are substantially greater than the Company's. The Company is one of a few domestic market suppliers that design, assemble, manufacture, market and support an extensive line of products offering a comprehensive system capability in a wide range of applications. Many competitors, including manufacturers of cameras, monitors and recorders, typically produce a limited product line since components and accessories are low volume items. The Company believes a broad product line is desirable since many customers prefer to obtain a complete video system from one supplier with the assurance of product compatibility and reliability. In recent years, price competition has intensified limiting the amount of cost increases the Company can pass on to customers and in some instances requiring price reductions.

## Research and Development

The Company is engaged in ongoing research and development activities in connection with new or existing products. Changes in CCTV technology have incorporated the use of advanced electronic components and new materials which add to product life and performance. Nineteen professional employees devote full time to the development of new products and to improving the qualities and capabilities of existing products. Further, the Company engages the services of others to assist in the development of new products. Expenditures for research and development amounted to approximately \$1,800,000 in 1996, \$1,900,000 in 1995, and \$1,600,000 in 1994 or approximately 4.2% of revenues in 1996, 4.2% of revenues in 1995, and 3.4% of revenues in 1994.

## Source and Availability of Raw Materials

The Company has not experienced shortages or significant difficulty in obtaining its raw materials, components or purchased finished products. Raw materials are principally aluminum, steel and plastics, while components are mainly motors, video lenses and standard electronic parts. In 1996, the Company procured directly and indirectly approximately 20% of its product purchases from Chun Shin Electronics, Inc., its South Korean joint venture company (see Item 13 for further discussion of this joint venture). The Company is not dependent upon any other single source for a significant amount of its raw materials, components or purchased finished products.

## Patents and Trademarks

The Company owns a limited number of design and utility patents expiring at various times and has several patent applications pending with respect to the design and/or mechanical function of its products. The Company has certain trademarks registered and several other trademark applications pending both in the United States and in Europe. The Company has no licenses, franchises or concessions with respect to any of its products or business dealings. The Company does not deem its patents and trademarks, or the lack of licenses, franchises and concessions, to be of substantial significance or to have a material effect on its business.

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## Inventories

The Company maintains an inventory of finished products sufficient to

accommodate its customers' requirements, since most sales are to dealer/contractors who do not carry large stock inventories. Parts and components inventories are also carried in sufficient quantities to permit prompt delivery of certain items. The Company would rather carry adequate inventory quantities than experience shortages which detract from the production process and sales effort. The Company's business is not seasonal.

#### Backlog

The backlog of orders believed to be firm as of September 30, 1996 and 1995 was approximately \$3.1 million and \$2.7 million, respectively. All orders are cancelable without penalty at the option of the customer. The Company prefers that its backlog of orders not exceed its ability to fulfill such orders on a timely basis, since experience shows that long delivery schedules only encourage the Company's customers to look elsewhere for product availability.

#### Employees

At September 30, 1996, the Company employed 176 full-time employees, of whom five are officers, 41 administrative personnel, 77 employed in sales capacities, 26 in engineering, and 27 production employees. At September 30, 1995, the Company employed 175 persons categorized in similar proportions to those of 1996. There are no collective bargaining agreements with any of the Company's employees and the Company considers its relations with its employees to be good.

#### ITEM 2 - PROPERTIES

In January 1988, the Company sold and subsequently leased back its 108,000 square foot headquarters facility in Melville, New York, which accommodates the Company's sales, distribution, administration, product development and limited assembly and manufacturing operations. Currently, the Company subleases 28,000 sq. ft. of its facility under an agreement which expires on January 30, 1998. In November 1994, the Company entered into a sublease agreement dated as of January 1, 1993, which gives a company affiliated with its landlord the right to occupy approximately 25,000 sq. ft. of its primary operating facility with two months notice in exchange for specified rent payments through the expiration of the primary lease in 1998. In connection with such agreement, the landlord and the subtenant were each granted an option to ask the Company to vacate the entire premises with six months notice and the landlord agreed to release the Company from all future obligations under its lease in exchange for a lease termination payment by the Company. (See Notes 3 and 10 of Notes to Consolidated Financial Statements included elsewhere herein for further information).

In October 1996, the landlord exercised the aforementioned option which obligates the Company to vacate the Melville facility in April 1997. In December 1996, the Company entered into a five year lease for a 56,000 square foot facility which will accommodate all of the operations of the vacated facility. The Company also operates, under lease, a regional sales office in Atlanta, Georgia. In addition, the Company owns a 14,000 square foot sales, service and warehouse facility in southern England which services the U.K. and European Community markets.

#### ITEM 3 - LEGAL PROCEEDINGS

None

#### ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

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#### PART II

#### ITEM 5 - MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER

MATTERS

The Company's stock is traded on the American Stock Exchange under the symbol (VII). The following table sets forth for the periods indicated, the range of high and low prices for the Company's Common Stock on the American Stock Exchange:

Quarter Ended	High	Low
Fiscal 1996		
December	2-3/8	1- 3/16
March	2	1- 1/4
June	2-3/4	1-11/16
September	5-7/16	2- 1/16
Fiscal 1995		
December	2-1/16	1-1/2
March	2-15/16	1-1/2
June	2-1/2	1-3/8
September	2-1/8	1-9/16

The Company has not declared or paid cash dividends on its Common Stock for any of the foregoing periods. Additionally, under the current loan agreement, the Company may not declare dividends. The approximate number of holders of Common Stock at December 15, 1996 was 1,500.

ITEM 6 - SELECTED FINANCIAL DATA

FISCAL YEAR	1996	1995	1994	1993	1992
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	(in thousands, except per share data)				
Net sales	\$43,191	\$ 43,847	\$ 47,714	\$ 45,923	\$ 45,041
Gross profit	10,957	9,546	10,714	9,724	8,150*
Pretax income (loss)	385	(1,267)	74	(1,858)	(3,317)
Net income (loss)	300	(1,347)	45	(1,875)	(3,906)
Income (loss) per share:					
Primary	.11	(.49)	.02	(.68)	(1.42)
Fully diluted	.10	(.49)	.02	(.68)	(1.42)
Total assets	28,085	26,423	28,857	26,069	26,701
Long-term debt	6,429	5,339	6,059	5,621	6,273
Working capital	12,064	10,721	13,359	13,420	15,741
Property, plant and equipment (net)	3,034	3,262	3,180	3,245	3,913
Cash dividends	-	-	-	-	-

\* Includes a provision of \$2.7 million for discontinuance of certain products and product lines.

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS

RESULTS OF OPERATIONS

Fiscal Year 1996 Compared with 1995

Net sales for 1996 were \$43.2 million, a decrease of 1.5%, compared with \$43.8 million in 1995. The sales decline was principally the result of the termination of low margin video product sales (cameras and VCR's) to a Far East distributor. Lower sales in Europe due to delays in new product introduction were offset by increased other export sales. Domestic revenue levels were essentially unchanged from 1995. The backlog of orders was \$3.1 million at September 30, 1996 compared with \$2.7 million at September 30, 1995.

Gross profit margins were 25.4% of net sales in 1996, compared with 21.8% in 1995. The margin improvement was due principally to a beneficial sales mix of higher margin products, particularly new proprietary digital video products and control systems. The Company also shifted sourcing of a major portion of its video product line to lower cost suppliers outside of Japan. In addition, during 1996, the value of the dollar increased against the Japanese yen which increased margins for those few products still sourced in Japan.

Operating expenses totaled \$9.7 million in 1996 compared with \$9.8 million in 1995. Operating expenses, as a percent of sales, amounted to 22.5% and 22.4% in 1996 and 1995, respectively. The decline in expenses was due primarily to ongoing cost control measures.

During 1996, the Company recorded an unrealized foreign exchange gain of \$42,000. This gain resulted from the Company's revaluation of its yen denominated mortgage obligation into U.S. dollars as the value of the British pound sterling gained against the Japanese yen.

Interest expense declined \$131,000 due principally to the lower cost of new bank borrowings.

Income improved approximately \$1.6 million principally as a result of the higher gross margins discussed above.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### RESULTS OF OPERATIONS

#### Fiscal Year 1995 Compared with 1994

Net sales for 1995 were \$43.8 million, a decrease of 8.1%, compared with \$47.7 million in 1994. The sales decline was the result of lower domestic shipments,

while foreign sales increased \$.8 million to \$17.5 million. Domestic sales were affected by several factors such as direct end user selling by competition; lack of competitiveness of certain products whose cost is denominated in yen; and shortened product life cycles which made certain of the Company's key control systems less competitive. The backlog of orders was \$2.7 million at September 30, 1995 compared with \$3.0 million at September 30, 1994.

Gross profit margins were 21.8% of net sales in 1995, compared with 22.5% in 1994. The margin decline was due principally to the impact of lower sales in relation to a substantially fixed overhead structure. In addition, the value of the dollar declined significantly against the Japanese yen for most of the year which lowered margins of those products sourced in Japan.

Operating expenses in 1995 totaled \$9.8 million compared with \$9.9 million in 1994. Operating expenses, as a percent of sales, amounted to 22.4% and 20.7% in 1995 and 1994, respectively. The increase in expenses as a percent of sales is due in part to higher bad debt expense, severance pay, bank and professional fees.

During 1994, the Company recorded an unrealized foreign exchange gain of \$45,000. This gain resulted from the Company's revaluation of its yen denominated mortgage obligation into U.S. dollars as the value of the British pound sterling gained against the Japanese yen.

Interest expense increased \$230,000 as a result of higher interest rates.

The net loss of \$1.3 million compared with a profit of \$45,000 was the result of lower sales and gross margins and higher interest expenses as discussed above.

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

### LIQUIDITY AND FINANCIAL CONDITION

September 30, 1996 Compared with 1995

Total shareholders' equity increased approximately \$335,000 to \$9.0 million at September 30, 1996, due primarily to the year's reported profit. Working capital increased approximately \$1.3 million to \$12.1 million at September 30, 1996 due principally to increased long term bank borrowings to finance higher inventory levels.

Accounts receivable increased approximately \$.3 million to \$8.6 million at September 30, 1996. The increase was principally the result of higher fourth quarter sales compared with the prior year. Inventories increased \$2.6 million to \$14.7 million at September 30, 1996. Finished products inventories increased \$2.3 million due principally to the introduction of new digital video products and a general increase in stocking levels to meet anticipated customer demand. Raw material and component inventories also increased principally to accommodate production of a new camera dome system. Total accounts payable increased approximately \$1.0 million to \$9.3 million at September 30, 1996 to support the higher inventory levels.

The Company maintains an overdraft facility of 700,000 pounds sterling (approx. \$1.1 million) in the U.K. to support local working capital requirements. At September 30, 1996, borrowings under this facility were approximately \$960,000.

In December 1995, the Company repaid \$2.8 million of bank debt with the proceeds of a new U.S. bank loan. The new two year loan agreement provides for maximum borrowings of \$5,500,000 at September 30, 1996, subject to an availability formula based on U.S. accounts receivable and inventories. Borrowings under such agreement amounted to approximately \$4.1 million at September 30, 1996. Concurrent with the new loan agreement, the Company amended its \$2,000,000 secured promissory note with Chugai Boyeki Co., Ltd., a related party, to defer all scheduled principal installments to July 1998. The Company believes that the new loan agreement and its other sources of credit provide adequate funding to meet its near term cash requirements.

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#### Foreign Currency Activity

The Company's foreign exchange exposure is principally limited to the relationship of the U.S. dollar to the Japanese yen and the British pound sterling.

Japan sourced products denominated in Japanese yen accounted for approximately 7 percent of product purchases in fiscal 1996 compared with 19 percent in fiscal 1995. Although the dollar strengthened against the Japanese yen during fiscal 1996, in past years the dollar had weakened dramatically in relation to the yen, resulting in increased costs for such products. When market conditions permit, cost increases due to currency fluctuations are passed on to customers through

price increases. The Company also attempts to reduce the impact of an unfavorable exchange rate condition through cost reductions from its suppliers, lowering production cost through product redesign, and shifting product sourcing to suppliers transacting in more stable and favorable currencies. The Company's purchases from Japan are denominated in Japanese yen. At the Company's direction, Chugai Boyeki Co., Ltd., its Japanese supplier, has entered into foreign exchange contracts on behalf of the Company to hedge the currency risk on these product purchases.

Sales to the Company's U.K. subsidiary, which approximated \$3.7 million in fiscal 1996, are made in pounds sterling and include products sourced from the Far East. In the years when the pound weakened significantly against the U.S. dollar and Japanese yen, the cost of U.S. and Japanese sourced product sold by the Company's U.K. subsidiary increased. When market conditions permitted, such cost increases were passed on to the customer through price increases. The Company attempts to minimize its currency exposure on intercompany sales through the purchase of forward exchange contracts.

The Company intends to increase prices and seek lower prices from suppliers to mitigate exchange rate exposures, however, there can be no assurance that such steps will be effective in limiting foreign currency exposure.

#### Inflation

The impact of inflation on the Company has lessened in recent years as the rate of inflation remains low. However, inflation continues to increase costs to the Company. As operating expenses and production costs increase, the Company seeks price increases to its customers to the extent permitted by competition.

#### New Accounting Pronouncements

In October 1995, the Financial Accounting Standards Board (FASB) issued Statement No. 123, "Accounting for Stock-Based Compensation," which must be adopted by the Company in fiscal 1997. The Company has elected not to implement the fair value based accounting method for employee stock options, but has elected to disclose, commencing in fiscal 1997, the pro-forma net income and earnings per share as if such method had been used to account for stock-based compensation cost as described in the Statement.

In March 1995, the FASB issued Statement No.121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," which must also be adopted by the Company in fiscal 1997. The effect of adopting the standard will be insignificant.

#### ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Part IV, Item 14, for an index to consolidated financial statements and financial statement schedules.

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#### ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

PART III

ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The Directors and Executive Officers of the Company are as follows:

Directors and Executive Officers

Donald N. Horn, age 67	Chairman of the Board (since 1967); term ends April 1999
Kenneth M. Darby, age 50	President, Chief Executive Officer, Assistant Secretary, and Director (since 1987); term ends April, 1997
Arthur D. Roche, age 58	Executive Vice President, Chief Financial Officer, Secretary, Member of the Office of the President and

	Director (since 1992); term ends April 1999
Peter F. Barry, age 67	Director since 1984; term ends April 1999
Milton F. Gidge, age 67	Director since 1987; term ends April 1998
Michael D. Katz, age 58	Director since 1993; term ends April 1998
Peter F. Neumann, age 62	Director since 1987; term ends April 1997
W. Gregory Robertson, age 52	Director since 1991; term ends April 1998
Kazuyoshi Sudo, age 54	Director since 1987; term ends April 1997
Arthur V. Wallace, age 71	Director since 1974; term ends April 1998
John L. Eckman, age 47	Vice President, U.S. Sales
Peter A. Horn, age 41	Vice President, Compliance and Quality Assurance
Yacov A. Pshtissky, age 45	Vice President, Engineering
Gregory Stempkoski, age 36	Vice President, Export Sales

Mr. D. Horn founded the Company in 1967 and has served as Chairman of the Board since its inception. He also served as Chief Executive Officer from the Company's inception until April 1992 and as President to September, 1991.

Mr. Darby has served as Chief Executive Officer since April, 1992 and as President since October, 1991. Mr. Darby also served as Chief Operating Officer and as Executive Vice President, Vice President, Finance and Treasurer of the Company. He first joined the Company in 1978 as Controller after more than nine years at KPMG Peat Marwick, a major public accounting firm.

Mr. Roche joined the Company as Executive Vice President and co-participant in the Office of the President in August 1993. For the six months earlier, Mr. Roche provided consulting services to the Company. In October, 1991 Mr. Roche retired as a partner of Arthur Andersen & Co., an international accounting firm whom he joined in 1960.

Mr. Barry is a retired executive of Grumman Corp., an aerospace manufacturer, for whom he served from August 1988 to March 1991 as Senior Vice President of Washington D.C. operations. Previously, he served since 1974 as President of Hartman Systems, Inc., a manufacturer of electronic controls and display devices for military applications. Mr. Barry currently acts as a consultant to private industry on government relations.

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Mr. Gidge is a retired executive officer of Lincoln Savings Bank (1976-1994) and served as its Chairman, Credit Policy. He has also served as a director since 1980 of Interboro Mutual Indemnity Insurance Co., a general insurance mutual company and since 1988 as a director of Interinvest Corporation of New York, a mortgage banking company.

Mr. Katz is a physician practicing in New York. He is the President of Katz, Rosenthal, Ganz, Snyder & PDC. He has served in that capacity since 1970.

Mr. Neumann has been President of Flynn-Neumann Agency, Inc. an insurance brokerage firm, since 1971. He has also served since 1978 as a director of Reliance Federal Savings Bank.

Mr. Robertson is President of TM Capital Corporation, a financial services company, an organization he founded in 1989. From 1985 to 1989, he was employed by Thomson McKinnon Securities, Inc. as head of investment banking and public finance.

Mr. Sudo has been Treasurer of Chugai Boyeki (America) Corp., a distributor of electronic, chemical and optical products, since 1985.

Mr. Wallace, who joined the Company in 1970, was Executive Vice President from 1979 until he retired in September, 1990.

Mr. Eckman joined the Company in August 1995 as Eastern Regional Manager. He was promoted to Vice President, U.S. Sales in July, 1996. Prior to joining the Company, he was Director of Field Operations for Cardkey Systems, Inc. with whom he was employed for twelve years.

Mr. P. Horn joined the Company in January, 1974 and has been employed in various technical capacities. In 1986 he was appointed as Vice President, Engineering; in May, 1990 as Vice President, New Products and Technical Support Services; in September 1993, he was appointed Vice President, Marketing; in 1994 as Vice President, Product Management; and in 1995 as Vice President, Compliance and Quality Assurance.

Mr. Pshtissky, who joined the Company in September 1979 as an Electrical Design Engineer, was promoted to Director of Electrical Product Development in March, 1988 and to Vice President, Engineering in May, 1990.

Mr. Stempkoski joined the Company in June 1986 as an Inside Sales Administrator. In October 1990, he was promoted to International Sales Manager and in October, 1996 he was promoted to Vice President, Export Sales.

There are no family relationships between any director, executive officer or person nominated or chosen by the Company to become a director or officer except for the relationship between Peter A. Horn, an officer of the Company, and Donald N. Horn, Chairman of the Board. Peter A. Horn is the son of Donald N. Horn.

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#### Compliance with Section 16(a) of the Exchange Act

Based solely upon a review of Forms 3 and 4 and amendments thereto furnished to the Company during the year ended September 30, 1996 and Form 5 and amendments thereto furnished to the Company with respect to the year ended and certain written representations, no person, who, at any time during the year ended September 30, 1996 was a director, officer or beneficial owner of more than 10 percent of any class of equity securities of the Company registered pursuant to Section 12 of the Exchange Act failed to file on a timely basis, as disclosed in the above forms, reports required by Section 16 of the Exchange Act during the year ended September 30, 1996.

#### ITEM 11 - EXECUTIVE COMPENSATION

The following information is set forth with respect to all compensation paid by the Company to its Chief Executive Officer and its most highly compensated executive officers other than the CEO whose annual compensation exceeded \$100,000, for each of the past three fiscal years.

Name and Principal Position	Fiscal Year Ended September 30,	Annual	Long Term	All Other Compensation
		Compensation Salary	Compensation Options No. of Shares	
Kenneth M. Darby Chief Executive Officer	1996	\$195,000	95,000	\$34,750 (2)
	1995	\$195,000	-	\$ 3,000 (1)
	1994	\$195,000	59,194	\$ 3,000 (1)
Arthur D. Roche Executive Vice President	1996	\$150,000	25,000	\$15,875 (3)
	1995	\$150,000	-	-
	1994	\$150,000	50,000	-

No listed officer received other non-cash compensation amounting to more than 10% of salary.

- (1) Represents life insurance policy payment.
- (2) Represents life insurance policy payment of \$3,000 and bonus in the form of 16,933 shares of common stock to be issued from Treasury.
- (3) Bonus in the form of 8,467 shares of common stock to be issued from Treasury.

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## Stock Options

### OPTION GRANTS IN LAST FISCAL YEAR

Name	Individual Grants			Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation For Option Term		
	No. of Options Granted	% of Total Granted to Employees In Fiscal Year	Exercise Price Per Share	Expiration Date	5%	10%
Kenneth M. Darby	95,000	39%	1.6875	11/00	\$44,300	\$97,900
Arthur D. Roche	25,000	10%	1.6875	11/00	\$11,700	\$25,800

Options granted in the year ended September 30, 1996 were either issued under the 1994 Incentive Stock Option Plan or reissued under the 1986 Incentive Stock Option Plan. The options granted above are exercisable as follows: up to 30% of the shares at the grant date, an additional 30% of the shares on the first anniversary of the grant date, and the balance of the shares on the second

anniversary of the grant date, except that no option is exercisable after the expiration of five years from the date of grant.

AGGREGATED OPTION EXERCISES IN LAST FISCAL YEAR  
AND FISCAL YEAR-END OPTION VALUES

Name	Number of Unexercised Options As of September 30, 1996		Value of Unexercised In- the-Money Options at September 30, 1996 (1)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Kenneth M. Darby	114,392	66,500	\$66,800	\$54,000
Arthur D. Roche	57,500	17,500	\$37,300	\$14,200

No options were exercised by any of the above-named officers during the year ended September 30, 1996.

(1) Calculated based on \$2.50 per share closing market value at September 30, 1996.

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Mr. Darby has entered into an employment contract with the Company that entitles him to receive an annual salary of \$225,000 through fiscal year 2001. Mr. Roche has an employment agreement with the Company that provides an annual salary of \$170,000 through September 30, 1999. Each of these agreements provide for payment in an amount up to three times the average annual compensation for the previous five years if there is a change in control without Board of Director approval (as defined in the agreements).

Messrs. D. Horn and A. Wallace (current directors) each have insured deferred compensation agreements with the Company which provide that upon reaching retirement age total payments of \$917,000 and \$631,000, respectively, will be made in monthly installments over a ten year period. The full deferred compensation payment is subject to such individuals' adherence to certain non-compete covenants. Mr. Wallace, who retired in September 1990, began receiving payments under the agreement in October, 1990 and Mr. Horn began receiving payments under the agreement in January, 1994.

Directors, except the Chairman of the Board and employee directors, are each compensated at the rate of \$600 per Board meeting and \$300 per committee meeting attended in person. The Chairman of the Board is compensated at the rate of

\$1,000 per Board meeting and \$300 per committee meeting attended in person. Effective January 1, 1997, the directors and Chairman will be compensated at annual rates of \$6,000 and \$10,000, respectively. Committee fees will be \$500 per meeting attended in person.

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#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The Compensation Committee of the Board of Directors consists of Messrs. Neumann, Robertson and Wallace, none of whom are or ever have been officers of the Company, except Mr. Wallace who retired in 1990 as Executive Vice President. See the section entitled "Certain Relationships and Related Transactions" included elsewhere herein, for a discussion of certain other relationships maintained by Mr. Neumann and Mr. Robertson with the Company.

#### BOARD COMPENSATION COMMITTEE REPORT

The Compensation Committee's compensation policies applicable to the Company's executive officers for the last completed fiscal year were to pay a competitive market price for the services of such officers, taking into account the overall performance and financial capabilities of the Company and the officer's individual level of performance.

Mr. Darby makes recommendations to the Compensation Committee as to the base salary and incentive compensation of all executive officers other than Mr. Darby. The Committee reviews these recommendations with Mr. Darby, and after such review, determines compensation. In the case of Mr. Darby, the Compensation Committee makes its determination after direct negotiation with such officer. For each executive officer, the Committee's determinations are based on the committee's conclusions concerning each officer's performance and comparable compensation levels in the CCTV Industry and the Long Island area for similarly situated officers at other companies. The overall level of performance of the Company is taken into account but is not specifically related to the base salary of these executive officers. Also, the Company has established an incentive compensation plan for all of its executive officers, which provides a specified bonus to each officer upon the Company's achievement of certain annual profitability targets.

The Compensation Committee grants options to executive officers to connect compensation to the performance of the Company. Options are exercisable in the future at the fair market value at the time of grant, so that an officer granted an option is rewarded by the increase in the price of the Company's stock. The Committee grants options based on significant contributions of an executive officer to the performance of the Company.

In addition, in determining the salary compensation of Mr. Darby as CEO, the Committee considered the responsibility assumed by him in formulating and implementing a management and operating restructuring plan.

Compensation Committee

Peter F. Neumann, Chairman, W. Gregory Robertson  
and Arthur V. Wallace

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This graph compares the return of \$100 invested in the Company's stock on October 1, 1991, with the return on the same investment in the AMEX Market Value Index and the AMEX High Technology Index.

(The following table was represented by a chart in the printed material)

Date	Vicon Industries, Inc.	AMEX Market Value Index	AMEX High Technology Index
10/01/91	100	100	100
10/01/92	133	101	94
10/01/93	78	123	111
10/01/94	81	123	116
10/01/95	83	145	155

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ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following sets forth information as to each person, known to the Company to be a "beneficial owner" (as defined in regulations of the Securities and Exchange Commission) of more than five percent of the Company's Common Stock outstanding as of December 15, 1996 and the shares beneficially owned by the Company's Directors and by all Officers and Directors as a group.

Name and Address of Beneficial Owner -----	Amount of Beneficial Ownership (1) -----	% of Class -----
Chugai Boyeki (America) Corp. 55 Mall Drive Commack, NY 11725 and Chugai Boyeki Company, Ltd. 2-15-13 Tsukishima Chuo-ku Tokyo, Japan 104	548,715	17.6%
Chu Chun C/O I.I.I. Companies, Inc. 915 Hartford Turnpike		

Shrewsbury, MA 01545 300,557 9.7%

Dongwon Securities Co., Ltd.

34-7, Yoido-Dong

Youngdungpo-Gu

Seoul 150-010, Korea

143,000

4.6%

\*\*\*\*\*

C/O Vicon Industries, Inc.

Michael D. Katz 271,400 (2) 8.7%

Kenneth M. Darby 225,239 (3) 7.2%

Donald N. Horn 124,300 (2) 4.0%

Arthur D. Roche 103,967 (4) 3.3%

Arthur V. Wallace 61,695 2.0%

Kazuyoshi Sudo 12,000 (2) .4%

Milton F. Gidge 6,500 (2) .2%

Peter F. Barry 5,600 (2) .2%

Peter F. Neumann 3,000 .1%

W. Gregory Robertson -- --

Total all officers and  
directors as a group  
(14 persons)

882,751 (5)

28.4%

- (1) The nature of beneficial ownership of all shares is sole voting and investment power.
- (2) Includes currently exercisable options to purchase 5,000 shares.
- (3) Includes currently exercisable options to purchase 136,032 shares and 16,933 shares issuable from Treasury.

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- (4) Includes currently exercisable options to purchase 65,000 shares and 8,467 shares issuable from Treasury.
- (5) Includes currently exercisable options to purchase 293,832 shares and 25,400 shares issuable from Treasury.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Company and Chugai Boyeki Company, Ltd. (Chugai), a Japanese corporation, which owns 19.8% of the outstanding shares of the Company, have been conducting business with each other for approximately seventeen years whereby the Company imports certain video products and lenses through Chugai and also sells its products to Chugai who resells the products in certain Asian and European markets. In fiscal 1996, the Company purchased approximately \$9.2 million of products through Chugai and sold products to Chugai for resale totaling approximately \$2.1 million. Kazuyoshi Sudo, a director, is Treasurer of Chugai Boyeki (America) Corp., a U.S. subsidiary of Chugai.

Chu S. Chun, who controls 10.8% of the outstanding shares of the Company, also owns Chun Shin Industries, Inc. (CSI). CSI is a 50% partner with the Company in Chun Shin Electronics, Inc. (CSE), a joint venture company which manufactures and assembles certain Vicon products in South Korea. In fiscal 1996, CSE sold approximately \$5.8 million of product to the Company through I.I.I. Companies, Inc. (I.I.I.), a U.S. based company controlled by Mr. Chun. I.I.I. arranges the importation and provides short term financing on all the Company's product purchases from CSE. CSE also sold approximately \$1.7 million of product to CSI which sells Vicon product exclusively in Korea. In addition, I.I.I. purchased approximately \$900,000 of products directly from the Company during fiscal 1996 for resale to CSI.

Peter F. Neumann, a director of the Company, is a principal in the insurance brokerage firm of Bradley & Parker, Inc. which is the agent for a majority of the Company's commercial insurance. The premium paid for such insurance amounted

to approximately \$109,000 in fiscal 1996.

W. Gregory Robertson, a director of the Company, is President of TM Capital Corporation, an investment banking firm which provides investment banking services to the Company on a periodic basis. Services rendered to the Company during fiscal 1996 amounted to approximately \$40,000.

During 1996, the Company purchased approximately \$72,000 of products from Pro/Four Video Products, Inc., in which Donald N. Horn and Arthur V. Wallace, directors of the Company, have an ownership interest.

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#### PART IV

#### ITEM 14 - EXHIBITS, FINANCIAL STATEMENTS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

##### (a) (1) Financial Statements

Included in Part IV, Item 14:

Independent Auditors' Report

Financial Statements:

Consolidated Statements of Operations, fiscal years ended September 30, 1996, 1995, and 1994

Consolidated Balance Sheets at September 30, 1996 and 1995

Consolidated Statements of Shareholders' Equity, fiscal years ended September 30, 1996, 1995, and 1994

Consolidated Statements of Cash Flows, fiscal years ended September 30, 1996, 1995, and 1994

Notes to Consolidated Financial Statements, fiscal years ended September 30, 1996, 1995, and 1994

##### (a) (2) Financial Statement Schedule

Included in Part IV, Item 14:

Schedule I - Valuation and Qualifying Accounts for the years  
ended September 30, 1996, 1995, and 1994

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are not applicable and, therefore, have been omitted.

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14(a) (3) Exhibits

Exhibit Numbers	Description	Exhibit Number or Incorporation by Reference to
3	Articles of Incorporation and By-Laws, as amended	Incorporated by reference to the 1985 Annual Report on Form 10-K; Form S-2 filed in Registration Statement No. 33-10435 and Exhibit A, B and C of the 1987 Proxy Statement
10	Material Contracts	
	(.1) Credit and Security Agreement dated December 27, 1995 between the Registrant and IBJ Schroder Bank and Trust Company	Incorporated by reference to the 1995 Annual Report on Form 10-K
	(.2) Credit and Security Agreement between the Registrant and IBJ Schroder Bank and Trust Company, First Amendment dated August 19, 1996.	10.2
	(.3) Promissory Note dated October 5, 1993 as amended	Incorporated by reference to the 1995 Annual Report

between Registrant and Chugai Boyeki Company, Ltd.	on Form 10-K
(.4) Mortgage Loan Agreement dated June 2, 1989 between Registrant and Chugai Boyeki Company, Ltd.	Incorporated by reference to the 1989 Annual Report on Form 10-K
(.5) Employment Contract dated October 1, 1996 between the Registrant and Kenneth M. Darby	10.5
(.6) Employment Contract dated October 1, 1996 between Registrant and Arthur D. Roche	10.6
(.7) Employment Agreement dated August 1, 1996 between Registrant and John L. Eckman	10.7
(.8) Employment Agreement dated June 1, 1996 between Registrant and Peter Horn	10.8
(.9) Employment Agreement dated June 1, 1996 between Registrant and Yacov Pshtissky	10.9
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(.10) Deferred Compensation Agreements dated November 1, 1986 between the Registrant and Donald N. Horn and Arthur V. Wallace	Incorporated by reference to the 1992 Annual Report on Form 10K
(.11) Agreement of lease dated January 18, 1988 between the Registrant and Allan V. Rose	Incorporated by reference to the 1988 Annual Report on Form 10-K
(.12) Sublease Agreement dated as of January 1, 1993 between the Registrant and AVR Mart Inc.	Incorporated by reference to the 1994 Annual Report on Form 10-K
(.13) Consent of Overlandlord and Release Agreement (undated) between the Registrant and Allan V. Rose	Incorporated by reference to the 1994 Annual Report on Form 10-K
(.14) Sublease Agreement dated as of September 1, 1995 between the Registrant and New York Blood Center	Incorporated by reference to the 1995 Annual Report on Form 10-K
(.15) Amended and restated 1986 Incentive Stock Option Plan	Incorporated by reference to the 1990 Annual Report on Form 10-K
(.16) 1994 Incentive Stock Option Plan	Incorporated by reference to the 1994 Annual Report

- (.17) 1994 Non-Qualified Stock Option Plan for Outside Directors Incorporated by reference to the 1994 Annual Report on Form 10-K
- (.18) Lease agreement dated December 24, 1996 between the Registrant and RREEF MIDAMERICA/EAST-V NINE, INC. 10.10

- 22 Subsidiaries of the Registrant Incorporated by reference to the Notes to the Consolidated Financial Statements
- 24 Independent Auditors' Consent 24

No other exhibits are required to be filed.

14(b) - REPORTS ON FORM 8-K

No reports on Form 8-K were required to be filed during the last quarter of the period covered by this report.

Other Matters - Form S-8 Undertaking

For the purposes of complying with the amendments to the rules governing Form S-8 (effective July 13, 1990) under the Securities Act of 1933, the undersigned registrant hereby undertakes as follows, which undertaking shall be incorporated by reference into registrant's Registration Statements on Form S-8 Nos. 33-7892 (filed June 30, 1986), 33-34349 (filed April 1, 1990) and 33-90038 (filed February 24, 1995):

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act of 1933 and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

Independent Auditors' Report

The Board of Directors and Shareholders  
Vicon Industries, Inc.:

We have audited the consolidated financial statements of Vicon Industries, Inc. and subsidiaries as listed in Part IV, item 14(a)(1). In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedule as listed in Part IV, item 14(a)(2). These consolidated financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedule based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Vicon Industries, Inc. and subsidiaries at September 30, 1996 and 1995, and the results of their operations and their cash flows for each of the years in the three-year period ended September 30, 1996, in conformity with generally accepted accounting principles. Also in our opinion, the related financial statement schedule, when

considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material respects, the information set forth therein.

KPMG PEAT MARWICK LLP

Jericho, New York  
November 12, 1996

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VICON INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF OPERATIONS  
Fiscal Years Ended September 30, 1996, 1995 and 1994

	1996 ----	1995 ----	1994 ----
Net sales	\$43,191,446	\$43,846,571	\$47,713,892
Cost of sales	32,234,192 -----	34,300,638 -----	37,000,055 -----
Gross profit	10,957,254	9,545,933	10,713,837
Operating expenses:			
General and administrative expense	2,931,333	3,366,662	3,188,183
Selling expense	6,800,361 -----	6,433,483 -----	6,712,436 -----
	9,731,694 -----	9,800,145 -----	9,900,619 -----
Operating profit (loss)	1,225,560	(254,212)	813,218
Unrealized foreign exchange gain	(41,908)	(550)	(44,748)
Interest expense	882,290 -----	1,013,383 -----	783,731 -----
Income (loss) before income taxes	385,178	(1,267,045)	74,235
Income tax expense	85,000 -----	80,000 -----	29,000 -----

Net income (loss)	\$ 300,178	\$ (1,347,045)	\$ 45,235
	=====	=====	=====

Income (loss) per share:

Primary	\$ .11	\$ (.49)	\$ .02
	=====	=====	=====
Fully diluted	\$ .10	\$ (.49)	\$ .02
	=====	=====	=====

See accompanying notes to consolidated financial statements.

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VICON INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
September 30, 1996 and 1995

ASSETS	1996	1995
-----	----	----
Current Assets:		
Cash	\$ 205,876	\$1,151,850
Accounts receivable (less allowance of \$396,000 in 1996 and \$542,000 in 1995)	8,635,020	8,352,845
Other receivables	71,819	261,864
Inventories:		
Parts, components, and materials	2,175,408	1,594,462
Work-in-process	1,391,552	1,686,287
Finished products	11,135,798	8,831,852
	-----	-----
	14,702,758	12,112,601
Prepaid expenses	529,631	309,288
	-----	-----
Total current assets	24,145,104	22,188,448
Property, plant and equipment:		
Land	290,448	292,298
Building and improvements	1,507,630	1,512,601
Machinery, equipment, and vehicles	11,842,120	11,417,598
	-----	-----
	13,640,198	13,222,497
Less accumulated depreciation and amortization	10,606,013	9,960,558
	-----	-----
	3,034,185	3,261,939

Other assets	905,327	973,107
	-----	-----
	\$28,084,616	\$26,423,494

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:

Borrowings under revolving credit agreement	\$ 959,583	\$ 906,955
Current maturities of long-term debt	203,719	220,739
Accounts payable:		
Related party	7,457,482	6,895,073
Other	1,811,730	1,335,935
Accrued wages and expenses	1,229,087	1,697,732
Income taxes payable	87,205	78,583
Deferred gain on sale and leaseback	332,100	332,100
	-----	-----
Total current liabilities	12,080,906	11,467,117

Long-term debt:

Related party	2,262,005	2,437,259
Other	4,166,881	2,901,490
Deferred gain on sale and leaseback	101,893	433,993
Other long-term liabilities	504,776	550,609
Commitments and contingencies - Note 10		
Shareholders' equity		
Common Stock, par value \$.01 per share		
Authorized - 10,000,000 shares		
Issued 2,802,728 and 2,788,228 shares	28,027	27,882
Capital in excess of par value	9,423,089	9,396,890
Accumulated deficit	(283,611)	(583,789)
	-----	-----
	9,167,505	8,840,983
Less treasury stock at cost, 25,400 shares	(82,901)	(82,901)
Foreign currency translation adjustment	(116,449)	(125,056)
	-----	-----
Total shareholders' equity	8,968,155	8,633,026
	-----	-----
	\$28,084,616	\$26,423,494

See accompanying notes to consolidated financial statements.

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<TABLE>  
<CAPTION>

VICON INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
Fiscal Years Ended September 30, 1996, 1995, and 1994

	Shares	Common Stock	Capital in excess of par value	Retained earnings (deficit)	Treasury Stock	Foreign currency translation adjustment	Total share- holders' equity
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
Balance September 30, 1993	2,788,228	\$27,882	\$9,396,890	\$ 718,021	\$(82,901)	\$ (179,622)	\$ 9,880,270
Foreign currency translation adjustment	-	-	-	-	-	117,027	117,027
Net income	-	-	-	45,235	-	-	45,235
	-----	-----	-----	-----	-----	-----	-----
Balance September 30, 1994	2,788,228	\$27,882	\$9,396,890	\$ 763,256	\$(82,901)	\$ (62,595)	\$10,042,532

Foreign currency translation adjustment	-	-	-	-	-	(62,461)	(62,461)
Net loss	-	-	-	(1,347,045)	-	-	(1,347,045)
Balance September 30, 1995	2,788,228	\$27,882	\$9,396,890	\$ (583,789)	\$ (82,901)	\$ (125,056)	\$ 8,633,026
Foreign currency translation adjustment	-	-	-	-	-	8,607	8,607
Exercise of stock options	14,500	145	26,199	-	-	-	26,344
Net income	-	-	-	300,178	-	-	300,178
Balance September 30, 1996	2,802,728	\$28,027	\$9,423,089	\$ (283,611)	\$ (82,901)	\$ (116,449)	\$ 8,968,155

</TABLE>

See accompanying notes to consolidated financial statements.

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VICON INDUSTRIES, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Fiscal Years Ended September 30, 1996, 1995 and 1994

	1996	1995	1994
	----	----	----
Cash flows from operating activities:			
Net income (loss)	\$ 300,178	\$ (1,347,045)	\$ 45,235
Adjustments to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Depreciation and amortization	699,211	704,900	722,488
Amortization of deferred gain on sale and leaseback	(332,100)	(332,100)	(332,100)
Unrealized foreign exchange gain	(41,908)	(550)	(44,748)
Change in assets and liabilities:			
Accounts receivable	(312,207)	1,377,405	(422,815)
Other receivables	190,045	39,684	230,259
Inventories	(2,593,382)	1,358,533	(2,201,508)
Prepaid expenses	(218,762)	13,513	(17,618)
Other assets	67,780	(30,000)	(359,547)
Accounts payable	1,045,453	708,591	572,724
Accrued wages and expenses	(460,350)	409,285	(22,020)
Income taxes payable	7,517	48,077	8,220
Other liabilities	(45,833)	(63,878)	(35,277)
	-----	-----	-----
Net cash (used in) provided by operating activities	(1,694,358)	2,886,415	(1,856,707)
	-----	-----	-----

Cash flows from investing activities:			
Capital expenditures, net of minor disposals	(482,111)	(608,808)	(573,100)
	-----	-----	-----
Net cash used in investing activities	(482,111)	(608,808)	(573,100)
	-----	-----	-----
Cash flows from financing activities:			
Borrowings under U.S. credit and security agreement	4,142,898	-	-
Repayments of U.S. revolving credit agreement	(2,800,000)	(1,700,000)	(396,000)
Proceeds from exercise of stock options	26,344	-	-
Increase (decrease) in borrowings under U.K. revolving credit agreement	57,251	(29,511)	941,365
Issuance of promissory note to related party	-	-	2,000,000
Repayments of other debt	(220,625)	(237,723)	(229,506)
	-----	-----	-----
Net cash provided by (used in) financing activities	1,205,868	(1,967,234)	2,315,859
	-----	-----	-----
Effect of exchange rate changes on cash	24,627	(68,923)	(14,765)
	-----	-----	-----
Net (decrease) increase in cash	(945,974)	241,450	(128,713)
Cash at beginning of year	1,151,850	910,400	1,039,113
	-----	-----	-----
Cash at end of year	\$ 205,876	\$1,151,850	\$ 910,400
	=====	=====	=====
Non-cash investing and financing activities:			
Capital lease obligations	-	\$ 178,151	-
Cash paid during the fiscal year for:			
Income taxes	\$ 78,121	\$ 32,097	\$ 17,431
Interest	\$ 888,061	\$ 974,640	\$ 707,357

See accompanying notes to consolidated financial statements.

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## VICON INDUSTRIES, INC. AND SUBSIDIARIES

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Fiscal Years ended September 30, 1996, 1995, and 1994

#### NOTE 1. Summary of Significant Accounting Policies

##### Nature of Operations

The Company designs, manufactures, assembles and markets closed circuit television components and systems for use in security, surveillance, safety, process and control applications by end users. The Company markets its products worldwide directly to distributors, dealers and original equipment manufacturers, principally within the security industry.

##### Principles of Consolidation

The consolidated financial statements include the accounts of Vicon Industries,

Inc. (the Company) and its wholly owned subsidiaries, Vicon Industries Foreign Sales Corp., a Foreign Sales Corporation (FCC) and Vicon Industries (U.K.), Ltd. after elimination of intercompany accounts and transactions.

#### Revenue Recognition

Revenues are recognized when products are sold and title is passed to a third party, generally at the time of shipment.

#### Inventories

Inventories are valued at the lower of cost (on a moving average basis which approximates a first-in, first-out method) or market. When it is determined that a product or product line will be sold below carrying cost, affected on hand inventories are written down to their estimated net realizable values.

#### Property, Plant and Equipment

Property, plant, and equipment are recorded at cost and include expenditures for replacements or major improvements. Depreciation, which includes amortization of assets under capital leases, is computed by the straight-line method over the estimated useful lives of the related assets for financial reporting purposes and on an accelerated basis for income tax purposes. Machinery, equipment and vehicles are being depreciated over periods ranging from 2 to 10 years. The Company's building is being depreciated over a period of 40 years and leasehold improvements are amortized over the lesser of their estimated useful lives or the remaining lease term.

#### Research and Development

Product research and development costs are charged to cost of sales as incurred, and amounted to approximately \$1,800,000, \$1,900,000 and \$1,600,000 in fiscal 1996, 1995, and 1994, respectively.

#### Earnings Per Share

Earnings per share are computed based on the weighted average number of shares outstanding and equivalent shares from dilutive stock options. The numbers of shares used to compute primary earnings/(loss) per share were 2,841,000 in 1996 and 2,763,000 in 1995 and 1994, respectively.

Fully diluted earnings per share reflect the maximum dilution that would have resulted from the exercise of stock options. The number of shares used to compute fully diluted earnings per share were 2,874,000 in 1996 and 2,763,000 in 1995 and 1994, respectively.

#### Foreign Currency Translation

Foreign currency translation is performed utilizing the current rate method under which assets and liabilities are translated at the exchange rate on the balance sheet date, while revenues, costs, and expenses are translated at the average exchange rate for the

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reporting period. The resulting translation adjustment of \$(116,449) and \$(125,056) at September 30, 1996 and 1995, respectively, is recorded as a component of shareholders' equity. Intercompany balances not deemed long-term in nature at the balance sheet date resulted in a translation gain of \$14,399, \$46,893 and \$46,216 in 1996, 1995, and 1994, respectively, which is reflected in cost of sales. Gains and losses on contracts which hedge specific foreign currency denominated commitments, primarily inventory purchases, are included in cost of sales.

#### Income Taxes

The Company accounts for income taxes under the provisions of Financial

Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes", which requires recognition of deferred tax liabilities and assets for the expected future tax consequences of events that have been included in the financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement and tax bases of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to be recovered or settled (see Note 5).

#### Fair Value of Financial Instruments

Statement of Financial Accounting Standards No. 107, "Disclosures About Fair Value of Financial Instruments", requires disclosure of the fair value of certain financial instruments. The carrying amounts for accounts and other receivables, accounts payable and accrued expenses approximate fair value because of the short-term maturity of these instruments. The carrying amounts of the Company's long-term debt and extended term related party accounts payable approximates fair value since the interest rates are prime-based and, accordingly, are adjusted for market rate fluctuations. The fair value of forward exchange contracts is estimated by obtaining quoted market prices. The exchange rates on committed forward exchange contracts at September 30, 1996 approximated market rates for similar term contracts.

#### 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 date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### Reclassification

Certain prior year amounts have been reclassified to conform with current year presentation.

#### NOTE 2. Investment in Affiliate

The Company's 50 percent ownership interest in Chun Shin Electronics, Inc., a joint venture company which assembles certain Vicon products in South Korea, is accounted for using the equity method of accounting which reflects the cost of the Company's investment adjusted for the Company's proportionate share of earnings or losses. Such earnings or losses have been insignificant during each of the three years ended September 30, 1996. Assets and sales of the joint venture were approximately \$3.1 million and \$8.1 million, respectively, for the fiscal year ended September 30, 1996. A significant portion of joint venture product sales were to related parties including approximately \$5.8 million indirectly to the Company and approximately \$1.7 million to a company owned by the other joint venture partner (see Note 11).

#### NOTE 3. Deferred Gain on Sale and Leaseback

In fiscal 1988, under a sale and leaseback agreement, the Company sold its principal operating facility in Melville, New York for approximately \$11 million and leased it back under a ten-year lease agreement. The transaction resulted in a net gain of \$3,321,000 which was deferred and is being amortized over the ten-year lease period (see Note 10).

#### NOTE 4. Short-Term Borrowings

Borrowings under the revolving credit agreement represent short term borrowings

by the Company's U.K. subsidiary. Maximum borrowings during 1996, 1995 and 1994 amounted to approximately \$1,045,000, \$1,083,000 and \$1,123,000, respectively. The weighted-average interest rate on borrowings during these years was 8.00% in 1996, 8.50% in 1995 and 7.25% in 1994.

At September 30, 1996 and 1995, Accounts Payable - related party included approximately \$4.4 million and \$4.5 million, respectively, of extended accounts payable balances due Chugai Boyeki Company, Ltd., a shareholder of the Company. The extended accounts payable balance at September 30, 1996 and 1995, includes approximately \$4.1 million and \$.5 million, respectively, of purchases denominated in U.S. dollars which bear interest at the prime rate of the related party's U.S. bank (8.25% and 8.75% at September 30, 1996 and 1995, respectively). The remaining balances are denominated in Japanese yen and bear interest at the related party's internal lending rate (4.0% and 4.25% at September 30, 1996 and 1995, respectively).

NOTE 5. Income Taxes

The components of income tax expense (recovery) for the fiscal years indicated are as follows:

	Current	Deferred	Total
1996			
Federal	\$ -	\$ -	\$ -
State	-	-	-
Foreign	85,000	-	85,000
	-----	-----	-----
	\$ 85,000	\$ -	\$ 85,000
	=====	=====	=====
1995			
Federal	\$ -	\$ -	\$ -
State	-	-	-
Foreign	80,000	-	80,000
	-----	-----	-----
	\$ 80,000	\$ -	\$ 80,000
	=====	=====	=====
1994			
Federal	\$ -	\$ -	\$ -
State	-	-	-
Foreign	29,000	-	29,000
	-----	-----	-----
	\$ 29,000	\$ -	\$ 29,000
	=====	=====	=====

A reconciliation of the U.S. statutory tax rate to the Company's effective tax rate follows:

<TABLE>  
<CAPTION>

	1996		1995		1994	
	Amount	Percent	Amount	Percent	Amount	Percent
<S>	<C>	<C>	<C>	<C>	<C>	<C>
U.S. statutory tax	\$131,000	34.0%	\$ (431,000)	34.0 %	\$ 25,000	34.0%
U.S. net operating loss carryforward	(56,000)	(14.5)	532,000	42.0	(21,000)	(28.3)
Foreign subsidiary operations	-	-	(42,000)	(3.3)	6,000	8.0
Officers' life insurance	5,000	1.3	17,000	1.3	17,000	22.8
Other	5,000	1.3	4,000	0.3	\$ 2,000	2.6
	-----	-----	-----	-----	-----	-----
Effective Tax Rate	\$ 85,000	22.1%	\$ 80,000	6.3%	\$ 29,000	39.1%

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at September 30, 1996 and 1995 are presented below:

	1996	1995
	----	----
Deferred tax assets:		
Deferred gain on sale and leaseback	\$ 146,000	\$ 259,000
Inventory obsolescence and disposition reserves	418,000	328,000
Deferred compensation accruals	206,000	221,000
Allowance for doubtful accounts receivable	123,000	177,000
Net operating loss carryforwards	1,987,000	1,926,000
General business credit carryforwards	186,000	186,000
Other	8,000	18,000
	-----	-----
Total deferred tax assets	3,074,000	3,115,000
Less valuation allowance	(2,998,000)	(3,054,000)
	-----	-----
Net deferred tax assets	76,000	61,000
	-----	-----
Deferred tax liabilities:		
Cash surrender value of officers' life insurance	61,000	61,000
Other	15,000	-
	-----	-----
Total deferred tax liabilities	76,000	61,000
	-----	-----
Net deferred tax assets and liabilities	\$ -0-	\$ -0-
	-----	-----

The Company has provided a valuation allowance of \$2,998,000 for deferred tax assets since realization of these assets was not assured due to the Company's recent history of operating losses. At September 30, 1996, the Company had net operating loss carryforwards for federal income tax purposes of approximately \$5,800,000 which are available to offset future federal taxable income, if any, through 2011. The Company also had general business tax credit carryforwards for federal income tax purposes of approximately \$186,000 which are available to reduce future federal income taxes, if any, through 2003. Pretax domestic income (loss) amounted to approximately \$136,000, (\$1,626,000), and \$6,000 in fiscal years 1996, 1995 and 1994, respectively. Pretax foreign income amounted to approximately \$311,000, \$291,000 and \$83,000 in fiscal years 1996, 1995 and 1994, respectively.

NOTE 6. Long-Term Debt

Long-term debt is comprised of the following at September 30, 1996 and 1995:

	1996	1995
	----	----
Related party:		
Mortgage loan denominated in Japanese yen at a formula interest rate (6.3% and 6.1% at September 30, 1996 and 1995) with annual installments of 14,400,000 yen to December 1998	\$ 393,008	\$ 583,010
Term loan with interest rate of 1% above the prevailing prime rate (9.25% and 10.0% at September 30, 1996 and 1995) due July 1998	2,000,000	2,000,000
	-----	-----
	2,393,008	2,583,010
Less installments due within one year	131,003	145,751
	-----	-----
	\$2,262,005	\$2,437,259
	=====	=====
Banks and other:		
Revolving credit loan (see below)	\$4,142,898	\$2,800,000
Capital lease obligations	86,520	146,048
Other	10,179	30,430
	-----	-----
	4,239,597	2,976,478
Less installments due within one year	72,716	74,988
	-----	-----
	\$4,166,881	\$2,901,490

In October 1993, the Company issued a \$2,000,000 secured promissory note to Chugai Boyeki Co., Ltd., a related party. The note is subordinated to senior bank debt with regard to liens and interest under certain conditions and is due in July 1998.

At September 30, 1995, the Company was a party to a secured Revolving Credit Agreement with two banks which provided for aggregate maximum borrowings of \$2,800,000 subject to an availability formula based on accounts receivable. Borrowings under the Credit Agreement were due in October, 1995, with interest at 3% above the banks' prime rate (11.75% at September 30, 1995), and required no compensating balances. At September 30, 1995, the Company was in default of certain financial covenants under this agreement. Such debt was repaid on December 28, 1995 with the proceeds received under a new two year Credit and Security Agreement with another bank which provides for maximum borrowings of

\$5,500,000, subject to an availability formula based on accounts receivable and inventory balances. Borrowings under the agreement bear interest at the bank's prime rate plus 1.25% (9.50% at September 30, 1996).

The Credit and Security Agreement contains restrictive covenants which, among other things, require the Company to maintain certain levels of net worth, earnings and ratios of interest coverage and debt to net worth. Borrowings under this agreement are secured by substantially all assets of the Company.

Long-term debt maturing in each of the three fiscal years subsequent to September 30, 1996 approximates \$204,000 in 1997, \$6,298,000 in 1998 and \$131,000 in 1999, respectively.

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At September 30, 1996, future minimum annual rental commitments under the non-cancellable capital lease obligations were as follows: \$68,556 in 1997 and \$24,585 in 1998, which includes imputed interest of \$6,019 in 1997 and \$602 in 1998.

NOTE 7. Foreign Operations

The Company operates one foreign entity, Vicon Industries (U.K.), Ltd., a wholly owned subsidiary which markets and distributes the Company's products principally within the United Kingdom and Europe.

The following summarizes certain information concerning the Company's operations in the U.S. and U.K. for fiscal years 1996, 1995, and 1994:

	1996 ----	1995 ----	1994 ----
Net sales			
U.S.	\$35,468,000	\$34,294,000	\$39,342,000
U.K.	7,723,000	9,553,000	8,372,000
Total	\$43,191,000	\$43,847,000	\$47,714,000
Operating profit (loss)			
U.S.	\$ 805,000	\$ (827,000)	\$ 542,000
U.K.	421,000	573,000	271,000
Total	\$ 1,226,000	\$ (254,000)	\$ 813,000
Identifiable assets			
U.S.	\$23,260,000	\$21,213,000	\$23,388,000
U.K.	4,825,000	5,210,000	5,469,000
Total	\$28,085,000	\$26,423,000	\$28,857,000
Net assets-- U.K.	\$ 935,000	\$ 711,000	\$ 499,000

U.S. sales include \$8,531,000, \$7,987,000 and \$8,358,000 for export in fiscal years 1996, 1995, and 1994, respectively. Operating profit (loss)

excludes unrealized foreign exchange gain/loss, interest expense and income taxes. U.S. assets include \$117,000, \$1,127,000, and \$888,000 in fiscal years 1996, 1995, and 1994, respectively, of cash for general corporate use.

NOTE 8. Stock Options and Stock Purchase Rights

The Company maintains stock option plans which include both incentive and non-qualified options covering a total of 477,584 shares of common stock reserved for issuance to key employees, including officers and directors. Such amount includes a total of 200,000 options reserved for issuance in 1994 under an Incentive Stock Option Plan, as well as a total of 50,000 options reserved for issuance in 1994 under a Non-Qualified Stock Option Plan for Outside Directors. All options are issued at fair market value at the grant date and are exercisable in varying installments according to the plans. There were 32,935 and 227,923 shares available for grant at September 30, 1996 and 1995, respectively. As of September 30, 1996, 1995, and 1994, options exercisable pursuant to the plans amounted to 289,471, 198,783, and 268,054, respectively.

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Changes in outstanding stock options for the three years ended September 30, 1996, are presented below:

	Shares	Price Range Per Share		
Balance-September 30, 1993	313,174	\$ 2.12	--	4.88
Granted	221,694	\$ 1.88	--	--
Cancelled	(103,694)	\$ 2.12	--	4.88
	-----			
Balance-September 30, 1994	431,174	\$ 1.88	--	2.38
	-----			
Granted	25,000	\$ 1.94	--	--
Cancelled	(156,513)	\$ 1.88	--	2.25
	-----			
Balance-September 30, 1995	299,661	\$ 1.88	--	2.38
	-----			
Granted	245,397	\$ 1.69	--	2.25
Exercised	(14,500)	\$ 1.69	--	1.88
Cancelled	(85,909)	\$ 1.69	--	2.38
	-----			
Balance-September 30, 1996	444,649	\$ 1.69	--	2.25
	=====			

In November 1986, the Board of Directors declared a dividend of one Stock Purchase Right for each share of common stock outstanding on December 1, 1986. In addition, 385,715 Rights were distributed with certain new shares subsequently issued by the Company. The Rights entitle the holder to purchase for \$15 one share of common stock subject to adjustment under certain conditions. The Rights are redeemable by the Company until the occurrence of certain events at \$.05 per Right. The Rights expire on November 30, 1996.

NOTE 9. Industry Segment and Major Customer

The Company operates in one industry which encompasses the design, manufacture, assembly, and marketing of closed-circuit television (CCTV) equipment and systems for the CCTV segment of the security products industry. The Company's products include all components of a video surveillance system such as remote positioning devices, cameras, monitors, video switchers, housings, mounting accessories, recording devices, manual and motorized lenses, controls, video signal equipment, and consoles for system assembly. No customer represented sales in excess of ten percent of consolidated revenues during any of the three fiscal years presented.

NOTE 10. Commitments

In January 1988, the Company entered into a sale and leaseback agreement involving its principal operating facility (see Note 3). The ten-year lease provides for rent of \$1,128,000 in the first year, increasing 4 percent annually through 1998.

In November 1994, the Company entered into a sublease agreement, dated January 1, 1993, with an affiliated company of the landlord which provides for minimum sublease payments to the Company of \$120,000 in calendar year 1993; \$180,000 in 1994; \$240,000 in 1995 and \$300,000 per year from January 1, 1996 through January 19, 1998, in exchange for the right to occupy a total of approximately 25,000 sq. ft. of office and warehouse space in the Company's primary operating facility. At the same time, the Company entered into an agreement with its landlord and subtenant whereby the Company has agreed to vacate its principal operating facility at anytime after January 1995, at the landlord's or subtenant's option, and the landlord has agreed to release the Company from its future lease obligations in consideration of a lease termination payment by the Company to the landlord of \$1,000,000. Such option, if exercised, would also require the landlord to provide the Company with at least six months notice prior to the required vacate date. The lease termination payment will be reduced by \$27,778 for each month after January 31, 1995 that the Company remains obligated under the primary lease. In October 1996, the landlord exercised its option that the Company vacate within six months. The lease termination obligation will be approximately \$260,000. Such expense will be substantially offset by the remaining unamortized balance of the deferred sale and leaseback gain. In the event the Company is unable to vacate by the required date, it will be required to refund all sublease payments received through the actual vacate date as specified above in the November 1994 sublease agreement.

Additionally, the Company occupies certain other facilities, or is contingently liable, under long-term operating leases which expire at various dates through 1998. The leases, which cover periods from one to four years, generally provide for renewal options at specified rental amounts. The aggregate operating lease commitment (net of sublease rental) at September 30, 1996 was \$1,180,000 with minimum rentals for the fiscal years shown as follows: 1997--\$907,000; 1998--\$273,000. Subsequent to year end, the Company entered into a five year lease agreement for a new principal operating facility. The aggregate commitment under such agreement amounted to \$1,803,000 with minimum rentals for the fiscal years shown as follows: 1997 -- \$182,000; 1998 -- \$369,000; 1999 -- \$377,000;

2000 -- \$384,000; 2001 and thereafter -- \$491,000.

The Company is a party to employment agreements with five executives which provide for, among other things, the payment of compensation if there is a change in control without Board of Director approval (as defined in the agreements). The contingent liability under these change in control provisions at September 30, 1996 was approximately \$1,635,000. The total compensation payable under these agreements aggregated \$1,264,000 at September 30, 1996. The Company is also a party to insured deferred compensation agreements with two retired officers. The aggregate remaining compensation payments of approximately \$966,000 as of September 30, 1996 are subject to the individuals adherence to certain non-compete covenants, and are payable over a ten year period commencing upon retirement.

Sales to the Company's U.K. subsidiary are denominated in British pounds sterling. The Company attempts to minimize its currency exposure on these intercompany sales through the purchase of forward exchange contracts to cover unpaid receivables. These contracts generally involve the exchange of one currency for another at a future date and specified exchange rate. At September 30, 1996, the Company had approximately \$2,000,000 of outstanding forward exchange contracts to sell British pounds. Such contracts expire at varying dates and exchange rates through April 25, 1997.

The Company's purchases of Japanese sourced products through Chugai Boyeki Co., Ltd., a related party, are denominated in Japanese yen. At September 30, 1996, Chugai had purchased, on the Company's behalf, forward exchange contracts to purchase approximately 100 million Japanese yen to hedge the currency risk on accounts payables denominated in Japanese yen. Such contracts expire at varying dates and exchange rates through December 1996.

As of September 30, 1996 and 1995, Chugai Boyeki Company, Ltd. ("Chugai") owned 548,715 shares of the Company's common stock (19.8% of the total outstanding shares). The Company, which has been conducting business with Chugai for approximately 17 years, imports certain finished products and components through Chugai and also sells its products to Chugai who resells the products in certain Asian and European markets. The Company purchased approximately \$9.2, \$11.6 and \$14.1 million of products and components from Chugai in fiscal years 1996, 1995, and 1994, respectively, and the Company sold \$2.1, \$3.4, and \$3.5 million of product to Chugai for distribution in fiscal years 1996, 1995, and 1994, respectively. At September 30, 1996 and 1995, the Company owed \$7.5 million and \$6.9 million, respectively, to Chugai and Chugai owed \$148,000 and \$92,000, respectively, to the Company resulting from purchases of products. The amounts owed to Chugai are secured by a subordinated lien on substantially all the Company's assets. During fiscal 1989, Chugai made a mortgage loan to the Company in the amount of \$1,026,000 to partially finance the construction of a new sales/distribution facility in the U.K. In October 1993, the Company borrowed \$2 million from Chugai under a promissory note agreement. See Note 6 for a further discussion of this transaction.

As of September 30, 1996, Mr. Chu S. Chun controlled 300,557 shares of the Company's common stock (10.8% of the total outstanding shares). Mr. Chun owns Chun Shin Industries, Inc., the Company's 50% South Korean joint venture partner, and Chun Shin Electronics. (CSE) which purchases product from the joint venture (see Note 2). Mr. Chun also controls I.I.I. Companies, Inc. (I.I.I.), a U.S. based company, which arranges the importation and provides short term financing on all the Company's product purchases from Chun Shin Electronics, Inc. During fiscal years 1996 and 1995, the Company purchased approximately \$5.8 million and \$5.1 million of products from I.I.I. under this agreement. Further, the Company sold approximately \$900,000 of its products to I.I.I. during each of fiscal years 1996 and 1995. At September 30, 1996 and 1995, I.I.I. owed the Company approximately \$368,000 and \$422,000, respectively.

VICON INDUSTRIES, INC. AND SUBSIDIARIES  
 QUARTERLY FINANCIAL DATA

(Unaudited)

Quarter Ended	Net Sales	Gross Profit	Net Profit (Loss)	Net Earnings (loss) per share	
				Primary	Fully Diluted
Fiscal 1996					
December	\$10,512,000	\$2,706,000	\$ 102,000	\$ .04	\$ .04
March	10,856,000	2,748,000	125,000	.05	.05
June	10,902,000	2,735,000	41,000	.01	.01
September	10,921,000	2,768,000	32,000	.01	.01
	-----	-----	-----	-----	-----
Total	\$43,191,000	\$10,957,000	\$ 300,000	\$ .11	\$ .10
	=====	=====	=====	=====	=====
Fiscal 1995					
December	\$11,828,000	\$2,698,000	\$ 16,000	\$ .01	\$ .01
March	10,952,000	2,351,000	(467,000)	(.17)	(.17)
June	10,287,000	2,247,000	(540,000)	(.20)	(.20)
September	10,780,000	2,250,000	(356,000)	(.13)	(.13)
	-----	-----	-----	-----	-----
Total	\$43,847,000	\$9,546,000	\$ (1,347,000)	\$ (.49)	\$ (.49)
	=====	=====	=====	=====	=====

The Company has not declared or paid cash dividends on its common stock for any of the foregoing periods. Additionally, certain loan agreements restrict the payment of any cash dividends in future periods.

Because of changes in the number of common shares outstanding and market price fluctuations affecting outstanding stock options, the sum of quarterly earnings per share may not equal the earnings per share for the full year.

SCHEDULE I

VICON INDUSTRIES, INC. AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

Years ended September 30, 1996, 1995, and 1994

Description	Balance at beginning of period	Charged to costs and expenses	Deductions	Balance at end of period
Reserves and allowances deducted from asset accounts:				
Allowance for uncollectible accounts:				
September 30, 1996	\$542,000 =====	\$186,000 =====	\$332,000 =====	\$396,000 =====
September 30, 1995	\$309,000 =====	\$381,000 =====	\$148,000 =====	\$542,000 =====
September 30, 1994	\$295,000 =====	\$180,000 =====	\$166,000 =====	\$309,000 =====

SIGNATURES

Pursuant to the requirements of the 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.

VICON INDUSTRIES, INC.

By Kenneth M. Darby	By Arthur D. Roche	By John M. Badke
Kenneth M. Darby	Arthur D. Roche	John M. Badke
President	Executive Vice President	Controller
(Chief Executive Officer)	(Chief Financial Officer)	(Chief Acctg. Officer)

December 26, 1996

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

VICON INDUSTRIES, INC.

Donald N. Horn		December 26, 1996
-----		-----
Donald N. Horn	Chairman of the Board	Date
Kenneth M. Darby	Director	December 26, 1996
-----		-----
Kenneth M. Darby		Date
Arthur D. Roche	Director	December 26, 1996
-----		-----
Arthur D. Roche		Date
Arthur V. Wallace	Director	December 26, 1996
-----		-----
Arthur V. Wallace		Date
Peter F. Barry		December 26, 1996
-----		-----
Peter F. Barry	Director	Date
Milton F. Gidge		December 26, 1996
-----		-----
Milton F. Gidge	Director	Date

Michael D. Katz		December 26, 1996
-----		-----
Michael D. Katz	Director	Date
Peter F. Neumann		December 26, 1996
-----		-----
Peter F. Neumann	Director	Date
W. Gregory Robertson		December 26, 1996
W. Gregory Robertson	Director	Date
Kazuyoshi Sudo		December 26, 1996
Kazuyoshi Sudo	Director	Date

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SIGNATURES

Pursuant to the requirements of the 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.

VICON INDUSTRIES, INC.

By	By	By
Kenneth M. Darby	Arthur D. Roche	John M. Badke
President	Executive Vice President	Controller
(Chief Executive Officer)	(Chief Financial Officer)	(Chief Acctg. Officer)

December , 1996

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

VICON INDUSTRIES, INC.

Donald N. Horn	Chairman of the Board	December , 1996
		Date
Kenneth M. Darby	Director	December , 1996
		Date
Arthur D. Roche	Director	December , 1996
		Date

Arthur V. Wallace	Director	December Date	, 1996
Peter F. Barry	Director	December Date	, 1996
Milton F. Gidge	Director	December Date	, 1996
Michael D. Katz	Director	December Date	, 1996
Peter F. Neumann	Director	December Date	, 1996
W. Gregory Robertson	Director	December Date	, 1996
Kazuyoshi Sudo	Director	December Date	, 1996

FIRST AMENDMENT AGREEMENT

among

VICON INDUSTRIES, INC.

and

IBJ SCHRODER BANK & TRUST COMPANY

Amending the Credit Agreement among  
VICON INDUSTRIES, INC.  
and IBJ SCHRODER BANK & TRUST COMPANY  
Dated as of December 27, 1995

Dated as of August 19, 1996

THIS FIRST AMENDMENT AGREEMENT dated as of August 19, 1996 (this "Amendment") among VICON INDUSTRIES, INC., a New York corporation (the "Borrower") and IBJ SCHRODER BANK & TRUST COMPANY (the "Bank"),

WITNESSETH:

WHEREAS, the Borrower and the Bank have entered into a Credit Agreement dated as of December 27, 1995 (the "Agreement"; the terms defined in the Agreement are used in this Amendment as in the Agreement unless otherwise defined in this Amendment); and

WHEREAS, the Borrower desires, and the Bank is willing on the terms and conditions set forth below, to modify certain terms of the Agreement in order to, among other things, increase the Commitment;

NOW, THEREFORE, in consideration of the mutual premises herein contained and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Borrower and the Bank have agreed to amend the Agreement as hereinafter set forth:

SECTION 1. Amendment to Agreement. The Agreement is, subject to the satisfaction of the conditions to effectiveness set forth in Section 2 hereof, hereby amended as follows:

(a) The definitions of "Commitment" and "Formula Amount" in Section 1.01 (Defined Terms) of the Agreement are amended to read in their entirety as follows:

"'Commitment' shall mean the Bank's commitment to make Loans prior to the Commitment Expiration Date up to the maximum aggregate principal amount equal to \$5,500,000 at any time outstanding, as referred to in Section 2.01(a)."

"'Formula Amount' shall mean, as at any date at which the same is to be determined, an amount equal to the sum of (a) 80 per cent of the amount of Eligible Accounts Receivable as at such date, plus (b) 25 per cent of the value of Eligible Inventory consisting of finished goods of the Borrower, provided, however, that the amount calculated pursuant to (b) shall not exceed \$2,500,000; and minus such reserve as deemed necessary or appropriate by the Bank to reflect any contingencies, or the consequences of any breach or contravention of laws, including without limitation, Environmental Laws and laws related to OSHA, by the Borrower. The Bank may, in its sole discretion, at any time or times upon three Business Days' prior notice to

the Borrower, increase or decrease the ratio of its advances against Eligible Accounts Receivable or Eligible Inventory, or both, and, in the event that any such ratio shall be decreased for any reason, such decrease shall become effective immediately for purposes of calculating the maximum amount of new Loans hereunder and the maximum amount of Loans which may be outstanding hereunder. The Borrower acknowledges that such changes in the ratio of advances against Eligible Accounts Receivable and Eligible Inventory may require the immediate prepayment of Loans by the Borrower."

(b) Section 1.01 (Defined Terms) of the Agreement is hereby amended by adding the following definitions in the proper alphabetical order:

"'First Amendment' shall mean the First Amendment Agreement dated as of August 19, 1996 between the Borrower and the Bank."

(e) Section 9.02 (Maximum Indebtedness to Net Worth Ratio) of the Agreement is hereby deleted in its entirety and substituted in lieu thereof is the following:

"As of the end of each Fiscal Quarter commencing March 31, 1996, the Indebtedness to Net Worth Ratio shall not exceed 2.50 to 1.0."

SECTION 2. Conditions to Effectiveness. This Amendment shall become effective only upon the satisfaction or waiver of all of the following conditions precedent:

(a) The Borrower and the Bank shall have duly executed and delivered this Amendment (whether the same or different copies) and the Bank shall have received a copy signed by the Borrower;

(b) The Bank shall have received the fees and expense reimbursements referred to in Section 5 hereof; and

(c) The Bank shall have received such other documents, opinions, approvals or appraisals as the Bank may reasonably request.

SECTION 3. Representations and Warranties. In order to induce the Bank to enter into this Amendment, the Borrower hereby represents and warrants to the Bank that (i) it has the full power, capacity, right and legal authority to execute, deliver and perform its obligations under this Amendment and the other Related Documents to which it is a party, and the Borrower has taken all appropriate action necessary to authorize the execution and delivery of, and the performance of its obligations under this Amendment and the other Related Documents to which it

is a party, (ii) this Amendment, the Agreement (as amended by this Amendment) and the other Related Documents constitute legal, valid and binding obligations of the Borrower enforceable against the Borrower in accordance with its terms, subject to the effect of any applicable bankruptcy, insolvency, reorganization or moratorium or similar laws affecting the rights of creditors generally, (iii) the representations and warranties contained in the Agreement and in each of the other Related Documents to which it is a party are true and correct on and as of the date hereof as though made on and as of such date, except for changes which have occurred and which were not prohibited by the terms of the Agreement, (iv) no Default or Event of Default has occurred and is continuing, or would result from the execution, delivery and performance by the Borrower of this Amendment, the Agreement (as amended by this Amendment) or any of the other Related Documents to which it is a party, and (v) the Borrower is not in default in the payment or performance of any of its obligations under any mortgage, indenture, security agreement, contract, undertaking or other agreement or instrument to which it is a party or which purports to be binding upon it or any of its properties or assets, which default would have a material adverse effect on the management, business, operations, properties, assets or condition (financial or otherwise) of the Borrower, (vi) the Borrower is in compliance with all applicable statutes, laws, rules, regulations, orders and judgments, the contravention or violation of which would have a material adverse effect on the management, business, operations, properties, assets or condition (financial or otherwise) of the Borrower, (vii) no material adverse change in the business or assets, or in the condition (financial or otherwise) of the Borrower, and (viii) no litigation or administrative proceeding of or before any court or governmental body or agency is now pending, nor, to the best knowledge of the Borrower upon reasonable inquiry, is any such litigation or proceeding now threatened against the Borrower or any of its properties, nor, to the best knowledge of the Borrower upon reasonable inquiry, is there a valid basis for the initiation of any such litigation or proceeding, which if adversely determined (after giving effect to all applicable insurance coverage then in existence) would have a material adverse effect on the business, assets or condition (financial or otherwise) of the Borrower;

SECTION 4. Reference to and Effect on the Documents. (A) Each reference in the Agreement to "this Agreement", "hereunder", "hereof", "herein" or words of like import, and each reference to the Agreement in the Related Documents other than the Agreement, shall mean and be a reference to the Agreement as amended hereby.

(B) Except as specifically amended hereby, the Agreement and all other

Related Documents, and all other documents, agreements, instruments or writings entered into in connection therewith, shall remain in full force and effect and are hereby

ratified, confirmed and acknowledged by the Borrower. The amendments set forth above are limited precisely as written and shall not be deemed to (I) be a consent to any waiver or modification of any other term or condition of the Agreement or any document delivered pursuant thereto or (ii) prejudice any right or rights which the Bank may now or in the future have in connection with the Agreement or the other Related Documents.

(C) The execution, delivery and effectiveness of this Amendment shall not operate as a waiver of any right, power or remedy of the Bank under any of the Related Documents, nor constitute a waiver or modification of any provision of any of the Related Documents, nor a waiver of any now existing or hereafter arising Defaults of Events of Default.

SECTION 5. Fees and Expenses. (A) The Borrower hereby agrees to pay, or cause to be paid to, the Bank a non-refundable amendment fee of \$15,000.

(B) The Borrower hereby agrees to pay the Bank on demand for all costs, expenses, charges and taxes (other than any income taxes relating to income of the Bank), including, without limitation, all reasonable fees and disbursements of counsel, incurred by the Bank in connection with the preparation, negotiation, administration and enforcement of this Amendment and the other Related Documents to be delivered hereunder.

SECTION 6. Governing Law. This Amendment and the rights and obligations of the parties hereunder shall be governed by and construed and interpreted in accordance with the substantive laws of the State of New York, without regard for its conflict of laws principles.

SECTION 7. Headings. Section headings in this Amendment are included herein for convenience of reference only and shall not constitute a part of this Amendment for any other purpose.

SECTION 8. Successors. This Amendment shall be binding upon the successors, assigns, heirs, executors and administrators of the parties hereto.

SECTION 9. Counterparts. This Amendment may be executed in any number of counterparts, all of which taken together shall constitute one and the same instrument, and any party hereto may execute this Amendment by signing any such

counterpart.

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

VICON INDUSTRIES, INC.

By:

Name: Kenneth M. Darby  
Title: President

IBJ SCHRODER BANK & TRUST COMPANY

By:

Name: Alfred J. Scoyni  
Title: Vice-President



AGREEMENT, dated as of October 1, 1996, between KENNETH M. DARBY (hereinafter called "Darby"), and VICON INDUSTRIES, INC., a New York corporation, having its principal place of business at 525 Broad Hollow Road, Melville, New York 11747 (hereinafter called the "Company").

WHEREAS, Darby has previously been employed by the Company, and

WHEREAS, the Company and Darby mutually desire to assure the continuation of Darby's services to the Company,

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein set forth, the parties covenant and agree as follows:

1. Employment. The Company shall employ Darby as its Chief Executive Officer and President throughout the term of this Agreement, and Darby hereby accepts such employment.

2. Term. The term of this Agreement shall commence as of the date of this Agreement and end on September 30, 2001.

3. Compensation.

A. The Company shall pay Darby a base salary of \$225,000 per annum, subject to adjustment as provided in subsection B.

B. Prior to September 15 of each succeeding year, Darby's base salary shall be reviewed by the Compensation Committee of the Board of Directors and shall be fixed for the year commencing October 1 of such year by agreement between Darby and the Board of Directors, but in any event shall not be less than the

base salary for the one year period then ending.

C. Darby's base salary shall be payable monthly or bi-weekly.

D. Darby shall also be entitled to participate in any pension, profit sharing, life insurance, medical, dental, hospital, disability or other benefit plans as may from time to time be available to officers of the Company.

24. Extent and Places of Services; Vacation

A. Darby shall establish operating policy and direct, supervise and oversee the operations of the Company. He shall advise and report to the Board of Directors. Darby shall also assume and perform such additional reasonable responsibilities and duties as the Board of Directors and he may from time to time agree upon.

B. Darby shall devote his full time, attention, and energies to the business of the Company.

C. Darby shall not be required to perform his services outside the Melville, New York area or such other area on Long Island, New York as shall contain the location of the Company's headquarters.

D. The Company shall provide Darby with office space, secretary, telephones and other office facilities appropriate to his duties.

E. Darby shall be entitled to one month's vacation per annum.

5. Covenant not to Compete. Darby agrees that during

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the term of this Agreement and for a period of three years thereafter, he shall not directly or indirectly within the United States or Europe engage in, or enter the employment of or render any services to any other entity engaged in, any business of a similar nature to or in competition with the Company's business of designing, manufacturing, and selling security equipment and protection devices within the United States or Europe. Darby further acknowledges that the services to be rendered under this Agreement by him are special, unique, and of extraordinary character and that a material breach by him of this section will cause the Company to suffer irreparable damage; and Darby agrees that in addition to any other remedy, this section shall be enforceable by negative or affirmative preliminary or permanent injunction in any Court of competent jurisdiction.

6. Termination Payment on Change of Control.

A. Notwithstanding any provision of this Agreement, if a "Change of Control" occurs without the prior written consent of the Board of Directors, Darby, at his option, may elect to terminate his obligations under this Agreement and to receive a termination payment, without reduction for any offset or mitigation, in an amount equal to three times his average annual base salary for five years preceding the Change of Control, in either lump sum or extended payments over three years as Darby shall elect.

B. A "Change of Control" shall be deemed to have occurred if (i) any other entity shall directly or indirectly

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acquire a beneficial ownership of 20%, or any further amount in excess of 20%, of the outstanding shares of capital stock of the Company or (ii) a majority of the members of the Board of Directors of the Company or any successor by merger or assignment of assets or otherwise, shall be persons other than Directors on the date of this Agreement.

C. Darby's option to elect to terminate his obligations and to receive a termination payment and to elect to receive a lump sum or extended

payments may be exercised only by written notice delivered to the Company within 90 days following the date on which Darby receives actual notice of Change of Control.

D. If Darby elects to receive lump sum payment, such payment shall be made within 30 days of the Company's receipt of Darby's notice of election.

7. Severance Payment on Certain Terminations.

A. If either (i) this Agreement expires, or (ii) the Company terminates Darby's employment under this Agreement for reasons other than "Gross Misconduct" or (iii) with the consent of the Board of Directors a Change of Control as defined in paragraph 6 B. shall occur, or (iv) the Company executes a "Company Sale Agreement" then Darby, at his option, may elect to receive a severance payment, without reduction for any offset or mitigation, in an amount equal to (a) one-twelfth his annual base salary at the time of such termination multiplied by (b) the number of full years of his employment to the end of this Agreement by the Company up to

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a maximum of 24 years, payable in either lump sum or extended payments as Darby shall elect.

B. "Company Sale Agreement" means an agreement to which the Company is a party that contemplates that more than half of the assets of the Company are transferred to another entity or that upon consummation of the transactions contemplated by such agreement, a Change of Control as defined in paragraph 6 shall occur or have occurred.

C. In the event of an election under paragraph 7, payment of such severance payment shall be in lieu of any obligation of the Company for termination payment or other posttermination compensation under this Agreement, if any.

D. "Gross Misconduct" shall mean (a) a wilful, substantial and unjustifiable refusal to perform substantially the services required by this Agreement to be performed; (b) fraud, misappropriation or embezzlement involving the Company or its assets; or (c) conviction of a felony involving moral turpitude.

E. Darby's option to elect to receive a severance payment and to elect to receive lump sum or extended payments may be exercised only by written notice delivered to the Company within 90 days following the date on which this Agreement expires or on which Darby receives actual notice of the existence of any other condition referred to in paragraph 7A, except that, in the case of the Company's execution of a Company Sale Agreement, Darby's option may be exercised at any time prior to the closing under such agreement and such termination shall be effective as of such closing.

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F. If Darby elects to receive lump sum payment, such payment shall be made within 30 days of the Company's receipt of Darby's notice of such election, except that, in the case of the Company's execution of a Company Sale Agreement, the payment shall be made no later than the time of closing under such agreement.

G. Payment of termination or severance payment shall not affect the Company's obligations under any other agreement with Darby.

8. Death or Disability. The Company may terminate this Agreement if during the term of this Agreement (a) Darby dies or (b) Darby becomes so disabled for a period of six months that he is substantially unable to perform his duties under this Agreement for such period. Such a termination shall not release the Company from any liability to Darby for compensation earned, or for termination or severance payment elected, prior to such termination; nor shall it be deemed a termination of employment for Gross Misconduct.

9. Arbitration. Any controversy or claim arising out of, or relating to this Agreement, or the breach thereof, shall be settled by arbitration in the City of New York in accordance with the rules of the American Arbitration then in effect, and judgement upon the award rendered be entered and enforced in any court having jurisdiction thereof.

10. Miscellaneous.

A. Except for any deferred compensation agreement, retirement plan or stock options previously granted, this Agreement contains the entire agreement between the parties and supersedes

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all prior agreements by the parties relating to the term of Darby's employment by the Company, however, it does not restrict or limit such other benefits as the Board of Directors may determine to provide or make available to Darby.

B. This agreement may not be waived, changed, modified or discharged orally, but only by agreement in writing, signed by the party against whom enforcement of any waiver, change, modification, or discharge is sought.

C. This Agreement shall be governed by the laws of New York applicable to contracts between New York residents and made and to be entirely performed in New York.

D. If any part of this Agreement is held to be unenforceable by any court of competent jurisdiction, the remaining provisions of this Agreement shall continue in full force and effect.

E. This Agreement shall inure to the benefit of, and be binding upon, the Company, its successor, and assigns.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement.

VICON INDUSTRIES, INC.

Kenneth M. Darby

Date: 10-01-96

By

Peter F. Neumann

Chairman

Compensation Committee

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EMPLOYMENT AGREEMENT      EXHIBIT 10.6

AGREEMENT, dated as of October 1, 1996, between ARTHUR D. ROCHE (hereinafter called "Roche"), and VICON INDUSTRIES, INC., a New York corporation, having its principal place of business at 525 Broad Hollow Road, Melville, New York 11747 (hereinafter called the "Company").

WHEREAS, Roche has previously been employed by the Company, and

WHEREAS, the Company and Roche mutually desire to assure the continuation of Roche's services to the Company,

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein set forth, the parties covenant and agree as follows:

1.      Employment. The Company shall employ Roche as its Executive Vice President throughout the term of this Agreement, and Roche hereby accepts such employment.

2.      Term. The term of this Agreement shall commence as of the date of this Agreement and end on September 30, 1999.

3.      Compensation.

A.      The Company shall pay Roche a base salary of \$170,000 per annum, subject to adjustment as provided in subsection B.

B. Prior to September 15 of each succeeding year, Roche's base salary shall be reviewed by the Compensation Committee of the Board of Directors upon recommendation of the President and shall be fixed for the year commencing October 1 of such year by agreement between Roche and the Board of Directors, but in any

event shall not be less than the base salary for the one year period then ending.

C. Roche's base salary shall be payable monthly or bi-weekly.

D. Roche shall also be entitled to participate in any pension, profit sharing, life insurance, medical, dental, hospital, disability or other benefit plans as may from time to time be available to officers of the Company.

4.      Extent and Places of Services; Vacation

A. Roche shall report to the CEO and perform such duties and assume such responsibilities as are usual and customary in his employment capacity.

B. Roche shall devote his full time, attention, and energies to the business of the Company.

C. Roche shall not be required to perform his services outside the Melville, New York area or such other area on Long Island, New York as shall contain the location of the Company's headquarters.

D. The Company shall provide Roche with office space, secretary, telephones and other office facilities appropriate to his duties.

E. Roche shall be entitled to one month's vacation per annum.

5. Covenant not to Compete. Roche agrees that during the term of this Agreement and for a period of three years thereafter, he shall not directly or indirectly within the United States or Europe engage in, or enter the employment of or render any services to any other entity engaged in, any business of a

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similar nature to or in competition with the Company's business of designing, manufacturing, and selling security equipment and protection devices within the United States or Europe. Roche further acknowledges that the services to be rendered under this Agreement by him are special, unique, and of extraordinary character and that a material breach by him of this section will cause the Company to suffer irreparable damage; and Roche agrees that in addition to any other remedy, this section shall be enforceable by negative or affirmative preliminary or permanent injunction in any Court of competent jurisdiction.

6. Termination Payment on Change of Control.

A. Notwithstanding any provision of this Agreement, if a "Change of Control" occurs without the prior written consent of the Board of Directors, Roche, at his option, may elect to terminate his obligations under this Agreement and to receive a termination payment, without reduction for any offset or mitigation, in an amount equal to three times his average annual base salary for the lessor of five years or the number of years actually employed preceding the Change of Control, in either lump sum or extended payments over three years as Roche shall elect.

B. A "Change of Control" shall be deemed to have occurred if (i) any other entity shall directly or indirectly acquire a beneficial ownership of 20%, or any further amount in excess of 20%, of the outstanding shares of capital stock of the Company or (ii) a majority of the members of the Board of Directors of the Company or any successor by merger or assignment of assets or otherwise, shall be persons other than Directors on the date of this Agreement.

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C. Roche's option to elect to terminate his obligations and to receive a termination payment and to elect to receive a lump sum or extended

payments may be exercised only by written notice delivered to the Company within 90 days following the date on which Roche receives actual notice of Change of Control.

D. If Roche elects to receive lump sum payment, such payment shall be made within 30 days of the Company's receipt of Roche's notice of election.

7. Severance Payment on Certain Terminations.

A. If the Company terminates Roche's employment under this Agreement for reasons other than "Gross Misconduct" or with the consent of the Board of Directors a Change of Control as defined in paragraph 6 B. shall occur, or the Company executes a "Company Sale Agreement" then Roche, at his option, may elect to receive a severance payment, without reduction for any offset or mitigation, in an amount equal to twelve months of his then annual base salary payable in either lump sum or extended payments as Roche shall elect.

B. "Company Sale Agreement" means an agreement to which the Company is a party that contemplates that more than half of the assets of the Company are transferred to another entity or that upon consummation of the transactions contemplated by such agreement, a Change of Control as defined in paragraph 6 shall occur or have occurred.

C. In the event of an election under paragraph 7, payment of such severance payment shall be in lieu of any

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obligation of the Company for termination payment or other posttermination compensation under this Agreement, if any.

D. "Gross Misconduct" shall mean (a) a wilful, substantial and unjustifiable refusal to perform substantially the services required by this Agreement to be performed; (b) fraud, misappropriation or embezzlement involving the Company or its assets; or (c) conviction of a felony involving moral turpitude.

E. Roche's option to elect to receive a severance payment and to elect to receive lump sum or extended payments may be exercised only by written notice delivered to the Company within 90 days following the date on which Roche receives actual notice of the existence of any other condition referred to in paragraph 7A, except that, in the case of the Company's execution of a Company Sale Agreement, Roche's option may be exercised at any time prior to the closing under such agreement and such termination shall be effective as of such closing.

F. If Roche elects to receive lump sum payment, such payment shall be made within 30 days of the Company's receipt of Roche's notice of such election, except that, in the case of the Company's execution of a Company Sale Agreement, the payment shall be made no later than the time of closing under such agreement.

G. Payment of termination or severance payment

shall not affect the Company's obligations under any other agreement with Roche.

8. Death or Disability. The Company may terminate this Agreement if during the term of this Agreement (a) Roche dies or (b) Roche becomes so disabled for a period of four and a half months that he is substantially unable to perform his duties under

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this Agreement for such period. Such a termination shall not release the Company from any liability to Roche for compensation earned, or for termination or severance payment elected, prior to such termination; nor shall it be deemed a termination of employment for Gross Misconduct. Termination in accordance with this clause shall not entitle Roche to any severance payments.

9. Arbitration. Any controversy or claim arising out of, or relating to this Agreement, or the breach thereof, shall be settled by arbitration in the City of New York in accordance with the rules of the American Arbitration then in effect, and judgement upon the award rendered be entered and enforced in any court having jurisdiction thereof.

10. Miscellaneous.

A. Except for any stock options previously granted, this Agreement contains the entire agreement between the parties and supersedes all prior agreements by the parties relating to the particulars of Roche's employment by the Company, however, it does not restrict or limit such other benefits as the President and Board of Directors may determine to provide or make available to Roche.

B. This agreement may not be waived, changed, modified or discharged orally, but only by agreement in writing, signed by the party against whom enforcement of any waiver, change, modification, or discharge is sought.

C. This Agreement shall be governed by the laws of New York applicable to contracts between New York residents and made and to be entirely performed in New York.

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D. If any part of this Agreement is held to be unenforceable by any court of competent jurisdiction, the remaining provisions of this Agreement shall continue in full force and effect.

E. This Agreement shall inure to the benefit of, and be binding upon, the Company, its successor, and assigns.

IN WITNESS WHEREOF, the parties hereto have duly executed this

Agreement.

VICON INDUSTRIES, INC.

Arthur D. Roche

Date: 10-01-96

By

Peter F. Neumann

Chairman

Compensation Committee

AGREEMENT, dated as of August 1, 1996, between JOHN ECKMAN (hereinafter called "Eckman") and VICON INDUSTRIES, INC., a New York corporation, having its principal place of business at 525 Broad Hollow Road, Melville, New York 11747 (hereinafter called the "Company").

WHEREAS, Eckman has previously been employed by the Company, and

WHEREAS, the Company and Eckman mutually desire to assure the continuation of Eckman's services to the Company,

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein set forth, the parties covenant and agree as follows:

1. Employment. The Company shall employ Eckman as its Vice President of U.S. Sales throughout the term of this Agreement, and Eckman hereby accepts such employment.

2. Term. The term of this Agreement shall commence as of the date of this Agreement and end on January 31, 1998.

3. Compensation.

A. The Company shall pay Eckman a base salary of \$100,000 per annum, subject to periodic adjustment as determined by the President of the Company with Board of Directors approval, but in any event shall not be less than the base salary so indicated.

B. Eckman's base salary shall be payable monthly or bi-weekly.

C. Eckman shall also be entitled to participate in any bonus, profit sharing, life insurance, medical, dental,

hospital, disability, 401(k) or other benefit plans as may from time to time be available to officers of the Company, subject to the general eligibility requirements of such plans.

4. Covenant not to Compete. Eckman agrees that during the term of this Agreement and for a period of two years thereafter, he shall not directly or indirectly within the United States or Europe engage in, or enter the employment of or render any services to any other entity engaged in, any business of a similar nature to or in competition with the Company's business of designing, manufacturing and selling CCTV security equipment and protection devices anywhere in the United States and Europe. Eckman further acknowledges that the services to be rendered under this Agreement by him are special, unique, and of extraordinary character and that a material breach by him of this section will cause the Company to suffer irreparable damage; and Eckman agrees

that in addition to any other remedy, this section shall be enforceable by negative or affirmative preliminary or permanent injunction in any Court of competent jurisdiction. Eckman acknowledges that he may only be released from this covenant if the Company materially breach's this agreement or provides to Eckman a written release of this provision.

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5. Severance Payment on Certain Terminations.

A. If either this Agreement expires, or the Company terminates Eckman's employment under this Agreement for reasons other than "Gross Misconduct", then Eckman, at his option, may elect to receive severance payments, without reduction for any offset or mitigation, in an amount equal to (a) one-twelfth Eckman's annual base salary at the time of such termination multiplied by (b) the number of full years of Eckman's employment by the Company which shall be no less than three years and up to a maximum of 6 years.

B. "Gross Misconduct" shall mean (a) a wilful, substantial and unjustifiable refusal to perform substantially the duties and services required of his position; (b) fraud, misappropriation or embezzlement involving the Company or its assets; or (c) conviction of a felony involving moral turpitude.

Eckman's option to elect to receive severance payments may be exercised only by written notice delivered to the Company within 90 days following the date on which Eckman receives actual notice of termination or this Agreement expires, as the case may be.

In the event of an election under this section, payment of such severance shall be in lieu of any other obligation of the Company for severance payment or other post-termination compensation under this Agreement if any.

The severance amount shall be paid in equal monthly payments.

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6. Termination Payment on Change of Control.

A. Notwithstanding any other provision of this Agreement, if a "Change of Control" occurs without the prior written consent of the Board of Directors, Eckman, at his option, may elect to terminate his obligations under this Agreement and to receive a termination payment, without reduction for any offset or mitigation, in an amount equal to three times his average annual base salary for five years preceding the Change of Control, in either lump sum or extended payments over three years as Eckman shall elect.

B. A "Change of Control" shall be deemed to have occurred if (i) any other entity shall directly or indirectly acquire beneficial ownership of 20%,

or any further amount in excess of 20%, of the outstanding shares of capital stock of the Company or (ii) a majority of the members of the Board of Directors of the Company or any successor by merger or assignment of assets or otherwise, shall be persons other than Directors on the date of this Agreement.

C. Eckman's option to elect to terminate his obligations and to receive a termination payment and to elect to receive a lump sum or extended payments may be exercised only by written notice delivered to the Company within 90 days following the date on which Horn receives actual notice of Change of Control.

7. Death or Disability. The Company may terminate this Agreement if during the term of this Agreement (a) Eckman dies or (b) Eckman becomes so disabled for a period of six months that he

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is substantially unable to perform his duties under this Agreement for such period.

8. Arbitration. Any controversy or claim arising out of, or relating to this Agreement, or the breach thereof, shall be settled by arbitration in the City of New York in accordance with the rules of the American Arbitration then in effect, and judgement upon the award rendered be entered and enforced in any court having jurisdiction thereof.

9. Miscellaneous.

A. Except for stock options previously granted, this Agreement contains the entire agreement between the parties and supersedes all prior agreements by the parties relating to payments by the Company upon involuntary employment termination with or without cause, however, it does not restrict or limit such other benefits as the President or Board of Directors may determine to provide or make available to Eckman.

B. This agreement may not be waived, changed, modified or discharged orally, but only by agreement in writing, signed by the party against whom enforcement of any waiver, change, modification, or discharge is sought.

C. This Agreement shall be governed by the laws of New York applicable to contracts between New York residents and made and to be entirely performed in New York.

D. If any part of this Agreement is held to be unenforceable by any court of competent jurisdiction, the remaining

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provisions of this Agreement shall continue in full force and effect.

E. This Agreement shall inure to the benefit of, and be binding upon, the Company, its successor, and assigns.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement.

VICON INDUSTRIES, INC.

John Eckman

Date: 08-01-96

By

Kenneth M. Darby

President

Vicon Industries, Inc.

AGREEMENT, dated as of October 1, 1996, between PETER HORN (hereinafter called "Horn") and VICON INDUSTRIES, INC., a New York corporation, having its principal place of business at 525 Broad Hollow Road, Melville, New York 11747 (hereinafter called the "Company").

WHEREAS, Horn has previously been employed by the Company, and

WHEREAS, the Company and Horn mutually desire to assure the continuation of Horn's services to the Company,

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein set forth, the parties covenant and agree as follows:

1. Employment. The Company shall employ Horn as its Vice President of Quality Assurance and Compliance throughout the term of this Agreement, and Horn hereby accepts such employment.

2. Term. The term of this Agreement shall commence as of the date of this Agreement and end on September 30, 1998.

3. Compensation.

A. The Company shall pay Horn a base salary of \$105,000 per annum, subject to periodic adjustment as determined by the President of the Company with Board of Directors approval, but in any event shall not be less than the base salary so indicated. Beginning October 1, 1997 to the end of this agreement, the base salary shall be adjusted upward by an amount at least equal to the Consumer Price Index - All Urban Consumers factor for the previous twelve months.

B. Horn's base salary shall be payable monthly or bi-weekly.

C. Horn shall also be entitled to participate in any pension, profit sharing, life insurance, medical, dental, hospital, disability or other benefit plans as may from time to time be available to officers of the Company, subject to the general eligibility requirements of such plans.

4. Covenant not to Compete. Horn agrees that during the term of this Agreement and for a period thereafter equal to the length of severance as calculated in paragraph 5A, he shall not directly or indirectly within the United States or Europe engage in, or enter the employment of or render any services to any other entity engaged in, any business of a similar nature to or in competition with the Company's business of designing, manufacturing, and selling security equipment and protection devices anywhere in the United States and Europe. Horn further acknowledges that the services to be rendered under this Agreement by him are special, unique, and of extraordinary character and that a material breach by him of this section will cause the Company to suffer irreparable damage; and Horn agrees that in addition to any other remedy, this

section shall be enforceable by negative or affirmative preliminary or permanent injunction in any Court of competent jurisdiction. Horn acknowledges that he may only be released from this covenant if the Company materially breach's this agreement or provides to Horn a written release of this provision.

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5. Severance Payment on Certain Terminations.

A. If either this Agreement expires, or the Company terminates Horn's employment under this Agreement for reasons other than "Gross Misconduct", then Horn, at his option, may elect to receive severance payments, without reduction for any offset or mitigation, in an amount equal to (a) one-twelfth Horn's annual base salary at the time of such termination multiplied by (b) the number of full years of Horn's employment by the Company up to a maximum of 24 years.

B. "Gross Misconduct" shall mean (a) a wilful, substantial and unjustifiable refusal to perform substantially the duties and services required of his position; (b) fraud, misappropriation or embezzlement involving the Company or its assets; or (c) conviction of a felony involving moral turpitude.

Horn's option to elect to receive severance payments may be exercised only by written notice delivered to the Company within 90 days following the date on which Horn's receives actual notice of termination or this Agreement expires, as the case may be.

In the event of an election under this section, payment of such severance shall be in lieu of any other obligation of the Company for severance payment or other post-termination compensation under this Agreement if any.

The severance amount shall be paid in equal monthly payments over a 12 month period.

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6. Termination Payment on Change of Control.

A. Notwithstanding any other provision of this Agreement, if a "Change of Control" occurs without the prior written consent of the Board of Directors, Horn, at his option, may elect to terminate his obligations under this Agreement and to receive a termination payment, without reduction for any offset or mitigation, in an amount equal to three times his average annual base salary for five years preceding the Change of Control, in either lump sum or extended payments over three years as Horn shall elect.

B. A "Change of Control" shall be deemed to have occurred if (i) any other entity shall directly or indirectly acquire beneficial ownership of 20%, or any further amount in excess of 20%, of the outstanding shares of capital stock of the Company or (ii) a majority of the members of the Board of Directors of the Company or any successor by merger or assignment of assets or otherwise, shall be persons other than Directors on the date of this Agreement.

C. Horn's option to elect to terminate his obligations and to receive a termination payment and to elect to receive a lump sum or extended

payments may be exercised only by written notice delivered to the Company within 90 days following the date on which Horn receives actual notice of Change of Control.

7. Death or Disability. The Company may terminate this Agreement if during the term of this Agreement (a) Horn dies or (b) Horn becomes so disabled for a period of six months that he is

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substantially unable to perform his duties under this Agreement for such period.

8. Arbitration. Any controversy or claim arising out of, or relating to this Agreement, or the breach thereof, shall be settled by arbitration in the City of New York in accordance with the rules of the American Arbitration then in effect, and judgement upon the award rendered be entered and enforced in any court having jurisdiction thereof.

9. Miscellaneous.

A. Except for stock options previously granted, this Agreement contains the entire agreement between the parties and supersedes all prior agreements by the parties relating to payments by the Company upon involuntary employment termination with or without cause, however, it does not restrict or limit such other benefits as the President or Board of Directors may determine to provide or make available to Horn.

B. This agreement may not be waived, changed, modified or discharged orally, but only by agreement in writing, signed by the party against whom enforcement of any waiver, change, modification, or discharge is sought.

C. This Agreement shall be governed by the laws of New York applicable to contracts between New York residents and made and to be entirely performed in New York.

D. If any part of this Agreement is held to be unenforceable by any court of competent jurisdiction, the remaining

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provisions of this Agreement shall continue in full force and effect.

E. This Agreement shall inure to the benefit of, and be binding upon, the Company, its successor, and assigns.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement.

VICON INDUSTRIES, INC.

By

Peter Horn  
Vice President - Compliance  
and Quality Assurance

Kenneth M. Darby  
President  
Vicon Industries, Inc.

Date: 10-01-96

Date: 10-01-96

AGREEMENT, dated as of October 1, 1996, between YACOV PSHTISSKY (hereinafter called "Pshtissky") and VICON INDUSTRIES, INC., a New York corporation, having its principal place of business at 525 Broad Hollow Road, Melville, New York 11747 (hereinafter called the "Company").

WHEREAS, Pshtissky has previously been employed by the Company, and

WHEREAS, the Company and Pshtissky mutually desire to assure the continuation of Pshtissky's services to the Company,

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein set forth, the parties covenant and agree as follows:

1. Employment. The Company shall employ Pshtissky as its Vice President of Technology and Development throughout the term of this Agreement, and Pshtissky hereby accepts such employment.

2. Term. The term of this Agreement shall commence as of the date of this Agreement and end on September 30, 1998.

3. Compensation.

A. The Company shall pay Pshtissky a base salary of \$105,000 per annum, subject to periodic adjustment as determined by the President of the Company with Board of Directors approval, but in any event shall not be less than the base salary so indicated. Beginning October 1, 1997 to the end of this agreement, the base salary shall be adjusted upward by an amount at least

equal to the Consumer Price Index - All Urban Consumers factor for the previous twelve months.

B. Pshtissky's base salary shall be payable monthly or bi-weekly.

C. Pshtissky shall also be entitled to participate in any pension, profit sharing, life insurance, medical, dental, hospital, disability or other benefit plans as may from time to time be available to officers of the Company, subject to the general eligibility requirements of such plans.

4. Covenant not to Compete. Pshtissky agrees that during the term of this Agreement and for a period thereafter equal to the length of severance as calculated in paragraph 5A, he shall not directly or indirectly within the United States or Europe, or enter the employment of or render any services to any other entity engaged in, any business of a similar nature to or in

competition with the Company's business of designing, manufacturing, and selling security equipment and protection devices in the United States and Europe. Pshtissky further acknowledges that the services to be rendered under this Agreement by him are special, unique, and of extraordinary character and that a material breach by him of this section will cause the Company to suffer irreparable damage; and Pshtissky agrees that in addition to any other remedy, this section shall be enforceable by negative or affirmative preliminary or permanent injunction in any Court of competent jurisdiction. Pshtissky acknowledges that he may only be released from this covenant if the Company materially breach's this

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agreement to Pshtissky or provides a written release of this provision.

5. Severance Payment on Certain Terminations.

A. If either this Agreement expires, or the Company terminates Pshtissky's employment under this Agreement for reasons other than "Gross Misconduct", then Pshtissky, at his option, may elect to receive severance payments, without reduction for any offset or mitigation, in an amount equal to (a) one-twelfth Pshtissky's annual base salary at the time of such termination multiplied by (b) the number of full years of Pshtissky's employment by the Company up to a maximum of 24 years.

B. "Gross Misconduct" shall mean (a) a wilful, substantial and unjustifiable refusal to perform substantially the duties and services required of his position; (b) fraud, misappropriation or embezzlement involving the Company or its assets; or (c) conviction of a felony involving moral turpitude.

Pshtissky's option to elect to receive a severance payment may be exercised only by written notice delivered to the Company within 90 days following the date on which Pshtissky receives actual notice of termination or this Agreement expires, as the case may be.

In the event of an election under this section, payment of such severance shall be in lieu of any other obligation of the Company for severance payment or other post-termination compensation under this Agreement if any.

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The severance amount shall be paid in equal monthly payments over a 12 month period.

6. Termination Payment on Change of Control.

A. Notwithstanding any other provision of this Agreement, if a "Change of Control" occurs without the prior written consent of the Board of Directors, Pshtissky, at his option, may elect to terminate his

obligations under this Agreement and to receive a termination payment, without reduction for any offset or mitigation, in an amount equal to three times his average annual base salary for five years preceding the Change of Control, in either lump sum or extended payments over three years as Pshtissky shall elect.

B. A "Change of Control" shall be deemed to have occurred if (i) any other entity shall directly or indirectly acquire beneficial ownership of 20%, or any further amount in excess of 20%, of the outstanding shares of capital stock of the Company or (ii) a majority of the members of the Board of Directors of the Company or any successor by merger or assignment of assets or otherwise, shall be persons other than Directors on the date of this Agreement.

C. Pshtissky's option to elect to terminate his obligations and to receive a termination payment and to elect to receive a lump sum or extended payments may be exercised only by written notice delivered to the Company within 90 days following the date on which Pshtissky receives actual notice of Change of Control.

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7. Death or Disability. The Company may terminate this Agreement if during the term of this Agreement (a) Pshtissky dies or (b) Pshtissky becomes so disabled for a period of six months that he is substantially unable to perform his duties under this Agreement for such period.

8. Arbitration. Any controversy or claim arising out of, or relating to this Agreement, or the breach thereof, shall be settled by arbitration in the City of New York in accordance with the rules of the American Arbitration then in effect, and judgement upon the award rendered be entered and enforced in any court having jurisdiction thereof.

9. Miscellaneous.

A. Except for stock options previously granted, this Agreement contains the entire agreement between the parties and supersedes all prior agreements by the parties relating to payments by the Company upon involuntary employment termination with or without cause, however, it does not restrict or limit such other benefits as the President or Board of Directors may determine to provide or make available to Pshtissky.

B. This agreement may not be waived, changed, modified or discharged orally, but only by agreement in writing, signed by the party against whom enforcement of any waiver, change, modification, or discharge is sought.

C. This Agreement shall be governed by the laws of New York applicable to contracts between New York residents and made and to be entirely performed in New York.

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D. If any part of this Agreement is held to be unenforceable by any

court of competent jurisdiction, the remaining provisions of this Agreement shall continue in full force and effect.

E. This Agreement shall inure to the benefit of, and be binding upon, the Company, its successor, and assigns.

IN WITNESS WHEREOF, the parties hereto have duly executed this Agreement.

VICON INDUSTRIES, INC.

Yacov Pshtissky  
Vice President - Technology  
and Development

Date: 10-01-96

By  
Kenneth M. Darby  
President  
Vicon Industries, Inc.

Date: 10-01-96

LEASE

RREEF MIDAMERICA/EAST-V NINE, INC., a Delaware corporation

Landlord

VICON INDUSTRIES, INC., a New York corporation

Tenant

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EXHIBIT A - PREMISES

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REFERENCE PAGE

PREMISES: The land, building (the "Building") and improvements thereon located at:  
89 Arkay Drive  
Hauppauge, New York  
(as more particularly described on Exhibit A annexed hereto)

LANDLORD: RREEF MIDAMERICA/EAST-V NINE, INC., a Delaware corporation

LANDLORD'S ADDRESS: 125 Maiden Lane  
New York, New York 10038

LEASE REFERENCE DATE: December 24, 1996

TENANT: VICON INDUSTRIES, INC., a New York corporation

TENANT'S ADDRESS:  
(a) As of beginning of Term: 89 Arkay Drive  
Hauppauge, New York 11788

(b) Prior to beginning of Term (if different): 525 Broad Hollow Road  
Melville, New York 11747

BUILDING RENTABLE AREA: 56,000 square feet (which the parties agree shall be the rentable square footage of the Building for all purposes of this Lease)

USE: General office use and light assembly of closed circuit security television

equipment and systems

COMMENCEMENT DATE:

Date of execution and delivery of this Lease by Landlord and Tenant.

TERMINATION DATE:

The last day of the month in which the fifth (5th) anniversary of the Commencement Date occurs.

TERM OF LEASE:

5 years beginning on the Commencement Date and ending on the Termination Date (unless sooner terminated pursuant to this Lease), subject to one five (5) year renewal option as set forth in Article 37.

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INITIAL ANNUAL RENT (Article 3):

From the Commencement Date through the date immediately preceding the first anniversary of the Commencement Date:  
\$364,000.00

From the first anniversary of the Commencement Date through the date immediately preceding the second anniversary of the Commencement Date:  
\$371,280.00

From the second anniversary of the Commencement Date through the date immediately preceding the third anniversary of the Commencement Date: \$378,560.00

From the third anniversary of the Commencement Date through the date immediately preceding the fourth anniversary of the Commencement Date: \$386,400.00

From the fourth anniversary of the Commencement Date through the Termination Date: \$394,240.00

INITIAL MONTHLY INSTALLMENT OF ANNUAL RENT (Article 3):

From the Commencement Date through the date immediately preceding the first anniversary of the Commencement Date: \$30,333.33

From the first anniversary of the Commencement Date through the date immediately preceding the second anniversary of the Commencement Date: \$30,940.00

From the second anniversary of the Commencement Date through the date immediately preceding the third anniversary of the Commencement Date: \$31,546.67

From the third anniversary of the Commencement Date through the date immediately preceding the fourth anniversary of the Commencement Date: \$32,200.00

From the fourth anniversary of the Commencement Date through the Termination Date: \$32,853.33

ASSIGNMENT/SUBLETTING FEE:

N/A

SECURITY DEPOSIT:

\$63,093.33 (subject to reduction as set forth in Article 5).

TENANT IMPROVEMENT ALLOWANCE:

\$125,000

REAL ESTATE BROKERS DUE COMMISSION:

Island Realty Group, Inc.  
James Mounce, Inc

The Reference Page information is incorporated into and made a part of the Lease. In the event of any conflict between any Reference Page information and the Lease, the Lease shall control. This Lease includes Exhibits A, B and C which are made a part of this Lease.

LANDLORD: RREEF  
MIDAMERICA/EAST-V NINE, INC., a  
Delaware corporation

By: RREEF Management Company, a  
California Corporation

By: Alane Berkowitz

Title: District Manager

Dated: 12-24-96

TENANT: VICON INDUSTRIES, INC., a  
New York Corporation

By: Kenneth M. Darby

Title: President

Dated: 12-24-96

LEASE

By this Lease Landlord leases to Tenant and Tenant leases from Landlord the Premises as set forth and described on the Reference Page. The Reference Page, including all terms defined thereon, is incorporated as part of this Lease.

1. USE AND RESTRICTIONS ON USE.

1.1 The Premises are to be used solely for the purposes stated on the Reference Page. Tenant shall not allow the Premises to be used for any improper, immoral, unlawful, or objectionable purpose. Tenant shall not do, permit or suffer in, on, or about the Premises the sale of any alcoholic liquor without the written consent of Landlord first obtained, or the commission of any waste. Tenant shall comply with all governmental laws, ordinances and regulations applicable to the use of the Premises and its occupancy and shall promptly comply with all governmental orders and directions for the correction, prevention and abatement of any violations in or upon, or in connection with, the Premises, all at Tenant's sole expense. Tenant shall not do or permit anything to be done on or about the Premises or bring or keep anything into the Premises which will in any way increase the rate of, invalidate or prevent the procuring of any insurance protecting against loss or damage to the Building or any of its contents by fire or other casualty or against liability for damage to

property or injury to persons in or about the Building or any part thereof.

1.2 Tenant shall not, and shall not direct, suffer or permit any of its agents, contractors, employees, licensees or invitees to at any time handle, use, manufacture, store or dispose of in or about the Premises or the Building any (collectively "Hazardous Materials") flammables, explosives, radioactive materials, hazardous wastes or materials, toxic wastes or materials, or other similar substances, petroleum products or derivatives or any substance subject to regulation by or under any federal, state and local laws and ordinances relating to the protection of the environment or the keeping, use or disposition of environmentally hazardous materials, substances, or wastes, presently in effect or hereafter adopted, all amendments to any of them, and all rules and regulations issued pursuant to any of such laws or ordinances (collectively "Environmental Laws"), nor shall Tenant suffer or permit any Hazardous Materials to be used in any manner not fully in compliance with all Environmental Laws, in the Premises or the Building and appurtenant land or allow the environment to become contaminated with any Hazardous Materials. Notwithstanding the foregoing, and subject to Landlord's prior consent, Tenant may handle, store, use or dispose of products containing small quantities of Hazardous Materials (such as aerosol cans containing insecticides, toner for copiers, paints, paint remover and the like) to the extent customary and necessary for the use of the Premises for general office purposes; provided that Tenant shall always handle, store, use, and dispose of any such Hazardous Materials in a safe and lawful manner and never allow such Hazardous Materials to contaminate the Premises, Building and appurtenant land or the environment. Tenant shall protect, defend, indemnify and hold each and all of the Landlord Entities (as defined in Article 28) harmless from and against any and all loss, claims, liability or costs (including court costs and reasonable attorney's fees) incurred by reason of any actual or asserted failure of Tenant to fully comply with all applicable Environmental Laws, or the presence, handling, use or disposition in or from the Premises of any Hazardous Materials (even though permissible under all applicable Environmental Laws or the provisions of this Lease), or by reason of any actual or asserted failure of Tenant to keep, observe, or perform any provision of this Section 1.2.

## 2. TERM.

2.1 The Term of this Lease shall begin on the Commencement Date as shown on the Reference Page. Tenant shall accept the Premises in their "as is" condition and Landlord shall not be required to perform any work or make any contribution (except as set forth in Exhibit B to this Lease) to ready the Premises for Tenant's occupancy. Landlord and Tenant shall execute a memorandum setting forth the actual Commencement Date, the Rent Commencement Date (as hereinafter defined) and the Termination Date.

2.2 In the event Landlord shall permit Tenant to occupy the Premises prior to the Commencement Date, such occupancy shall be subject to all the provisions of this Lease. Said early possession shall not advance the Termination Date.

3. RENT.

3.1 Tenant agrees to pay to Landlord the Annual Rent in effect from time to time by paying the Monthly Installment of Rent then in effect on or before the first day of each full calendar month during the Term, except that the first month's rent shall be paid upon the execution of this Lease. The Monthly Installment of Rent in effect at any time shall be one-twelfth of the Annual Rent in effect at such time. Rent for any period during the Term which is less than a full month shall be a prorated portion of the Monthly Installment of Rent based upon a thirty (30) day month. Said rent shall be paid to Landlord, without deduction or offset and without notice or demand, at the Landlord's address, as set forth on the Reference Page, or to such other person or at such other place as Landlord may from time to time designate in writing.

3.2 Notwithstanding anything contained in the immediately preceding paragraph, provided that no Event of Default occurs at any time prior to the date that is ninety (90) days following the date hereof, no Annual Rent will be payable for the period prior to the date that is ninety (90) days following the date hereof (the "Rent Commencement Date"); provided, however, that the Rent Commencement Date shall be postponed by one day for each day that Landlord fails to comply with the time periods provided for the review of Tenant's Plans and Specifications (as hereinafter defined) for the Initial Alterations (as hereinafter defined) set forth in Paragraph 2 of the section titled "Tenant's Initial Alterations" in Exhibit B annexed hereto.

3.4 Tenant recognizes that late payment of any rent or other sum due under this Lease will result in administrative expense to Landlord, the extent of which additional expense is extremely difficult and economically impractical to ascertain. Tenant therefore agrees that if rent or any other sum is not paid within five (5) days after it becomes due and payable pursuant to this Lease a late charge shall be imposed once on each such unpaid installment of rent or other payment in an amount equal to the greater of: (a) Fifty Dollars (\$50.00) and (b) a sum equal to five percent (5%) of the unpaid installment of rent or other payment. In addition to the foregoing late charge, if any rent or other sum due under this Lease is not paid by Tenant to Landlord when due, the same shall bear interest at the rate of 15% per annum or the maximum rate permitted by law, whichever is less, from the due date thereof until paid, and the amount of such interest shall be due Landlord as additional rent hereunder. The provisions of this Section 3.4 in no way relieve Tenant of the obligation to pay rent or other payments on or before the date on which they are due, nor do the terms of this Section 3.4 in any way affect Landlord's remedies pursuant to Article 18 in the event said rent or other payment is unpaid after the date due.

4. TAXES.

4.1 Tenant shall pay as additional rent all Taxes incurred on the Building during the Term. Taxes shall be defined as real estate taxes and any other taxes, assessments and governmental charges (excluding penalties, fines and charges resulting from violations of law), which are levied with respect to the Building or the land appurtenant to the Building, or with respect to any improvements, fixtures and equipment or other property of Landlord, real or personal, located in the Building and used in connection with the operation of the Building and said land, any payments to any ground lessor in reimbursement of taxes paid by such lessor; and all reasonable fees, expenses and costs incurred by Landlord in investigating, protesting, contesting or in seeking to reduce or avoid increase in any assessments, levies or the tax rate pertaining to any Taxes to be paid by Landlord in any Lease Year. Taxes shall not include any corporate franchise, or estate, inheritance or net income tax, or tax imposed upon any transfer by Landlord of its interest in this Lease or the Building.

4.2 Throughout the term of this Lease, Tenant shall pay to Landlord, as additional rent, all Taxes and other taxes payable under Section 4.1, Article 6 and Article 27 within thirty (30) days after Landlord's delivery of each bill therefor. Landlord shall furnish to Tenant, promptly upon Tenant's request, copies of the applicable tax bills. If any assessment payable under Section 4.1 may be paid in installments, such assessment shall be included in Taxes for any year only to the extent that the corresponding installment would be payable in such year.

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4.3 If Landlord shall actually receive a refund of any portion of the Taxes paid by Tenant with respect to any lease year (or portion thereof) as a result of a reduction in such taxes by final determination of legal proceedings, settlement or otherwise, Landlord shall promptly give notice of such refund to tenant and promptly after receiving such refund, pay Tenant the refund (after deducting from such refund the costs and expenses of obtaining the same, including, without limitation, appraisal, accounting and legal fees, to the extent that such fees were not previously included in "Taxes" pursuant to Section 4.1 of this Lease).

4.4 Landlord shall, within 30 days following an inquiry from Tenant specifically referring to this Section, notify Tenant as to whether Landlord intends to contest a particular tax assessment, levy or tax rate pertaining to

any Taxes levied with respect to any lease year. If Landlord notifies Tenant that Landlord is not intending to make any such contest, Tenant shall have the right to make such contest by appropriate proceedings diligently prosecuted, provided that if Landlord notifies Tenant that it is not contesting Taxes for such year as a result of or in connection with a settlement with the applicable taxing authority, then Tenant shall have no right to make such contest. Tenant shall provide Landlord with copies of any applications, petitions or other pleadings filed by Tenant in connection with a tax reduction proceeding. Landlord shall not be subjected to any liability for the payment of any costs or expenses in connection with any proceeding commenced by Tenant under this Section 4.4,

4.5 If the Commencement Date is other than January 1 or if the Termination Date is other than December 31, Tenant's liability for Taxes for the year in which said Date occurs shall be prorated based upon a three hundred sixty-five (365) day year.

4.6 Even though the Term has expired and Tenant has vacated the premises, when the final determination is made of Tenant's liability for Taxes for the year in which the Lease terminated, Tenant shall pay any unpaid portion of Tenant's prorated share of the Taxes.

5. SECURITY DEPOSIT.

5.1 Tenant shall deposit the Security Deposit with Landlord upon the execution of this Lease. Said sum shall be held by Landlord as security for the faithful performance by Tenant of all the terms, covenants and conditions of this Lease to be kept and performed by Tenant and not as an advance rental deposit or as a measure of Landlord's damage in case of Tenant's default. If Tenant defaults with respect to any provision of this Lease, Landlord may use any part of the Security Deposit for the payment of any rent or any other sum in default, or for the payment of any amount which Landlord may spend or become obligated to spend by reason of Tenant's default, or to compensate Landlord for any other loss or damage which Landlord may suffer by reason of Tenant's default. If any portion is so used, Tenant shall within five (5) days after written demand therefor, deposit with Landlord an amount sufficient to restore the Security Deposit to its original amount and Tenant's failure to do so shall be a material breach of this Lease. Except to such extent, if any, as shall be required by law, Landlord shall not be required to keep the Security Deposit separate from its general funds, and Tenant shall not be entitled to interest on such deposit. If Tenant shall fully and faithfully perform every provision of this Lease to be performed by it, the Security Deposit or any balance thereof shall be returned to Tenant at such time after termination of this Lease when Landlord shall have determined that all of Tenant's obligations under this Lease have been fulfilled.

5.2 Notwithstanding anything to the contrary contained in Section 5.1, provided that (a) as of the first anniversary of the Rent Commencement Date Tenant is not in default under this Lease beyond the expiration of any applicable notice and cure period and (b) Landlord shall not have theretofore drawn down any portion of the Security Deposit, Landlord, within thirty (30)

days after receipt of a request from Tenant therefor, shall pay Tenant an amount equal to the amount required to reduce the Security Deposit to \$31,546.67.

6. ALTERATIONS.

6.1 Except for those, if any, specifically provided for in Exhibit B to this Lease, Tenant shall not make or suffer to be made any alterations, additions, or improvements, including, but not limited to, the attachment of any fixtures or equipment in, on, or to the Premises or any part thereof or the making of any improvements as required by Article 7,

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(collectively, "Alterations") without the prior written consent of Landlord. When applying for such consent, Tenant shall, if requested by Landlord, furnish complete plans and specifications for the applicable Alterations,

6.2 In the event Landlord consents to the making of any Alterations, the same shall be made using contractors selected by Tenant (which shall be subject to Landlord's reasonable approval), at Tenant's sole cost and expense. If Tenant shall employ any contractor and such contractor or any subcontractor of such contractor shall employ any non-union labor or supplier, Tenant shall be responsible for and hold Landlord harmless from any and all delays, damages and extra costs suffered by Landlord as a result of any dispute with any labor unions concerning the wage, hours, terms or conditions of the employment of any such labor. In any event Landlord may charge Tenant for Landlord's out-of-pocket costs incurred in connection with any Alterations.

6.3 All Alterations proposed by Tenant shall be constructed in accordance with all government laws, ordinances, rules and regulations and Tenant shall, prior to construction, provide the additional insurance required under Article 11 in such case, and also all such reasonable assurances to Landlord, including but not limited to, waivers of lien and surety company performance bonds as Landlord shall require to assure payment of the costs thereof and to protect Landlord and the Building and appurtenant land against any loss from any mechanic's, materialmen's or other liens. Notwithstanding the foregoing, Tenant shall not be required to post surety company bonds for (i) the Initial Alterations (as hereinafter defined), (ii) Alterations having a cost of less than \$50,000.00 or (iii) Alterations that are solely decorative in nature (such as carpeting, wallpaper, cabinetry and shelving).

6.4 If Tenant shall request Landlord's approval of the plans and specifications for any Alteration(s) (other than the Initial Alterations which shall be governed by the provisions of Exhibit B annexed hereto) then Landlord shall either approve or disapprove (and in the case of disapproval, Landlord shall specify the reasons therefor in reasonable detail) such plans and

specifications on or prior to date that is 10 business days (Or in the case of resubmittals of plans and specifications, 5 business days) after Landlord's receipt of Tenant's request for such approval. If Landlord fails to respond to a request for approval of plans and specifications or if Landlord disapproves such request and fails to specify the reasons therefor, in either case within 10 business days after Landlord's receipt of Tenant's request for such approval, then Tenant may notify Landlord of such failure (which notice (the "Reminder Notice") shall refer specifically to this Section 6.4), and if, in such event, Landlord does not, within a period of 3 business days after its receipt of the Reminder Notice, either approve or disapprove (and in the case of disapproval, specify the reasons therefor) the plans and specifications at issue, then Landlord shall be deemed to have granted its approval to such plans and specifications (but Tenant shall still be required to comply with the other provisions of this Article 6).

6.5 All Alterations in, on, or to the Premises made or installed by Tenant, including carpeting, shall be and remain the property of Tenant during the Term but, excepting furniture, furnishings, movable partitions of less than full height from floor to ceiling and other trade fixtures, shall become a part of the realty and belong to Landlord without compensation to Tenant upon the expiration or sooner termination of the Term, at which time title shall pass to Landlord under this Lease as by a bill of sale, unless Landlord elects otherwise. Upon such election by Landlord, Tenant shall upon demand by Landlord, at Tenant's sole cost and expense, forthwith and with all due diligence remove any such Alterations which are designated by Landlord to be removed, and Tenant shall forthwith and with all due diligence, at its sole cost and expense, repair and restore the Premises to their original condition, reasonable wear and tear and damage by fire or other casualty and condemnation excepted.

6.6 Tenant shall pay in addition to any sums due pursuant to Article 4, any increase in real estate taxes attributable to any such Alteration for so long, during the Term, as such increase is billed; said sums shall be paid in the same way as sums due under Article 4.

6.7 Notwithstanding anything to the contrary contained in this Lease, including but not limited to this Article 6 and Exhibit B, Landlord's consent shall not be unreasonably withheld or delayed with respect to any repairs (including replacements), or Alterations which are (a) non-structural and do not affect the strength of any structural

component of the Building, (b) do not adversely affect the proper functioning of the Building's mechanical, gas, electrical, sanitary, plumbing, heating or air conditioning or other service systems (beyond a de minimis extent) and do not overload the capacity of such systems (unless Tenant increases the capacity of

such systems in connection with such Alterations), (c) do not affect the exterior of the Building or are visible from outside of the Premises, and (d) do not affect the certificate of occupancy for the Building (except with respect to those Alterations affecting the Building's HVAC or electrical systems).

6.8 Notwithstanding anything to the contrary contained in this Lease, including but not limited to this Article 6, Landlord's consent shall not be required with respect to: (a) minor cosmetic Alterations (such as painting, installation of carpeting, and installation of shelves and cabinetry) ("Decorations"); provided the aggregate cost of such Decorations do not with respect to any particular project exceed \$2.00 per square foot of Building Rentable Area; and (b) the installation of equipment consisting of ordinary office furnishings and equipment.

6.9 Landlord shall reasonably cooperate with Tenant (at no cost to Landlord) with respect to all aspects of Alterations approved by Landlord, including signing any necessary applications required to be filed with the buildings department or other governmental agency having jurisdiction over the Premises.

## 7. REPAIR.

7.1 Landlord shall have no obligation to alter, remodel, improve, repair, decorate or paint the Premises, except as specified in Section 7.2 and Exhibit C attached to this Lease. By taking possession of the Premises, Tenant accepts them as being in good order, condition and repair and in the condition in which Landlord is obligated to deliver them, subject to the Landlord warranties expressly set forth in Exhibit C annexed hereto. It is hereby understood and agreed that no representations respecting the condition of the Premises or the Building have been made by Landlord to Tenant, except as specifically set forth in this Lease. Landlord shall not be liable for any failure to make any repairs or to perform any maintenance unless such failure shall persist for an unreasonable time after written notice of the need of such repairs or maintenance is given to Landlord by Tenant.

7.2 Landlord shall at its own cost and expense keep the roof, exterior walls, structural columns and foundation of the Building (collectively, the "Landlord Repair Items") in good condition, promptly making all necessary repairs and replacements, with materials and workmanship of the same character, kind and quality as the original, except that Tenant shall be responsible for such repairs or replacements to the extent the same are required due to the acts or the negligent or wrongful omissions of Tenant or its agents, employees or contractors. ~ addition to the foregoing Landlord shall be responsible for the replacement of the parking lot only to the extent that a complete resurfacing is necessary (as determined in Landlord's reasonable discretion).

7.3 Tenant shall at its own cost and expense keep and maintain all parts of the Premises (excluding the Landlord Repair Items other than those for which Tenant is responsible pursuant to Section 7.2) in good condition, promptly making all necessary repairs and replacements, whether structural or non-structural, ordinary or extraordinary, with materials and workmanship of the

same character, kind and quality as the original (including, but not limited to, repair and replacement of all fixtures installed by Tenant, water heaters serving the Premises, windows, glass and plate glass doors, exterior stairs, skylights, any special office entries, interior walls and finish work, floors and floor coverings, heating and air conditioning systems, electrical systems and fixtures, sprinkler systems, dock boards, truck doors, dock bumpers, parking lots (excluding the complete resurfacing as set forth in Section 7.2), driveways, landscaping, plumbing work and fixtures, and performance of regular removal of trash and debris). Tenant as part of its obligations hereunder shall keep the Premises in a clean and sanitary condition. Upon termination of this Lease in any way Tenant will yield up the Premises to Landlord in at least as good condition as the Premises were in at the Commencement Date, subject to ordinary wear and tear, loss by fire or other casualty or condemnation excepted.

7.3 Except as provided in Article 21, there shall be no abatement of rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising

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from the making of any repairs, alterations or improvements in or to any portion of the Building or the Premises or to fixtures, appurtenances and equipment in the Building.

7.4 Tenant shall, at its own cost and expense, enter into a regularly scheduled preventive maintenance/service contract with a maintenance contractor approved by Landlord, which approval shall not be unreasonably withheld or delayed, for servicing all heating and air conditioning systems and equipment serving the Premises (and a copy thereof shall be furnished to Landlord). The service contract must include all services suggested by the equipment manufacturer in the operation/maintenance manual provided by Landlord to Tenant and must become effective within thirty (30) days of the date Tenant takes possession of the Premises. Landlord may, if Tenant defaults in its obligations to maintain such service contract and fails to cure such default within 10 days after notice thereof from Landlord to Tenant, enter into such a maintenance/service contract on behalf of Tenant, or perform the work and in either case, charge Tenant the cost thereof along with a reasonable amount for Landlord's overhead.

## 8. LIENS.

Tenant shall keep the Premises, the Building and appurtenant land and Tenant's leasehold interest in the Premises free from any liens arising out of any services, work or materials performed, furnished, or contracted for by Tenant, or obligations incurred by Tenant. In the event that Tenant shall not, within

forty-five (45) days following the imposition of any such lien, cause the same to be released of record, Landlord shall have the right to cause the same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Landlord and all reasonable expenses incurred by it in connection therewith shall be considered additional rent and shall be payable to it by Tenant on demand.

9. ASSIGNMENT AND SUBLETTING.

9.1 Tenant shall not have the right to assign or pledge this Lease or to sublet the whole or any part of the Premises whether voluntarily or by operation of law, or permit the use or occupancy of the Premises by anyone other than Tenant, and shall not make, suffer or permit such assignment, subleasing or occupancy without the prior written consent of Landlord, and said restrictions shall be binding upon any and all assignees of the Lease and subtenants of the Premises. In the event Tenant desires to sublet, or permit such occupancy of, the Premises, or any portion thereof, or assign this Lease, Tenant shall give written notice thereof to Landlord at least thirty (30) days but no more than one hundred eighty (180) days prior to the proposed commencement date of such subletting or assignment, which notice shall set forth: (i) the name and address of the proposed assignee or sublessee, (ii) a duly executed counterpart of the proposed agreement of assignment or sublease and all ancillary documents executed or to be executed by Tenant and such proposed assignee or sublessee, (iii) information as to the nature and character of the business and of the proposed use for the Premises, and (iv) banking, financial or other credit information relating to the proposed assignee or sublessee reasonably sufficient to enable Landlord to determine the financial responsibility and character of the proposed assignee or sublessee.

9.2 Landlord will not unreasonably withhold its consent to Tenant's request for consent to such specific assignment or subletting, provided that:

(i) Tenant pays Landlord's reasonable costs in reviewing the proposed assignment or sublease in connection with the requested consent, including any reasonable attorneys' fees incurred by Landlord;

(ii) The proposed assignee or sublessee is not (A) a school, college, university or educational institution, or (B) a government or any subdivision or agency thereof;

(iii) In the case of a subletting of a portion of the Premises, the portion sublet is regular in shape and suitable for normal renting purposes;

(iv) The proposed assignment or sublease specifically provides that (A) Tenant has complied with the requirements of Section 9.1, (B) the sublessee or assignee,

as the case may be, will not have the right to further assign or sublet all or part of the Premises or to allow same to be used by others, without the consent of Landlord in each instance in accordance with this Article 9, (C) a consent by Landlord thereto shall not be deemed or construed to modify, amend or affect the terms and provisions of this Lease, or Tenant's obligations hereunder, and (D) the receipt by Landlord of any amounts from an assignee or sublessee, or other occupant of any part of the Premises shall not be deemed or construed as releasing Tenant from Tenant's obligations under the lease or the acceptance of that party as a direct tenant;

(v) Tenant has provided Landlord with all of the information specified in Section 9.1 and on the basis of such information Landlord reasonably determines that (A) the proposed sublessee or assignee is a reputable party whose financial net worth, credit and financial responsibility is, considering the responsibilities involved, satisfactory to Landlord and (B) the nature and character of the proposed sublessee or assignee, its business or activities and the proposed use of the space are in keeping with the standards that would be acceptable to prudent landlords of comparable buildings located in the area in which the Premises are located; and

(vi) the Premises shall not be used by the proposed assignee or sublessee in a manner which would (x) involve increased wear upon the Building; (b) require any addition to or modification of the Premises or the Building in order to comply with building code or other governmental requirements; or (c) involve a violation of Section 1.2.

(b) Any such consent of Landlord shall be subject to the terms of this Article 9 and conditioned upon there being no default by Tenant beyond any grace period under any of the terms, covenants and conditions of this Lease at the time that Landlord's consent to any such subletting or assignment is requested and on the date of the commencement of the term of any such proposed sublease or the effective date of any such proposed assignment.

9.3 Notwithstanding any assignment or subletting, permitted or otherwise, Tenant shall at all times remain directly, primarily and fully responsible and liable for the payment of the rent specified in this Lease and for compliance with all of its other obligations under the terms, provisions and covenants of this Lease. Upon the occurrence of an Event of Default, if the Premises or any part of them are then assigned or sublet, Landlord, in addition to any other remedies provided in this Lease or provided by law, may, at its option, collect directly from such assignee or subtenant all rents due and becoming due to Tenant under such assignment or sublease and apply such rent against any sums due to Landlord from Tenant under this Lease, and no such collection shall be construed to constitute a novation or release of Tenant from the further performance of Tenant's obligations under this Lease.

9.4 In addition to Landlord's right to approve of any subtenant or assignee, Landlord shall have the option, in its sole discretion, in the event

of a proposed assignment or a subletting of all or substantially all of the Premises for at least 90% of the then remaining term of this Lease, to terminate this Lease. The option shall be exercised, if at all, by Landlord giving Tenant written notice given by Landlord to Tenant within 30 days following Landlord's receipt of Tenant's written notice as required above. If this Lease shall be terminated with respect to the entire Premises pursuant to this Section, the Term of this Lease shall end on the date stated in Tenant's notice as the effective date of the sublease or assignment as if that date had been originally fixed in this Lease for the expiration of the Term. This Section 9.4 shall not apply to any assignments or sublettings permitted without Landlord's consent pursuant to Section 9.8 and Section 9.9 of this Lease.

9.5 In the event that Tenant sells, sublets, assigns or transfers this Lease, Tenant shall pay to Landlord as additional rent an amount equal to one hundred percent (100%) of any Increased Rent (as defined below) when and as such Increased Rent is received by Tenant. As used in this Section, "Increased Rent" shall mean the excess of (i) all rent and other consideration which Tenant is entitled to receive by reason of any sale, sublease, assignment or other transfer of this Lease, over (ii) the rent otherwise payable by Tenant under this Lease at such time less (iii) Tenant's reasonable out-of-pocket sublet or assignment expenses. For purposes of the foregoing, any consideration received by Tenant in form other than cash shall be valued at its fair market value as determined by Landlord in good faith. This Section 9.5 shall

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not apply to any assignments or sublettings permitted without Landlord's consent pursuant to Section 9.8 and Section 9.9 of this Lease.

9.6 Upon any request to assign or sublet, Tenant will pay to Landlord, on demand, a sum equal to all of Landlord's out-of-pocket costs, including reasonable attorney's fees, incurred in investigating and considering any proposed or purported assignment or pledge of this Lease or sublease of any of the Premises, regardless of whether Landlord shall consent to, refuse consent, or determine that Landlord's consent is not required for, such assignment, pledge or sublease. Any purported sale, assignment, mortgage, transfer of this Lease or subletting which does not comply with the provisions of this Article 9 shall be void.

9.7 If Tenant is a corporation, partnership or trust, any transfer or transfers of or change or changes within any twelve month period in the number of the outstanding voting shares of the corporation, the general partnership interests in the partnership or the identity of the persons or entities controlling the activities of such partnership or trust resulting in the persons or entities owning or controlling a majority of such shares, partnership interests or activities of such partnership or trust at the

beginning of such period no longer having such ownership or control shall be regarded as equivalent to an assignment of this Lease to the persons or entities acquiring such ownership or control and shall be subject to all the provisions of this Article 9 to the same extent and for all intents and purposes as though such an assignment. This Section 9.7 shall not apply to any corporate tenant, subtenant or assignee whose shares are publicly traded on any national or regional stock exchange or in the "over-the-counter" market.

9.8 Notwithstanding anything to the contrary contained in Section 9.1, without the consent of Landlord, this Lease may be assigned to (1) an entity created by the merger, consolidation or reorganization of or with Tenant or (ii) a purchaser of all or substantially all of Tenant's assets; provided, in the case of both clause (i) and clause (ii), that (A) Landlord shall have received a notice of such assignment from Tenant, (B) the assignee assumes all of Tenant's obligations under this Lease pursuant to an assignment and assumption agreement which shall be reasonably satisfactory to Landlord, (C) such assignment is for a valid business purpose and not principally to circumvent the provisions of this Article 9, and (D) the assignee is a reputable entity of good character and shall have, immediately after giving effect to such assignment, an aggregate net worth (computed in accordance with generally accepted accounting principles consistently applied) at least equal to the aggregate net worth (as so computed) of Tenant immediately prior to such assignment.

9.9 Notwithstanding anything to the contrary contained in Section 9.1, without the consent of Landlord, Tenant may assign this Lease or sublet all or any part of the Premises to an Affiliate (as hereinafter defined) of Tenant; provided, that (i) Landlord shall have received a notice of such assignment or sublease from Tenant; and (ii) in the case of any such assignment, (A) the assignment is for a valid business purpose and not to circumvent the provisions of this Article 9, and (B) the assignee assumes all of Tenant's obligations under this Lease pursuant an assignment and assumption agreement reasonably satisfactory to Landlord, "Affiliate" means, as to any designated person or entity, any other person or entity which controls, is controlled by, or is under common control with, such designated person or entity. "Control" (and with correlative meaning, "controlled by" and "under common control with") means either (x) ownership or voting control, directly or indirectly, of 50% or more of the voting stock, partnership interests or other beneficial ownership interests of the entity in question or (y) the power to direct the management and policies of such entity.

## 10. INDEMNIFICATION.

10.1 None of the Landlord Entities shall be liable and Tenant hereby waives all claims against them for any damage to any property or any injury to any person in or about the Premises by or from any cause whatsoever (including without limiting the foregoing, rain or water leakage of any character from the roof, windows, walls, basement, pipes, plumbing works or appliances, the Premises not being in good condition or repair, gas, fire, oil, electricity or theft), except to the extent caused by or arising from the gross negligence or willful misconduct of Landlord or its agents, employees or contractors. Tenant

shall protect, indemnify and hold the Landlord Entities harmless from and against any and all loss, claims, liability or costs (including court costs and reasonable attorney's fees) incurred by reason of (a) any damage to any property

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(including but not limited to property of any Landlord Entity) or any injury (including but not limited to death) to any person occurring in, on or about the Premises to the extent that such injury or damage shall be caused by or arise from any act, neglect, fault, or omission by or of Tenant, its agents, servants, employees, invitees, or visitors to meet any standards imposed by any duty with respect to the injury or damage; (b) the conduct or management of any work or thing whatsoever done by the Tenant in or about the Premises or from transactions of the Tenant concerning the Premises; (c) Tenant's failure to comply with any and all governmental laws, ordinances and regulations for which Tenant is responsible to comply with pursuant to the terms of this Lease; or (d) any breach or default on the part of Tenant in the performance of any covenant or agreement on the part of the Tenant to be performed pursuant to this Lease. The provisions of this Article shall survive the termination of this Lease with respect to any claims or liability accruing prior to such termination. The indemnification obligations set forth in this Article 10 are subject to the release and waiver of subrogation provisions set forth in Article 12.

10.2 Tenant may, at its option, defend Landlord against claims described in this Article 10 by counsel approved by Landlord (which approval shall not be unreasonably withheld or delayed), and in such event, Tenant shall have no obligation to reimburse Landlord for attorneys' fees and disbursements incurred by Landlord in connection with such claims unless Landlord reasonably believes that a conflict of interest exists and that it would be in Landlord's best interests to retain separate counsel. Landlord hereby approves any counsel engaged by Tenant's insurance carrier in any matters for which Tenant is defending Landlord that are fully covered by Tenant's insurance,

## 11. INSURANCE.

11.1 Tenant shall keep in force throughout the Term; (a) a Commercial General Liability insurance policy or policies to protect the Landlord, Landlord's managing agent, the general partners of Landlord if Landlord is a partnership, the holders of any mortgages or ground or underlying leases encumbering the Premises, Landlord's trustees and Landlord's investment manager against any liability to the public or to any invitee of Tenant or a Landlord Entity incidental to the use of or resulting from any accident occurring in or upon the Premises with a limit of not less than \$1,000,000.00 per occurrence and not less than \$2,000,000.00 in the annual aggregate, or such larger amount as Landlord shall reasonably require that is consistent with the

then requirements of prudent landlords of comparable buildings in the area in which the Premises is located, such increases to be made no more often than once every three years, covering bodily injury and property damage liability and ~ 1,000,000 products/completed operations aggregate; (b) Business Auto Liability covering owned, non-owned and hired vehicles with a limit of not less than \$1,000,000 per accident; (c) insurance protecting against liability under Worker's Compensation Laws with limits at least as required by statute; (d) Employers Liability with limits of \$500,000 each accident, \$500~000 disease policy limit, \$500,000 disease - each employee; (e) All Risk or Special Form coverage protecting Tenant against loss of or damage to Tenant's Alterations, carpeting, floor coverings, panelings, decorations, fixtures, inventory and other business personal property situated in or about the Premises to the full replacement value of the property so insured; and, (f) Business interruption Insurance with limit of liability representing loss of at least approximately six months of income.

11.2 Each of the aforesaid policies shall (a) be provided at Tenant's expense; (b) with respect to the Commercial General Liability insurance policy, name the Landlord and the building management company, if any, as additional insureds; (c) be issued by an insurance company with a minimum Best's rating of "A/VIJ" during the Term; and (d) provide that said insurance shall not be cancelled unless thirty (30) days prior written notice (ten days for nonpayment of premium) shall have been given to Landlord; and said policy or policies or certificates thereof shall be delivered to Landlord by Tenant upon the Commencement Date and at least thirty (30) days prior to each renewal of said insurance.

11.3 Whenever Tenant shall undertake any Alterations in, to or about the Premises, the aforesaid insurance protection must extend to and include injuries to persons and damage to property arising in connection with such Alterations, without limitation including liability under any applicable structural work act, and such other insurance as Landlord shall reasonably require that is consistent with the requirements of prudent landlords of comparable

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buildings in the area in which the Premises is located; and the policies of or certificates evidencing such insurance must be delivered to Landlord prior to the commencement of any such Work.

## 12. WAIVER OF SUBROGATION.

So long as their respective insurers so permit, Tenant and Landlord hereby mutually waive their respective rights of recovery against each other for any loss insured by fire, extended coverage, All Risks or other insurance now or

hereafter existing for the benefit of the respective party but only to the extent of the net insurance proceeds payable under such policies. Each party shall obtain any special endorsements required by their insurer to evidence compliance with the aforementioned waiver.

13. SERVICES AND UTILITIES.

Tenant shall pay for all water, gas, heat, light, power, telephone, sewer, sprinkler system charges and other utilities and services used on or from the Premises, including without limitation, the cost of any central station signaling system installed in the Premises together with any taxes, penalties, and surcharges or the like pertaining thereto and any maintenance charges for utilities. Any such charges paid by Landlord and assessed against Tenant shall be immediately payable to Landlord on demand and shall be additional rent hereunder. Landlord shall in no event be liable for any interruption or failure of utility services on or to the Premises unless such interruption or failure to act is due to the gross negligence or willful misconduct of Landlord, its employees, agents or contractors..

14. HOLDING OVER.

Tenant shall pay Landlord not as rent, but for use and occupancy, for each day Tenant retains possession of the Premises or part of them after termination of this Lease by lapse of time or otherwise at the rate ("Holdover Rate") which shall be 150% of the greater of: (a) the amount of the Annual Rent for the last period prior to the date of such termination plus all Rent Adjustments under Article 4; and, (b) the then market rental value of the Premises assuming a new lease of the Premises of the then usual duration and other terms, in either case prorated on a daily basis, and also pay all damages sustained by Landlord by reason of such retention. ~ any event, no provision of this Article 14 shall be deemed to waive Landlord's right of reentry or any other right under this Lease or at law.

15. SUBORDINATION.

Without the necessity of any additional document being executed by Tenant for the purpose of effecting a subordination, this Lease shall be subject and subordinate at all times to ground or underlying leases and to the lien of any mortgages or deeds of trust now or hereafter placed on, against or affecting the Building, Landlord's interest or estate in the Building, or any ground or underlying lease; provided, however, that if the lessor, mortgagee, trustee, or holder of any such mortgage or deed of trust elects to have Tenant's interest in this Lease be superior to any such instrument, then, by notice to Tenant, this Lease shall be deemed superior, whether this Lease was executed before or after said instrument. Notwithstanding the foregoing, Tenant covenants and agrees to execute and deliver upon demand such further instruments evidencing such subordination or superiority of this Lease as may be reasonably required by Landlord.

16. REENTRY BY LANDLORD.

16.1 Landlord reserves and shall at all times have the right to re-enter the Premises to inspect the same, to show said Premises to prospective purchasers, mortgagees or, in the last 12 months of the Lease term, tenants, to cure any default of Tenant (after the expiration of any applicable notice and cure period) and to alter, improve or repair the Premises and any portion of the Building, without abatement of rent, and may for that purpose erect, use and maintain scaffolding, pipes, conduits and other necessary structures and open any wall, ceiling or floor in and through the Building and Premises where reasonably required by the character of the work to be performed, provided entrance to the Premises shall not be blocked thereby and the

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parking lot shall be substantially usable, and further provided that the business of Tenant shall not be interfered with unreasonably

16.2 Tenant hereby waives any claim for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises, and any other loss occasioned by any action of landlord authorized by this Article 16. Tenant agrees to reimburse Landlord, on demand, as additional rent, for any reasonable expenses which Landlord may incur in thus effecting compliance with Tenant's obligations under this Lease.

16.3 For each of the aforesaid purposes, Landlord shall at all times have and retain a key with which to unlock all of the doors in the Premises, excluding Tenant's vaults and safes or special security areas (designated in advance), and Landlord shall have the right to use any and all means which Landlord may deem proper to open said doors in an emergency to obtain entry to any portion of the Premises. As to any portion to which access can not be had by means of a key or keys in Landlord's possession, Landlord is authorized to gain access by such means as Landlord shall elect and the cost of repairing any damage occurring in doing so shall be borne by Tenant and paid to Landlord as additional rent upon demand.

## 17. DEFAULT.

17.1 Except as otherwise provided in Article 19, the following events shall be deemed to be Events of Default under this Lease:

17.1.1 Tenant shall fail to pay when due any sum of money becoming due to be paid to Landlord under this Lease, whether such sum be any installment of the rent reserved by this Lease, any other amount treated as

additional rent under this Lease, or any other payment or reimbursement to Landlord required by this Lease, whether or not treated as additional rent under this Lease, and such failure shall continue for a period of five (5) days after written notice that such payment was not made when due, but if any such notice shall be given, for the twelve month period commencing with the date of such notice, the failure to pay within five (5) days after due any additional sum of money becoming due to be paid to Landlord-under this Lease during such period shall be an Event of Default, without notice.

17.1.2 Tenant shall fail to comply with any term, provision or covenant of this Lease which is not provided for in another Section of this Article and shall not cure such failure within twenty (20) days (forthwith, if the failure involves a hazardous condition) after written notice of such failure to Tenant, or if such default is of such a nature that it cannot, with reasonable diligence, be cured in such twenty (20) day period, if Tenant shall fail to commence to cure such default within such twenty (20) day period and thereafter to diligently prosecute such cure to completion.

17.1.3 Tenant shall fail to vacate the Premises immediately upon termination of this Lease, by lapse of time or otherwise, or upon termination of Tenant's right to possession only.

17.1.4 Tenant shall become insolvent, admit in writing its inability to pay its debts generally as they become due, file a petition in bankruptcy or a petition to take advantage of any insolvency statute, make an assignment for the benefit of creditors, make a transfer in fraud of creditors, apply for or consent to the appointment of a receiver of itself or of the whole or any substantial part of its property, or file a petition or answer seeking reorganization or arrangement under the federal bankruptcy laws, as now in effect or hereafter amended, or any other applicable law or statute of the United States or any state thereof.

17.1.5 A court of competent jurisdiction shall enter an order, judgment or decree adjudicating Tenant bankrupt, or appointing a receiver of Tenant, or of the whole or any substantial part of its property, without the consent of Tenant, or approving a petition filed against Tenant seeking reorganization or arrangement of Tenant under the bankruptcy laws of the United States, as now in effect or hereafter amended, or any state thereof, and such order, judgment or decree shall not be vacated or set aside or stayed within sixty (60) days from the date of entry thereof.

18. REMEDIES.

18.1 Except as otherwise provided in Article 19, upon the occurrence of any of the Events of Default described or referred to in Article 17, Landlord shall have the option to pursue any one or more of the following remedies without any notice or demand whatsoever, concurrently or consecutively and not alternatively:

18.1.1 Landlord may, at its election, terminate this Lease or terminate Tenant's right to possession only, without terminating the Lease.

18.1.2 Upon any termination of this Lease, whether by lapse of time or otherwise, or upon any Termination of Tenant's right to possession without termination of the Lease, Tenant shall surrender possession and vacate the Premises immediately, and deliver possession thereof to Landlord, and Tenant hereby grants to Landlord full and free license to enter into and upon the Premises in such event and to repossess Landlord of the Premises as of Landlord's former estate and to expel or remove Tenant and any others who may be occupying or be within the Premises and to remove Tenant's signs and other evidence of tenancy and all other property of Tenant therefrom without being deemed in any manner guilty of trespass, eviction or forcible entry or detainer, and without incurring any liability for any damage resulting therefrom, Tenant waiving any right to claim damages for such re-entry and expulsion, and without relinquishing Landlord's right to rent or any other right given to Landlord under this Lease or by operation of law.

18.1.3 Upon any termination of this Lease, whether by lapse of time or otherwise, Landlord shall be entitled to recover as damages, all rent, including any amounts treated as additional rent under this Lease, and other sums due and payable by Tenant on the date of termination, plus as liquidated damages and not as a penalty, an amount equal to the sum of: (a) an amount equal to the then present value of (i) the rent reserved in this Lease for the residue of the stated Term of this Lease including any amounts treated as additional rent under this Lease, minus (ii) the fair rental value of the Premises for such residue; and (b) the expenses then incurred by Landlord to obtain a replacement tenant or tenants and the estimated expenses described in Section 18.1.4 relating to recovery of the Premises, preparation for reletting and for reletting itself.

18.1.4 Upon any termination of Tenant's right to possession only without termination of the Lease:

18.1.4.1 Neither such termination of Tenant's right to possession nor Landlord's taking and holding possession thereof as provided in Section 18.1.2 shall terminate the Lease or release Tenant, in whole or in part, from any obligation, including Tenant's obligation to pay the rent, including any amounts treated as additional rent, under this Lease for the full Term. and if Landlord so elects Tenant shall pay forthwith to Landlord the sum equal to the entire amount of the rent, including any amounts treated as additional rent under this Lease, for the remainder of the Term as the same shall become due and payable plus any other sums provided in this Lease to be paid by Tenant for the remainder of the Term.

18.1.4.2 Landlord may, but need not, relet the Premises or any part thereof for such rent and upon such terms as Landlord, in its sole discretion, shall determine (including the right to relet the premises for a greater or lesser term than that remaining under this Lease, the right to relet the Premises as a part of a larger area, and the right to change the character or use made of the Premises). In connection with or in preparation for any reletting, Landlord may, but shall not be required to, make repairs, alterations and additions in or to the Premises and redecorate the same to the extent Landlord deems necessary or desirable, and Tenant shall, upon demand, pay the cost thereof, together with Landlord's expenses of reletting, including, without limitation, any broker's commission incurred by Landlord. If Landlord decides to relet the Premises or a duty to relet is imposed upon Landlord by law, Landlord and Tenant agree that nevertheless Landlord shall at most be required to use only the same efforts Landlord then uses to lease premises in the Building generally and that in any case that Landlord shall not be required to give any preference or priority to the showing or leasing of the Premises over any other space that Landlord may be leasing or have available and may place a suitable prospective tenant in any such other space regardless of when such other

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space becomes available. Landlord shall not be required to observe any instruction given by Tenant about any reletting or accept any tenant offered by Tenant unless such offered tenant has a credit-worthiness acceptable to Landlord and leases the entire Premises upon terms and conditions including a rate of rent (after giving effect to all expenditures by Landlord for tenant improvements, broker's commissions and other leasing costs) all no less favorable to Landlord than as called for in this Lease, nor shall Landlord be required to make or permit any assignment or sublease for more than the current term or which Landlord would not be required to permit under the provisions of Article 9.

18.1.4.3 Until such time as Landlord shall elect to terminate the Lease and shall thereupon be entitled to recover the amounts specified in such case in Section 18.1.3, Tenant shall pay to Landlord upon demand the full amount of all rent as it becomes due and payable, including any amounts treated as additional rent under this Lease and other sums reserved in this Lease for the remaining Term, together with the costs of repairs, alterations, additions, redecorating and Landlord's expenses of reletting and the collection of the rent accruing therefrom (including reasonable attorney's fees and broker's commissions), as the same shall then be due or become due from time to time, less only such consideration as Landlord may have received from any reletting of the Premises; and Tenant agrees that Landlord may file suits

from time to time to recover any sums falling due under this Article 18 as they become due. Any proceeds of reletting by Landlord in excess of the amount then owed by Tenant to Landlord from time to time shall be credited against Tenant's future obligations under this Lease but shall not otherwise be refunded to Tenant or inure to Tenant's benefit.

18.2 Landlord may, at Landlord's option, enter into and upon the Premises if Tenant fails to maintain, repair or replace anything for which Tenant is responsible under this Lease and Tenant, after notice (provided that no notice shall be due in the case of emergency), fails to cure such default within the applicable cure period, and Landlord may correct the same, without being deemed in any manner guilty of trespass, eviction or forcible entry and detainer and without incurring any liability for any damage or interruption of Tenant's business resulting therefrom. If Tenant shall have vacated the Premises, Landlord may at Landlord's option re-enter the Premises at any time during the last month of the then current Term of this Lease and make any and all such changes, alterations, revisions, additions and tenant and other improvements in or about the Premises as Landlord shall elect, all without any abatement of any of the rent otherwise to be paid by Tenant under this Lease.

18.3 If, on account of any breach or default by either Landlord or Tenant in such party's obligations under the terms and conditions of this Lease, it shall become necessary or appropriate for the other party to employ or consult with an attorney concerning or to enforce or defend any of the other party's rights or remedies arising under this Lease, the non-prevailing party in any action or proceeding agrees to pay all of the prevailing party's reasonable attorney's fees so incurred. Tenant expressly waives any right to: (a) trial by jury; and (b) service of any notice required by any present or future law or ordinance applicable to landlords or tenants but not required by the terms of this Lease.

18.4 Pursuit of any of the foregoing remedies shall not preclude pursuit of any of the other remedies provided in this Lease or any other remedies provided by law (all such remedies being cumulative), nor shall pursuit of any remedy provided in this Lease constitute a forfeiture or waiver of any rent due to Landlord under this Lease or of any damages accruing to Landlord by reason of the violation of any of the terms, provisions and covenants contained in this Lease.

18.5 No act or thing done by Landlord or its agents during the Term shall be deemed a termination of this Lease or an acceptance of the surrender of the Premises, and no agreement to terminate this Lease or accept a surrender of said Premises shall be valid, unless in writing signed by Landlord. No waiver by either party of any violation or breach of any of the terms, provisions and covenants contained in this Lease shall be deemed or construed to constitute a waiver of any other violation or breach of any of the terms, provisions and covenants contained in this Lease. Landlord's acceptance of the payment of rental or other payments after the occurrence of an Event of Default shall not be construed as a waiver of such Default, unless Landlord so notifies Tenant in writing. Forbearance by Landlord in enforcing one or more of the

remedies provided in this Lease upon an Event of Default shall not be deemed or construed to constitute a waiver of such Default or of Landlord's right to enforce any such remedies with respect to such Default or any subsequent Default.

18.6 To secure the payment of all rentals and other sums of money becoming due from Tenant under this Lease, Landlord shall have and Tenant grants to Landlord a first lien upon the leasehold interest of Tenant under this Lease, which lien may be enforced in equity.

18.7 Any and all property which may be removed from the Premises by Landlord pursuant to the authority of this Lease or of law, to which Tenant is or may be entitled, may be handled, removed and/or stored, as the case may be, by or at the direction of Landlord but at the risk, cost and expense of Tenant. and Landlord shall in no event be responsible for the value, preservation or safekeeping thereof. Tenant shall pay to Landlord, upon demand, any and all expenses incurred in such removal and all storage charges against such property so long as the same shall be in Landlord's possession or under Landlord's control. Any such property of Tenant not retaken by Tenant from storage within thirty (30) days after removal from the Premises shall, at Landlord's option, be deemed conveyed by Tenant to Landlord under this Lease as by a bill of sale without further payment or credit by Landlord to Tenant.

19. TENANT'S BANKRUPTCY OR INSOLVENCY.

19.1 If at any time and for so long as Tenant shall be subjected to the provisions of the United States Bankruptcy Code or other law of the United States or any state thereof for the protection of debtors as in effect at such time (each a "Debtor's Law"):

19.1.1 Tenant, Tenant as debtor-in-possession, and any trustee or receiver of Tenant's assets (each a "Tenant's Representative") shall have no greater right to assume or assign this Lease or any interest in this Lease, or to sublease any of the Premises than accorded to Tenant in Article 9, except to the extent Landlord shall be required to permit such assumption, assignment or sublease by the provisions of such Debtor's Law. Without limitation of the generality of the foregoing, any right of any Tenant's Representative to assume or assign this Lease or to sublease any of the Premises shall be subject to the conditions that:

19.1.1.1 Such Debtor's Law shall provide to Tenant's Representative a right of assumption of this Lease which Tenant's

Representative shall have timely exercised and Tenant's Representative shall have fully cured any default of Tenant under this Lease.

19.1.1.2 Tenant's Representative or the proposed assignee, as the case shall be, shall have deposited with Landlord as security for the timely payment of rent an amount equal to the larger of: (a) three months' Rent and other monetary charges accruing under this Lease; and (b) any sum specified in Article 5; and shall have provided Landlord with adequate other assurance of the future performance of the obligations of the Tenant under this Lease. Without limitation, such assurances shall include, at least, in the case of assumption of this Lease, demonstration to the satisfaction of the Landlord that Tenant's Representative has and will continue to have sufficient unencumbered assets after the payment of all secured obligations and administrative expenses to assure Landlord that Tenant's Representative will have sufficient funds to fulfill the obligations of Tenant under this Lease; and, in the case of assignment, submission of current financial statements of the proposed assignee, audited by an independent certified public accountant reasonably acceptable to Landlord and showing a net worth and working capital in amounts determined by Landlord to be sufficient to assure the future performance by such assignee of all of the Tenant's obligations under this Lease.

19.1.1.3 The assumption or any contemplated assignment of this Lease or subleasing any part of the Premises, as shall be the case, will not breach any provision in any other lease, mortgage, financing agreement or other agreement by which Landlord is bound.

19.1.1.4 Landlord shall have, or would have had absent the Debtor's Law, no right under Article 9 to refuse consent to the proposed assignment or sublease

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by reason of the identity or nature of the proposed assignee or sublessee or the proposed use of the Premises concerned.

## 20. QUIET ENJOYMENT.

Landlord represents and warrants that it has full right and authority to enter into this Lease and that Tenant, while paying the rental and performing its other covenants and agreements contained in this Lease, shall peaceably and quietly have, hold and enjoy the Premises for the Term without hindrance or molestation from Landlord subject to the terms and provisions of this Lease. Landlord shall not be liable for any interference or disturbance by other tenants or third persons, nor shall Tenant be released from any of the obligations of this Lease because of such interference or disturbance.

21. DAMAGE BY FIRE, ETC.

21.1 Landlord shall maintain standard fire and extended coverage insurance covering the Premises in an amount not less than ninety percent (90%) of the replacement cost thereof insuring against the perils of fire and lightning and including extended coverage or, at Landlord's option, all risk coverage and, if Landlord so elects, and such coverage is carried by prudent landlords of comparable buildings located in the area in which the Premises is located, earthquake, flood and wind coverages and Tenant shall pay, as additional rent, the cost of such policies upon demand by Landlord. Such insurance shall be for the sole benefit of Landlord and under its sole control. Tenant shall not take out separate insurance concurrent in form or contributing in the event of loss with that required to be maintained by Landlord hereunder unless Landlord is included as a loss payee thereon. Tenant shall immediately notify Landlord whenever any such separate insurance is taken out and shall promptly deliver to Landlord the policy or policies of such insurance.

21.2 In the event the Premises or the Building are damaged by fire or other cause and in Landlord's reasonable estimation such damage can be materially restored within six (6) months of the date of such fire or other cause, Landlord shall forthwith repair the same and this Lease shall remain in full force and effect, except that Tenant shall be entitled to a proportionate abatement in rent from the date of such damage. Such abatement of rent shall be made pro rata in accordance with the extent to which the damage and the making of such repairs shall interfere with the use and occupancy by Tenant of the Premises from time to time. Within forty-five (45) days from the date of such damage, Landlord shall notify Tenant, in writing, of the reasonable estimation of the length of time within which material restoration can be completed, which estimation shall be made by an independent third party architect or engineer chosen by Landlord, and such determination shall be binding on Tenant. For purposes of this Lease, the Building or Premises shall be deemed "materially restored" if they are restored to the condition existing immediately prior to such fire or other casualty.

21.3 If such repairs cannot, in Landlord's reasonable estimation, be made within six (6) months, Landlord and Tenant shall each have the option of giving the other, at any time within sixty (60) days after such damage, notice terminating this Lease as of the date of such damage. In the event of the giving of such notice, this Lease shall expire and all interest of the Tenant in the Premises shall terminate as of the date of such damage as if such date had been originally fixed in this Lease for the expiration of the Term. In the event that neither Landlord nor Tenant exercises its option to terminate this Lease, then Landlord shall repair or restore such damage, this Lease continuing in full force and effect, and the rent hereunder shall be proportionately abated as provided in Section 21.2.

21.4 Landlord shall not be required to repair or replace any damage or loss by or from fire or other cause to any panelings, decorations, partitions, additions, railings, ceilings, floor coverings, office fixtures or any other property or improvements installed on the Premises or belonging to

Tenant. Any insurance which may be carried by Landlord or Tenant against loss or damage to the Building or Premises shall be for the sole benefit of the party carrying such insurance and under its sole control.

21.5 In the event that Landlord should fail to complete such repairs and restoration within sixty (60) days after the date estimated by Landlord therefor as extended by

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this Section 21.5, Tenant may at its option and as its sole remedy terminate this Lease by delivering written notice to Landlord, within fifteen (15) days after the expiration of said period of time, whereupon the Lease shall end on the date of such notice or such later date fixed in such notice as if the date of such notice was the date originally fixed in this Lease for the expiration of the Term; provided, however, that if construction is delayed because of changes, deletions or additions in construction requested by Tenant, strikes, lockouts, casualties, Acts of God, war, material or labor shortages, government regulation or control or other causes beyond the reasonable control of Landlord, the period for restoration, repair or rebuilding shall be extended for the amount of time Landlord is so delayed; provided, however, such extension, shall not exceed three (3) months with respect to force majeure delays.

21.6 Notwithstanding anything to the contrary contained in this Article, if the Building is damaged by fire or other casualty in the last twelve (12) months of the Term (or in the last twelve (12) months of any extension thereof), and if such damage shall render more than twenty percent (20%) of the Premises untenable or shall be reasonably estimated to require more than four (4) months to repair, either Landlord or Tenant may terminate this Lease by notice to the other party given within thirty (30) days of the date of such fire or casualty. If Landlord or Tenant gives such notice, this Lease shall end on the date of such damage as if the date of such damage was the date originally fixed in this Lease for the expiration of the Term.

21.7 In the event of any damage or destruction to the Building or Premises by any peril covered by the provisions of this Article 21, it shall be Tenant's responsibility to properly secure the Premises and upon notice from Landlord to remove forthwith, at its sole cost and expense, such portion of all of the property belonging to Tenant or its licensees from such portion or all of the Building or Premises as Landlord shall request.

## 22. EMINENT DOMAIN.

If more than twenty percent (20%) of the Building or if more than twenty percent (20%) of the portion of the Premises then being used as the parking lot shall be taken or appropriated by any public or quasi-public authority under the power of

eminent domain, or conveyance in lieu of such appropriation, either party to this Lease shall have the right, at its option, of giving the other, at any time within thirty (30) days after such taking, notice terminating this Lease. If neither party to this Lease shall so elect to terminate this Lease, the rental thereafter to be paid shall be adjusted on a fair and equitable basis under the circumstances. In addition to the rights of Landlord above, if any substantial part of the Building shall be taken or appropriated by any public or quasi-public authority under the power of eminent domain or conveyance in lieu thereof, and regardless of whether the Premises or any part thereof are so taken or appropriated, Landlord shall have the right, at its sole option, to terminate this Lease. Landlord shall be entitled to any and all income, rent, award, or any interest whatsoever in or upon any such sum, which may be paid or made in connection with any such public or quasi-public use or purpose, and Tenant hereby assigns to Landlord any interest it may have in or claim to all or any part of such sums, other than any separate award which may be made with respect to Tenant's trade fixtures and moving expenses; Tenant shall make no claim for the value of any unexpired Term.

23. SALE BY LANDLORD.

In event of a sale or conveyance by Landlord of the Building, the same shall operate to release Landlord from any future liability upon any of the covenants or conditions, expressed or implied, contained in this Lease in favor of Tenant, and in such event Tenant agrees to look solely to the responsibility of the successor in interest of Landlord in and to this Lease. Except as set forth in this Article 23, this Lease shall not be affected by any such sale and Tenant agrees to attorn to the purchaser or assignee. If any security has been given by Tenant to secure the faithful performance of any of the covenants of this Lease, Landlord shall transfer or deliver said security, as such, to Landlord's successor in interest and thereupon Landlord shall be discharged from any further liability with regard to said security.

24. ESTOPPEL CERTIFICATES.

24.1 Within fifteen (15) days following any written request which Landlord may make from time to time, Tenant shall execute and deliver to Landlord or mortgagee or

prospective mortgagee a sworn statement certifying: (a) the date of commencement of this Lease; (b) whether this Lease is unmodified and in full force and effect (or, if there have been modifications to this Lease, whether this Lease is in full force and effect, as modified, and stating the date and nature of such modifications); (c) the date to which the rent and other sums payable under this Lease have been paid; (d) to the best of Tenant's knowledge, the fact that there

are no current defaults under this Lease by either Landlord or Tenant except as specified in Tenant's statement; and (e) such other matters as may be reasonably requested by Landlord. Landlord and Tenant intend that any statement delivered pursuant to this Article 24 may be relied upon by any mortgagee, beneficiary or purchaser and Tenant shall be liable for all loss, cost or expense resulting from the failure of any sale or funding of any loan caused by any material misstatement contained in such estoppel certificate. Tenant irrevocably agrees that if Tenant fails to execute and deliver such certificate within such fifteen (15) day period Landlord or Landlord's beneficiary or agent may execute and deliver such certificate on Tenant's behalf, and that such certificate shall be fully binding on Tenant.

24.2 Within fifteen (15) days following any written request which Tenant may make from time to time, Landlord shall execute and deliver to Tenant a sworn statement certifying: (a) the date of commencement of this Lease; (b) whether this Lease is unmodified and in full force and effect (or, if there have been modifications to this Lease, whether this Lease is in full force and effect, as modified, and stating the date and nature of such modifications); (c) the date to which the rent and other sums payable under this Lease have been paid; (d) to the best of Landlord's knowledge, the fact that there are no current defaults under this Lease by either Landlord or Tenant except as specified in Landlord's statement; and (e) such other matters as may be reasonably requested by Tenant.

## 25. SURRENDER OF PREMISES.

25.1 Tenant shall, at Landlord's request, not more than thirty (30) days before the last day of the Term, arrange to meet Landlord for a joint inspection of the Premises. In the event of Tenant's refusal to arrange such joint inspection at Landlord's request to be held prior to vacating the Premises, Landlord's inspection at or after Tenant's vacating the Premises shall be conclusively deemed correct for purposes of determining Tenant's responsibility for repairs and restoration.

25.2 At the end of the Term or any renewal of the Term or other sooner termination of this Lease, Tenant will peaceably deliver up to Landlord possession of the Premises, together with all improvements or additions upon or belonging to the same, by whomsoever made, in the same conditions received or first installed, broom clean and free of all debris, excepting only ordinary wear and tear and damage by fire or other casualty or condemnation. Tenant may, and at Landlord's request shall, at Tenant's sole cost, remove upon termination of this Lease, any and all furniture, furnishings, movable partitions of less than full height from floor to ceiling, trade fixtures and other property installed by Tenant, title to which shall not be in or pass automatically to Landlord upon such termination, repairing all damage caused by such removal. Property not so removed shall, unless requested to be removed, be deemed abandoned by the Tenant and title to the same shall thereupon pass to Landlord under this Lease as by a bill of sale. All other Alterations in. on or to the Premises shall be dealt with and disposed of as provided in Article 6.

25.3 All obligations of Tenant and Landlord under this Lease not

fully performed as of the expiration or earlier termination of the Term shall survive the expiration or earlier termination of the Term. Upon the expiration or earlier termination of the Term, Tenant shall pay to Landlord the amount, as reasonably estimated by Landlord, necessary to repair and restore the Premises as provided in this Lease and/or to discharge Tenant's obligation for unpaid amounts due or to become due to Landlord. All such amounts shall be used and held by Landlord for payment of such obligations of Tenant, with Tenant being liable for any additional costs upon demand by Landlord, or with any excess to be returned to Tenant after all such obligations have been determined and satisfied. Any otherwise unused Security Deposit shall be credited against the amount payable by Tenant under this Lease.

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26. NOTICES.

Any notice or document required or permitted to be delivered under this Lease shall be addressed to the intended recipient, shall be transmitted personally, by fully prepaid registered or certified United States Mail return receipt requested or by Federal Express or other reputable overnight delivery service furnishing a written record of attempted or actual delivery, and shall be deemed to be delivered when tendered for delivery to the addressee at its address set forth on the Reference Page, or at such other address as it has then last specified by written notice delivered in accordance with this Article 26, or if to Tenant at either its aforesaid address or its last known office, whether or not actually accepted or received by the addressee.

27. TAXES PAYABLE BY TENANT.

In addition to rent and other charges to be paid by Tenant under this Lease, Tenant shall reimburse to Landlord, upon demand, any and all taxes payable by Landlord (other than income taxes) whether or not now customary or within the contemplation of the parties to this Lease: (a) upon, allocable to, or measured by or on the gross or net rent payable under this Lease, including without limitation any tax or excise tax levied by the State, any political subdivision thereof, or the Federal Government solely with respect to the receipt of such rent; (b) any sales, use or service tax imposed on Landlord for services provided by Landlord to Tenant; (c) upon or measured by the Tenant's gross receipts or payroll or the value of Tenant's equipment, furniture, fixtures and other personal property of Tenant or leasehold improvements, Alterations located in the Premises; or (d) upon this transaction or any document to which Tenant is a party creating or transferring any interest of Tenant in this Lease or the Premises. In addition to the foregoing, Tenant agrees to pay, before delinquency, any and all taxes levied or assessed against Tenant and which

become payable during the Term hereof upon Tenant's equipment, furniture, fixtures and other personal property of Tenant located in the Premises.

28. DEFINED TERMS AND HEADINGS.

The Article headings shown in this Lease are for convenience of reference and shall in no way define, increase, limit or describe the scope or intent of any provision of this Lease. Any indemnification or insurance of Landlord shall apply to and inure to the benefit of all the following "Landlord Entities", being Landlord, Landlord's investment manager, and the trustees, boards of directors, officers, general partners, beneficiaries, stockholders, employees and agents of each of them. Any option granted to Landlord shall also include or be exercisable by Landlord's trustee, beneficiary, agents and employees, as the case may be. In any case where this Lease is signed by more than one person, the obligations under this Lease shall be joint and several. The terms "Tenant" and "Landlord" or any pronoun used in place thereof shall indicate and include the masculine or feminine, the singular or plural number, individuals, firms or corporations, and each of their respective successors, executors, administrators and permitted assigns, according to the context hereof. The term "rentable area" shall mean the rentable area of the Premises or the Building as specified on the Reference Page. Tenant hereby accepts and agrees to be bound by the figures for the rentable space footage of the Premises and Tenant's Proportionate Share shown on the Reference Page.

29. TENANT'S AUTHORITY.

If Tenant signs as a corporation each of the persons executing this Lease on behalf of Tenant represents and warrants that Tenant has been and is qualified to do business in the state in which the Building is located, that the corporation has full right and authority to enter into this Lease, and that all persons signing on behalf of the corporation were authorized to do so by appropriate corporate actions. If Tenant signs as a partnership, trust or other legal entity, each of the persons executing this Lease on behalf of Tenant represents and warrants that Tenant has complied with all applicable laws, rules and governmental regulations relative to its right to do business in the state and that such entity on behalf of the Tenant was authorized to do so by any and all appropriate partnership, trust or other actions. Tenant agrees to furnish promptly upon request a corporate resolution, proof of due authorization by partners, or other appropriate documentation evidencing the due authorization of Tenant to enter into this Lease.

30. COMMISSIONS.

Each of the parties represents and warrants to the other that it has not dealt with any broker or finder in connection with this Lease, except as described on the Reference Page.

31. TIME AND APPLICABLE LAW.

Time is of the essence of this Lease and all of its provisions. This Lease shall in all respects be governed by the laws of the state in which the Building is located.

32. SUCCESSORS AND ASSIGNS.

Subject to the provisions of Article 9, the Terms, covenants and conditions contained in this Lease shall be binding upon and inure to the benefit of the heirs, successors, executors, administrators and assigns of the parties to this Lease.

33. ENTIRE AGREEMENT.

This Lease, together with its exhibits, contains all agreements of the parties to this Lease and supersedes any previous negotiations. There have been no representations made by the Landlord or understandings made between the parties other than those set forth in this Lease and its exhibits. This Lease may not be modified except by a written instrument duly executed by the parties to this Lease.

34. EXAMINATION NOT OPTION.

Submission of this Lease shall not be deemed to be a reservation of the Premises. Landlord shall not be bound by this Lease until it has received a copy of this Lease duly executed by Tenant and has delivered to Tenant a copy of this Lease duly executed by Landlord, and until such delivery Landlord reserves the right to exhibit and lease the Premises to other prospective tenants. Notwithstanding anything contained in this Lease to the contrary, Landlord may withhold delivery of possession of the Premises from Tenant until such time as Tenant has paid to Landlord any security deposit required by Article 5. the first month's rent as set forth in Article 3 and any sum owed pursuant to this Lease.

35. RECORDATION.

Tenant shall not record or register this Lease or a short form memorandum hereof without the prior written consent of Landlord, and then shall pay all charges and taxes incident to such recording or registration.

36. LIMITATION OF LANDLORD'S LIABILITY.

36.1 Tenant shall look only to Landlord's estate and property in the Land and the Building for the satisfaction of any claim against Landlord,

and no other property or assets of Landlord or its trustees, trust beneficiaries, stockholders or board of directors and officers, or investment manager, its partners or principals, disclosed or undisclosed, as the case may be, or any employees or agents of Landlord or the investment manager shall be subject to levy, execution or other enforcement procedure for the satisfaction of Tenant's remedies under or with respect to this lease, the relationship of Landlord and Tenant hereunder or Tenant's use or occupancy of the Premises

37. OPTION TO EXTEND.

37.1 (a) Tenant shall have an option (the "Option") to extend the term of this lease for one (1) additional term of five (5) years (the "Renewal Term") commencing on the first day next succeeding the Termination Date and terminating on the last day of the month in which the tenth anniversary of the Commencement Date occurs upon the same terms, conditions and provisions as are provided for in this lease except that (i) the Annual Rent payable for the Renewal Term shall be the fair market rent for the Premises as of such Termination Date determined in the manner hereinafter provided and (ii) this Article 37 shall be deleted therefrom.

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(b) The Option may be exercised only by Tenant giving written notice to Landlord of Tenant's exercise of said Option by certified mail, return receipt requested, not more than eighteen (18) months nor less than one year prior to the Termination Date (the "Exercise Notice"). Upon Tenant's giving of the Exercise Notice, the term of this Lease shall be extended automatically upon the terms and conditions herein specified without the execution of an extension agreement or other instrument. It is expressly agreed that Tenant shall not have an option to extend the term of this Lease beyond the expiration of the Renewal Term. If Tenant shall not give Landlord the Exercise Notice at the time and in the manner set forth above, the Option shall terminate and be deemed waived by Tenant. Time is of the essence as to the date for the giving of the Exercise Notice.

(c) After Landlord receives the Exercise Notice, and if in Landlord's opinion an increase in the Annual Rent for the Renewal Term is warranted because the fair market rent for the Premises has increased, Landlord shall send Tenant a notice (the "Revised Rent Notice") stating the amount which, in Landlord's opinion, shall constitute the fair market rent for the Premises as of the Termination Date. Such notice shall be given to Tenant no later than six (6) months prior to the Termination Date. The increased Annual Rent set forth in the Revised Rent Notice shall be effective as of the first day of the Renewal Term, subject to adjustment as hereinafter provided.

37.2 (a) If Landlord gives a Revised Rent Notice, then at any time

within thirty (30) days after the giving of such Revised Rent Notice, Tenant may dispute the fair market rent for the Premises as determined by Landlord by giving notice to Landlord that it is initiating the appraisal process provided for herein and specifying in such Notice the name and address of the arbitrator designated by Tenant to act on its behalf. Within 15 days after the designation of Tenant's arbitrator, Landlord shall give notice to Tenant specifying the name and address of Landlord's arbitrator. The two arbitrators so chosen shall meet within 10 days after the second arbitrator is appointed and if, within 20 days after the second arbitrator is appointed, the two arbitrators shall not agree upon a determination in accordance with paragraph (c) of this Section 37.2 they shall together appoint a third arbitrator. If said two arbitrators cannot agree upon the appointment of a third arbitrator within 10 days after the expiration of such 20 day period, then either party, on behalf of both, and on notice to the other, may request such appointment by the American Arbitration Association (or any successor organization) in accordance with its then prevailing rules. If the American Arbitration Association shall fail to appoint said third arbitrator within sixty (60) days after such request is made, then either party may apply, on notice to the other, to the Supreme Court, New York County, New York (or any other court having jurisdiction and exercising functions similar to those now exercised by the foregoing court) for the appointment of such third arbitrator.

(b) Each of the arbitrators selected as herein provided shall have at least five years experience in the leasing or management of space in office parks in Suffolk County, New York. Each party shall pay the fees and expenses of the arbitrator selected by it. The fees and expenses of the third arbitrator and all other expenses (not including attorney's fees, witness fees and similar expenses of the parties which shall be borne separately by each of the parties) of the arbitration shall be borne equally by the parties hereto.

(c) Within five (5) days after the appointment of the third arbitrator, Landlord's arbitrator and Tenant's arbitrator shall submit to such third arbitrator their respective determinations of fair market rent and within twenty (20) days thereafter, the third arbitrator shall select the determination of either rate which is either the rate submitted to the third arbitrator by Landlord's arbitrator or Tenant's arbitrator. In rendering such decision and award, the arbitrators shall assume or take into consideration as appropriate all of the following: (i) the Landlord and prospective tenant are typically motivated; (ii) the Landlord and prospective tenant are well informed and well advised and each is acting in what it considers its own best interest; (iii) a reasonable time under then-existing market conditions is allowed for exposure of the Premises on the open market; (iv) the rent is unaffected by special financing amounts and/or terms, or unusual services, fees, costs or credits in connection with the leasing transaction; (v) the effect on rent of customary rent concessions and/or work allowances; (vi) the Premises are fit for immediate occupancy and use "as is" and require no additional work by Landlord and that no work has been carried out thereon by the Tenant, its subtenant, or their predecessors in interest during the term

which has diminished the rental value of the Premises; (vii) in the event the Premises have been destroyed or damaged by fire or other casualty, they have been fully restored; (viii) that the Premises are to be let with vacant possession and subject to the provisions of this lease for a five (5) year term; and (ix) market rents then being charged for comparable space in other similar office parks in the same area. In rendering such decision and award, the arbitrators shall not modify the provisions of this lease. The decision and award of the third arbitrator shall be in writing and be final and conclusive on all parties and counterpart copies thereof shall be delivered to each of said parties. Judgment may be had on the decision and award of the third arbitrator (or if Landlord's arbitrator and Tenants arbitrator reach agreement on a fair market rent without the appointment of a third arbitrator, the decision and award of Landlord's and Tenant's arbitrators) so rendered in any court of competent jurisdiction.

(d) Prior to the determination of the arbitrators, Tenant shall pay as the Annual Rent it is obligated to pay under this lease the amount set forth in the Revised Rent Notice and in the event the arbitrators determine that the Annual Rent payable pursuant to this Article 37 is less than that set forth in the Revised Rent Notice, then Tenant shall be entitled to a credit in the amount of its overpayment for the period commencing on the first day following the Expiration Date against subsequent payments of Annual Rent due hereunder. In the event that the arbitrators determine that the Annual Rent payable pursuant to this Article 37 is more than that set forth in the Revised Rent Notice, then Tenant shall promptly pay to Landlord the amount of its underpayment for the period commencing on the day following the Expiration Date.

37.3 (a) Notwithstanding the foregoing provisions of this Article 37, if on the date that Tenant exercises the Option or if on any subsequent date up to and including the Expiration Date, Tenant is in default in the performance of any of the terms, conditions or provisions of this lease and such default has continued beyond the applicable grace and notice period herein provided, then Tenant's exercise of the Option and the extension of the term of this lease contemplated thereby shall, at the option of Landlord exercised by written notice to Tenant, be rendered null and void and shall be of no further force or effect. Tenant shall have no further or additional right to exercise the Option, which shall be deemed waived by Tenant.

(b) Notwithstanding the foregoing provisions of this Article 37, if Tenant shall assign the lease or sublet the Premises in whole or in part, other than pursuant to Section 9.8 or Section 9.9 of this Lease, the Option shall automatically be rendered null and void and shall be of no further force or effect. Tenant shall have no further or additional right to exercise the Option, which shall be automatically deemed waived by Tenant upon an assignment or subletting.

37.4 If Tenant exercises the Option, then, at Landlord's request, Tenant agrees within fifteen (15) business days after such request is made to

execute, acknowledge and deliver to Landlord an instrument in form and substance satisfactory to Landlord, confirming (i) the Annual Rent payable under this Lease and (ii) the expiration date of the Renewal Term, but no such instrument shall be required to make the terms of this Article 37 effective.

37.5 Nothing contained in this Article 37 shall be deemed in any way to modify the provisions of Article 4 hereunder.

38. MISCELLANEOUS.

38.1 Nothing contained in Article 4, Article 6 or Article 27 of this Lease shall require Tenant to pay (a) any general income tax, franchise tax, corporate transfer tax, estate or gift tax imposed on Landlord generally, rather than solely as an owner of the Premises, or (b) any mortgage, recording, stamp, encumbering or transfer tax on the sale or lease of the Premises or the Building or any stock of or interest in Landlord, or any portion thereof or interest therein.

38.2 Except as provided below, Landlord shall remove, but only if and to the extent required by Environmental Laws or other applicable laws, in compliance with all Environmental Laws, all Hazardous Materials (i) that are present in or on the Premises as of the date hereof or that are hereafter present in or on the Premises due to the acts or negligent or wrongful omissions of Landlord or Landlord's agents, employees or contractors, or (ii) that are present in or on the Premises due to the migration of such Hazardous Materials from other

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properties that does not result from the acts or negligent or wrongful omission of Tenant. Tenant shall be responsible for the removal (whether or not such removal is required by Environmental Laws or other applicable laws) in compliance with all Environmental Laws of all Hazardous Materials in or on the Premises due to all other causes, including but not limited to, illegal dumping in or on the Premises. Notwithstanding anything to the contrary contained in this Section 38.2, Landlord shall not be responsible for the removal or encapsulation of the asbestos-containing materials contained in the mastic located under or behind the vinyl cove base in the Building ("Mastic ACMs"). provided, that if the Initial Alterations necessitate the removal of Mastic ACM's in order to comply with law, Landlord shall remove the Mastic ACM's provided that Tenant shall pay to Landlord, as additional, rent, \$7,500 towards the cost of such removal (which sum shall be paid by Tenant within 10 days after demand therefor from Landlord).

38.3 Notwithstanding anything to the contrary contained in this Lease, including but not limited to Section 25.2. Tenant shall only be required

to remove from the Premises at the end of the Term such Alterations made to the Premises (including, without limitation, the Initial Alterations) which Landlord specifies at the time Landlord approves the plans and specifications for such Alterations; provided that Tenant, at the time Tenant submitted such plans and specifications to Landlord for its review, requested that Landlord specifications those items that Landlord shall require Tenant to remove at the end of the Term.

38.4 Subject to Landlord's approval (which approval shall not be unreasonably withheld), Tenant may install (a) one monument sign on the Premises identifying Tenant by name and/or logo and (b) one sign on the Building by the Building entrance identifying Tenant by name and/or logo, provided that in each case (i) such signs comply with all applicable legal requirements and insurance requirements, and (b) Tenant removes such signs at the end of the Term and repairs all damage caused by such removal and restores the affected areas of the Premises to the condition that existed prior to the installation of such signs.

38.5 It is agreed that Tenant shall not be responsible for complying with any present or future laws, orders, rules or regulations of federal, state, county, municipal or other governments or governmental authorities or any of their departments, commissions, boards, or agencies or with any direction or recommendation of any public officer or officers pursuant to law or with any orders or notices of the National Board of Fire Underwriters or any requirements of any insurer of the Building or any part thereof, (a) which Landlord or any affiliate, predecessor in interest, servant, employee or agent of Landlord has violated or (b) where a notice of violation or order was issued prior to the Commencement Date or (c) which require any work, investigation(s), or certification(s) to be made with regard to the Landlord Repair Items under a law enacted after the date of this Lease unless such compliance is required by reason of Tenant's particular manner of use of the demised premises, any Alterations performed by Tenant (including, without limitation, the Initial Alterations) or method of operation therein, unless such violations shall be cured by Tenant's performance of the Initial Alterations.

38.6 Notwithstanding anything to the contrary contained in this Lease, this Lease shall be subject and subordinate to any ground or underlying lease, deed of trust or mortgage which may affect the Premises (or any part thereof). Landlord shall request a non-disturbance agreement on behalf of Tenant from the holder of each ground or underlying lease, deed of trust or mortgage that may now or hereafter encumber the Premises, and Landlord shall use its reasonable efforts to obtain same (it being acknowledged that reasonable efforts shall not be deemed to require the payment of any money or the commencement of any judicial or non-judicial action or proceeding), but notwithstanding the foregoing, this Lease and Tenant's obligations hereunder shall not be affected or impaired in any respect should any such holder decline to enter into such a non-disturbance agreement.

LANDLORD:  
RREEF MIDAMERICA/EAST-V NINE,  
INC., a Delaware corporation

By: RREEF Management Company, a  
California Corporation

By: Alane Berkowitz

Title: District Manager

Dated: 12/24/96

TENANT:  
VICON INDUSTRIES, INC., a  
New York corporation

By: Kenneth M. Darby

Title: President

Dated: 12/24/96

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EXHIBIT A

attached to and made apart of Lease bearing the  
Lease Reference Date of December 24, 1996 between  
RREEF MIDAMERICA/EAST-V NINE, INC., as Landlord and  
VICON INDUSTRIES INC. as Tenant

PREMISES

ALL that certain plot, piece or parcel of land situate, lying and being at  
Hauppauge in the Town of Smithtown, County of Suffolk and State of New York,

being part of Lot 6 on a certain map entitled, "Map of Suffolk County Business Center Section No. 2" filed in the Office of the Clerk of the County of Suffolk on August 31, 1978 as Map No. 6715 bounded and described as follows:

BEGINNING at a point on the southerly side of Arkay Drive, said point or place of beginning being 98.42 feet easterly, as measured along the southerly side of Arkay Drive from the easterly end of a 40 foot radius curve which connects the southerly side of Arkay Drive with the easterly side of Adams Avenue;

RUNNING THENCE easterly from said point or place of beginning, along the southerly side of Arkay Drive north 86 degrees 44 minutes 08 seconds East, a distance of 519.37 feet to a point;

RUNNING THENCE southerly south 3 degrees 15 minutes 52 seconds East, a distance of 425.00 feet to a point;

RUNNING THENCE westerly south 86 degrees 44 minutes 08 seconds West, a distance of 519.37 feet to a point;

RUNNING THENCE northerly north 3 degrees 15 minutes 52 seconds West a distance of 425.00 feet to the southerly side of Arkay Drive and the point or place of BEGINNING.

## EXHIBIT B

attached to and made a part of Lease bearing the Lease Reference Date of December 24, 1996 between RREEF MIDAMERICA/EAST-V NINE, INC., as Landlord and VICON INDUSTRIES, INC., as Tenant

### INITIAL ALTERATIONS

The purpose of this Exhibit B is to describe those items of work constituting the Initial Alterations. The same shall be done (i) as shown on the approved Plans and Specifications, (ii) in accordance with the Lease, including, without limitation. Article 6 thereof and this Exhibit B thereto, and (iii) in compliance with all applicable Insurance requirements, Legal requirements, rules and codes and such reasonable rules and regulations as Landlord and its architects and engineers may make. The provisions of this Exhibit B shall be supplemental to and shall be an integral part of the Lease. Any capitalized terms used in this Exhibit B shall be construed in accordance with their definitions in the Lease, unless otherwise defined in this Exhibit B.

#### TENANT'S INITIAL ALTERATIONS:

All Alterations to be performed in order to furnish, finish and prepare the Premises for Tenant's initial occupancy thereof shall be performed by Tenant (the "Initial Alterations), at Tenant's sole cost and expense, as hereinabove and hereinbelow set forth.

The Initial Alterations may include, but shall not be limited to, the installation of fixtures and equipment for heating, ventilating, and air conditioning the demised premises, sprinklerization, plumbing and electrical work and interior partitions.

The Initial Alterations shall be performed as follows:

1. On or before the date that is sixty (60) days after the date of this Lease ("Plan Submission Date"), Tenant shall submit to Landlord, working drawings, specifications and information describing the Initial Alterations in reasonable detail (collectively, "Plans and Specifications").

2. The Plans and Specifications shall be fully detailed, shall show complete dimensions, shall have designated thereon all points of location and other matters, including the finish schedules, reasonably requested by Landlord, and shall consist of the final Plans and Specifications (including air conditioning, ventilating, electrical, plumbing and engineering design drawings and specifications, which shall be prepared by an engineer employed by Tenant and reasonably approved by Landlord) prepared by Tenant's licensed engineer, interior architect or designer to describe the manner in which Tenant desires

the demised premises to be finished by Tenant, including any changes thereto from time to time requested by Tenant or made to obtain the approvals or permits referred to in Paragraph 3 of this Exhibit B. The Plans and Specifications shall comply with all Legal requirements and Insurance requirements relating to construction of the Building and/or the demised premises. Prior to the commencement of any Initial Alterations, the Plans and Specifications shall have been approved in writing by Landlord, but such approval shall be as to layout only, shall not be deemed to be an approval of the legality or the cost of the Initial Alterations or the Plans and Specifications. The Plans and Specifications shall not be changed or modified by Tenant after such approval by Landlord without the approval in writing of Landlord. Landlord shall approve, conditionally approve or disapprove the Plans and Specifications, or modifications thereof, within ten (10) business days after the receipt thereof, or with respect to any resubmissions of the Plans and Specifications, within 5 business days after the receipt thereof. Any disapproval or conditional approval of such plans and specifications shall set forth in reasonable detail Landlord's objections thereto.

3. Upon written approval by Landlord of the Plans and Specifications, Tenant shall, with reasonable speed and diligence, file with the appropriate governmental authority or authorities the Plans and Specifications and any plans for air conditioning, ventilating, heating, mechanical, electrical and plumbing work, and shall take whatever action shall be necessary (including modifications approved by Landlord of Plans and Specifications) to

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obtain and maintain all governmental permits and authorizations which may be required in connection with the Initial Alterations. Tenant shall pay all filing fees and other costs in connection therewith. Tenant shall deliver copies of all such permits and authorizations to Landlord pursuant to the commencement of the Initial Alterations. Landlord shall cooperate with Tenant in connection with the aforesaid. Tenant will promptly furnish to Landlord copies of all Buildings Department approved drawings.

LANDLORD'S CONTRIBUTION:

1. Landlord shall reimburse Tenant for the cost of the Eligible Tenant Work (as defined below) in an amount (the "Work Allowance") not to exceed \$125,000.00 upon the following terms and conditions:

(a) The Work Allowance shall be payable to Tenant in installments as Eligible Tenant Work progresses, but in no event more frequently than monthly.

(b) Landlord shall make payments within thirty (30) days after receipt of all of the following from Tenant: (A) a certificate signed by Tenant's architect and an officer of Tenant certifying that the Eligible Tenant Work for which payment is being sought has been satisfactorily completed in accordance with the plans and specifications therefor approved by Landlord, (B) such evidence of payment of the cost of the Eligible Tenant Work for which payment is being sought that Landlord may reasonably request, (C) a lien waiver from all contractors, subcontractors and materialmen performing the Eligible Tenant Work, in form and substance reasonably satisfactory to Landlord, provided that if any contractor shall refuse to deliver any such lien waiver by reason of a dispute over the amount due such contractor, Landlord shall not withhold the entire Work Allowance, but shall only hold back 10% of the disputed portion until Tenant delivers to Landlord a lien waiver or obtains the discharge of any lien filed by such contractor or delivers to Landlord proof of payment of amount due such contractor as finally determined by a court of competent jurisdiction, and (D) with regard to the final disbursement of the Work Allowance, all necessary licenses, approvals, permits and signoffs required under all applicable laws that are necessary for Tenant to occupy the Premises for the conduct of its business; and

(c) No Event of Default shall have occurred and be continuing under the Lease.

(d) The right to receive reimbursement for the cost of the Initial Alterations as set forth in this Exhibit B shall be for the exclusive benefit of Tenant, it being the express intent of the parties hereto that in no event shall such right be conferred upon or for the benefit of any third party, including, without limitation, any contractor, subcontractor, materialman, laborer, architect, engineer, attorney or any other person, firm or entity.

2. "Eligible Tenant Work" means the Initial Alterations, including demolition, and shall not include so-called soft costs or movable partitions, business and trade fixtures, machinery, equipment, furniture, furnishings and other articles of personal property.

The right to receive reimbursement for the cost of the Eligible Tenant Work as set forth herein shall be for the exclusive benefit of Tenant, it being the express intent of the parties hereto that in no event shall such right be conferred upon or for the benefit of any third party, including, without limitation, any contractor, subcontractor, materialman, laborer, architect, engineer, attorney or any other person, firm or entity.

4 If Landlord shall default in its obligation to pay to Tenant the Work Allowance pursuant to this Exhibit B, and such default shall continue for a period of thirty (30) days after notice from Tenant shall be given to Landlord, which notice shall state that the failure to cure such default shall entitle Tenant to offset such amounts from the rent payable under this Lease, then unless Landlord shall be disputing Tenant's right to such payment, Tenant shall have the right to offset the unpaid portion of the Work Allowance, against the next succeeding payments of rent payable under this Lease. If the parties shall

be disputing Tenant's right to such

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payment, the right of Tenant to offset any amounts pursuant to this Exhibit B shall be deferred until the resolution of such dispute.

Ex. B -3

EXHIBIT C

attached to and made a part of Lease bearing the Lease Reference Date of December 24, 1996 between RREEF MIDAMERICA/EAST-V NINE. INC., as Landlord and VICON INDUSTRIES, INC., as Tenant

WARRANTY

Landlord represents and warrants that the Building shall be in the following condition (the "Minimum Acceptable Condition") as of the Commencement Date, and shall, promptly after receiving notice from Tenant, perform such repairs, replacements, improvements, changes, and alterations as are necessary to assure that the Building is in Minimum Acceptable Condition:

1. The Building shall be served by 2,000 amps of 3 phase electricity.

2. The sprinkler and fire protection systems shall be in good working order.
3. The HVAC system shall be in good working order.
4. The plumbing system shall be in good working order.
5. The outdoor sprinkler system shall be in good working order.

Any claim with respect to items 1, 2, 3 and 4 above must be made within thirty (30) days of the date hereof, with the exception of claims regarding the air conditioning system under item 3. If Tenant fails to make a claim to Landlord by such date, Landlord shall have no further obligation to Tenant under this Exhibit C.

Any claim with respect to item 5 above or the air conditioning system under item 3 above must be made no later than June 30, 1997. If Tenant fails to make a claim to Landlord by such date, Landlord shall have no further obligation to Tenant under this Exhibit C. Upon Tenant's request, Landlord shall assign the warranty for the Building boiler to Tenant, without representation or recourse, for the term of this Lease. Upon the expiration or earlier termination of this Lease, Tenant shall assign the warranty for the Building boiler to Landlord without representation or recourse. Notwithstanding anything to the contrary contained in this Exhibit C, Landlord shall have no obligation to Tenant under this Exhibit C for any claims resulting from the acts or negligent or wrongful omissions of Tenant or its agents, employees and contractors.

Landlord is currently replacing the existing boilers in the Building, which replacement is anticipated to be completed by January 31, 1997 (subject to force majeure). Landlord shall use reasonable efforts to complete such replacement by January 31, 1997. The replacement boilers will have a BTU capacity at least equal to the BTU capacity of the existing boiler at the Premises.

KPMG PEAT MARWICK LLP

Independent Auditors' Consent

The Board of Directors  
Vicon Industries, Inc.:

We consent to incorporation by reference in the Registration Statements (No. 33-7892, 33-34349 and 33-90038) on Form S-8 and No. 33-10435 on Form S-2 of Vicon Industries, Inc. of our report dated November 12, 1996 relating to the consolidated balance sheets of Vicon Industries, Inc. and subsidiaries as of September 30, 1996 and 1995 and the related consolidated statements of operations, shareholders' equity and cash flows and related schedule for each of the years in the three-year period ended September 30, 1996, which report appears in the September 30, 1996 annual report on Form 10-K of Vicon Industries, Inc.

KPMG PEAT MARWICK LLP

Jericho, New York  
December 26, 1996



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